



For: All Clearing Members

Date: November 24, 2021

Subject: Proposed Amendments to Clearinghouse Rules of Securities Clearing Corporation of the Philippines

The Securities Clearing Corporation of the Philippines (“SCCP”) is inviting all Clearing Members to submit their comments on the proposed amendments to the Clearinghouse Rules of SCCP (“SCCP Rules”).

In this regard, please see attached Consultation Paper which, among others, provides for more details on this consultation process with Clearing Members and the rationale for the proposed amendments to the SCCP Rules.

The major amendments to the SCCP Rules, along with their corresponding explanatory notes, are attached to the Consultation Paper as Annex “A”.

The rest of the amendments to the SCCP Rules were made to update the terminologies used and to restate some of the provisions for clarity and consistency. For example, all previous references to “T+3” have been revised to “T+2” in anticipation of our migration to “T+2” shortly after the launch of the new clearing and settlement system in the first quarter of 2022. The settlement date of trades may also be referred to as either “SD” or “T+2”. Moreover, all references to “CCCS” have been changed to “C&S System” to refer to our new clearing and settlement system.

The complete SCCP Rules, which incorporate all the proposed amendments as underlined, are attached to the Consultation Paper as Annex “B”.

Clearing Members may submit their comments and requests for clarifications by e-mail addressed to both **Ms. Renee D. Rubio (coo@sccp.com.ph)** and **Atty. Maximo Paulino T. Sison III (mtsison@pse.com.ph)** until **DECEMBER 6, 2021**.

Very truly yours,

(Original Signed)

Ramon S. Monzon
President and CEO



Securities Clearing Corporation of the Philippines

Consultation Paper

PROPOSED AMENDMENTS TO THE CLEARINGHOUSE RULES OF THE SECURITIES CLEARING CORPORATION OF THE PHILIPPINES

Disclaimer: Pursuant to Rule 1.4.1 of the Revised Clearinghouse Rules of SCCP ("SCCP Rules"), this Consultation Paper is disseminated for the purpose of soliciting comments from the Clearing Members of SCCP. The final version of the SCCP Rules may differ from the draft rules contained in this Consultation Paper.

I. Consultation Process

Pursuant to Rule 1.4.1 of the Revised Clearinghouse Rules of Securities Clearing Corporation of the Philippines (“SCCP Rules”), this Consultation Paper is being circulated to give Clearing Members of SCCP an opportunity to submit their comments, if any, on the proposed amendments to SCCP Rules, in line with the new Clearing and Settlement System (“C&S System”) of SCCP which is expected to be implemented in the first quarter of year 2022.

Clearing Members may submit their comments and requests for clarification by e-mail addressed to both **Ms. Renee D. Rubio** (coo@sccp.com.ph) and **Atty. Maximo Paulino T. Sison III** (mtsison@pse.com.ph) until **DECEMBER 6, 2021**.

II. Rationale for the Proposed Amendments to the SCCP Rules

On May 15, 2019, the SCCP Board approved the award of the C&S System Project to Millennium IT Software (Private) Limited (Millennium), rebranded as LSEG Technology, the technology arm of the London Stock Exchange Group.

LSEG Technology will implement Millennium Clearing and Millennium Risk products, enhancing SCCP’s clearing, settlement, risk and collateral management capabilities. The new C&S System is a significant information technology development in SCCP and is expected to achieve efficiencies in post trade processes in the Philippine capital market. It is intended to adopt global best practices in clearing, settlement and risk management using recent technologies available in the international market.

Some of the new features of the C&S System include the capability to settle trades for any settlement cycle – which, for SCCP, will migrate from “T+3” to “T+2” shortly after the launch of the C&S System in the first quarter of 2022; the capability to settle multiple trade dates in a single settlement date and to settle multi-currency trades; the real-time receipt of trades from the trading engine of The Philippine Stock Exchange, Inc. (“PSE”); and the adoption of ISO 20022 standards in real time communications with settlement banks and the depository agent.

Accordingly, the implementation of the new C&S System will entail revisions to the SCCP Rules to reflect, among others, the following major changes:

1. All references to the Central Clearing and Central Settlement System (“CCCS System”) were revised to “C&S System”;
2. The migration of the settlement cycle in SCCP from “T+3” to “T+2”, which will be implemented shortly after the launch of the C&S System in the first quarter of year 2022;

3. Following the above change in the settlement cycle, the settlement date of trades may also be referred to either as "SD" or "T+2" in the proposed amendments to the SCCP Rules;
4. Block sales executed in the PSE shall be settled and guaranteed by SCCP, except those that do not conform to the settlement cycle;
5. The capability of the C&S System to settle trades in multiple currencies;
6. The incorporation of additional risk management methodologies in the SCCP Rules;
7. The formalization of practices applied by SCCP in the SCCP Rules; and
8. The incorporation in the SCCP Rules of new processes in the C&S System.

III. Presentation of the Proposed Amendments to the SCCP Rules

The major amendments to the SCCP Rules, along with their corresponding explanatory notes, are attached to this Consultation Paper as **Annex "A"**.

The rest of the amendments to the SCCP Rules were made to update the terminologies used and to restate some of the provisions for clarity and consistency such as changing all the references to "CCCS" as "C&S System"; the settlement date of trades may also be referred to as either "SD" or "T+2"; and updating the settlement cycle from "T+3" to "T+2". The complete SCCP Rules, which incorporate all the proposed amendments as underlined, are attached to this Consultation Paper as **Annex "B"**.

IV. Effective Date

Pursuant to Rule 1.4.3 of the SCCP Rules, the foregoing proposed amendments to the SCCP Rules shall be made effective fifteen (15) days from the date of approval by the Securities and Exchange Commission.

**SIGNIFICANT PROPOSED AMENDMENTS TO THE REVISED CLEARINGHOUSE RULES OF
SECURITIES CLEARING CORPORATION OF THE PHILIPPINES**

I. Updated Definitions in the SCCP Rules

The following revisions under Rule 1.1 ("Defined Terminology") of the Revised Clearinghouse Rules of Securities Clearing Corporation of the Philippines ("SCCP Rules") are proposed:

EXISTING RULE	PROPOSED RULE
<p>"Business Day"</p> <p>means a day and the hours on which SCCP is open to business to Clearing Members. This shall exclude holidays and business days wherein trading activities of The Philippine Stock Exchange, Inc. and clearing activities of the <i>Bangko Sentral ng Pilipinas or Philippine Clearing House Corporation</i> are cancelled for same day recognition and effectivity.</p>	<p>"Business Day"</p> <p>means a day and the hours on which SCCP is open to business to Clearing Members <u>including days and hours where Clearing Members may access the C&S System and SCCP may receive trades into the C&S System but trades due for Settlement cannot be settled by reason of the work suspension of the <i>Philippine Payments and Settlements System</i> and the <i>Philippine Clearing House Corporation</i>.</u> This shall exclude holidays and business days wherein trading activities of The Philippine Stock Exchange, Inc. and clearing activities of the <i>Bangko Sentral ng Pilipinas or Philippine Clearing House Corporation</i> are cancelled for same day recognition and effectivity.</p>

The above revised definition of "Business Days" is proposed to include days where clearing operations are allowed by SCCP even if the Trades cannot be settled due to the suspension of operations of Philippine Payment and Settlement System ("PhilPaSS") and Philippine Clearing House Corporation ("PCHC"). Thus, SCCP may receive Trades from The Philippine Stock Exchange, Inc. ("PSE") for clearing, however, in this case, such Trades cannot be settled by reason of the suspension of operations of PhilPaSS and PCHC.

EXISTING RULE	PROPOSED RULE
<p>"Cash"</p> <p>means good clear funds in whatever denomination held by the Settlement Bank.</p>	<p>"Cash"</p> <p>means good <u>cleared funds and/or available funds paid through a</u> in <u>whatever denomination held by the Settlement Bank and in the same currency as the Trade.</u></p>

The above amendment is proposed to provide clarity that the cash paid by Clearing Members should not be subject to clearing and should be in the same currency as the Trade.

