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# **AWARENESS SESSION ON ISSUANCE, TRADING & SETTLEMENT OF GDS THROUGH CAPITAL MARKET**

November 28, 2023

# Agenda

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**Primary Market Auction – Process Flow**

2

**Secondary Market Trading & Settlement – Process Flow**

3

**Q & A Session**

# Background

- The Debt Office had proposed certain amendments to Ministry of Finance (MOF) in Rules relating to Government Debt Securities (GDS) i.e. T-bills, Ijara Sukuk and Pakistan Investment Bond, for enabling issuance and trading of GDS through capital market.
- **The major amendment include:**
  - Allowing issuance of GDS through capital market Auction process and enabling secondary market trading of GDS through capital market trading platform.
  - Allowing capital market participants to hold custody of GDS.



# PRIMARY MARKET AUCTION

# Product Features



Issuer	Pakistan Domestic Sukuk Company (PDSCL)
Product Name	Government IJARA SUKUK
Tenor	One Year Tradeable Instrument
Issued at	Discount
Allocation Mechanism	Allocation of Sukuk to successful bidders on single cut-off rate
Maturity	Rental Payment & Principle Redemption on Maturity Date
Margin/Final Collection	NCCPL
Custody at	CDC
Shut Period	3 working days before Maturity date

# Auction Key Highlights

Parameters	Description
Auction System	Participants and Investors can place bids through online auction portal provided by PSX
Auction Date & Time	PSX will notify the auction calendar to the market participants before auction
Eligible Participants	<ul style="list-style-type: none"> <li>• Broker Clearing Members (BCMs) of NCCPL</li> <li>• Non-Broker Clearing Members (NBCMs) of NCCPL</li> <li>• Professional Clearing Member (PCM)</li> </ul>
Eligible Investors	<ul style="list-style-type: none"> <li>• Existing investors having CDC Sub A/c</li> <li>• New investors having no CDC Sub A/c can participate through Facilitation Account service provided by CDC</li> </ul>
Margin Requirements	<ul style="list-style-type: none"> <li>• For BCMs, pre-funded i.e. 100% before bidding</li> <li>• For NBCMs (Banks or DFI), 100% cash or Standing Instruction</li> <li>• For NBCMs (Mutual Funds), 100% cash or Irrevocable undertaking from Trustee</li> <li>• For NBCMs (Others), pre-funded i.e. 100% before bidding</li> </ul>
Bid Type	Disclosed/un-disclosed OR anonymous
Min. Bid Size (Rs.)	Rs. 100,000 <b>(TBD)</b>

# Auction Key Highlights



Parameters	Description	
Maximum Bidding Limit (Rs.)	For competitive bids, there is no maximum amount For non-competitive bids, its 0.25% of pre-auction target amount subject to no minimum value and maximum value of Rs.250mn <b>(TBD)</b> .	
Mandatory details to be provided to NCCPL by eligible participants in order to create Participant Account by PSX	<ul style="list-style-type: none"> <li>• Participant Code</li> <li>• Participant Name</li> <li>• No. of Branches to be created</li> </ul>	<ul style="list-style-type: none"> <li>• Participant Contact Person</li> <li>• Contact Person Cell No.</li> <li>• Contact Person Email address</li> </ul>
Mandatory details to be provided to their participants in order to create Investor Account	<ul style="list-style-type: none"> <li>• Investor Name</li> <li>• UIN</li> <li>• CNIC</li> <li>• IBAN</li> <li>• Client Authorization</li> </ul>	<ul style="list-style-type: none"> <li>• Email Address</li> <li>• Mobile#</li> <li>• Deposit Amount</li> <li>• Participant ID</li> <li>• CDC Sub A/c # (If any)</li> </ul>

# Process Flow – Auction Setup

Debt office communicates the auction calendar plan to PSX

PSX will notify the market participants regarding auction details before auction

Five days before the auction date, PSX will setup its auction system in coordination with NCCPL who will advise PSX to create eligible participants. Upon successful creation user id and password will be communicated at provided contact details as



