



**For** : All Clearing Members  
**Date** : May 8, 2024  
**Subject** : Proposed Amendments to the SCCP Rules Recommended by the SEC

Pursuant to the letter of the Securities and Exchange Commission (“Commission”) dated March 7, 2024, the Securities Clearing Corporation of the Philippines (“SCCP”) is inviting all Clearing Members to submit their comments on (1) the Allocation Algorithm of SCCP’s Clearing and Settlement System (“C&S System”) relative to Rule 3.4 of the SCCP Rules; (2) the collection of additional contributions to the Clearing and Trade Guaranty Fund (“CTGF”) under Rule 5.1.4(3), whose original version was the subject of public consultation last November 24, 2021; (3) the provision of interest, other fees and costs incurred by a Defaulting Clearing Member; and (4) the additional revisions on the proposed Rule 7.6 on Risk Containment Measures, whose original version was also the subject of the November 24, 2021 public consultation.

## **I. Allocation Algorithm of the C&S System**

The description of the Allocation Algorithm of the C&S System is proposed to be attached as Annex 11 of the SCCP Rules and, accordingly, Rule 3.4 of the SCCP Rules is proposed to be revised as follows:

### **Rule 3.4 Allocation Algorithm**

*In effecting Settlement of its obligations to deliver Cash and Securities arising out of the settlement Contracts, SCCP may allocate Cash and Securities available to it to Clearing Members due to receive Cash and/or Securities in accordance with the an allocation algorithm that is being implemented by the C&S System, as provided under Annex 11 of these Rules. ~~that is based on the highest outstanding netted amounts to be received by the Clearing Members. A priority list will be set up according to this rule and the system will attempt to settle the largest outstanding netted amounts first, as provided in the Operational Procedures, or in such other manner as it considers appropriate.~~*

**SCCP may effect partial deliveries in respect of its obligations to deliver Securities arising out of Contracts.**

The last paragraph of the above Rule 3.4 is also highlighted because it was mistakenly deleted in the public consultation last November 24, 2021. We would like the public to know that this last paragraph is retained in the SCCP Rules.

The Allocation Algorithm of the C&S System proposed to be attached as Annex “11” of the SCCP Rules is provided below:

## ANNEX 11: ALLOCATION ALGORITHM

Pursuant to Rule 3.4 of the Rules, SCCP may allocate Cash and Securities available to it to Clearing Members due to receive Cash and/or Securities in accordance with the following allocation algorithm:

I. Price (First Order of Priority): SCCP shall settle first the highest buy price and lowest sell price.

II. Quantity (Second Order of Priority): If the prices of the securities are equal, SCCP shall settle the lowest quantity first.

III. Pseudo-Random Process: If the prices and quantities are equal, SCCP's clearing and settlement system shall follow a pseudo-random process.

The rationale of the Allocation Algorithm of the SCCP's C&S System is as follows: On the first order of priority, the settlement of the highest buying price first will give SCCP, as Central Counterparty, more cash at a given time during settlement run for the purpose of promptly paying the selling Clearing Members. On the other hand, the settlement of the lowest selling price first will give SCCP, as Central Counterparty, more securities at a given time during settlement run for the purpose of promptly delivering to the buying Clearing Members. On the second order of priority, if the prices are equal, the settlement of the lowest quantity first will allow SCCP to settle more trades at a given time during settlement run. Finally, if the price and quantity are the same, there is equal risk for the SCCP, so the system will settle randomly.

## II. Collection of Supplemental CTGF Contributions

### **5.1.4 Build Up of the Clearing Fund**

**xxx**

**xxx**

(3) Notwithstanding the foregoing, SCCP may, **with the approval of the Commission**, in addition to the mandated contributions to the Clearing Fund as provided under this Rule, require all active Clearing Members to make supplemental contributions when, in SCCP's opinion, the size of the CTGF is no longer commensurate to a sustained increase in trade volume.