EXISTING RULE	PROPOSED RULE
<p>“Cash Collateral Account” means the cash account opened and maintained by the Clearing Member with their current Settlement Bank where Cash Collateral is deposited and maintained for the MMCD System of SCCP, the cash balance requirement of which shall be determined by SCCP from time to time.</p>	<p>“Cash Collateral Account” means the cash account opened and maintained by the Clearing Member with their current Settlement Bank where Cash Collateral is deposited and maintained for the <u>collateral requirements</u> MMCD System of SCCP, the cash balance requirement of which shall be determined by SCCP <u>pursuant to these Rules.</u> from time to time.</p>

The above revision is being proposed to cover all situations where collateral is required by the SCCP Rules, such as Mark-to-Market Collateral (as reflected in the current definition of “Cash Collateral Account”) and collateral requirements for risk management purposes under Rule 7 of the SCCP Rules.

EXISTING RULE	PROPOSED RULE
<p>“Continuous Net Settlement” means the netting process whereby all of a Clearing Member’s transactions in a given Security are combined together, where obligations and positions are offset, the result of which is a single obligation to deliver Securities to SCCP (if the sum of the sells exceeds the sum of the buys) or a right to receive Securities from SCCP (if the sum of the buys exceeds the sum of the sells). A net cash position owing to or from SCCP is likewise calculated.</p>	<p>“<u>Multilateral Netting</u>” means the netting process whereby all of a Clearing Member’s transactions in a given Security are combined together, where obligations and positions are offset <u>netted</u>, the result of which is a single obligation to deliver Securities to SCCP (if the sum of the sells exceeds the sum of the buys) or entitlement to receive Securities from SCCP (if the sum of the buys exceeds the sum of the sells). A net cash position owing to or from SCCP is likewise calculated.</p>

The above revision is made to change the term from “Continuous Net Settlement” to “Multilateral Netting” as the current definition in the SCCP Rules more appropriately refers to Multilateral Netting, which is employed by most clearinghouses around the globe.

EXISTING RULE	PROPOSED RULE
<p>(None)</p>	<p>“<u>Securities Settlement Account</u>” <u>means the account opened and maintained by the Clearing Member with the Depository for the deposit of securities for settlement of securities obligations and for the receipt of securities entitlements.</u></p>

“Securities Settlement Account” is not defined in the existing Rules. The proposed revision above is introduced to include the definition of “Securities Settlement Account” under Rule 1.1 (Defined Terminology) of the SCCP Rules.

II. SCCP’s Authority to Interpret its Own Rules and Accounts held by Clearing Members

EXISTING RULE	PROPOSED RULE
<p>1.2.8 Authority to Interpret</p> <p>SCCP shall have the authority to interpret the SCCP Rules in accordance with their spirit and intent in case of silence or ambiguity of the SCCP Rules.</p>	<p>1.2.8 Authority to Interpret <u>and Application</u></p> <p>SCCP shall have the authority to interpret the SCCP Rules <u>and SCCP Operating Procedures</u> in accordance with their spirit and intent in case of silence or ambiguity, <u>which interpretation shall be final and binding on all parties.</u> of the SCCP Rules.</p>

For orderly business, the above amendment is proposed to clarify SCCP’s interpretative authority over its own rules. The proposed rule makes it express that if there is a question concerning the interpretation or application of a rule or operating procedure, SCCP’s interpretation shall prevail and become final and binding on all parties.

III. Accounts in the C&S System

EXISTING RULE	PROPOSED RULE
<p>1.5.1 Cash Settlement Account</p> <p>Each Clearing Member shall open and maintain with any of the Settlement Banks a Cash Settlement Account to be used solely for effecting the actual Settlement of the Cash Element of any SCCP-Eligible Trade.</p> <p>SCCP is hereby deemed as duly and irrevocably authorized by a Clearing Member to direct the Settlement Bank to credit money entitlements and/or debit money obligations resulting from the Settlement of Cash Elements of an SCCP-Eligible Trade to or from the Clearing Member’s Cash Settlement</p>	<p>1.5.1 Cash Settlement Account</p> <p>Each Clearing Member shall open and maintain with any of the Settlement Banks a Cash Settlement Account to be used solely for effecting the actual Settlement of the Cash Element of any SCCP-Eligible Trade. <u>If a Clearing Member wishes to trade in Securities denominated in an Eligible Currency other than Philippine Pesos, it must maintain a Cash Settlement Account in its own name and denominated in that Eligible Currency for the settlement of the Cash Element in the C&S System.</u></p> <p style="text-align: center;">(No change)</p>

<p>Accounts.</p> <p>One Cash Settlement Account shall be required for each kind of Securities being settled, i.e. one Cash Settlement Account for equities, another for Government Securities.</p> <p>xxxx</p>	<p style="text-align: center;">(Deleted)</p> <p>xxxx</p>
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The above revision is made to provide that a Cash Settlement Account must be maintained by Clearing Members for each eligible currency that corresponds to the currency of its trades. Moreover, it is proposed that the third paragraph (which mentions “government securities”) under the existing Rule 1.5.1 be deleted given that SCCP only deals with equities.

EXISTING RULE	PROPOSED RULE
<p>1.5.2 Cash Collateral Deposit Account</p> <p>Each Clearing Member shall open and maintain with his current Settlement Bank a Cash Collateral Deposit Account to be used solely for Cash deposits by Clearing Members to cover calculated exposures on their unsettled Trades.</p> <p>xxxx</p>	<p>1.5.2 Cash Collateral Deposit Account</p> <p>Each Clearing Member shall open and maintain with his current Settlement Bank a Cash Collateral Deposit Account to be used solely for Cash Deposits by Clearing Members to cover calculated exposures on their unsettled Trades. <u>Clearing Members trading Securities denominated in Philippine Peso and other Eligible Currency must maintain separate Cash Collateral Deposit Accounts for each currency.</u></p> <p>xxxx</p>

Similar to the proposed amendment to Rule 1.5.1 on the Cash Settlement Account, a separate Cash Collateral Deposit Account must also be maintained by Clearing Members for each eligible currency that corresponds to the currency of its Trades.

EXISTING RULE	PROPOSED RULE
<p style="text-align: center;">(None)</p>	<p><u>1.5.3 Change of Accounts</u> <u>A Clearing Member shall not close or change its designated Settlement and/or Collateral Accounts, or modify SCCP’s authority in respect thereof, or change its designated Settlement Bank, except upon submission of the required documentation and written approval of SCCP.</u></p>

For purposes of orderly business, the above proposed rule is introduced to account for the fact that SCCP must coordinate first with the affected Settlement Banks in order to effect the change of accounts of a Clearing Member.

IV. Authority to Transact, Warranties and Non-Liability

EXISTING RULE	PROPOSED RULE
<p>2.3.3 Authority to Transact</p> <p>Any Trade fed into the Central Clearing System shall be deemed by SCCP as having been performed in accordance with the instructions given by a Clearing Member and that such instructions constitute the representation and warranty of Clearing Member that it has full power, right and authority to perform the Trade or other transaction in accordance with its client's instructions. Any instruction given by a Clearing Member for the Clearing and/or Settlement of a Trade constitutes the representation and warranty of Clearing Member that it has and will continue to maintain balances in its Securities and Cash Settlement Account sufficient to support all Trades specified in such instruction.</p>	<p>2.3.3 Authority to Transact, <u>Warranties and Non-Liability</u></p> <p>Any Trade fed into the Central Clearing <u>C&S</u> System shall be deemed by SCCP as having been performed in accordance with the instructions given by a Clearing Member and that such instructions constitute the representation and warranty of Clearing Member that it <u>such Trade is lawful or legitimate and such Clearing Member</u> has full power, right and authority to perform the Trade or other transaction in accordance with its client's instructions.</p> <p>Any instruction given by a Clearing Member for the clearing and/or settlement of a Trade constitutes the representation and warranty of Clearing Member that it has and will continue to maintain balances in its Securities and Cash Settlement Account sufficient to support all Trades specified in such instruction.</p> <p><u>SCCP, its directors, officers, employees, agents and contractors ("SCCP Related Parties") shall not be liable to any party for any loss, damage, cost, expense, action or claim arising from SCCP's performance of clearing and settlement transactions. For this reason, Clearing Members shall hold harmless and shall fully indemnify SCCP and the SCCP Related Parties from and against any loss, damage, cost, expense, liability, action or claim (including without limitation the cost of legal and non-legal counsel to advise on or defend against such claims) suffered or incurred by or made against SCCP arising from SCCP's performance of clearing and settlement transactions pursuant to the Trade fed by a</u></p>

	<u>Clearing Member into the C&S System.</u>
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The above proposed rule builds upon an existing rule in the SCCP Rules – which provides a warranty by Clearing Members that they have the authority to perform the Trade or other transaction in accordance with their client’s instructions.