# Process Flow – Participant/Investor Creation

PSX shall create Participants as Bid Collection Centers as per list provided by NCCPL

Once eligible participants are created by PSX, they can further create their prop. and investor user IDs

*For instance, a commercial bank may create a user ID for its proprietary bids, create a user ID on clients behalf (disclosed bids), and client ID (anonymous bids)*

An individual may directly approach BCM, NBCM to participate in bidding

CDC will create Investor Facilitation Account for unregistered investors in coordination with NCCPL

# Eligible Participants & Bidding

## PSX

(Create Participants / bid collection centers as per list provided by NCCPL)

## BCMs, NBCMs & PCM

Bids for Prop.

Bids for client at client  
provided rate (disclosed)

Bids for clients (undisclosed)

Bidders should take the risk of their clients and should be willing to take inventory in case of any shortfall (same as done in current SBP structure)

# Process Flow – Margining

Form A-3 till A-1 NCCPL will provide margin collection screen to BCM,PCM & NBCM through NCSS System

BCM,PCM & NBCM will deposit the margin against proposed GDS bids amount thorough their settling Bank for participation in auction

NCCPL sent the detail of Margin to PSX for onward bidding from A-3

On A-1 after Banking hours NCCPL will share final List of collected margin with PSX for bidding participants

# Process Flow – Bidding

On the day of auction, all users created (prop, clients) will participate within the maximum bid amount to be checked using the PSX provided auction system. Pool bids (consolidated Bids placed from Prop. A/c for more than one investor) are not allowed

Multiple Bids at different prices can be placed by one investor from their Prop. and on behalf of their clients  
Single bid per investor per tenor is allowed in Non-competitive bidding

Cancellation – Cancellation shall be allowed during the auction process.  
In case modification is required, investor need to cancel the bid first then submit new bid  
No cancellation shall be allowed after end of auction process

# Process Flow – Allocation

Once auction is completed, PSX will disseminate the bid report to Debt Office – who will decide the cut off amount and rate

After Debt office confirmation, PSX will run the allocation process i.e., will send email confirmation to all successful bidders that their bids are accepted and are required to submit funds to NCCPL on T+1

Details of successful bidders to be shared with Debt Office and NCCPL

# Process Flow – Settlement

NCCPL will collect funds at T+1 from successful bidders (details to be shared by NCCPL regarding collection of funds)

For unsuccessful bids (if any), NCCPL will release the margin

NCCPL to provide details of successful investors to CDC on same day. On the basis of instruction of PDSCL, CDC will credit the instrument into designated CDS Accounts)

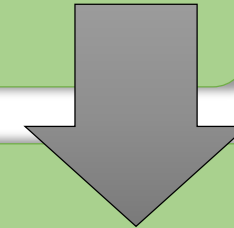
*In case of facilitation account, CDS account should be opened within 40 days of credit*

In case a default happens, NCCPL shall execute a default procedure (to be discussed with banks in coordination with PSX)

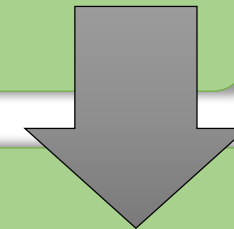
NCCPL will deposit the collected funds to debt office (onwards submission to Debt Office, no shortfall accepted – cut-off time to be decided with Debt Office in case of default procedure)

# Process Flow – CDC Process

CDC will setup CDS eligible security in consultation with PDSCL



CDC will allocate the instrument to the respective accounts in coordination with NCCPL/PDSCL



Investor/Banks may use the CDC pledging facility for OMO, SBP reserve requirement, etc.

