



For : All Clearing Members
Date : 24 April 2013
Subject : Revision to the Rules and Operating Procedures on Settlement Restrictions and New Table of Penalties and Sanctions for Settlement Restrictions

Background

Last 31 August 2012, we posted our proposed Rules and Operating Procedures governing Settlement Restrictions under Memo for Brokers No. 04-0812 and invited the investing public and market participants to submit their comments.

As a result of some of the comments that we received, we have subsequently made some revisions to the Rules and Operating Procedures on Settlement Restrictions as well as to Annex 7 of the SCCP Rules (which pertains to the Schedule of Fees, Fines and Penalties). These revisions pertain to:

1. The prohibition of "Done-Through" transactions by an Identified Clearing Member to prevent the latter from circumventing the Early Delivery requirement of SCCP; and
2. The imposition of penalties for violation of the Rules for Settlement Restrictions.

Below are the revisions to the Rules and Operating Procedures on Settlement Restrictions and the corresponding explanation/rationale for each revision which were duly approved by the SCCP Board during its meeting held on 19 September 2012:

I. Amendments to the Rules

a. Addition of Rule 7.6.2.2

"An Identified Clearing Member shall be prohibited from coursing its trades through another Trading Participant (otherwise known as "done-through" transactions) during the effectivity of the settlement restrictions imposed upon the said Clearing Member. The trading activities of the Identified Clearing Member shall be strictly monitored during the covered period."

Rationale for Rule 7.6.2.2

Rule 7.6.2.2 was added to prohibit Identified Clearing Members from avoiding settlement restrictions imposed upon them, specifically the Early Delivery requirement, by coursing their trades through another Trading Participant.

b. Addition of Rule 7.6.4:

“The failure of a Clearing Member to comply with the settlement restrictions as required under Sections 7.6.1 and 7.6.2 of these Rules shall be subject to penalties under Settlement Restrictions in Annex 7 of the SCCP Rules. Nothing in these Rules shall be interpreted to preclude the CMIC from imposing its own penalties and sanctions under its rules.”

Rationale for Rule 7.6.4:

Rule 7.6.4 was added to penalize any Identified Clearing Member who violates the prohibition against engaging in “Done-Through” transactions during the effectivity of the settlement restrictions.

II. Amendments to the Operating Procedures

a. Addition of Operating Procedure 5.5.1.2 (A) (2):

“SCCP shall submit the name of the Identified Clearing Member to CMIC and request CMIC to inform SCCP of any trades coursed by the Clearing Member through another Trading Participant (otherwise known as “done-through” transactions) during the covered period.”

Rationale for Operating Procedure 5.5.1.2 (A) (2):

Operating Procedure 5.5.1.2 (A) (2) allows SCCP to obtain information from CMIC with regard to trades coursed by the Identified Clearing Member through another Trading Participant.

b. Addition of Operating Procedure 5.5.1.4:

“The failure of a Clearing Member to comply with the settlement restrictions as required under Sections 7.6.1 and 7.6.2 of these Rules shall be subject to penalties under Settlement Restrictions in Annex 7 of the SCCP Rules. Nothing in these Operating Procedures shall be interpreted to preclude the CMIC from imposing its own penalties and sanctions under its rules.”

“In addition to the continuing imposition of the penalties mentioned in the above paragraph, the failure of the Clearing Member to deliver its settlement obligations subject of the Early Delivery requirements/s by 12:00 NN of T+3 (settlement date) shall also warrant the imposition of the penalties for settlement fails under Fails Management System in Annex 7 of the SCCP Rules.”

Rationale for Operating Procedure 5.5.1.4:

Operating Procedure 5.5.1.4 was added to notify Clearing Members that the failure to comply with the settlement restrictions as required under Rules 7.6.1 and 7.6.2 will subject the defaulting Clearing Member to fines and penalties found under the caption “Settlement Restrictions” of Annex 7 of the SCCP Rules. (The corresponding fines and penalties were subsequently approved by the SCCP Board during its meeting held on 15 October 2013.)

Attached for your easy reference are the SCCP Rules and Operating Procedures, marked as "Annex A" and "Annex B" respectively, which will be followed when Settlement Restrictions are imposed on trades involving Identified Securities and on trades of an Identified Clearing Member.

III. Addition of Table of Penalties and Sanctions for Settlement Restrictions

During its regular meeting held on 15 October 2012, the SCCP Board approved the Table of Fines and Penalties for Settlement Restrictions to be imposed by SCCP as a risk management measure.

