



**For** : All Clearing Members – Attn: The Associated Person  
**Date** : 31 August 2012  
**Subject** : New Rules and Operating Procedures on Settlement Restrictions

## **New Rule: Rule 7.6 on Settlement Restrictions**

We wish to advise all Clearing Members that during its regular meeting held on 15 August 2012, the SCCP Board approved the addition to Rule 7.0 (Risk Management and Monitoring) of Section 7.6 that would govern Settlement Restrictions to be imposed by SCCP as a risk management measure.

### Forms of Settlement Restrictions

Settlement Restrictions may be imposed on trades of an Identified Security or trades of an Identified Clearing Member and may come in the form of:

- i. Early Delivery of Securities, in the case of net selling brokers;
- ii. Early Delivery of Cash, in the case of net buying brokers;
- iii. Delivery of 100 percent Cash Collateral, should the Securities not be available for Early Delivery; or
- iv. Such other settlement restrictions as may be deemed necessary by the SCCP Board.

Attached, marked as "Annex A", is the complete Rule 7.6 on Settlement Restrictions for your review. It provides the Rules regarding the following:

- i. The forms of Settlement Restrictions allowed by the SCCP Board;
- ii. The circumstances when SCCP may impose Settlement Restrictions on the trades of an Identified Security as well as on the trades of an Identified Clearing Member;
- iii. The approvals required for the imposition of Settlement Restrictions on the trades of an Identified Security as well as on the trades of an Identified Clearing Member; and
- iv. The approvals required for the Lifting of the Settlement Restrictions imposed on the trades of an Identified Security as well as on the trades of an Identified Clearing Member.

## **Revisions to Operating Procedures 5.5 on Risk Containment or Management Measures**

During the same regular meeting held on 15 August 2012, the SCCP Board likewise approved revisions to the existing Operating Procedures Section 5.5.1. The revisions include the following:

- a. Deletion of Section 5.5.1.1 (Clearing Member Reaching Risk Level)

The SCCP Board approved the deletion of Operating Procedures Section 5.5.1.1 because of the provision of Early Settlement. Early Settlement not only disrupts the settlement cycle of 12:00 noon on T+3 for the Philippine stock market, but it is also unfair to the innocent counterparty if Early Settlement will be imposed on him, whereas the Early Settlement should only be implemented on the trades of its counterparty which is considered an Identified Clearing Member. In its place, in

case Settlement Restrictions have been imposed on an Identified Clearing Member, only the Identified Clearing Member will be required to do an Early Delivery of Securities or Cash, as the case may be.

b. Deletion of Section 5.5.1.2 (Trades Exhibiting Price and Volume Surges)

The SCCP Board approved the deletion of Operating Procedures Section 5.5.1.2 because trades exhibiting price and volume surges or otherwise known as excessively volatile or risky trades will be addressed in the new Rule 7.6.1 and at the same time, the imposition of Early Settlement on such trades has been replaced by the imposition of Settlement Restrictions.

In place of the two Sections which will be deleted are the attached Operating Procedures, marked as "Annex B", which will be followed when Settlement Restrictions are imposed on an Identified Security or on an Identified Clearing Member. They cover the following:

- a. A restatement of the forms of Settlement Restrictions;
- b. The Notification Process to be followed on the imposition of Settlement Restrictions on Identified Securities and on Identified Clearing Members;
- c. The Requirements from Net Selling Brokers and from Net Buying Brokers when Settlement Restrictions have been imposed on Identified Securities or on Identified Clearing Members;
- d. The approval requirements for the Lifting of the Settlement Restrictions.

SCCP would like to seek your comments on the proposed Rule 7.6 on Settlement Restrictions and on the revisions to Operating Procedures Section 5.5.1 prior to our submission of same to the SEC for approval.

Please email your comments to any of the following on or before 11 September 2012:

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Thank you.



