



SECURITIES
CLEARING CORPORATION
OF THE PHILIPPINES

Memo for Brokers

No. 06-0823

For: All Clearing Members
Date: August 18, 2023
Subject: SEC Approval of T+2-Related Amendments to the SCCP Rules and Operating Procedures

Please be informed that the Securities and Exchange Commission (“SEC”) approved the amendments to the Revised Clearinghouse Rules (“SCCP Rules”) and the Revised Clearinghouse Operating Procedures (“SCCP Operating Procedures”) of the Securities Clearing Corporation of the Philippines (“SCCP”), which reflect the shortened T+2 settlement cycle.

The SEC-approved T+2-related amendments to the SCCP Rules and SCCP Operating Procedures are attached as **Annexes “A”** and **“B”**, respectively.

The foregoing amendments shall take effect upon implementation of the T+2 settlement cycle on August 24, 2023.

Please be guided accordingly.

(Original Signed)

Renée D. Rubio
Chief Operating Officer

**T+2-RELATED AMENDMENTS TO THE REVISED CLEARINGHOUSE RULES OF THE SECURITIES
CLEARING CORPORATION OF THE PHILIPPINES APPROVED BY THE SECURITIES AND
EXCHANGE COMMISSION**

Rule 3.5 SCCP's Obligations under Contracts

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The SCCP President or COO may invoke Alternative Cash Settlement upon failure by SCCP to buy, all or in part, the Securities subject of the default from the market on the first Business Day (~~T+4~~) (**SD+1**) following the original settlement date (~~T+3~~) if any of the following is deemed highly risky by SCCP: (a) the Securities subject of the default; (b) the value of the trade relative to the exposure it imposes on the CTGF; or (c) the defaulting Clearing Member. Otherwise, the SCCP President or COO may invoke Alternative Cash Settlement after ~~the~~ trading hours on the ~~third~~ **second** business day (~~T+6~~) after the original settlement date (~~T+3~~), if after exhausting all efforts by said time, it is deemed not possible or reasonably practical to deliver all or in part the Securities necessary for the settlement of the default. The SCCP President or COO shall bear no liability to any party in making this decision.

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Rule 4.1.3 Trade Amendments and Cancellations

Any trade amendment or cancellation duly authorized by the PSE shall be reflected in the ~~CCCS~~ **C&S System** no later than 11:30 a.m. of **Settlement Date**. ~~T+3~~.

Rule 4.1.4 Verification

SCCP shall verify no later than 12:00 NN of **Settlement Date** ~~T+3~~ that the Clearing Member which is net selling of Securities has sufficient amount of Securities in its Securities Settlement Account and that the net buying Clearing Member has sufficient funds in its Cash Settlement Account.

Rule ~~6.2.2~~ ~~6.1.3~~ Procedure for Sell-Out: The Sell-Out Notice

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The *Notice of Possible Overnight Cash Fail* shall be sent to the Capital Markets Integrity Corporation (CMIC) on **Settlement Date** ~~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 **SD+1** ~~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.

Rule 6.3.2 6-2.6 Procedure for Buy-In: The Buy-In Notice

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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 AM of **SD+1 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.

Rule 6.3.8 6-2.7 Cash as Collateral Pending Delivery of Securities

SCCP Management, at its discretion, may accept cash as collateral no later than 5:00 PM on **Settlement Date 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.

Rule 8.1.1 Market/Price Risk

Trades executed on the Exchange are settled ~~three (3)~~ **two (2)** Business Days after Transaction Date (~~T+3~~) (**T+2**); thus, there exists at any given time two (2) days' worth of unsettled Trades. Since the market price of the stocks subject of the Trades can fluctuate, price or market risk exists, where, if any of the counterparties to the Trade fails to make deliveries for Securities sold or pay for purchases made, SCCP as the Central Counterparty is exposed to losses due to fluctuations in market prices that may occur during the period where Trades have not yet been settled.