# Maturity Payments

NCCPL will receive the PRINCIPAL PAYMENT along with the final RENTAL PAYMENT from Debt Office on maturity

NCCPL will pass the same to the security holder after deduction of applicable taxes based on the details provided by CDC at the time of maturity

CDC to revoke the CDS security in coordination with NCCPL/PDSCL, once maturity payment is made



# SECONDARY MARKET PROCESS FLOW



# Role of Parties



- Clearing & Settlement
- Risk Management on Post Trade Basis
- Taxation related matters

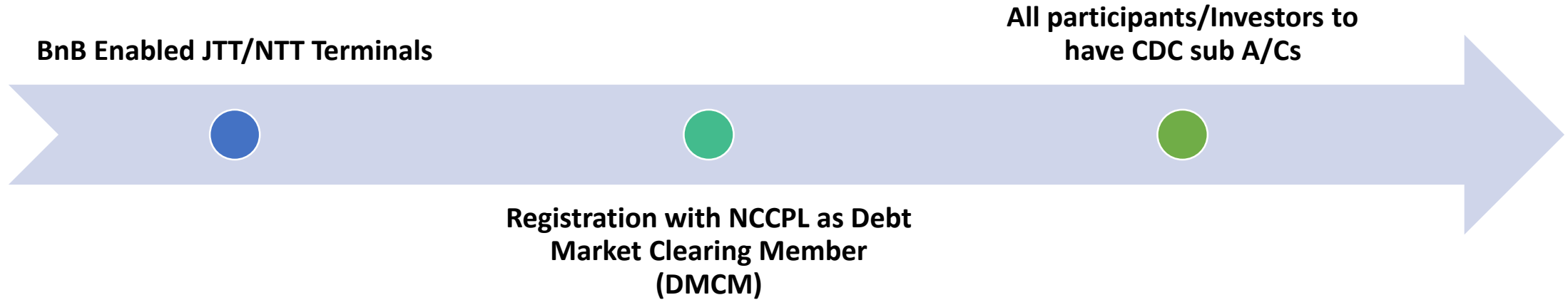


- Trading Platform
- Data Transmission to NCCPL



- Custodian of SUKUKs
- Movement of SUKUKs

# Pre Requisites for Trading in Secondary Market



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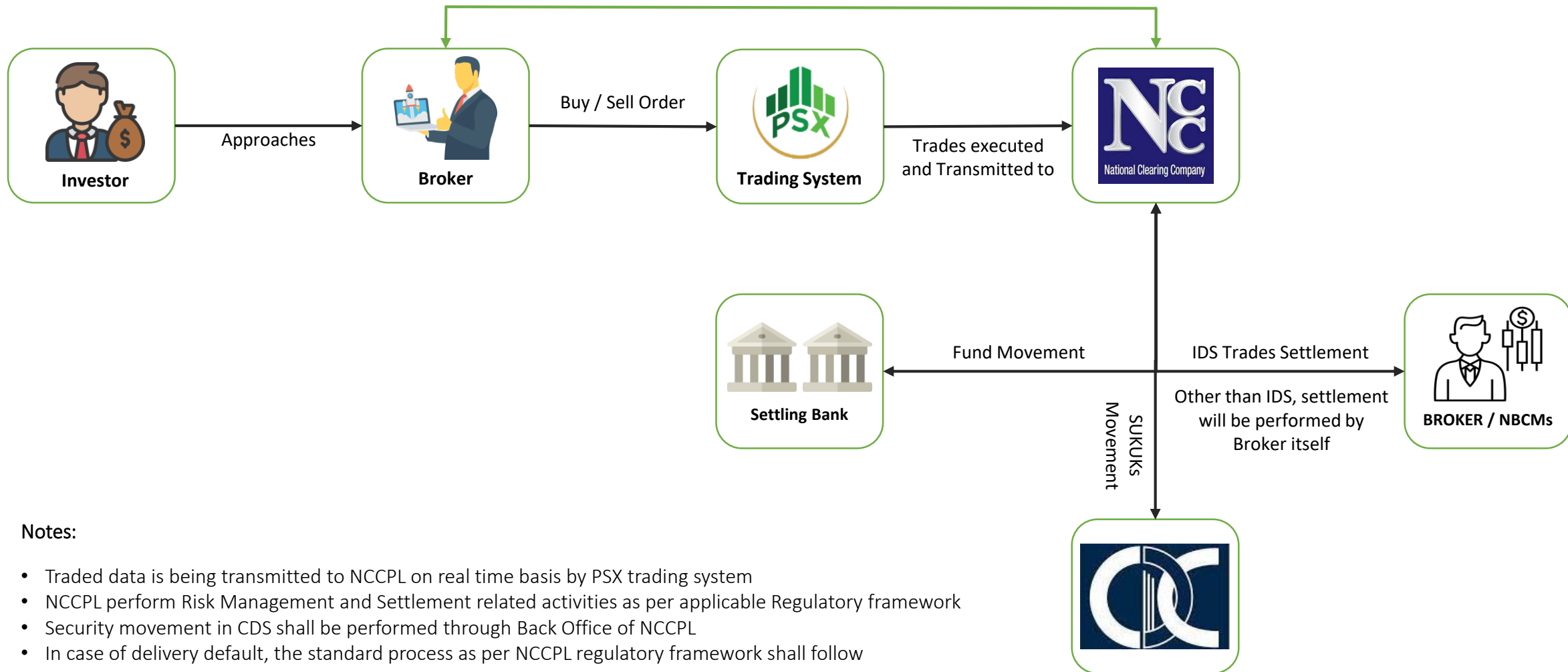


