

CSDs: CDC (Pakistan)

Date: 27 May 2011

SMI Markets: Pakistan

CMIRR Markets: Pakistan

Revised Clearing and Settlement and Risk Management of BATS

The National Clearing Company of Pakistan Limited (NCCPL) has revised the clearing and settlement and risk management of the Bond Automated Trading System (BATS). Effective 2 May 2011, the settlement of trades executed on BATS are handled on a trade-for-trade basis. The security deposit and initial contribution requirements for all debt market clearing members have also been withdrawn. The margin slabs applicable to the debt market have been revised as follows:

Issue Size of Listed Debt	Margin on Exposure
Up to PKR 1 billion	1%
PKR 1 billion – PKR 3 billion	1.5%
Greater than PKR 3 billion	2%

The netting regime for the computation of margins and MTM losses was revised to disallow netting between buy and sell positions of the same unique identification number in either the same or different securities on the same day. The NCCPL announcement is available here: [revised clearing and settlement and risk management of BATS](#).

These changes are in line with the Karachi Stock Exchange notice (KSE/N-2580) dated 29 April 2011 regarding changes to the BATS and discontinuation of the trading in listed debt securities outside BATS, effective 2 May 2011. A copy of the KSE notice can be found here: [N-2580](#).

CSD Risk Impact

CDC (Pakistan)

CSD Rating: A

CSD Flash Impact: On Watch

Impacted Risk Type: Liquidity Risk

Current Rating = A-

Flash Impact = Negative

Impacted Risk Type: Counterparty Risk

Current Rating = A

Flash Impact = On Watch

The gross settlement of BATS trades increases liquidity requirements for cash and securities, hence the 'Negative' impact on liquidity risk. The removal of the security deposit and initial contribution requirements for all debt market clearing members will certainly increase counterparty risk exposure. However, NCCPL also revised the margin slabs and disallowed netting in the computation of margin exposures and marked-to-market losses, adding protection from a potential default. Hence, the impact on counterparty risk is set 'On Watch'.

Market Information Impact

Pakistan

Infrastructure Risk Ratings Impact

Pakistan

Market Rating: A

Market Flash Impact: On Watch

Impacted Risk Type: Liquidity Risk

Current Rating = BBB

Flash Impact = Negative

Impacted Risk Type: Counterparty Risk

Current Rating = A-

Flash Impact = On Watch

The gross settlement of BATS trades increases liquidity requirements for cash and securities, hence the 'Negative' impact on liquidity risk. The removal of the security deposit and initial contribution requirements for all debt market clearing members will certainly increase counterparty risk exposure. However, NCCPL also revised the margin slabs and disallowed netting in the computation of margin exposures and marked-to-market losses, adding protection from a potential default. Hence, the impact on counterparty risk is set 'On Watch'.

Related Flash: [KSE to Introduce Bond Automated Trading System - Update, 02/11/2009 \(click to view\)](#)

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