As stated, the above proposed rule was already the subject of public consultation last November 24, 2021. The Markets and Securities Regulation Department of the SEC recommended that SCCP obtain the prior approval of the SEC (as highlighted in bold) for SCCP to collect supplemental contributions under this Rule, where SCCP will present a quantifiable basis before the Commission decides whether or not to approve the collection of supplemental CTGF contributions.

### III. Interest, Fees and Costs of Default

#### **6.2.8 ~~6.1.7~~ Interest and Other Fees and Costs**

*The Defaulting Clearing Member shall bear all the costs, taxes and loss of interest earnings arising from the total advances from the Clearing Fund brought about by the pre-termination of SCCP's investment/s, which shall be used to settle the Failed Trade of such Defaulting Clearing Member. shall bear interest based on the prevailing overnight borrowing rate of the Bangko Sentral ng Pilipinas, plus a spread as determined by the SCCP Board.*

*The total advances from credit facilities shall bear the applicable interest rate and other charges imposed by the lending bank.*

*The foregoing interest and other charges shall be imposed until the advances are fully paid, and shall be stipulated in the Demand Notice for payment to be issued by SCCP.*

*Any and all interests, fees, costs and other charges that may be due on the settlement of the Net Money Obligation herein shall be for the sole account of the Defaulting Clearing Member.*

The current SCCP Rule providing that the total advances from the CTGF would bear interest based on the prevailing overnight borrowing rate of the BSP, plus a spread, under Rule 6.1.1(b), is not applicable given that such BSP rate is not the appropriate reference rate in advancing funds drawn from the CTGF. The CTGF consists of investments, where the pre-termination of such investments in order to pay for a failed trade would incur costs, taxes and loss of interest earnings that should be passed on to the Defaulting Clearing Member.

The second and third paragraphs of the above proposed rule were already the subject of public consultation last November 24, 2021.

In sum, the above proposed revisions reflect that a Defaulting Clearing Member shall bear all the costs, taxes and loss of interest earnings associated with the pre-termination of investment/s of the CTGF.

### IV. Additional Revisions on the Rule 7.6 on Risk Containment Measures

The proposed Rule 7.6 on Risk Containment Measures is further revised as follows:

#### **7.6 Risk Containment Measures**

SCCP may, in its discretion, require Early Delivery (i.e., not later than SD-1) of the Cash or Securities obligations and/or ~~require additional margins~~ from one or more Clearing Members in the following situations:

(1) *when, in SCCP's opinion, unstable conditions exist or market conditions or price fluctuations relating to one or more securities at any time require Early Delivery ~~or additional margin~~ to maintain an orderly market or to preserve financial integrity or to minimize the risk of default, in addition to the Mark-to-Market Collateral requirements under Rule 8;*

(2) *when SCCP believes that any Clearing Member is carrying exposure that:*

- (a) *is larger than is justified by the financial condition of that Clearing Member; or*
- (b) *places or may place SCCP at risk;*

(3) *where the Clearing Member is found to have a record of frequent rule violations or inadequate or unsound management or serious operational defects which, in SCCP's opinion, places or may place SCCP at risk;*

(4) *where market conditions or price fluctuations are such that SCCP deems it necessary, to call upon the Clearing Members whom it believes are affected by such conditions or fluctuations to follow any of the additional risk containment measures under this Rule as determined by SCCP; or*

(5) *when certain risk levels have been reached by a particular Clearing Member, as determined by SCCP.*

**When SCCP determines that any of the foregoing risks are no longer present, SCCP shall lift the early delivery requirement."**

The notable revisions to the above proposed rule are (1) the deletion of the requirement of the additional margin because an early delivery requirement may currently be an adequate protection for the settlement process given the risks identified under the proposed Rule 7.6; and (2) that SCCP shall lift the early delivery requirement when the risks identified in the proposed Rule are no longer present. The rest of the paragraphs were already the subject of public consultation last November 24, 2021.

Clearing Members may submit their comments by e-mail addressed to both **Ms. Renee D. Rubio (coo@sccp.com.ph)** and **Atty. Maximo Paulino T. Sison III (mtsison@pse.com.ph)** until **May 17, 2024**.

(ORIGINAL SIGNED)  
**Renée D. Rubio**  
Chief Operating Officer