- CDS eligible SUKUK shall be made available for trading in following trading platforms:
  1. Jade Trading Terminal (JTT) – BnB enabled terminal only
  2. New Trading Terminal (NTT) – BnB enabled terminal only

# Trading, Settlement & Risk Management



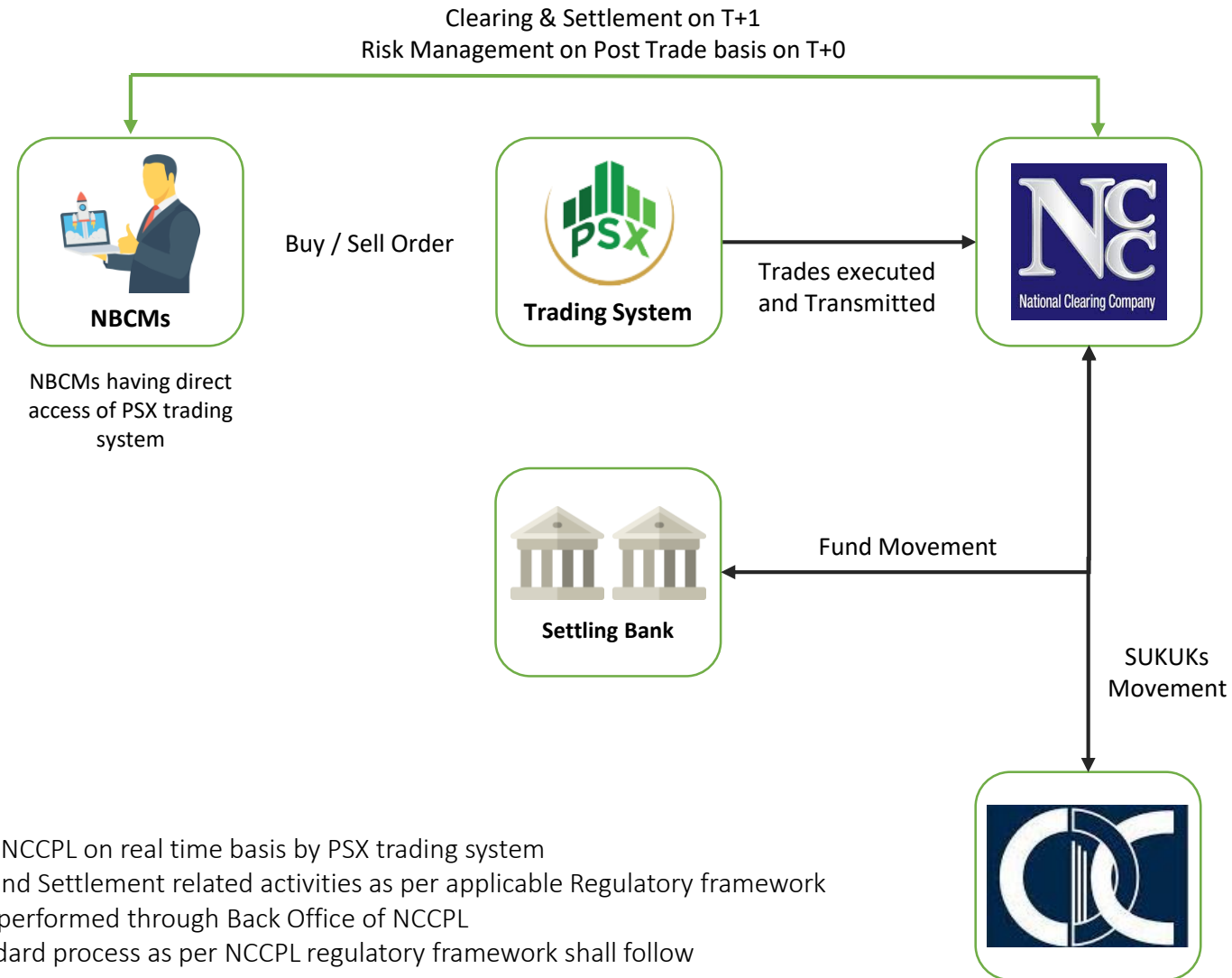
Clearing & Settlement on T+1  
 Risk Management on Post Trade basis on T+0  
 Applicable tax deduction on trades



