



National Clearing Company of Pakistan Limited

8th Floor, Pakistan Stock Exchange Building, Stock Exchange Road, Karachi

NCCPL/CM/SEPTEMBER-23/05

September 11, 2023

SUBJECT: NCCPL's JOURNEY & ROAD MAP TO T+1 SETTLEMENT CYCLE

Dear Broker Clearing Members, Non Broker Clearing Members, Custodian Clearing Members & Settling Banks,

We hope this letter finds you in good health and high spirit. We are writing to share with you the highlights of major milestones achieved by NCCPL since the inception of its journey and how we intend to proceed in future. We acknowledge that support of capital market participants, associated capital market entities and SECP's guidance has always been instrumental in paving the way for us to deliver the best in class services and products. Therefore, taking you on board beforehand, in terms of our intended plans for clearing and settlement function, is fundamental for its swift execution and implementation.

NCCPL'S JOURNEY SINCE 2001 – KEY HIGHLIGHTS:

- Implemented UIN functionality for registration of investors and thereafter provided UIN Information System
- Implemented automated securities settlement process
- Integrated NCSS with PSX after integration of stock exchanges and thereafter aligned NCSS with PSX New Trading System
- Implemented Clearing, Settlement and Risk Management of Bonds Automated Trading System, Negotiated Deal Market, Exchange Traded Funds & Growth Enterprise Market.
- Assumed Role of Central Counter Party and took over entire risk management function.
- Established Settlement Guarantee Fund to handle default risk.
- Continuously improved risk management process after taking over entire risk management to provide ease of doing business and to enhance trading capacity.
- Implemented Institutional Delivery System along with Financial Institutional Risk Management System
- Implemented Leveraged Market Products (Margin Trading System, Margin Financing System, Securities Lending & Borrowing System)
- Implemented Murabahah Share Financing System
- Developed an automated system for computation, determination, collection and deposit of Capital Gain Tax for PSX Investors, unit holders of Mutual Funds and investors of future commodity contracts
- Implemented National Custodial Services
- Implemented CKO Regime for investors of Capital Market
- Implemented online account opening functionality for investors and thereafter integrated CKO system with systems of SBP, NADRA & PMD to validate customers credential on real time basis.
- Assumed role of Special Purpose Primary Dealer.
- Disseminated portfolio investment information through its website

National Clearing Company of Pakistan Limited

8th Floor, Pakistan Stock Exchange Building, Stock Exchange Road, Karachi

TRANSITION OF SETTLEMENT FROM T+2 TO T+1 CYCLE:

It has been observed that most stock exchanges around the globe follow settlement cycle of T+2, however the transition to T+1 settlement cycle has been noticed in developed capital markets in recent year in due realization of its benefits. The capital markets in India & China initiated transition in year 2021 and have smoothly shifted to T+1 settlement cycle whereas capital markets in USA and Canada have initiated transition and are targeting to complete the same in year 2024.

The benefits expected to be availed from such transition are enlisted below

- Reduction in overall systemic risk of the capital market ecosystem as reduced settlement cycle leads to lesser unsettled transaction specially during volatile market conditions.
- Lower margin requirement leading to increased liquidity while mitigating market risk and counterparty risk.
- Infrastructure advancement across all infrastructure institutions i.e. securities exchange, depository and CCP by ensuring robust and straight processing and removal of manual processing.

NCCPL'S VISION FOR PROPOSED TRANSITION

NCCPL has pursued its endeavor to align its services with international best practices in order to reduce risk and to increase overall efficiency of the securities markets operations. As part of this effort, NCCPL is evaluating the practicability of shifting from **T+2** to **T+1** settlement cycle. NCCPL is confident that transition to a shorter settlement cycle can be handled efficiently in close coordination and collaboration with concerned stakeholders.

Following are the key considerations for evaluating the impact of proposed transition:

- Impact of applicable regulatory framework, process of trade feed transmission, clearing, netting, balance order and settlement through banks implemented for ready, derivative and leverage market.
- Impact on risk management parameters along with its effect on NCCPL's role as a CCP, especially in terms of SGF and default management.
- Impact on operational timing of allied leverage markets to ensure facilitation to market participants.
- Impact on the corporate entitlement related practices adopted in the securities market.
- Technical, operational and financial impact of the transition on Clearing Members and the investors.

NCCPL do not foresee any major obstacle at its end in the implementation of shorter settlement cycle, however, it will significantly enhance the operational efficiency related requirement for Custodian Clearing Members ("CCMs") that are responsible for settling majority of the trades executed in the securities market by the foreign individual and institutional investors.



National Clearing Company of Pakistan Limited

8th Floor, Pakistan Stock Exchange Building, Stock Exchange Road, Karachi

The CCMs use IDS functionality to affirm the trades till T+1 and existing T+2 settlement cycle is conducive due to different time zone. Additionally, forex spot market in Pakistan has its own settlement timing and mechanism which is presumably more aligned with T+2 settlement cycle.

NCCPL has envisaged that NCSS is capable to handle settlement on T+1 basis, however, considering the significance of this project a thorough study needs to be carried out to review, highlight, document and decide on all allied matters.

NCCPL, in order to, start the process, is reaching out to all concerned stakeholders to solicit their views and recommendation on the proposed shortening of settlement cycle. It is also proposed that a working group comprising of representative from the infrastructure institutions, brokerage, banking and non-banking financial institutions and CCMs be formed to conduct the said study and provide its recommendations and a roadmap for implementation.

We look forward to your recommendations and support on the matter. For any further information or clarification on the matter, please feel free to contact the undersigned.

For any further queries or concerns, please feel free to contact the Customer Support Department at UAN 021-111-111-622 or visit our website www.nccpl.com.pk

You can approach our Customer Support Services through WhatsApp vide 021-111-111-622 or Click [here](#).

Best Regards,

**For and on behalf of
National Clearing Company of Pakistan Limited**

_____sd
Imran Ahmed Khan
Chief Operating Officer &
Company Secretary

CC:

1. Executive Director - Policy, Regulation and Development Department - SMD
Securities & Exchange Commission of Pakistan - Islamabad
2. Chief Executive Officer - Pakistan Stock Exchange Limited
3. Chief Executive Officer - Central Depository Company of Pakistan Limited
4. Managing Director - Pakistan Mercantile Exchange Limited
5. Chief Executive Officer - Mutual Funds Association of Pakistan
6. Chairman - Pakistan Banking Association
7. Pakistan Stock Brokers Association