By ensuring that Clearing Members fulfill their clearing and settlement obligations, this proposed rule reduces the overall risks under the C&S System which undertakes continuous net settlement of all Trades executed in PSE.

Under this proposed rule, Clearing Members make a dual representation and warranty that the Trades they feed into the C&S system are (1) lawful or legitimate; and (2) are authorized by their client.

Thus, based on such representations and warranties made by Clearing Members above, the proposed rule provides that SCCP and its Related Parties shall not be liable for the performance of clearing and settlement transactions. If there is any claim or suit against SCCP and its Related Parties arising from SCCP’s performance of clearing and settlement transactions, the Clearing Members shall hold harmless and shall fully indemnify SCCP and its Related Parties.

V. Allocation Algorithm under the C&S System

EXISTING RULE	PROPOSED RULE
<p>Rule 3.4 Allocation Algorithm</p> <p>In effecting Settlement of its obligations to deliver Cash and Securities arising out of the settlement Contracts, SCCP may allocate Cash and Securities available to it to Clearing Members due to receive Cash and/or Securities in accordance with an allocation algorithm that is based on the highest outstanding netted amounts to be received by the Clearing Members. A priority list will be set up according to this rule and the system will attempt to settle the largest outstanding netted amounts first, as provided in the Operational Procedures, or in such other manner as it considers appropriate.</p> <p>SCCP may effect partial deliveries in respect of its obligations to deliver Securities arising out of Contracts.</p>	<p>Rule 3.4 Allocation Algorithm</p> <p>In effecting Settlement of its obligations to deliver Cash and Securities arising out of the settlement Contracts, SCCP may allocate Cash and Securities available to it to Clearing Members due to receive Cash and/or Securities in accordance with <u>the an allocation algorithm that is being implemented by the C&S System.</u> that is based on the highest outstanding netted amounts to be received by the Clearing Members. A priority list will be set up according to this rule and the system will attempt to settle the largest outstanding netted amounts first, as provided in the Operational Procedures, or in such other manner as it considers appropriate.</p> <p>SCCP may effect partial deliveries in respect of its obligations to deliver Securities arising out of Contracts.</p>

We propose to delete the provision under Rule 3.4 which states the specific allocation algorithm of the current Central Clearing and Central Settlement (“CCCS”) System. This is because the new C&S System is implementing a new allocation algorithm.

The above proposed amendment no longer specifically states the algorithm of the C&S System so that Rule 3.4 of the SCCP Rules would be broad enough to cover updates in the algorithm of the C&S System, without the need to undertake revisions every time there are changes in the algorithm.

VI. Updated Reports under the New C&S System

EXISTING RULE	PROPOSED RULE
<p>4.1.5 Interim Reports</p> <p>SCCP shall furnish the transacting Clearing Members from time to time prior to Settlement Date with such reports, updates and statements as will inform them of the status and requirements of their Trades necessary for Settlement.</p> <p style="text-align: center;">(None)</p>	<p>4.1.5 Interim Reports</p> <p style="text-align: center;">(No change)</p> <p><u>Unless otherwise stated in the Rules, any report, update, or statement provided by SCCP shall, in the absence of manifest error, be conclusive as to its subject matter.</u></p> <p><u>Except as otherwise agreed by SCCP, the failure of a Clearing Member to promptly inform SCCP of any error or omission in any report, update, or statement within one (1) Business Day from receipt of notice shall constitute a waiver in favor of SCCP by such Clearing Member of any right to require rectification. SCCP may, in its discretion, entertain a late request for rectification. Provided, however, that notwithstanding the foregoing, SCCP shall entertain a Clearing Member’s request for rectification if the PSE approved a cancellation or amendment of trade executed by such Clearing Member.</u></p> <p><u>To avoid any doubt, SCCP shall not be obliged to entertain any notification of error or omission in any report, update, or statement or any request to rectify any error or omission in any report, update, or statement from any person other than from a Clearing Member.</u></p>

For the orderly conduct of business, the above proposed revision is introduced to provide that regular reports, updates or statements issued by SCCP are rendered conclusive after one business day from receipt of such reports, updates or statements by Clearing Members.

Thus, Clearing Members have one business day from receipt of notice to request for rectification of a report, update or statement issued by SCCP.

Nonetheless, SCCP shall entertain a request for rectification even after such one-business day period whenever the PSE approves a cancellation or amendment of a trade executed by an affected Clearing Member pursuant to the Trading Rules of the PSE.

In any event, the proposed revision also provides that SCCP is obliged to entertain requests for rectification only from Clearing Members, and not, for instance, the clients or investors of such Clearing Members.

EXISTING RULE	PROPOSED RULE
<p>4.1.6 Settlement Reports</p> <p>SCCP shall, within the Transaction Date, furnish each Clearing Member through the Central Clearing System a report (“Daily Transaction Report”), which shall indicate the Trades such Clearing Member has entered into on the specified Transaction Date, including the following:</p> <ul style="list-style-type: none"> (a) The name of the issue; (b) The number of Securities; (c) The names of the Clearing Member-counterparties; (d) The value of the Trade; (e) The contract order number regarding the matched Trade; and (f) Other relevant matters. <p>SCCP shall also furnish each Clearing Member with the value of its qualified Trades and shall summarize therein the Cash and Securities net obligation or net entitlement of such Clearing Member for Settlement of its Trades for the particular Transaction Date (“Obligation Report”).</p>	<p>4.1.6 Settlement Reports</p> <p><u>SCCP shall furnish the Clearing Members with reports that will inform them of the status and requirements of their Trades necessary for Settlement.</u></p> <p><u>4.1.6.1 Obligation/Entitlement Reports</u></p> <p>SCCP shall also furnish each Clearing Member with the value of its qualified Trades and shall summarize therein the <u>This report is a summary of</u> Cash and Securities net obligation or net entitlement of such Clearing Member for Settlement of its Trades for the particular Transaction Date (“Obligation Report”).</p>

It is proposed that the provision on “Daily Transaction Report” under Rule 4.1.6 (“Reports”) of the current SCCP Rules be deleted as it is a report provided by the PSE (not SCCP) to Trading Participants. In lieu thereof, we propose a general provision stating that SCCP shall furnish the Clearing Members with reports that will inform them of the status and requirements of their Trades necessary for settlement.

The above revision also provides for the contents of the Obligation/Entitlement Report as a subsection under Rule 4.1.6 (“Reports”).

EXISTING RULE	PROPOSED RULE
<p>4.2.2 Projection Report</p> <p>On Settlement Date, SCCP shall furnish each Clearing Member through the Central Clearing System with a report (“Projection Report”) which shall indicate the expected long or short positions of the Securities Element of specified Trade/s as of a certain Settlement Date. Upon receipt by the Clearing Member of the projection report, the Clearing Member shall take appropriate measures to ensure that it shall have the sufficient amount of the Security Element of the particular Trade/s in its Securities Settlement Account by the Settlement Cut-Off.</p> <p style="text-align: center;">(None)</p>	<p><u>4.1.6.2 Security Position Projection Report</u></p> <p>On Settlement Date, SCCP shall furnish each Clearing Member through the Central Clearing System with a report (“Projection Report”) which <u>This report shall indicate the expected long or short positions of the Securities Element of specified Trade/s as of a certain Settlement Date. Upon receipt by the Clearing Member of the projection report, the Clearing Member shall take appropriate measures to ensure that it shall have the sufficient amount of the Security Element of the particular Trade/s in its Securities Settlement Account by the Settlement</u> Cut-Off.</p> <p><u>4.1.6.3 Settlement Report</u></p> <p><u>This report shall indicate the long or short positions of the Cash and Securities Element of specified Trade/s on Settlement Date. This report shall be used by the Clearing Member to check if it already has sufficient amount of Cash in its Cash Settlement Account and Securities in its Securities Settlement Account by the Settlement Deadline.</u></p>

In this proposed amendment, “Projection Report” is specified as “Security Position Projection Report” for clarity that the report relates to securities. The timing of the availability of such report was removed given that such information is more particularly described in the SCCP Operating Procedures.