Rule 8.1.4 Marking-to-Market

In order to determine the effect of price fluctuation on the **two (2)** ~~three (3)~~ days unsettled trades, the method of Marking-to-Market is used. Marking-to-Market involves the comparison of the market value of the unsettled trades based on the last closing price with their contract value.

Rule 8.1.5 Mark-to-Market Collateral Deposit

The Mark-to-Market Collateral Deposit (MMCD) is intended to cover any negative exposure or loss due to market/price risk in the event of a Default by a Clearing Member of its settlement obligations.

The size of the MMCD shall be based on the existing obligations of the Clearing Member over the last **two (2)** ~~three (3)~~ settlement days as follows:

$$\text{Exposure} = \left[\text{Sum (PP * MM)} - \text{Sum (PP * CP)} \right] + \\ \left[\text{Sum (PS * CP)} - \text{Sum (PS * MM)} \right]$$

where:

- PP = Clearing Member's unsettled buy trades (shares) over 2 ~~3~~ days settlement period.
 PS = Clearing Member's unsettled sell trades (shares) over 2 ~~3~~ days settlement period.
 CP = Contract Price
 MM = Market Price (Last Traded/Closing Price)

The above formula may change should SCCP deem that given parameters are no longer applicable.

ANNEX 7: SCHEDULE OF FEES, FINES AND PENALTIES

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 + $\frac{1}{8}$ 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 + $\frac{1}{8}$ 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 + $\frac{1}{4}$ 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 SD+1 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 + $\frac{1}{4}$ 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 SD+1 T+4 , a preventive suspension shall be imposed on the Defaulting Member.

**T+2-RELATED AMENDMENTS TO THE REVISED CLEARINGHOUSE OPERATING PROCEDURES
OF THE SECURITIES CLEARING CORPORATION OF THE PHILIPPINES APPROVED BY THE
SECURITIES AND EXCHANGE COMMISSION**

2.6 Reports

Reports shall be produced by SCCP on Settlement Date (SD) ~~(T+3)~~ and the day after Settlement Date (SD+1) ~~(T+4)~~ as follows:

- (a)
- (b) Buy-In/Sell-Out Notice (5:00 PM of SD ~~T+3~~).
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- (c)
- (d) Failed Exchange Trades Report (8:00 AM of SD+1 ~~T+4~~)
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- (e) Demand Notice (12:00 NN of SD+1 ~~T+4~~)

2.7 Early Delivery of Securities

Prior to Settlement Date ~~Within T+0 to T+2~~, the Clearing Member has an option to do early delivery of Securities that had caused the negative exposures, without prejudice to early delivery requirements under Rule 7.6 on Risk Containment Measures. ~~prior to Settlement Date.~~

2.7.1 Procedure for Early Delivery of Securities

- (1) Prior to Settlement Date ~~Within T+0 to T+2~~, the Clearing Member shall notify SCCP via ~~fax~~ electronic means of its intention to do early delivery of securities. ~~for settlement in writing. Any securities in the Delivery Account, after the settlement run, shall be classified as an early delivery transaction intended to satisfy a future securities delivery obligation.~~

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3.3 ~~3.5~~ Late Cash Payment

A Cash payment shall be considered late when the deposit by the Clearing Member and confirmation in the C&S ~~CCCS~~ System by the Settlement Bank are received after the 12:00 NN

Settlement Cut-Off on Settlement Date (~~T+3~~). Penalties shall be applicable in accordance with the *Sanction Table in Section 3.12*.

3.4 ~~3.6~~ Late Securities Delivery

A Securities delivery shall be considered late when delivery by the Clearing Member and sufficient credits of Securities are **credited to** ~~effected in~~ the Securities **Settlement Delivery** Account with the Depository ~~or Registry~~ after the 12:00 NN Settlement **Deadline. Cutoff on Settlement Date** (~~T+3~~). Penalties shall be applicable in accordance with the *Sanction Table in Section 3.12*.