**Renee D. Rubio**  
Chief Operating Officer

## **Rule 7.6 Settlement Restrictions**

### **7.6.1 Settlement Restrictions on Identified Securities**

As a risk management measure, SCCP may impose settlement restrictions on the trades of a particular Issue or Issues, which will be referred to as “Identified Security or Securities”, upon the recommendation of the Capital Markets Integrity Corporation (CMIC) Board and/or the SCCP Risk Management Committee, if such Identified Security or Securities are the subject of unusual trading activities or are determined to be excessively volatile or risky and on such other cases which would justifiably warrant settlement restrictions. The settlement restrictions may be in the form of:

- i. Early Delivery of Securities as prescribed in Section 5.5.1.1(B)(1)(a) of the Operating Procedures, in the case of net selling brokers;
- ii. Early Delivery of Cash as prescribed in Section 5.5.1.1(B)(2) of the Operating Procedures, in the case of net buying brokers;
- iii. Delivery of 100 percent Cash Collateral as prescribed in Section 5.5.1.1(B)(1)(b) of the Operating Procedures, should the Securities not be available for Early Delivery; or
- iv. Such other settlement restrictions as may be deemed necessary by the SCCP Board.

The imposition of the settlement restrictions on the trades of a particular Issue or Issues should have the prior approval of the PSE Board of Directors and the SCCP Board of Directors.

### **7.6.2 Settlement Restrictions on Identified Clearing Members**

As a risk management measure, SCCP may impose any of the settlement restrictions mentioned in Rule 7.6.1 above on the trades of particular Clearing Member or Members, which will be referred to as “Identified Clearing Member or Members”, upon the recommendation of the CMIC Board and/or the SCCP Risk Management Committee, and approved by the PSE Board of Directors and the SCCP Board of Directors.

The following are instances whereby SCCP may impose settlement restrictions on the trades of the Identified Clearing Member:

- i. If the Identified Clearing Member has been determined by the CMIC as having engaged in Unusual Trading Activities or possible Trading-related Irregularities as provided for under Article XI of the CMIC Rules on Trading Irregularities;
- ii. When SCCP deems, that the Trades of an Identified Clearing Member will pose undue risk to the Clearing Fund; and
- iii. Such other instances that will affect the Identified Clearing Member's ability to continue to carry out its responsibilities and obligations to SCCP as a Clearing Member.

### **7.6.3 Lifting of Settlement Restrictions**

SCCP shall lift the settlement restrictions imposed on both the Identified Security or Securities or the Identified Clearing Member or Members, upon the recommendation of the Capital Markets Integrity Corporation (CMIC) Board or the SCCP Risk Management Committee. In all instances, the lifting of a Settlement Restriction shall only be implemented upon the approval of the PSE Board of Directors and the SCCP Board of Directors.

## **5.5 Risk Containment or Management Measures**

### **5.5.1 Settlement Restrictions**

With respect to Section 7.6 of the SCCP Rules, SCCP shall impose settlement restrictions on Identified Securities and Identified Clearing Members upon the recommendation of the Capital Markets Integrity Corporation (CMIC) Board and/or the SCCP Risk Management Committee. The settlement restrictions may be in the form of:

- (a) Early Delivery of Securities as prescribed in Section 5.5.1.1(B)(1)(a) of these Procedures, in the case of net selling Brokers;
- (b) Early Delivery of Cash as prescribed in Section 5.5.1.1(B)(2) of these Procedures, in the case of net buying Brokers;
- (c) Delivery of 100 percent Cash Collateral as prescribed in Section 5.5.1.1(B)(1)(b) of these Procedures, should the Securities not be available for Early Delivery; or
- (d) Such other settlement restrictions as may be deemed necessary by the SCCP Board.

The imposition of the settlement restrictions on the trades of the Identified Security or Securities and the Identified Clearing Members should have the prior approval of the PSE Board of Directors and the SCCP Board of Directors.

#### **5.5.1.1 Early Delivery on Trades Involving Identified Securities**

With respect to Section 7.6.1 of the SCCP Rules, SCCP shall impose Early Delivery requirement on the trades of Identified Securities until such time that the CMIC Board, PSE Board of Directors and the SCCP Board of Directors approve the lifting of the settlement restriction.

##### **A. Notification on the Imposition**

- (1) SCCP shall notify the Clearing Members at least one (1) business day prior to the effectivity of the settlement restriction imposed on the Identified Security or Securities through a Memo for Brokers posted in the PSE website and any other website as designated by the SCCP

Board disclosing the particular Identified Security or Securities and the form of the settlement restriction imposed.