Attached is the Table of Penalties and Sanctions for Settlement Restrictions, marked as "Annex C", which will be followed when Settlement Restrictions are imposed on an Identified Security or on an Identified Clearing Member. They cover the following:

- a. Penalties to be imposed for the violation of Early Delivery Requirements imposed on trades of Identified Securities.
- b. Penalties to be imposed for the violation of Early Delivery Requirements by an Identified Clearing Member.
- c. Penalties to be imposed for the Non-compliance with Section 7.6.2.2 of the SCCP Rules, which is the prohibition of SCCP to the Identified Clearing Member from coursing its trades through another Trading Participant, otherwise known as "done-through" transactions.

As mentioned earlier, Annex 7 of the SCCP Rules was revised to incorporate the penalties for the late or the non-compliance with the Early Delivery requirement under Rules 7.6.1 and 7.6.2.

SCCP would like to seek your comments on the proposed revisions to the SCCP Rules and Operating Procedures on Settlement Restrictions and the proposed Table of Penalties and Sanctions for Settlement Restrictions prior to our submission of same to the SEC for approval.

Please email your comments to any of the following on or before 10 May 2013:

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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

7.6.2.1 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.

7.6.2.2 An Identified Clearing Member shall be prohibited from coursing its trades to another Trading Participant (otherwise known as "done-through" transactions) during the effectivity of the settlement restrictions imposed upon the said Clearing Member. The trading activity of the Identified Clearing Member shall be strictly monitored during the period. A violation of this provision may be considered a material breach under Section 2.5.1(a) of these Rules.

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.

7.6.4 Non-Compliance with Settlement Restrictions

The failure of a Clearing Member to comply with the settlement restrictions as required under Sections 7.6.1 and 7.6.2 of these Rules shall be subject to penalties under Section 5.5.1.4 of the SCCP Operating Procedures.

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

1. 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.
2. SCCP shall submit the name of the Identified Clearing Member to CMIC and request CMIC to inform SCCP of any trades coursed by the Clearing Member through another Trading Participant (otherwise known as "done-through" transactions) during the covered period.

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.

5.5.1.4 Penalties for Non-Compliance

The failure of a Clearing Member to comply with the settlement restrictions as required under Sections 7.6.1 and 7.6.2 of these Rules shall be subject to penalties under Settlement Restrictions in Annex 7 of the SCCP Rules. Nothing in these Operating Procedures shall be interpreted to preclude the CMIC from imposing its own penalties and sanctions under its rules.

In addition to the continuing imposition of the penalties mentioned in the above paragraph, the failure of the Clearing Member to deliver its settlement obligations subject of the Early Delivery requirement/s by 12:00 NN of T+3 (settlement date) shall also warrant the imposition of the penalties for settlement fails under Fails Management System in Annex 7 of the SCCP Rules.

<i>Settlement Restrictions</i>		
<u>A. Identified Securities</u>		
Type of Offense	Penalty and Sanction	
Early Delivery of Cash/Securities Obligations beyond 12:00 NN but no later than 2:00 PM of T+1	₱1,000 + $\frac{1}{8}$ of 1% or 0.00125 of the value of the requirement.	
Early Delivery of Cash/Securities Obligations beyond 2:00 PM of T+1 or not at all	₱1,000 + $\frac{1}{4}$ of 1% or 0.0025 of the value of the requirement , and if not paid by 9:15 AM of T+2, a preventive suspension shall be imposed on the Clearing Member . The suspension shall be posted in the electronic board and the PSE website.	
<u>B. Identified Clearing Member</u>		
Type	No. Of Offense	Penalty and Sanction
Violation of Early Delivery Requirement	1 st Offense	₱5,000 + $\frac{1}{4}$ of 1% or 0.0025 of the value of the requirement per day until delivery and a written reprimand and warning on possible suspension for subsequent offenses.
	2 nd Offense	₱10,000 + $\frac{1}{2}$ of 1% or 0.005 of the value of the requirement per day until delivery and possible suspension. The suspension shall be posted in the electronic board and the PSE website.
	3 rd and Subsequent Offenses	₱20,000 + 1% or 0.01 of the value of the requirement per day until delivery and suspension. The suspension shall be posted in the electronic board and the PSE website.
Non-Compliance with Section 7.6.2.2 of the SCCP Rules	1 st Offense	₱100,000 and possible one (1) day suspension. The suspension shall be posted in the electronic board and the PSE website.
	Subsequent Offenses	₱200,000 and minimum one (1) day suspension or longer as determined by the SCCP Board. The suspension shall be posted in the electronic board and the PSE website.