3.7 ~~3.9~~ Fails Management System Notices

Several notices shall be ~~produced and~~ issued by SCCP during the implementation of its Fails Management System:

- (a) Notice of Securities Default (**3:00** ~~1:30~~ PM of **Settlement Date** ~~T+3~~ or end of settlement run)
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- (b)
- (c)
- (d)
- (e) Notice of Possible Overnight Cash Fail (**5:00** ~~3:00~~ PM)

This notice shall be issued to the CMIC to notify them of the ~~Net Due~~ Clearing Members who ~~has~~ **has** not yet paid ~~its~~ **its** Cash obligation as of **5:00** ~~3:00~~ PM of **Settlement Date** ~~T+3~~.

- (f) Notice of Possible Overnight Security Fail (**5:00** ~~3:00~~ PM)

This notice shall be issued to the CMIC to notify them of the ~~Net Selling~~ Clearing Members who ~~has~~ **has** not yet delivered ~~its~~ **its** Securities obligation as of **5:00** ~~3:00~~ PM of **Settlement Date** ~~T+3~~.

- (g) Buy-In/Sell-Out Notice (5:00 PM)

This notice shall be issued to the Defaulting Clearing Member upon its failure to deliver Securities/make payment of Cash within the specified period of Settlement to qualify as an overnight fail. This notice shall inform the **Defaulting** Clearing Member that if the delinquency is not remedied by 9:15 AM of the following Business Day (**SD+1**) (~~T+4~~), it would be subjected to a Buy-In/Sell-Out (BISO) Procedure and **the Defaulting Clearing Member** shall be suspended from Trading.

- (h) Buy-In/Sell-Out Request (5:00 PM)

This notice shall be given to the PSE to notify them of the possible Buy-In/Sell-Out transaction that will take place the following **trading business day (SD+1) (T+4)**. This shall contain the code and name of the Security and the number of shares that would be subject of the BISO.

- (i) Notice of Preventive Suspension **to the Defaulting Clearing Member** (5:00 PM).

This notice shall be issued to the Defaulting Clearing Member to inform that such Clearing Member will be placed under preventive suspension after expressing inability to settle obligation by 9:15 AM of the next **Business Day (SD+1)**.

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

- (j) Notice of Preventive Suspension to CMIC and PSE (9:15 AM, SD+1)

This notice shall be issued to CMIC and PSE to inform them that the Defaulting Clearing Member will be placed under preventive suspension by SCCP after expressing inability to settle obligation by 9:15 AM of SD+1, with a recommendation that such Defaulting Clearing Member be preventively suspended from trading immediately.

- (k) Demand Notice (12:00 NN, **SD+1 T+4**)

This notice shall be issued to the Defaulting Clearing Member to demand immediate **reimbursement** ~~monetary settlement~~ of the advance made **by SCCP** ~~from the CTGF~~ to allow its failing **obligation** ~~Contract~~ to settle, including the penalties, **interest, taxes**, and other charges applicable thereto.

3.8.3 3.10.3 Sell-Out

After an advance of payment has been made by SCCP and the Defaulting Clearing Member still does not comply with the deadline for payment of his outstanding obligation, SCCP will undertake a Sell-Out Procedure on the shares held in escrow. When at 9:15 AM on **SD+1 T+4**, no payment is still rendered, SCCP shall automatically execute a Sell-Out at 10:00 AM. **All expenses or costs arising from the Sell-Out transaction shall be charged to the Defaulting Clearing Member in addition to the penalties prescribed in the Sanction Table in Section 3.12.** All **advances**, penalties and charges ~~such as applicable taxes and transaction costs and penalties for the use of the CTGF~~ shall be deducted from the proceeds of the sale in order to liquidate the account of the Defaulting Clearing Member. Refer to *Section 3.13 for Procedures for Buy-In/Sell-Out*.