- (2) SCCP may notify the Clearing Members about the settlement restriction imposed on the Identified Security or Securities through such other means as it may deem necessary such as but not limited to a facsimile notification, email notification or through the message board of the CCCS system, or such other acceptable and effective forms.
- (3) The Clearing Members shall reproduce the Memo for Brokers and shall immediately provide their clients with the same notice, if necessary. Upon receipt of an order involving Identified Security or Securities, the Clearing Members are expected to exercise due diligence in informing their clients about the settlement restrictions imposed on said Securities before executing any trade thereon.

## **B. Requirements**

### **1. Net Selling Transactions**

- (a) A Clearing Member with a net selling obligation involving Identified Securities shall make an Early Delivery of the said Securities no later than 12:00 NN of T+1. The manner by which the Clearing Member shall make an Early Delivery shall be in accordance with Section 2.7 of these Procedures.
- (b) In the case where the Securities are not available for Early Delivery, the Clearing Member shall deposit Cash collateral equivalent to the value of the trades due to SCCP no later than 12:00 NN of T+1. The manner by which the Clearing Member shall deposit the Cash collateral shall be in accordance with Section 6.5.1 of these Procedures.

### **2. Net Buying Transactions**

A Clearing Member with net buying transactions involving Identified Securities shall make an Early Delivery of the Cash obligation, equivalent to 100 percent of the value of their net buying transactions covering the said Securities due to SCCP no later than 12:00 NN of T+1.

### **5.5.1.2 Early Delivery on Trades of Identified Clearing Members**

With respect to Section 7.6.2 of the SCCP Rules, SCCP shall impose the Early Delivery requirement on the trades of an Identified Clearing Member deemed to pose risks to SCCP until such time that the SCCP and the PSE Boards have approved the lifting of the settlement restriction, upon the recommendation of the CMIC Board or the SCCP Risk Management Committee.

#### **A. Notification on the Imposition**

SCCP shall notify in writing the Identified Clearing Member of the imposition of the Early Delivery requirement on its trades, terms and the effectivity date thereof.

#### **B. Requirements**

##### **1. Net Selling Transactions**

An Identified Clearing Member with net selling obligations shall make an Early Delivery of all their net selling Securities in compliance with the terms set forth in the Notification of SCCP. The manner by which the Clearing Member shall make an Early Delivery shall be in accordance with Section 2.7 of these Procedures.

##### **2. Net Buying Transactions**

An Identified Clearing Member with net buying transactions shall make an Early Delivery of the Cash obligation, equivalent to 100 percent of the value of their net buying of the said shares due to SCCP in compliance with the terms set forth in the Notification of SCCP.

### **5.5.1.3 Lifting of Settlement Restrictions**

With respect to Section 7.6.3 of the SCCP Rules, SCCP shall lift the settlement restrictions imposed on both the Identified Security or Securities or the Identified Clearing Member or Members, upon the recommendation of the Capital Markets Integrity Corporation (CMIC) Board or the SCCP Risk Management Committee. In all instances, the lifting of a Settlement Restriction shall only be implemented upon the approval of the PSE Board of Directors and the SCCP Board of Directors.

#### **A. Notification on the Lifting of Identified Securities**

- (1) SCCP shall notify the Clearing Members of the lifting of a settlement restriction on any Issue that has been previously categorized as an Identified Security or Securities, by posting a Memo for Brokers in the PSE website, one (1) business day after the approval of both the PSE Board of Directors and the SCCP Board of Directors. The Memo for Brokers shall indicate the effectivity date of the lifting.
- (2) SCCP may notify the Clearing Members through such other means as it may deem necessary such as but not limited to a confirmed facsimile, email notification or through the message board of the CCCS system.
- (3) The Clearing Members shall reproduce the Memo for Brokers and shall provide their clients with the same, if necessary.

#### **B. Notification of the Lifting to Identified Clearing Members**

SCCP shall issue a written notice to the Identified Clearing Member informing it of the lifting of the settlement restriction one (1) business day after the approval of both the PSE Board of Directors and the SCCP Board of Directors. The notice shall indicate the effectivity date of the lifting.