

**To (System) :**

Element : Participant, Clearing Member  
Type  
Location : Islamabad, Karachi, Lahore  
Status : Active, Suspended

**To (Group) :**

**To  
(Element) :**

**Subject :** Soft Reminder - Limit on Assets under Custody (AuC) for TREC holders with FYE June 30, 2018

**Attachments :** Limit on Assets under Custody Procedure (New 2018) Version 2.2.pdf

**Priority :** High

**Message :** October 08, 2018

Dear TREC holder,

This is with reference to our Circular No. 13 of 2018 dated September 28, 2018 regarding "Further amendments in the CDC Regulations relating to Asset under Custody Regime" wherein we intimated the changes made in the CDC Regulations pertaining to the Assets under Custody (AuC) Regime.

In line with the changes made in the Regulations, following amendments have been incorporated in the Procedures of AuC:

TREC holder Participants are required to submit Capital Adequacy Level as at **June 30, 2018** latest by **October 31, 2018** to CDC through either of the following means:

- Capital Adequacy Level Certificate issued by the statutory auditors of the Participant as per **Annexure-A** within the attached Procedures ; or
- Audited Annual Financial Statements which shall disclose Capital Adequacy Level of TREC Holder Participant in Notes to the Financial Statements as per **Annexure-B** within the attached Procedures.

The amended Procedure is enclosed herewith for your ready reference.

Further, you are requested to submit the required document(s) in a sealed envelope addressed to Head of Operations marked as “**Confidential**” in order to ensure the sanctity of the documents. Moreover, the same can be sent through courier to CDC House or can be submitted at any of our branch offices.

**We would like to reiterate that only Certified True Copy of Financial Statements will be accepted**

*All those TREC Holders who have already submitted the said documents are requested to ignore this circular.*

Should you have any queries or concerns, please feel free to call our Customer Support Services at 0800-23275 (CDCPL).

Regards,

**Owais Anwer**

**Section Head - Operations & Customer Support Services**



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***LIMIT ON ASSETS UNDER CUSTODY  
PROCEDURES***

(Made under Regulations 6.8 of the CDC Regulations)

Version 2.2

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**Operations & Customer Support Services**

| CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

| CDC HOUSE, 99-B, BLOCK B, S.M.C.H.S, MAIN SHARAH-E-FAISAL, KARACHI |



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## **Introduction**

The objective of this Regime is to apply a mechanism whereby prescribing a limit to the extent of which a Trading Right Entitlement Certificate (TREC) Holder Participant may have custody of securities under its control. These Procedures have been made under Regulations 6.8 of the CDC Regulations.

## **Applicability of the regime**

The regime is applicable only on CDS Participants who are TREC Holders of Pakistan Stock Exchange Limited. However, this regime is not be applicable on those TREC Holder Participants whose admission to the CDS is under suspension.

## **Custody Position**

Custody Position means the cumulative value of the Holding Balances at any time forming part of the Account Family of TREC Holder of the Stock Exchange, excluding Securities that are (a) in Freeze status and (b) held in the blocked accounts in the CDS.

## **Capital Adequacy Level**

Capital Adequacy Level shall be calculated in the following manner:

<i>Total Assets</i>	<i>xxxx</i>
<i>Less: Total Liabilities</i>	<i>(xxxx)</i>
<i>Less: Revaluation Reserves (created upon revaluation of Fixed Assets)</i>	<i>(xxxx)</i>
 <i>Capital Adequacy Level</i>	 <u><u>xxxxx</u></u>

## **Explanation:-**

While determining the value of the total assets of the TREC Holder, Notional value of the TRE certificate held by such Participant as determined by Pakistan Stock Exchange shall be considered.

## **Maximum Custody Limit**

Maximum Custody Limit means **25 times** of the reported Capital Adequacy Level.



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### **Submission of Statement of Capital Adequacy Level**

In order to enable CDC to define/update the Capital Adequacy Level (CAL) in the CDS, TREC holder Participants are required to submit Capital Adequacy Level to CDC annually within four months of close of each financial year **and** upon any change in its paid-up capital (except for the change due to Bonus issue), through either of the following means:

- Capital Adequacy Level Certificate issued by the statutory auditors of the Participant as per the attached format (Annexure-A); or
- Audited Annual Financial Statements which shall disclose Capital Adequacy Level of TREC Holder Participant in Notes to the Financial Statements as per the attached format (Annexure-B).

