



For : All Clearing Members – Attn: The Associated Person
Date : 2 August 2012
Subject : SEC Approval for the Proposed Revisions to the Rules and Operating Procedures on the Fails Management System

Please be advised that last 13 July 2012, the SCCP received a letter from the Securities and Exchange Commission ("Commission") stating that during its meeting held last 28 June 2012, the Commission resolved to approve SCCP's proposed amendments to the SCCP Rules and Operating Procedures governing the Fails Management System (the "Amended SCCP Rules and Operating Procedures on Fails Management System"). The Amended SCCP Rules and Operating Procedures on Fails Management System were previously published for public comment through Memo for Brokers No. 01-0608 dated 27 June 2008 for items A to C, and Memo for Brokers No. 01-0112 dated 02 January 2012 for item D.

In view of the Commission's approval, the Amended Rules and Operating Procedures on Fails Management System became effective last 23 July 2012. For your reference, the revisions are underscored below:

A. Rule 6.1.3 Procedure for Sell-Out: the Sell-Out Notice

"Upon failure of the Clearing Member to make cash payment to settle its obligations on the scheduled Settlement Date and SCCP, as the Central Counterparty has made an advance from the CTGF or has utilized its credit facility with a Settlement Bank, SCCP shall issue a Sell-out Notice to the Defaulting Clearing Member. The Sell-Out Notice shall indicate the code and name of the Security and the number of shares that would be the subject of the Sell-Out. A Sell-Out Request indicating the code and name of the Security and the number of shares that would be subject of the Sell-Out shall be sent to the PSE notifying the latter of SCCP's intent to execute a Sell-Out.

The Notice of Possible Overnight Cash Fail shall be sent to the Capital Markets Integrity Corp. ("CMIC") on T+3 by 5:00 PM at the latest, with a recommendation for a Preventive Suspension upon failure of the Defaulting Clearing Member to settle by 9:15 AM of T+4. A Notice of Preventive Suspension shall likewise be given to the Defaulting Clearing Member, a copy of which shall be furnished to the PSE, SEC, Depository and the concerned Settlement Bank.

The Notice of Suspension of the Clearing Member shall be published on the electronic board as well as on the website of the Philippine Stock Exchange, Inc."

B. Rule 6.2.2 Procedure for Buy-In: The Buy-in Notice

"Upon determination by SCCP of the Defaulting member's inability to deliver the sufficient number of Securities to settle its Outstanding Obligations on the scheduled Settlement Date, SCCP shall issue a Buy-in Notice to the Defaulting Clearing Member. The Buy-in Notice shall indicate the name of the issuer, the number of Securities which are the subject of the Buy-in and the proposed date of the execution of the Buy-in, which shall be on the Business Day after the Settlement Date. A Buy-In Request shall be sent to the PSE notifying the latter of SCCP's intent to execute a Buy-In. The Buy-In Request shall indicate the name of the issuer, the number of securities which are the subject of the Buy-In, and the proposed date of execution of the Buy-In.

A Notice of Possible Overnight Security Fail shall be sent to the CMIC with a recommendation of Preventive Suspension upon failure of the Defaulting Clearing member to settle by 9:15 of T+4. A Notice of Preventive Suspension shall likewise be given to the Defaulting Clearing Member, a copy of which shall be furnished to the PSE, SE, Depository and the concerned Settlement Bank.

The Notice of Suspension of the Clearing Member shall be published on the electronic board as well as on the website of the Philippine Stock Exchange, Inc."

C. Rule 6.2.7 Cash as Collateral Pending Delivery of Securities (New Rule)

"SCCP Management, at its discretion, may accept cash as collateral no later than 5:00 PM on T+3 upon failure by a Clearing Member to deliver securities for reasons beyond the Clearing Member's control. The Defaulting Clearing Member shall be given until 10:00 AM of the following trading day within which to deliver the securities or face suspension. In case of failure to deliver the securities upon lapse of the deadline, SCCP Management is authorized to use the cash submitted as collateral to purchase securities during the Buy-In process."

D. Annex 7: Schedule of Fees, Fines and Penalties and Operating Procedures
Section 3.14 Schedule of Penalties and Sanctions

The Commission approved our recommendation to charge a lower penalty fee of ₱1,000.00 + $\frac{1}{8}$ of 1% or 0.00125 of the value of the cash fail or securities fail for Late Settlements, defined as cash payments and securities deliveries made after the settlement deadline of 12:00 NN on T+3 but no later than 2:00 PM on the same day.

The penalty fee for Settlement Fails, defined as cash payments and securities deliveries made after 2:00 PM on settlement date or not made at all, remains unchanged at ₱1,000.00 + $\frac{1}{4}$ of 1% or 0.0025 of the value of the cash fail or securities fail compounded daily until paid.

The complete wording of the revised penalty fee for Late Settlements, as well as for Settlement Fails, is in the attached revised Annex 7: Schedule of Fees, Fines and Penalties, marked as Annex A, and Operating Procedures 3.14 Schedule of Penalties and Sanctions., marked as Annex B.

- E. Lastly, references to "PSE-MRO" have been revised to "CMIC" and "PSE Maktrade System" to "PSE Trading System".

