Circulars/Notifications - Domestic Market & Monetary Management Department

DMMD Circular No. 21 of 2020 **September 11, 2020**

All Banks/DFIs/NBFIs

Dear Sirs/Madams,

Rules Governing Primary Dealer System

Please refer to DMMD circular no. 12 dated July 03, 2012, in which rules governing Primary Dealer system are stipulated.

In view of regular and more frequent auctions of fixed rate and floating rate Pakistan Investment Bonds (PIBs), the following changes are made in the rules governing primary dealer system:

Rule No.	Current Rule	New Amended Rule
	D-Primary Dealer's Privileges	
D-2	The State Bank of Pakistan would announce the auction date and tenor wise auction target of GoP's long term paper 14 days prior to the auction date. PDs would be allowed to carry out "When issued" trading in that paper during the interim period of auction announcement and auction time. The PD will not be allowed to short sell a particular issue more than 5% of the total target amount, during the "When issued" period. Short selling will be allowed only up to the time of auction and will be available only if the auction is accepted. In case a PD is unable to square its short position, PD will be required to cover the short position from the market. However, dependent on the liquidity position of the particular issue State Bank of Pakistan, at its discretion, would help using various options depending upon the situation. Decision of the State Bank of Pakistan in this regard shall be binding.	PDs would be allowed to carry out "When issued" trading **for fixed rate and floating rate Pakistan Investment Bonds (PIBs) as per the following schedule:** **(i) For fixed rate PIBs: when issued trading will be allowed during five (05) working days prior to the auction.** **(ii) For floating rate PIBs: when issued trading will be allowed during three (03) working days prior to the auction.** The PD will not be allowed to short sell a particular issue more than 5% of the target amount **of each tenor**, during the "When issued" period. Short selling will be allowed only up to the time of auction and will be available only if the auction is accepted. In case a PD is unable to square its short position, PD will be required to cover the short position from the market. However, **if the outstanding size of a particular issue before any auction is less than Rs 200 billion (Face Value), State Bank of Pakistan, at its discretion, may provide accommodation of the short-selling.** Decision of the State Bank of Pakistan in this regard shall be binding.

The above amendment shall be effective from September 23, 2020. All other instructions on the subject will remain unchanged.

Yours truly,

Sd/-

(Rizwana Rifat)
Additional Director

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