VII. Rule Revisions on the Clearing and Trade Guaranty Fund (“CTGF”)

EXISTING RULE	PROPOSED RULE
<p>5.1.2 Composition of the Clearing Fund</p> <p>The Clearing Fund is comprised of the following:</p> <p>(a) Contribution by the Philippine Stock Exchange, Inc.;</p> <p>(b) Contributions required of Clearing Members; and</p> <p>(c) Interest income from the investments of the Clearing Fund.</p>	<p>5.1.2 Composition of the Clearing Fund</p> <p>The Clearing Fund is comprised of the following:</p> <p><u>(a) Contribution by the Philippine Stock Exchange, Inc.; Seed money contribution of the Exchange in order to accelerate the building up of the Clearing Fund;</u></p> <p><u>(b) Contributions by SCCP;</u></p> <p>(c) Contributions required of Clearing Members; <u>and</u></p> <p>(d) Interest income from the investments of the Clearing Fund.</p>

The above revision clarified the nature of PSE’s contribution to the CTGF. The revision also expressly included the contributions by SCCP since the latter are already part of the CTGF.

EXISTING RULE	PROPOSED RULE
<p>5.1.4 Build Up of the Clearing Fund</p> <p>The Clearing Fund shall be reviewed semi-annually or at any period prescribed by the SCCP Board. The Ideal Fund Size of the Clearing Fund shall be computed by applying the Value at Risk (VaR) model on the previous six (6) months’ Net Trades of the four (4) largest Clearing Members during the period of computation.</p> <p>Continuous build-up of the Clearing Fund to attain the computed Ideal Fund Size shall be made through the implementation of the following measures:</p> <p>(1) Collection of monthly contributions from the active Clearing Members of an amount equivalent to 1/500 of 1% of the Clearing Members’ Trade value for the month, net of block sales and cross transactions of the same flag, or at a rate prescribed by the SCCP Board</p>	<p>5.1.4 Build Up of the Clearing Fund</p> <p>The Clearing Fund shall be reviewed semi-annually or at any period prescribed by the SCCP Board. The Ideal Fund Size of the Clearing Fund shall be computed by applying the Value at Risk (VaR) model on the previous six (6) months’ Net Trades of the four (4) largest Clearing Members during the period of computation.</p> <p>Continuous build-up of the Clearing Fund to attain the computed Ideal Fund Size shall be made through the implementation of the following measures:</p> <p>(1) Collection of monthly contributions from the active Clearing Members of an amount equivalent to 1/500 of 1% of the Clearing Members’ Trade value for the month, net of block sales <u>that do not conform to the settlement cycle</u> and cross transactions of the</p>

<p>and approved by the Commission.</p> <p>(2) Collection of Initial Contributions based on the following criteria:</p> <p>(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.</p> <p>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).</p> <p>(b) For Trading Participants which are resuming trading operations after having been temporarily suspended or after having ceased their trading operations, same computation shall apply but the amount of the required Initial Contribution shall be net of any contributions previously made to the CTGF.</p> <p>(c) For new Trading Participants in inactive status, (50%) of the Required Contribution shall be payable upon the approval of the Trading Participant's admittance to the Exchange. The remaining balance shall be payable prior to the commencement of the Trading Participant's trading operations.</p>	<p>same flag, or at a rate prescribed by the SCCP Board and approved by the Commission.</p> <p>(2) Collection of Initial Contributions based on the following criteria:</p> <p>(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.</p> <p>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).</p> <p>(b) For Trading Participants which are resuming trading operations after having been temporarily suspended or after having ceased their trading operations, same computation shall apply but the amount of the required Initial Contribution shall be net of any contributions previously made to the CTGF.</p> <p>(c) <u>The Initial Contribution to the CTGF is payable in full prior to the commencement of the Trading Participant's trading operations.</u></p>
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<p style="text-align: center;">(None)</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 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.</p> <p>Accordingly, any excess in the Initial Contributions made shall be refunded by SCCP to the Trading Participant after the six-month period.</p> <p>(3) Collection from all active Clearing Members of the deficiency in the calculated Ideal Fund Size should the Trade Value reach an average of One Billion Five Hundred Million Pesos (Php 1.5 Billion) daily for a period of two (2) calendar months. CTGF deficiency per Clearing Member shall be calculated by applying the 11% ideal rate to the Daily Average Trade Value of the preceding 6-months. Payment on the deficiency shall commence on the Business Day after the two-month period either through an outright or full payment or through the monthly amortization within a period of two (2) years with an imputed interest of 12% per annum.</p>	<p>(d) <u>In the case of a new Trading Participant acquiring an existing Trading Participant, the notarized written consent of the existing Trading Participant must be given to SCCP so that its existing contributions can be included in the Initial Contribution of the new Trading Participant.</u></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 <u>daily average netted obligation</u> 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.</p> <p>Accordingly, any excess in the Initial Contributions made shall be refunded by SCCP to the Trading Participant after the six-month period.</p> <p><u>(3) Notwithstanding the foregoing, SCCP may, in addition to the mandated contributions to the Clearing Fund as provided under this Rule, require all active Clearing Members to make supplemental contributions when, in SCCP's opinion, the size of the CTGF is no longer commensurate to a sustained increase in trade volume.</u></p>
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Under paragraph (1) of the proposed Rule 5.1.4, we included a revision which states that SCCP will not collect CTGF from block sales that do not conform to the settlement cycle. This is

because SCCP will only settle and guarantee block sales executed in the PSE which conform to the settlement cycle. This was approved by the SCCP Board during its March 29, 2021 meeting.

Under the Rule 5.1.4(2), the following revisions are proposed:

- (a) Rule 5.1.4(2)(c) provides that the full initial contribution to the CTGF shall be paid upfront, instead of a 50% initial payment upon admittance to the PSE and the remaining 50% prior to the start of trading operations.
- (b) Since the contributions made by the predecessor Trading Participant belong to it, Rule 5.1.4(2)(d) provides the requirement of a notarized written consent to be submitted to SCCP in order for such contributions to be included in the initial contribution of the successor Trading Participant.
- (c) Under the penultimate paragraph of Rule 5.1.4(2), the revision is meant to clarify that the Ideal Fund Size for each Clearing Member shall be calculated based on the “daily average netted obligations” for the six-month period after commencement of trading operations, rather than based on the Average Trade Value (which is a gross amount under the existing rule) for such six-month period.

Finally, the proposed Rule 5.1.4(3) no longer fixes the threshold trade value (currently at Php 1.5 Billion, which is outdated) which triggers the obligation of Clearing Members to make supplemental contributions to the CTGF. Under the proposed revision, SCCP shall determine when the size of the CTGF is no longer commensurate to a sustained increase in trade volume – where supplemental contributions from all Clearing Members may be required and thereby reducing the increased risks posed to the CTGF and the entire settlement process as a result of such unexpected and sustained increase in trade volume.

EXISTING RULE	PROPOSED RULE
<p>(None)</p>	<p><u>5.1.7 Order of Application of the Clearing Fund and Notice</u></p> <p><u>Subject to applicable restrictions on the CTGF or any portion thereof, the CTGF may be applied in the following order of priority:</u></p> <ul style="list-style-type: none"> a. <u>Contributions made by the Defaulting Clearing Member, if applicable;</u> b. <u>Interest accruing to the CTGF and appropriated to the CTGF;</u> c. <u>Contributions made by SCCP;</u> d. <u>Contributions made by the Non-Defaulting Clearing Member (or all Clearing Members if paragraph (a) is</u>

	<p><u>not applicable) on a pro rata basis according to the proportion contributed by the Non-Defaulting Clearing Members.</u></p> <p><u>SCCP shall notify the Defaulting Clearing Member concerned in the case of an application under paragraph (a) of Rule 5.1.7 and shall notify all Non-Defaulting Clearing Members in the case of an application under paragraph (d) of this Rule.</u></p>
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The above provision follows the practice of ASEAN clearinghouses and the Hong Kong clearinghouse of providing explicit rules in the order of utilization of the CTGF especially in the case of default of Clearing Members.