## Notes:

- Traded data is being transmitted to NCCPL on real time basis by PSX trading system
- NCCPL perform Risk Management and Settlement related activities as per applicable Regulatory framework
- Security movement in CDS shall be performed through Back Office of NCCPL
- In case of delivery default, the standard process as per NCCPL regulatory framework shall follow

# Trading, Settlement & Risk Management NBCMs (Direct Access)



## Notes:

- Traded data is being transmitted to NCCPL on real time basis by PSX trading system
- NCCPL perform Risk Management and Settlement related activities as per applicable Regulatory framework
- Security movement in CDS shall be performed through Back Office of NCCPL
- In case of delivery default, the standard process as per NCCPL regulatory framework shall follow

# Detailed Flow - Clearing & Settlement and Risk Management



Clearing & Settlement and risk management of trades executed by Clearing Members on PSX trading system are handled by NCCPL through its NCSS as per the following mechanism:

- Trades executed by Clearing Members on PSX trading system shall be settled through NCSS on the basis of Trade-for-Trade T+1 settlement cycle
- Trades will not be netted with equity market trades
- A separate Clearing Account is required to open in NCSS by a Clearing Members exclusively for clearing & settlement and risk management of trades executed on PSX Trading system
- Institutional Delivery System (“IDS”) facility of NCSS is also made available for the clearing and settlement of trades of NBCMs

