



**For** : All Clearing Members  
**Date** : December 05, 2016  
**Subject** : Revision to Rule 5.1.4 (2) and Operating Procedure 4.3.2.2 re Initial Contribution to the CTGF of New Clearing Members

## Background:

As part of the plan to build up the Clearing and Trade Guaranty Fund ("CTGF"), SCCP Rule 5.1.4 (2) requires the collection of Initial Contributions from new Trading Participants applying to become Clearing Members of SCCP based on the Ideal Fund Size using the Value at Risk (VAR) Model at the time of computation. Six months after the start of its trading operations, Rule 5.1.4 as well as Operating Procedure 4.3.2.2 require the recomputation of the new Clearing Member's Initial Contribution.

This Memo for Brokers is intended to clarify the meaning of the phrases "Average Trade Value" and "Daily Average Trade Value" as used in Rule 5.1.4 and Operating Procedure 4.3.2.2, respectively, which are quoted below:

## Rule 5.1.4 Build Up of the Clearing Fund states:

*"xxx...xxx...xxx...xxx"*

(1) *xxx...xxx...xxx...xxx*

(2) Collection of Initial Contributions based on the following criteria:

(a) For new Trading Participants applying in the PSE, an Initial Contribution shall be required based on the Ideal Fund size using the Value at Risk (VAR) Model at the time of computation. The amount of contribution required shall be computed based on the pro-rated Required Contributions of all existing Trading Participants. The High of the Range upon pro-ration shall be the amount required for Foreign Trading Participants and the Average of the Range shall be the amount required for Local Trading Participants. The required amount of contribution shall be rounded up to the nearest One Hundred Thousand Pesos (Php100,000.00).

(b) *xxx...xxx...xxx...xxx*

(c) *xxx...xxx...xxx...xxx*

Initial fund contributions shall be adjusted after six (6) calendar months from the commencement of trading operations of the Trading Participants. The total amount of the Ideal Fund Size for each Clearing Member shall be calculated based on the effective rate of eleven percent (11%) applied to their Average Trade Value for the six-month period. Collection by SCCP of payments on the deficiency shall commence on the Business Day immediately after the six-month period of adjustment. Accordingly, any excess in the Initial Contributions made shall be refunded by SCCP to the Trading Participant after the six-month period.

(3) xxx...xxx...xxx...xxx”

#### **Operating Procedure 4.3.2.2 Review of the Initial Contributions states:**

“SCCP shall review and adjust the Initial Contribution after six (6) calendar months from the commencement of the Trading Participant’s trading operation. SCCP shall compute for the Clearing Fund’s Ideal Fund Size for the said period and apply the effective rate of 11% on the Trading Participant’s Ideal Fund Contribution based on the Daily Average Trade Value (DATV) for the period specified.

#### **Clarification on Definition of Terms:**

Since SCCP is a central counterparty to PSE trades, SCCP’s daily exposure to each active Clearing Member is their three (3) days’ outstanding unsettled trade obligations. In view of this, in the recomputation by SCCP of the new Clearing Member’s Initial Contribution six (6) months after the start of their trading operations, the terms “Average Trade Value” and “Daily Average Trade Value (DATV)” as used in Rule 5.1.4 and Operating Procedure 4.3.2.2, respectively, pertain to the daily average three (3) days’ outstanding unsettled netted obligations of the new Clearing Member for the first six months of trading operation rather than just one day’s average trade value.

#### **Approved Revisions of Rule 5.1.4 and Operating Procedure 4.3.2.2:**

For the sake of clarity and the avoidance of doubt, during its November 16, 2016 regular meeting, the SCCP Board approved the following revisions to SCCP Rule 5.1.4 and Operating Procedure 4.3.2.2 to more clearly state that the basis of recomputation of the Clearing Member’s Initial Contribution to the CTGF shall be their average outstanding unsettled netted obligations for their first six months of trading operations:

##### **1. Approved revision to SCCP Rule 5.1.4 will read as follows:**

“Initial fund contributions shall be adjusted after six (6) calendar months from the commencement of trading operations of the Trading Participants. The total amount of the Ideal Fund Size for each Clearing Member shall be calculated based on the effective rate of eleven percent (11%) applied to their **daily average outstanding unsettled netted obligations** for the six-month period. Collection by SCCP of payments on the deficiency shall commence on the Business Day immediately after the six-month period of adjustment. Accordingly, any excess in

the Initial Contributions made shall be refunded by SCCP to the Trading Participant after the six-month period.”

2. Approved revision to Operating Procedure 4.3.2.2 will read as follows:

“SCCP shall review and adjust the Initial Contribution after six (6) calendar months from the commencement of the Trading Participant’s trading operation. SCCP shall compute for the Clearing Fund’s Ideal Fund Size for the said period and apply the effective rate of 11% on the Trading Participant’s Ideal Fund Contribution based on their **daily average outstanding unsettled netted obligations for the six-month period.**”

xxx...xxx...xxx”

These revisions will NOT entail any changes in SCCP’s existing procedure for the computation of the new Clearing Member’s Initial Contribution to the CTGF; rather, they will reflect the actual procedure already being followed by SCCP, which is that of using the new Clearing Member’s daily average three days’ outstanding trades for the past six months as basis for computation of the new Clearing Member’s adjusted Initial Contribution to the CTGF.

Attached for your easy reference are Annex A and Annex B showing the existing Rule and Operating Procedure, respectively, and the Rationale for the revision thereto.

