



**For** : All Clearing Members – Attn: The Associated Person  
**Date** : 26 March 2013  
**Subject** : SEC Approval for the Proposed Revisions to the SCCP Clearinghouse Rules and Operating Procedures on the Alternative Cash Settlement

Please be advised that during its meeting held last 21 February 2013, the Securities and Exchange Commission ("Commission") resolved to approve SCCP's proposed amendments to the SCCP Clearinghouse Rules and Operating Procedures governing the Alternative Cash Settlement. The Amended SCCP Clearinghouse Rules and Operating Procedures on Alternative Cash Settlement were previously published for public comment through Memo for Brokers No. 07-1110 dated 23 November 2010.

The amended Clearinghouse Rules and Operating Procedures on Alternative Cash Settlement will become effective on 01 April 2013. For your reference, the pertinent revisions are underscored below:

### **"Rule 3.5 SCCP's Obligations under Contracts**

The obligations of SCCP to the Clearing Members under a Contract shall be limited exclusively to:

- (a) The amount received by the SCCP from all the Clearing Members on the settlement of any Contract;
- (b) The amount of the CTGF; and
- (c) The amount of any banking or other credit facilities available to SCCP and arranged expressly for the purpose of providing financial resources to support the CTGF.

To the extent that the CTGF is insufficient at any time to meet the aggregate liabilities of SCCP to its Clearing Members, as the case may be under all Contracts subsisting at any time, each such Clearing Member shall only be entitled to receive payment pro-rata to the amount due to it as compared to the aggregate amount due to all the Clearing Members or in such other manner as SCCP shall consider fair and appropriate in the circumstances. SCCP shall, however, remain liable for such liabilities but payment of the balance of such amount due shall only be made as and when and to the extent that funds are subsequently available.

In respect of SCCP's obligations to deliver Securities under the Contracts and without prejudice to Section 6.2 on Failure to Deliver Security Element, the SCCP President or Chief Operating Officer (COO) may invoke cash settlement (Alternative Cash Settlement) in lieu of delivery of Securities to the receiving Clearing Members affected by the default.

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) 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 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.

SCCP shall provide money compensation to the receiving Clearing Members in lieu of the outstanding undelivered Securities by reference to the market value of such Securities based on the highest price in a regular lot at the time of the execution of the Alternative Cash Settlement plus a premium of 10%. In case the Securities subject of the default were not traded on the day of the execution of the Alternative Cash Settlement, the highest price shall pertain to the highest price in a regular lot on the day it was last traded.

No other assets of the SCCP shall be made available to meet any such obligation."

### **"Operating Procedure 3.11 Alternative Cash Settlement for a Security Fail**

SCCP shall invoke the Alternative Cash Settlement in the event that the SCCP President or COO decides to make payment of Cash in lieu of Securities to the Clearing Members affected by the default based on the provisions set forth in Section 3.5 of the Rules.

#### **3.11.1 Procedure for Alternative Cash Settlement**

- (1) In the event of a failed Buy-In of all or part of the Securities which are the subject of the default, and the SCCP President or COO decides to invoke the Alternative Cash Settlement, SCCP shall notify the defaulting Clearing Member and the Clearing Members affected by the default of SCCP's decision to make money compensation in lieu of delivery of the subject Securities.
- (2) SCCP shall provide a Compensation Value to the Clearing Members receiving Cash in lieu of Securities by computing for the value of the Securities based on the highest price in a regular lot at the time of the execution of the Alternative Cash Settlement plus a premium of 10%. In

the event that the Securities subject of the default were not traded at the time of the execution of the Alternative Cash Settlement, the highest price shall refer to the highest price of said securities in a regular lot on the day it was last traded.

- (3) SCCP shall convert the outstanding Securities obligation of the defaulting Clearing Member into Cash obligation in accordance with the formula provided in Section 3.5 of the Rules and the above section of this Operating Procedure. SCCP shall notify the defaulting Clearing Member of its new Cash obligation. In the same manner, SCCP shall notify the Clearing Members affected by the default of their new Cash entitlements.
- (4) Within the same day and where it is still applicable, SCCP shall effect settlement instructions in the CCCS system to settle the cash compensation.
- (5) SCCP shall use the Cash for the settlement of the new Cash obligation in the following order of utilization until full settlement has been achieved:
  - i. Any Cash entitlement of the defaulting Clearing Member held in escrow by SCCP.
  - ii. Margin Collateral submitted by the defaulting Clearing Member.
  - iii. Mark-to-Market Collateral submitted by the defaulting Clearing Member.
  - iv. Contribution of the Clearing Member to the CTGF
  - v. Fund appropriated by SCCP in its Reserve Account for the account of the CTGF.
  - vi. Credit lines availed of by SCCP.
  - vii. The mutualized CTGF contributions.
- (6) SCCP shall deliver the Cash entitlements due to the Clearing Members affected by the default within the same day of the execution of the Alternative Cash Settlement.

### **3.11.2 Liability of SCCP**

The SCCP President or COO shall not be held liable to any party for its decision to exercise the Alternative Cash Settlement.”

We have posted the complete SCCP Clearinghouse Rules and Operating Procedures in the PSE website, as amended, for your reference. In particular, kindly refer to SCCP Clearinghouse Rule 3.5: SCCP's Obligation under Contracts, and Operating Procedures 3.11: Alternative Cash Settlement for a Security Fail for the aforementioned amendments.

For your information and guidance.



**Renée D. Rubio**  
*Chief Operating Officer*