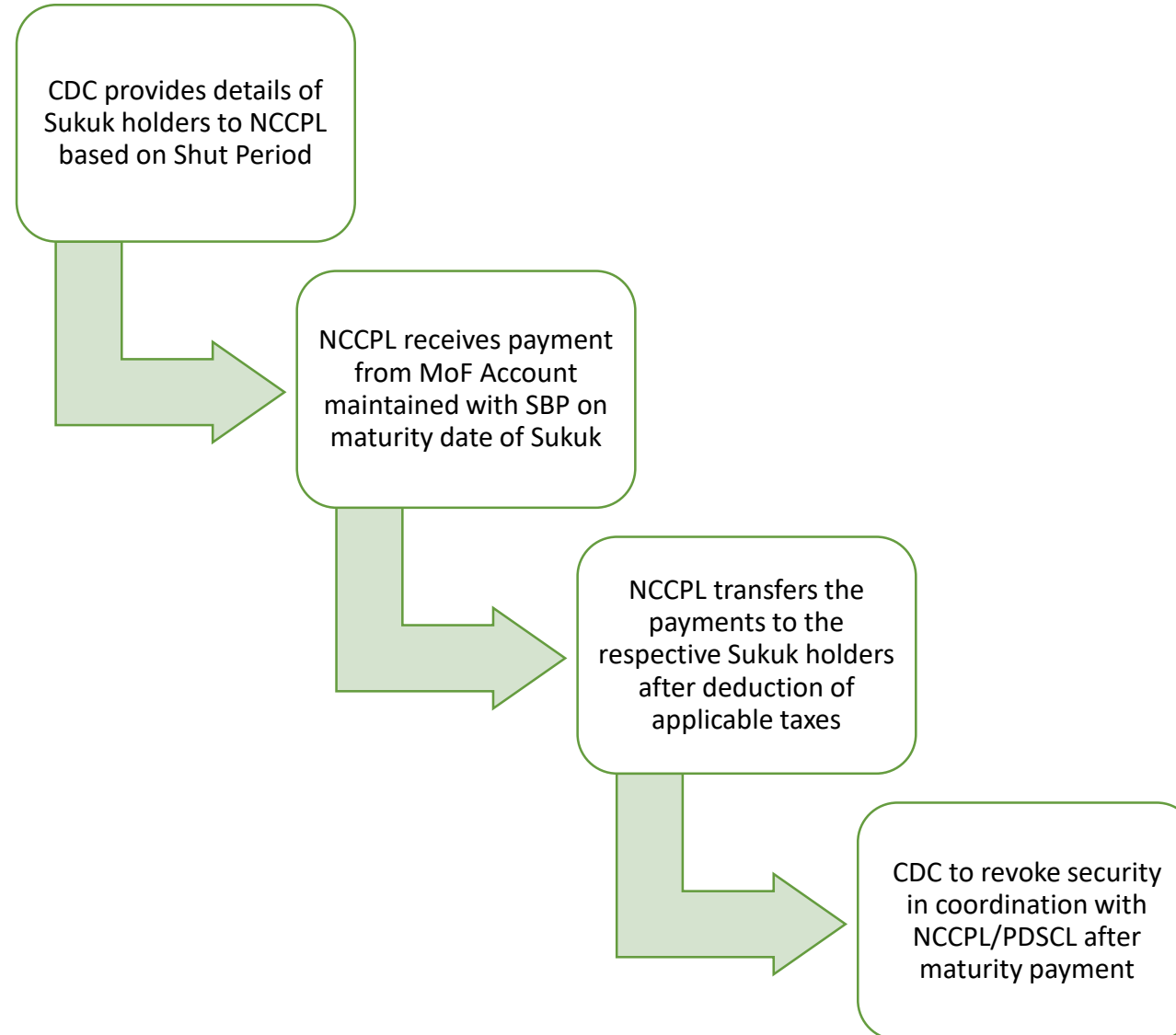
# Detailed Flow - Clearing & Settlement and Risk Management



- On the Settlement Date, Balance Order for every Debt Market Trade is generated on gross basis whereby Clearing Member is required to deliver and/or receive each and every trade even in the same Security separately on Trade-for-Trade basis
- NCSS generates separate money payable and receivable on gross basis for each Clearing Member for each Balance Order generated on Trade-for-Trade basis
- Upon fulfillment of payment obligation by Clearing Member, securities are transferred into respective buying Clearing Member CDS Account
- Upon fulfillment of delivery obligation by Clearing Member, NCSS credit funds into respective selling Clearing Member's settling bank account



# Maturity Payments



# **Q & A Session**