SCCP would like to seek your comments on the proposed revision to Rule 5.1.4 (Build Up of the Clearing Fund) and on the revision to Operating Procedure 4.3.2.2 (Review of the Initial Contributions) prior to our submission of same to the SEC for approval.

Please email your comments to any of the following on or before December 13, 2016:

Renee D. Rubio	Email Address: <a href="mailto:rdrubio@sccp.com.ph">rdrubio@sccp.com.ph</a>
Maria Juanita E. Cueto	Email Address: <a href="mailto:mjcueto@sccp.com.ph">mjcueto@sccp.com.ph</a>
Rhose B. Ojo	Email Address: <a href="mailto:rbojo@sccp.com.ph">rbojo@sccp.com.ph</a>
Ronald P. Pendon	Email Address: <a href="mailto:rppendon@sccp.com.ph">rppendon@sccp.com.ph</a>

Thank you.



**Renee D. Rubio**  
Chief Operating Officer

**Approved Revision to the Rule and Rationale**

Current Rule	Approved Revision to the Rule	Rationale
<p><b>Rule 5.1.4 Build Up of the Clearing Fund</b></p> <p>xxx...xxx...xxx...</p> <p>(2) Collection of Initial Contributions based on the following criteria:</p> <p>xxx...xxx...xxx... xxx...xxx...xxx... xxx...xxx...xxx...</p> <p>Initial fund contributions shall be adjusted after six (6) calendar months from the commencement of trading operations of the Trading Participants. The total amount of the Ideal Fund Size for each Clearing Member shall be calculated based on the effective rate of eleven percent (11%) applied to their <b>Average Trade Value</b> for the six-month period. Collection by SCCP of payments on the deficiency shall commence on the Business Day immediately after the six-month period of adjustment. Accordingly, any excess in the Initial Contributions made shall be refunded by SCCP to the Trading Participant after the six-month period.</p>	<p><b>Rule 5.1.4 Build Up of the Clearing Fund</b></p> <p>xxx...xxx...xxx...</p> <p>(2) Collection of Initial Contributions based on the following criteria:</p> <p>xxx...xxx...xxx... xxx...xxx...xxx... xxx...xxx...xxx...</p> <p>Initial fund contributions shall be adjusted after six (6) calendar months from the commencement of trading operations of the Trading Participants. The total amount of the Ideal Fund Size for each Clearing Member shall be calculated based on the effective rate of eleven percent (11%) applied to their <b>daily average outstanding unsettled netted obligations</b> for the six-month period. Collection by SCCP of payments on the deficiency shall commence on the Business Day immediately after the six-month period of adjustment. Accordingly, any excess in the Initial Contributions made shall be refunded by SCCP to the Trading Participant after the six-month period.</p>	<p>For the sake of clarity and the avoidance of doubt, the SCCP Board approved the revision of Rule 5.1.4 by replacing the phrase "<u>Average Trade Value</u>" with "<u>daily average outstanding unsettled netted obligations</u>".</p> <p>This revision will NOT entail any changes in SCCP's existing procedure for the computation of the new Clearing Member's Initial Contribution to the CTGF, but rather, it will be reflective of the actual procedure already being followed by SCCP, which is that of using the new Clearing Member's daily average three days' outstanding trades for the past six months as basis for computation of the new Clearing Member's adjusted Initial Contribution to the CTGF. As a Central Counterparty to PSE trades, this is the actual exposure of SCCP to a Clearing Member with outstanding unsettled trades, and not just one day's average trade value.</p>

**Approved Revision to the Operating Procedure and Rationale**

<p align="center"><b>Current Operating Procedure</b></p>	<p align="center"><b>Approved Revision to the Operating Procedure</b></p>	<p align="center"><b>Rationale</b></p>
<p><b>4.3.2.2 Review of the Initial Contribution</b></p> <p>SCCP shall review and adjust the Initial Contribution after six (6) calendar months from the commencement of the Trading Participant’s trading operation. SCCP shall compute for the Clearing Fund’s Ideal Fund Size for the said period and apply the effective rate of 11% on the Trading Participant’s Ideal Fund Contribution based on their <b><u>Daily Average Trade Value (DATV)</u></b> for the period specified.</p> <p><b>XXX...XXX...XXX...</b></p>	<p><b>4.3.2.2 Review of the Initial Contribution</b></p> <p>SCCP shall review and adjust the Initial Contribution after six (6) calendar months from the commencement of the Trading Participant’s trading operation. SCCP shall compute for the Clearing Fund’s Ideal Fund Size for the said period and apply the effective rate of 11% on the Trading Participant’s Ideal Fund Contribution based on their <b><u>daily average outstanding unsettled netted obligations</u></b> for the period specified.</p> <p><b>XXX...XXX...XXX...</b></p>	<p>For the sake of clarity and the avoidance of doubt, SCCP Management proposed the revision of Operating Procedure 4.3.2.2 by replacing the phrase “Daily Average Trade Value” with “<u>daily average outstanding unsettled netted obligations</u>”.</p> <p>This revision will NOT entail any changes in SCCP’s existing procedure for the computation of the new Clearing Member’s Initial Contribution to the CTGF, but rather, it will be reflective of the actual procedure already being followed by SCCP, which is that of using the new Clearing Member’s daily average three days’ outstanding trades for the past six months as basis for computation of the new Clearing Member’s adjusted Initial Contribution to the CTGF. As a Central Counterparty to PSE trades, this is the actual exposure of SCCP to a Clearing Member with outstanding unsettled trades, and not just one day’s average trade value.</p>