In line with the imposition of the revised Schedule of Fines and Penalties, we wish to remind our Clearing Members of SCCP Rule 2.5.1(b) which states that "repeated violations by the Clearing Member of acts punishable with fines", such as late settlements and settlement fails, are grounds for suspension or termination. Members are thus enjoined to continue to adhere to the settlement deadline of 12:00 NN on T+3 to avoid penalties including suspension or termination.

Finally, we have posted the complete SCCP Rules and Operating Procedures in the PSE website, as amended, for your reference. In particular, kindly refer to SCCP Rule 6: The Fails Management System, Operating Procedures 3: Fails Management System and Annex 7: Schedule of Fees, Fines and Penalties for the aforementioned amendments.

For your information and guidance.



Renée D. Rubio
Chief Operating Officer

ANNEX 7: SCHEDULE OF FEES, FINES AND PENALTIES

FEES	
Initial Clearing Membership Fee	P5,000.00
Clearing Fees	An ad-valorem rate of 0.0001 or 1 basis point (VAT-inclusive based on gross trade value (per month).
FINES AND PENALTIES	
<i>Fails Management System</i>	
Late Cash Payments (Cash Payments made after 12:00 NN but no later than 2:00 PM on Settlement Date)	₱1,000.00 + $\frac{1}{8}$ of 1% or 0.00125 of the value of the cash fail plus any charges incurred by SCCP should advances from the Settlement Bank or from the CTGF have been made, plus any actual out-of-pocket expenses incurred by SCCP to resolve the cash fail.
Late Securities Delivery (Securities deliveries made after 12:00 NN but no later than 2:00 PM on Settlement Date)	₱1,000.00 + $\frac{1}{8}$ of 1% or 0.00125 of the market value of the securities fail plus any charges incurred by SCCP should advances from the Settlement Bank or from the CTGF have been made, plus any actual out-of-pocket expenses incurred by SCCP to resolve the securities fail.
Cash Fails (Cash payments made after 2:00 PM on Settlement Date or not made at all)	₱1,000.00 + $\frac{1}{4}$ of 1% or 0.0025 of the value of the cash fail compounded daily until paid or until payment of any advances made from the Settlement Bank or the CTGF is made plus any actual out-of-pocket expenses incurred by SCCP to resolve the cash fail and if not paid by 9:15 AM of T+4, a preventive suspension shall be imposed on the Defaulting Member.
Securities Fails (Securities deliveries made after 2:00 PM on Settlement Date or not made at all)	₱1,000.00 + $\frac{1}{4}$ of 1% or 0.0025 of the market value of the securities fail compounded daily until delivery is rendered or until payment of any advances made from the Settlement Bank or the CTGF is made plus any actual out-of-pocket expenses incurred by SCCP to resolve the securities fail and if not delivered by 9:15 AM of T+4, a preventive suspension shall be imposed on the Defaulting Member.
<i>Mark to Market Collateral Deposit (MMCD) System</i>	
Non-payment or Non-Delivery of Required Collateral (collateral deposits/pledges not made by 12 NN of Collateral Cut-Off Date)	<p>1st Offense: a payment charge equivalent to $\frac{1}{4}$ of 1% of the required collateral plus actual out-of-pocket expenses incurred by SCCP on the matter.</p> <p>2nd Offense: a payment charge equivalent to $\frac{1}{2}$ of 1% of the required collateral plus out-of-pocket expenses incurred by SCCP on the matter and an issuance of a warning to the Defaulting Clearing Member.</p> <p>3rd Offense: a payment charge equivalent to 1% of the required collateral plus out-of-pocket expenses incurred by SCCP on the matter and a recommendation for suspension of the Defaulting Clearing Member.</p>

**3.14 Schedule of Penalties and Sanctions**

Offense	Action/Penalty
Late Cash Payments (Cash Payments made after 12:00 NN but no later than 2:00 PM on Settlement Date)	₱1,000.00 + $\frac{1}{8}$ of 1% or 0.00125 of the value of the cash fail plus any charges incurred by SCCP should advances from the Settlement Bank or from the CTGF have been made, plus any actual out-of-pocket expenses incurred by SCCP to resolve the cash fail.
Late Securities Delivery (Securities deliveries made after 12:00 NN but no later than 2:00 PM on Settlement Date)	₱1,000.00 + $\frac{1}{8}$ of 1% or 0.00125 of the market value of the securities fail plus any charges incurred by SCCP should advances from the Settlement Bank or from the CTGF have been made, plus any actual out-of-pocket expenses incurred by SCCP to resolve the securities fail.
Cash Fails (Cash payments made after 2:00 PM on Settlement Date or not made at all)	₱1,000.00 + $\frac{1}{4}$ of 1% or 0.0025 of the value of the cash fail compounded daily until paid or until payment of any advances made from the Settlement Bank or the CTGF is made plus any actual out-of-pocket expenses incurred by SCCP to resolve the cash fail and if not paid by 9:15 AM of T+4, a preventive suspension shall be imposed on the Defaulting Member.
Securities Fails (Securities deliveries made after 2:00 PM on Settlement Date or not made at all)	₱1,000.00 + $\frac{1}{4}$ of 1% or 0.0025 of the market value of the securities fail compounded daily until delivery is rendered or until payment of any advances made from the Settlement Bank or the CTGF is made plus any actual out-of-pocket expenses incurred by SCCP to resolve the securities fail and if not delivered by 9:15 AM of T+4, a preventive suspension shall be imposed on the Defaulting Member.