The Sell-Out transaction/s shall be entered into the PSE Trading System as a normal trade which shall undergo regular Settlement. ~~wherein Settlement Date shall take effect on T+3.~~

3.8.4 ~~3.10.4~~ Buy-In

In the event that the net selling Clearing Member fails to meet the delivery deadline for overnight Failed Trade (and a borrowing of the Securities had not been successfully executed with a potential lender) at 9:15 AM of **SD+1** ~~T+4~~, SCCP shall undertake a Buy-In Procedure in order to acquire the Securities that need to be delivered to the affected Clearing Member(s). SCCP shall automatically execute a Buy-In at 10:00 AM. All expenses or costs arising from the Buy-In transaction shall be charged to the Defaulting Clearing Member in addition to the penalties prescribed in the *Sanction Table in Section 3.12*. Refer to *Section 3.13 for Procedures for Buy-In/Sell-Out*.

The Buy-In transaction/s shall be entered into the PSE Trading System as a normal trade which shall **follow the** ~~undergo~~ regular Settlement **cycle**. ~~wherein Settlement Date shall take effect on T+3.~~

3.11.6 ~~3.13.7~~ Accrual of Interest Charges

(a) ~~After the Buy-In transaction is executed, SCCP shall borrow the same number of shares bought in to effect immediate delivery of the undelivered Securities to the affected Clearing Members. Interest and other charges accruing from **Buy-In/Sell-Out** this transactions prior to the T+3 Settlement shall be charged to the account of the Defaulting Clearing Member **until all obligations have been fully paid.**~~

~~After the Sell-Out transaction is executed, interest charges shall continue to accrue against the account of the Defaulting Clearing Member to the T+3 Settlement.~~

3.11.8 ~~3.13.9~~ Lifting of **Immediate Suspension**

~~In the event that monetary settlement of the Demand Notice is not made within the prescribed period on T+4 (within 12:00 NN to 3:00 PM), a recommendation for immediate suspension of the Defaulting Clearing Member shall be effected. The action for immediate suspension **pursuant to Section 3.7(j) of these Operating Procedures** shall be lifted upon **full** payment or monetary settlement of the Demand Notice, subject to confirmation by the SCCP **Risk** ~~Fails~~ Management Committee or the SCCP Board of Directors.~~

3.12 ~~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 + $\frac{1}{8}$ 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.
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Security Fails (Securities deliveries made after 2:00 PM on Settlement Date or not made at all)	₱1,000 + $\frac{1}{4}$ 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 SD+1 T+4 , a preventive suspension shall be imposed on the Defaulting Member.

4.3.1 ~~4.4.1~~ Formula of the Ideal Fund Size

SCCP adopts the Value at Risk (VaR) Method of computing for the Ideal Fund Size (IFS).

$$IFS = (\text{Net Trades}_{LM} \times LP \times ((\frac{SD \times RL}{100} + ADV)) + (\frac{\text{Net Trades}_{LM} \times LP \times FC \times 180}{360})$$

where:

Net Trades_{LM} = Net Trade Value of the four (4) largest members on a 2 ~~3~~-day Settlement Cycle for the period of sizing.

LP = Liquidation Period, which is accounted for by the settlement period of T+2 ~~T+3~~, with an allowance for next day Buy-In/Sell-Out Procedure, which ~~also~~ requires another 3 ~~7~~ days for Clearing and Settlement. Liquidation period is set at 5 ~~7~~ days.

5.5.1.1 Clearing Member Reaching Risk Level

In the event that certain risk levels, as defined by the SCCP Board, have been reached by a particular Clearing Member and such Clearing Member has trades pending for Settlement, within T+0 to ~~T+2~~ **SD-1**, said Clearing Member may be required to effect early **delivery Settlement** of his trade obligations.

6.1 Marking-to-Market

SCCP uses the method of Marking-to-Market to determine the effect of price fluctuation on the ~~three (3) days~~ unsettled Trades of the Clearing Members. Marking-to-Market is applied by SCCP by comparing the Market Value of the Clearing Member's unsettled Trades based on the last closing price with the Contract Value of the Trades.

6.2 Computation of Exposures

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Clearing Members' exposures for the ~~three (3) days~~ unsettled Trades shall be netted out to arrive at the Clearing Members' total Net Negative or Net Positive Exposures.