It must be noted that the above order of application is subject to applicable restrictions on the CTGF, such as when a portion thereof is made as collateral to a loan taken by SCCP to pay for the obligation of the Defaulting Clearing Member. Such restricted portion of the CTGF shall not be part of the order of utilization under the proposed rule.

Given that the CTGF is used to pay for the trade obligations of a Defaulting Clearing Member, it is the contributions of such Defaulting Clearing Member which shall be utilized first under the proposed rule.

The order of application provides clarity by specifying which contribution should be utilized first in the event money is drawn from the CTGF.

EXISTING RULE	PROPOSED RULE
<p>5.1.7 Replenishment of Contributions</p> <p>Whenever the contribution of a Clearing Member is applied in accordance with Rule 5.1.6 (a)-(e), SCCP shall require, and the Clearing Member shall promptly replenish the deficiency of its contributions as a result of such application.</p>	<p><u>5.1.8</u> 5.1.7 Replenishment of Contributions</p> <p>Whenever the contribution of a Clearing Member is applied in accordance with Rule 5.1.6 (a)-(e), SCCP shall require, and the Clearing Member shall promptly replenish the deficiency of its contributions as a result of such application.</p> <p><u>A Defaulting Clearing Member shall be liable to reimburse the CTGF in full for any amount paid out of the CTGF as a result of its default, including interest accrued from the date of payout from the CTGF.</u></p> <p><u>If any amount paid out of the CTGF is subsequently recovered in whole or in part,</u></p>

	<u>SCCP shall credit the amount so received to the CTGF in the reverse order in which it was paid out under Rule 5.1.7 (Order of Application of Clearing Fund and Notice).</u>
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The above proposed rule is complimentary to the proposed rule on the order of application by providing the priority by which the CTGF will be replenished in the event of its utilization. This proposed rule expands the existing Rule 5.1.7 of the SCCP Rules.

It is noted that when the CTGF fully or partially recovers, SCCP shall credit the amount received by the CTGF in the reverse order in which it was paid out under the proposed Rule 5.1.8.

As the above proposed rule is drafted, the contribution of the Defaulting Clearing Member shall be the last to be replenished. This is consistent with the practice of the clearinghouses that we surveyed.

VIII. Rule Revisions on the Fails Management System

EXISTING RULE	PROPOSED RULE
None	<p><u>Rule 6.1 Rationale</u></p> <p><u>Although the Delivery-versus-Payment mode of Settlement eliminates principal risk by ensuring that delivery is made only upon payment and vice versa, it does not eliminate the presence of other settlement-related risks such as market risk, liquidity risk and systemic risk. This is true because delays or actual Defaults or Failed Trades can occur in the payment of the buyer or in the Securities delivery of the seller. In order not to prejudice innocent affected Clearing Members, it is crucial that a Fails Management System for settlement assurance is adopted.</u></p>

This provision is currently in the SCCP Operating Procedures. It is proposed that this provision be placed in the SCCP Rules as Rule 6.1 because it contextualizes the provisions of Rule 6 on the Fails Management System by providing for its rationale, which is to address settlement-related risks such as market, liquidity and systemic risks.

EXISTING RULE	PROPOSED RULE
<p>6.1.1 Settlement of Failed Trades through the Clearing Fund</p> <p>If, by the end of banking hours on Settlement Date, a Clearing Member who has a Net Money Obligation does not have sufficient funds in its Cash Settlement Account to settle its Net Money Obligation:</p> <p>(a) SCCP shall apply available cash in the Clearing Fund to settle the Net Money Obligations of the Defaulting Clearing Member; and</p> <p>(b) Unless otherwise set by the SCCP Board, the total advances from the Clearing Fund shall bear interest based on the prevailing overnight borrowing rate of the <i>Bangko Sentral ng Pilipinas</i>, plus a spread, until the advances are fully paid, and shall be stipulated in the Demand Notice for payment to be issued by SCCP.</p>	<p>6.1.1 6.2.1 Settlement of <u>Cash Fail Failed Trades through the Clearing Fund</u></p> <p>If, by the end of banking hours on Settlement Date, a Clearing Member who has a Net Money Obligation does not have sufficient funds in its Cash Settlement Account to settle its Net Money Obligation:</p> <p>(a) SCCP shall <u>may</u> apply available cash in the Clearing Fund <u>or the additional sources of liquidity provided under Rule 5.1.3</u> to settle the Net Money Obligation of the Defaulting Clearing Member; and</p> <p><u>(b) If the cash derived from Rule 6.2.1(a) is insufficient, SCCP may arrange a Sell-Out of the shares held in escrow to settle the remaining unpaid Net Money Obligation of the Defaulting Clearing Member.</u></p>

The above revision is being proposed to include the additional sources of liquidity (that is, in addition to the CTGF) such as credit facilities and their applicable charges to cover a Cash Fail of a Clearing Member. SCCP may avail of credit facilities from its accredited settlement banks to settle the money obligation of a Defaulting Clearing Member.

Under the proposed Rule 6.2.1(b), in an unlikely situation where the cash from the CTGF and credit facilities is insufficient, SCCP may arrange a Sell-Out of shares held in escrow, where the proceeds of such Sell-Out shall be used to settle the remaining unpaid cash entitlements of the selling Clearing Members.

EXISTING RULE	PROPOSED RULE
<p>6.1.2 Settlement of Failed Trades through Sell-Out Procedure</p> <p>If, by 9:15 AM of the Business Day after Settlement Date, a Clearing Member who has a Net Money Obligation is not able to make actual payment to SCCP of the total amount of the Outstanding Obligation to settle the Cash Element of its PSE Trade, SCCP shall automatically execute a Sell-Out Procedure of the Securities held in escrow to settle said obligation as described in the SCCP Operating</p>	<p style="text-align: center;">(Deleted)</p>

Procedures.	
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The current Rule 6.1.2 is proposed to be deleted as it is to be incorporated in the new Rule 6.2.1 entitled "Settlement of Cash Fail" (please see the immediately preceding proposed rule).

EXISTING RULE	PROPOSED RULE
<p>6.1.4 Execution of Sell-Out</p> <p>If by 9:15 AM of the Business Day after Settlement Date, the Defaulting Clearing Member still fails to make actual payment to SCCP of his Outstanding Obligation, SCCP shall execute a Sell-Out of the shares held in escrow by entering into a Sale Transaction as a normal Trade, as described in the SCCP Operating Procedures.</p>	<p><u>6.2.3</u> 6.1.4 Execution of Sell-Out</p> <p>If by 9:15 AM of the Business Day after Settlement Date, the Defaulting Clearing Member still fails to make actual payment to SCCP of <u>its</u> his Outstanding Obligation, SCCP shall <u>post sell orders in the normal market of the PSE trading system for the number of Securities held in escrow to replenish the cash advanced by SCCP or to directly settle the remaining unpaid Net Money Obligation of the Defaulting Clearing Member</u> execute a Sell-Out of the shares held in escrow by entering into a Sale Transaction as a normal Trade, as described in the SCCP Operating Procedures.</p> <p><u>In case the number of shares to be sold out is less than the minimum board lot for that Security, SCCP may execute the Sell-Out for the minimum board lot in the normal market. The Defaulting Clearing Member shall be required to settle the excess sold out shares.</u></p>

The above revision is made to provide (1) the procedure in executing a Sell-Out, which is for SCCP to post sell orders in the normal market of the PSE trading system; (2) the purpose of the Sell-Out, which is either to cover cash advances made by SCCP or to use the proceeds of the Sell-Out to directly settle the Cash Fail; and (3) to provide the accountability of the Defaulting Clearing Member in case the number of sold-out shares is more than the number of shares held in escrow to meet the minimum board lot.