#### **Note:**

1. Statutory Auditor's referred to above shall be the auditor enlisted in category 'A' or 'B' of the SBP's panel of auditors.
2. Form-3 as filed with the CRO will be required along with the original Auditor Certificate if paid-up capital changes during the year.
3. Capital Adequacy Level will be entered in the CDS as specified in the Notes to the Financial Statement containing CAL disclosure or in the Auditor certificate, as the case may be.

### **Non-Compliance**

Following events will be considered as non-compliance of the CDC Regulations:

#### ***A - Assets under Custody are in excess of Maximum Custody Limit:***

1. In such cases, CDC will issue Notice to the TREC Holder requiring it to rectify the breach within 7 Business Days of receipt of such Notice.
2. CDC will review the status of compliance on the 8<sup>th</sup> Business Day of receipt of such Notice.
3. If the Participant does not rectify the breach within 7 Business Days of receipt of the above Notice; CDC shall issue Notice of Restriction to the Participant on the 8<sup>th</sup> Business Day.

During this period, the following Restrictions shall be applied:

- Restriction on deposit of physical securities in the accounts and sub-accounts maintained by the Participant.
- Restriction on all incoming delivery transactions whether through Free Delivery, Balance Order Delivery, mechanism.



4. In case where the default continues for more than 60 Business Days from the date of Notice of Restriction, CDC shall issue Notice of suspension to the concerned Participant.

**B:** a) *The Participant has not submitted the Capital Adequacy Level Statement in the form of Audited Annual Financial Statements disclosing the Capital Adequacy Level of TREC Holder Participant in Notes to the Financial Statements or Auditors' Certificate to the CDC; or*

b) *Capital Adequacy level of a TREC Holder is negative; or*

c) *There is a non compliance of Notice issued by CDC to the Participant for the purpose of Inspection;*

1. In such cases, CDC shall issue Notice of Restriction to the Participant.

During the restriction period the Participant will not be allowed to perform any transactions in CDS including Balance Order Delivery Transactions transmitted by NCCPL (for buy or sale trade) except for Free Delivery transaction relating to Portfolio Transfer (outward).

2. In case where the default continues for more than 60 Business Days from the date of Notice of Restriction, CDC shall issue Notice of suspension to the concerned Participant.

Please note that Auditor for the purpose of Inspection as referred to in B (c) above shall be the auditor enlisted within category 'A' or 'B' of the SBP's panel of auditors.

#### **Note**

For the above cases of Restriction, Pending settlement (as per the Procedures of Pending Settlement) as well as all Corporate Action would be allowed during the restriction period.



### Auditor's Certificate

(to be provided on Auditor's Letter Head)

### Annexure-A

We, being the statutory auditors of M/s. \_\_\_\_\_ certify that the following information is correct and authenticated by us after due diligence from our side as at \_\_\_\_\_.

	Note	Amount
<i>Total Assets</i>	<i>1</i>	xxxx
<i>Less: Total Liabilities</i>		(xxxx)
<i>Less: Revaluation Reserves (created upon revaluation of fixed assets)</i>		(xxxx)
 <i>Capital Adequacy Level</i>		 <u>xxxxx</u>

#### Note:-

1. While determining the value of the total assets of the TREC Holder, Notional value of the TRE certificate held by the [Name of the Participant] as at year ended <date of the year end> as determined by Pakistan Stock Exchange has been considered.






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 Format for notes to the Financial Statements
**Annexure-B**

	Note	Amount
<i>Total Assets</i>	<i>1</i>	xxx
<i><u>Less: Total Liabilities</u></i>		(xxx)
<i><u>Less: Revaluation Reserves (created upon revaluation of fixed assets)</u></i>		(xxx)
 <i>Capital Adequacy Level</i>		 <u>xxxx</u>

**Note:-**

1. While determining the value of the total assets of the TREC Holder, Notional value of the TRE certificate held by the [Name of the Participant] as at year ended <date of the year end> as determined by Pakistan Stock Exchange has been considered.