EXISTING RULE	PROPOSED RULE
<p>(None)</p>	<p><u>6.2.4 Procedure in case Cash is Delivered</u></p> <p><u>Should the Defaulting Clearing Member be able to deliver its cash obligation prior to the execution of the Sell-Out request, SCCP shall withdraw the Sell-Out request.</u></p> <p><u>In the event that Securities have already been</u></p>

	<p><u>sold out and the Defaulting Clearing Member was able to deliver the Cash subject of the Failed Trade, the Sell-Out transaction shall still be for the account of the Defaulting Clearing Member.</u></p>
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The proposed rule is introduced to expressly state that, in the event of a Cash Fail, the Defaulting Clearing Member may still deliver cash to SCCP prior to SCCP’s execution of the Sell-Out, in which case SCCP shall withdraw the Sell-Out Request.

The proposed rule also provides that a Defaulting Clearing Member shall become a compulsory selling party in the Sell-Out transaction if such Defaulting Clearing Member was able to deliver its cash obligation after SCCP executed the Sell-Out transaction. In other words, a Defaulting Clearing Member still has a choice to deliver cash to SCCP despite the execution of the Sell-Out such as, for instance, when such Defaulting Clearing Member would like to lift the suspension imposed by SCCP due to its cash fail. However, such Defaulting Clearing Member shall be made responsible for the Sell-Out as if it executed the transaction as the selling party.

EXISTING RULE	PROPOSED RULE
(None)	<p><u>6.2.5 Settlement of Sell-Out Transactions</u></p> <p><u>Sell-Out Transactions shall follow the regular settlement cycle.</u></p>

This provision is introduced to expressly state that Sell-Out Transactions shall follow the regular settlement cycle, *i.e.*, T+2 under the new C&S System.

EXISTING RULE	PROPOSED RULE
<p>6.1.5 Authority of SCCP</p> <p>SCCP shall be hereby deemed as duly and irrevocably authorized by a Clearing Member, in the event of a Failed Trade, to:</p> <p>(a) Cancel the transfer of the Defaulting Clearing Member’s Net Securities Entitlement and credit the Securities to SCCP escrow account, as described in the SCCP Operating Procedures; and</p> <p>xxxx</p>	<p><u>6.2.6</u> 6.1.5 Authority of SCCP</p> <p>SCCP shall be hereby deemed as duly and irrevocably authorized by a Clearing Member, in the event of a Failed Trade, to:</p> <p>(a) Cancel the transfer of the Defaulting Clearing Member’s Net Securities Entitlement and credit the Securities to SCCP escrow account <u>Hold in escrow the equivalent Securities Entitlement of the Defaulting Clearing Member,</u> as described in the SCCP Operating Procedures; and</p> <p>xxxx</p>

This revision is made to simplify the language on the grant of authority to SCCP to hold in escrow securities for the settlement of Failed Trades, and in the use of such securities for such purpose.

EXISTING RULE	PROPOSED RULE
<p>6.1.7 Interest and Other Fees and Costs</p> <p>Any and all interests, fees, costs and other charges that may be due on the settlement of the Net Money Obligation herein shall be for the sole account of the Defaulting Clearing Member.</p>	<p><u>6.2.8</u> 6.1.7 Interest and Other Fees and Costs</p> <p>The total advances from the Clearing Fund shall bear interest based on the prevailing overnight borrowing rate of the <i>Bangko Sentral ng Pilipinas</i>, plus a spread <u>as determined by the SCCP Board</u>.</p> <p><u>The total advances from credit facilities shall bear the applicable interest rate and other charges imposed by the lending bank.</u></p> <p><u>The foregoing interest and other charges shall be imposed until the advances are fully paid, and shall be stipulated in the Demand Notice for payment to be issued by SCCP.</u></p> <p>Any and all interests, fees, costs and other charges that may be due on the settlement of the Net Money Obligation herein shall be for the sole account of the Defaulting Clearing Member.</p>

This revision is made to provide a more comprehensive enumeration of the applicable charges borne by the Defaulting Clearing Member in the event that cash advances are made from the CTGF or through credit facilities availed of by SCCP.

EXISTING RULE	PROPOSED RULE
<p>6.2.1 Settlement of Failed Trades through Buy-In Procedure</p> <p>If, by 9:15 AM of the Business Day after Settlement Date, a Clearing Member does not have sufficient Securities in its Securities Account to settle the Security Element of its Trade, SCCP shall post Buy-In orders on the trading floor of the PSE for the number of Securities required to settle the Failed Trade.</p>	<p><u>6.3.1</u> Settlement of Failed Trades <u>Securities Fail</u> through Buy-In Procedure</p> <p>If, by 9:15 AM of the Business Day after Settlement Date, a Clearing Member does not have sufficient Securities in its Securities <u>Settlement</u> Account to settle the Security Element of its Trade, SCCP shall post Buy-In orders <u>in the normal market</u> on the trading floor of the PSE <u>trading system</u> for the number of Securities required to settle the Failed Trade.</p>

This revision was made to highlight that the Buy-In should be done in the normal market (and not in the odd lot market) and to update the terminologies used in the existing Rule 6.2.1.

EXISTING RULE	PROPOSED RULE
<p>6.2.3 Execution of Buy-In</p> <p>If, by 9:15 AM of the Business Day after Settlement Date, the Defaulting Clearing Member still fails to deliver the required Securities indicated in the Buy-In Notice, SCCP shall execute a Buy-In of the appropriate number of Securities by entering into Buy Transactions with as many Trading Participants as are required to raise the necessary quantity of Securities. These Buy Transactions shall be entered into as normal Trades, as described in the SCCP Operating Procedures.</p>	<p><u>6.3.3</u> 6.2.3 Execution of Buy-In</p> <p>If, by 9:15 AM of the Business Day after Settlement Date, the Defaulting Clearing Member still fails to deliver the required Securities indicated in the Buy-In Notice, SCCP shall execute a Buy-In of the appropriate number of Securities by entering into Buy Transactions with as many Trading Participants as are required to raise the necessary quantity of Securities. These Buy Transactions shall be entered into as normal Trades, as described in the SCCP Operating Procedures.</p> <p><u>In case the number of shares to be bought-in is less than the minimum board lot for that Security and, in the interest of time, SCCP shall execute the Buy-In for the minimum board lot in the normal market. Excess bought-in shares shall be for the account of the Defaulting Clearing Member.</u></p>

Similar to the proposed rule on the execution of Sell-Out Transactions (under proposed Rule 6.2.3), since SCCP executes a Buy-In Transaction through the minimum board lot in the normal market, this revision provides that the Defaulting Clearing Member is accountable as the buying party for the excess bought-in shares in case the number of securities purchased by SCCP is more than the required number of shares to settle the failed trade.

EXISTING RULE	PROPOSED RULE
<p>(None)</p>	<p><u>6.3.4 Procedure in case Securities are Delivered</u></p> <p><u>Should the Defaulting Clearing Member be able to deliver its securities obligation prior to the execution of the Buy-In request, SCCP shall withdraw the Buy-In request.</u></p> <p><u>In the event that Securities have already been bought-in and the Defaulting Clearing Member was able to deliver the shares subject of the Failed Trade, the Buy-In transaction</u></p>

	<u>shall still be for the account of the Defaulting Clearing Member.</u>
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Similar to proposed Rule 6.2.4 for Cash Fails, this provision is introduced to expressly state that, in the event of a Securities Fail, the Defaulting Clearing Member may still deliver securities prior to the execution of the Buy-In, in which case SCCP shall withdraw the Buy-In Request.

Moreover, if the Defaulting Clearing Member decides to deliver its securities obligation to SCCP after execution of the Buy-In Transaction, such Defaulting Clearing Member shall become a compulsory buying party in the Buy-In transaction executed by SCCP.

EXISTING RULE	PROPOSED RULE
<p>6.2.4 Delivery of Securities</p> <p>Buy Transactions shall undergo the same settlement procedures wherein final settlement shall take effect on the scheduled Settlement Date. SCCP shall borrow the same number of shares bought in to effect immediate delivery of the undelivered Securities to the affected receiving Clearing Member(s).</p>	<p><u>6.3.5</u> 6.2.4 Settlement of Buy-In Transactions Delivery of Securities</p> <p><u>Buy-In Transactions shall follow the regular settlement cycle.</u></p>

The existing Rule 6.2.4 is revised to expressly state that Buy-In Transactions shall follow the regular settlement cycle, *i.e.*, T+2 under the new C&S System.

The above proposed Rule also does not include the provision in the existing Rule 6.2.4 where SCCP borrows shares to effect immediate delivery. This is because the new C&S system already provides for the assignment of the Buy-In transaction to the Defaulting Clearing Member. Thus, securities borrowing by SCCP is no longer necessary.

This assignment of the Buy-In Transaction entails making the Defaulting Clearing Member the buyer of the securities subject of the Buy-In Transaction and, therefore, the securities delivered to the affected receiving Clearing Member(s) shall be for the account of such Defaulting Clearing Member.

EXISTING RULE	PROPOSED RULE
<p>6.2.5 Authority of SCCP</p> <p>SCCP shall be hereby deemed as duly and irrevocably authorized by a Clearing Member, in the event of a Failed Trade, to:</p>	<p><u>6.3.6</u> 6.2.5 Authority of SCCP</p> <p>SCCP shall be hereby deemed as duly and irrevocably authorized by a Clearing Member, in the event of a Failed Trade, to:</p>

<p>(a) Cancel the transfer of the Defaulting Clearing Member's Net Cash and/or Securities Entitlement and credit the Cash and/or Securities to the SCCP escrow account, as described in the SCCP Operating Procedures; and</p> <p>(b) Use any Cash or Securities transferred to the SCCP Central Clearing House account during the settlement run as the subject for the Buy-In/Sell-Out procedure to cover the outstanding security obligation. All expenses, i.e. interest, charges, taxes inherent to the loan shall be for the account of the Defaulting Clearing Member.</p>	<p>(a) Cancel the transfer of the Defaulting Clearing Member's Net Cash and/or Securities Entitlement and credit the Cash and/or Securities to the SCCP escrow account <u>Hold in escrow the equivalent Cash and/or Securities Entitlement of the Defaulting Clearing Member,</u> as described in the SCCP Operating Procedures; and</p> <p>(b) Use any Cash or Securities <u>held in escrow</u> transferred to the SCCP Central Clearing House account during the settlement run as the subject for the Buy-In/Sell-Out procedure to cover the outstanding security obligation. All expenses, i.e. interest, charges, taxes inherent to the loan shall be for the account of the Defaulting Clearing Member.</p>
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This revision is made to simplify the language on the grant of authority to SCCP to hold in escrow cash and/or securities for the settlement of Failed Trades, and in the use of such cash and/or securities for the same purpose.

Moreover, the last sentence in the existing Rule 6.2.5 pertaining to expenses and other charges is proposed to be deleted since the expenses and other charges applicable to loans are covered by the proposed Rule 6.2.8 on "Interest and Other Fees and Costs" as discussed above.

IX. Risk Containment Measures

EXISTING RULE	PROPOSED RULE
<p>(None)</p>	<p><u>7.6 Risk Containment Measures</u></p> <p><u>SCCP may, in its discretion, require Early Delivery (i.e., not later than SD-1) of Cash or Securities and/or require additional margins from one or more Clearing Members in the following situations:</u></p> <p><u>(1) when, in SCCP's opinion, unstable conditions exist or market conditions or price fluctuations relating to one or more securities at any time require Early Delivery or additional margin to maintain an orderly market or to preserve financial integrity or to minimize the risk of default, in addition to the Mark-to-Market Collateral requirements under Rule 8;</u></p>

	<p><u>(2) when SCCP believes that any Clearing Member is carrying exposure that:</u></p> <p style="padding-left: 40px;"><u>(a) is larger than is justified by the financial condition of that Clearing Member; or</u></p> <p style="padding-left: 40px;"><u>(b) places or may place SCCP at risk;</u></p> <p><u>(3) where the Clearing Member is found to have a record of frequent rule violations or inadequate or unsound management or serious operational defects which, in SCCP's opinion, places or may place SCCP at risk;</u></p> <p><u>(4) where market conditions or price fluctuations are such that SCCP deems it necessary, to call upon the Clearing Members whom it believes are affected by such conditions or fluctuations to follow any of the additional risk containment measures under this Rule as determined by SCCP; or</u></p> <p><u>(5) when certain risk levels have been reached by a particular Clearing Member, as determined by SCCP.</u></p>
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The above proposed rule formalizes the practice of SCCP, supported by its Operating Procedures, of requiring early delivery from Clearing Members which pose significant risks to SCCP due to its trading activities. Moreover, the above proposed rule also authorizes SCCP to require additional margin from a Clearing Member based on the grounds enumerated therein, which pose risks to SCCP or the CTGF.

The above risk management tool is available to SCCP to address situations not specifically covered by the SCCP Rules, but which may put SCCP or the settlement process at risk.

As provided above, this risk management tool consists of either an early delivery requirement of cash or securities or a call for additional margin from Clearing Members whose activities pose significant risks to SCCP.



RULES of the Securities Clearing Corporation of the Philippines



**Securities Clearing Corporation of the
Philippines**

**2022 REVISED CLEARINGHOUSE RULES
OF THE SECURITIES CLEARING
CORPORATION OF THE PHILIPPINES**



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Rule 1: General Provisions of SCCP

Rule 1.1 Defined Terminology

For the purposes of the SCCP Rules and the SCCP Operating Procedures:

“Beneficial Owner”

means the party to which the beneficial title, as against the “legal or registered title, over Securities belongs.

“Business Day”

means a day and the hours on which SCCP is open to business to Clearing Members **including days and hours where Clearing Members may access the C&S System and SCCP may receive trades into the C&S System but trades due for Settlement cannot be settled by reason of the work suspension of the Philippine Payments and Settlements System and the Philippine Clearing House Corporation.** ~~This shall exclude holidays and business days wherein trading activities of The Philippine Stock Exchange, Inc. and clearing activities of the *Bangko Sentral ng Pilipinas or Philippine Clearing House Corporation* are cancelled for same day recognition and effectivity.~~

“Buy-In”

means the process by which SCCP buys, Securities required to settle a Failed Trade.

“~~CCCS~~ **C&S System**”

means the Central Clearing and Settlement **System** of the SCCP. ~~Also refers to the Central Clearing System.~~

“Cash”

means good cleared funds **and/or available funds paid through a** ~~in whatever denomination held by the Settlement Bank~~ **and in the same currency as the Trade.**

“Cash Collateral Account”

means the cash account opened and maintained by the Clearing Member with their current Settlement Bank where Cash Collateral is deposited and maintained for the **collateral requirements** ~~MMCD System~~ of SCCP, the cash balance requirement of which shall be determined by SCCP **pursuant to these Rules.** ~~from time to time.~~

“Cash Deposit”

means the cash component of the Required Contributions to the Clearing Fund. Generally, refers to the deposits of cash into the Cash Settlement Account or any special purpose account required by SCCP to be opened and maintained in the conduct of its Clearing and Settlement and other related activities.

"Cash Element"

means the element of a PSE Trade, which is intended by the parties to be performed by the transfer of a specified amount of money from one Beneficial Owner to another in exchange of the Securities Element.

"Cash Settlement Account"

means the cash account opened and maintained by the Clearing Member with the Settlement Bank for the deposit of cash for payment of Due Clearing obligations and for the credit of Due Broker entitlements. The bank account maintained with the Settlement Bank for the purpose of settling the Cash Element of SCCP-Eligible Trades.

"Central Clearing and Settlement System"

means the ~~Securities~~ Clearing and Settlement system operated and maintained by SCCP and described in *Rule 1.3* hereof. Also refers ~~to the~~ **to C&S System**. ~~to the "Central Clearing and Central Settlement System" or "CCCS" or "SCCP Clearing System"~~.

"Clearing"

means the process of determining the accountability and creating obligations for the exchange of the Security Element and/or the Cash Element between counterparties to Transaction. The terms "clear", "cleared" and "clearing" when used in the SCCP Rules shall refer to the verb or adjective forms of Clearing, as the context may imply.

"Clearing Fund"

means a fund established, maintained and administered by SCCP for the purpose of covering Failed Trades due to a Clearing Member's Default on settlement obligations. Also known as the Clearing and Trade Guaranty Fund or CTGF.

"Clearing Member"

means a person/entity qualified by SCCP to directly participate in the Clearing and Settlement processes of SCCP. For equities transactions, Clearing Members shall be limited to trading participants of PSE, approved for membership in the clearing system by SCCP. Also means a person/entity admitted for the time being by SCCP as a Clearing Member of the Central Clearing System.

"Commission"

means the Securities and Exchange Commission (SEC) of the Philippines.

~~"Continuous Net Settlement"~~

~~means the netting process whereby all of a Clearing Member's transactions in a given Security are combined together, where obligations and positions are offset, the result of which is a single obligation to deliver Securities to SCCP (if the sum of the sells exceeds the sum of the buys) or a right to receive Securities from SCCP (if the sum of the buys exceeds the sum of the sells). A net cash position owing to or from SCCP is likewise calculated.~~

"Contract"

means a contract between SCCP and a Clearing Member to a PSE Trade arising as a result of the Novation of such PSE Trade under the ~~CCCS~~ **C&S** System, as referred to in Rule 3.

"Default"

means the failure of a Clearing Member to pay Cash or deliver Securities in the performance of its Clearing and Settlement obligations with SCCP. It may refer to a temporary default, "late cash payment" or "late securities delivery" due to temporary illiquidity or temporary short position, or an "overnight fail" due to insolvency or financial incapacity of the Clearing Member.

"Defaulting Clearing Member"

means a Clearing Member who incurs a Default, in some instances, referred to as the "Failing Broker".

"Delivery versus Payment"

means the Settlement of a SCCP-Eligible Trade by means of the automatic, simultaneous reciprocal delivery of the Security Element and Cash Element of the said Trade.

"Demand Notice"

means a written notice issued by SCCP to a Defaulting Clearing Member notifying the Clearing Member that advances from the CTGF have been made by the SCCP on its behalf to settle its Failed Trade, and that an immediate monetary settlement of the advances made, including the penalties and other charges applicable thereto is demanded.

"Depository"

means any depository facility recognized by the SCCP for the safekeeping and recording of ownership of Securities which are the subject of the SCCP-Eligible Trades.

"Depository System"

means the securities depository system operated and maintained by the Depository.

"Due Clearing"

means the cash settlement obligations of Clearing Members for payment to SCCP to facilitate the settlement of their SCCP-Eligible Trades.

"Due Broker"

means the cash settlement entitlement of Clearing Members to be received from SCCP during or after the settlement of their SCCP-Eligible Trades.

"Failed Trade"

means the failure of a PSE Trade to settle due to non-delivery of the Security Element and/or Cash Element on Settlement Date. Also refers to an SCCP-Eligible Trade that had not been settled due to a Default.

"Government Securities"

means the Treasury Bills, Treasury Bonds and such other debt securities issued by the Government of the Philippines or any of its instrumentalities, agencies or subdivisions.

"Late Cash Payment"

means the deposit of funds in the Cash Settlement Account after the prescribed Settlement Cut-Off but prior to the end of business hours on Settlement Date to qualify as an Overnight Fail.

"Late Securities Delivery"

means the delivery of Securities in the Securities Settlement Account after the prescribed Settlement Cut-Off but prior to the end of business hours on Settlement Date to qualify as an Overnight Fail.

"Multilateral Netting"

means the netting process whereby all of a Clearing Member's transactions in a given Security are combined together, where obligations and positions are ~~offset~~ **netted** the result of which is a single obligation to deliver Securities to SCCP (if the sum of the sells exceeds the sum of the buys) or entitlement to receive Securities from SCCP (if the sum of the buys exceeds the sum of the sells). A net cash position owing to or from SCCP is likewise calculated.

"Net Money Entitlement"

means that after the ~~Central-Clearing~~ **C&S** System netting of the Cash Element of all SCCP-Eligible Trades of a Clearing Member, the amount of Cash Element to be received by the Clearing Member is greater than the amount of Cash Element to be paid by the Clearing Member for its total SCCP-Eligible Trades on a given Settlement Date. Also refers to the net "Due Broker".

"Net Money Obligation"

means that after the ~~Central-Clearing~~ **C&S** System netting of the Cash Element of all SCCP-Eligible Trades of a Clearing Member, the amount of Cash Element to be paid by the Clearing Member is greater than the amount of Cash Element to be received by the Clearing Member for its total SCCP-Eligible Trades on a given Settlement Date. Also refers to net "Due Clearing".

"Novation"

means the process whereby the rights and obligations between Clearing Members are replaced with rights and obligations to and from SCCP as Central Counterparty.

"Overnight Fail"

means a Default which had not been resolved or settled by the end of business hours on Settlement Date.

"PSE"

means The Philippine Stock Exchange, Inc. **Also referred to as "Exchange"**.

"PSE Trade"

means a transaction effected or executed using the facilities of the PSE involving the transfer of Securities from one Beneficial Owner to another.

- "PSE Trade Feed"
means the electronic trade feed from the PSE regarding data on such PSE Trades matched through the electronic order matching system of the PSE or executed through the facilities of the PSE and containing all the prescribed data on PSE Trades on a given Transaction Date.
- "Registry"
means any registry facility recognized by the SCCP for the transfers and/or final recording of ownership of Securities which are the subject of the SCCP-Eligible Trades.
- "Required Deposit"
means the amount set by the SCCP Board as the necessary deposit of each Clearing Member for the establishment and maintenance of the Clearing Fund. Also refers to "Required Contributions".
- "SCCP"
means the Securities Clearing Corporation of the Philippines.
- "SCCP Board"
means the duly elected Board of Directors of the SCCP, including such committees appointed by the board of directors to exercise any of its duties and powers.
- "SCCP-Eligible Trades"
means any PSE Trade submitted for Clearing and Settlement by the SCCP. May also include any transaction subjected to the Clearing and Settlement services of SCCP, shall also be referred to as "Trades".
- "SCCP Operating Procedures"
means the SCCP Operating Procedures as may be amended from time to time, which shall also form part of the SCCP Rules.
- "SCCP Rules"
means the SCCP Rules as may be amended, supplemented or modified from time to time, including the SCCP Operating Procedures and, where applicable, the Operating Manual of the SCCP's ~~CCCS~~ ~~central clearing~~ **C&S** System.
- "SEC"
means the Securities and Exchange Commission of the Philippines. **Also referred to as "Commission".**
- "Securities"
means Securities as defined in The Securities Regulation Code (Republic Act No. 8799). All Securities as referred to in the SCCP Rules and Operating Procedures shall refer to book-entry shares as deposited or registered and recorded in the Depository or Registry System/s.
- "Securities Account"
means the account maintained in the Depository or Registry System/s in which a Clearing Member's Securities are held, and includes the sub-accounts to which the account may be subdivided.

"Security Element"

means the element of a PSE Trade which is intended by the parties to be performed by the transfer of lodged Security from one Beneficial Owner to another.

"Securities Settlement Account"

means the account opened and maintained by the Clearing Member with the Depository for the deposit of securities for settlement of securities obligations and for the receipt of securities entitlements.

"Sell-Out"

means the process by which SCCP sells Securities on the trading floor of PSE to settle a Failed Trade.

"Settlement"

means the completion of a PSE Trade effected by the delivery of the Security Element and the payment of the Cash Element in the quantity or amount determined by the Clearing of the PSE Trade. The terms "settle", "settled" and "settling" when used in the SCCP Rules shall refer to the verb or adjective forms of Settlement, as the context may apply.

"Settlement Bank"

means a duly licensed commercial banking institution accredited by SCCP for the Clearing and Settlement of the Cash Element of SCCP-Eligible Trades.

"Settlement Cut-Off"

means the deadline for the payment of Cash obligations and delivery of Securities obligations.

"Settlement Date"

means a Business Day when Settlement of a Transaction must be effected pursuant to law, regulations, the SCCP Rules, contract or established industry practice. **Also referred to as SD.**

"Transaction"

means an agreement for the purchase and sale of Securities.

"Transaction Date" or "Trade Date"

means the date when a PSE Trade is executed and matched using the facilities of the PSE and recognized as a Transaction by the PSE system.

Rule 1.2 Rules of Interpretation

1.2.1 Legal Terminology

Legal words or phrases with established statutory or jurisprudential meanings which are not otherwise expressly defined in the SCCP Rules shall be used in accordance with such meanings.

1.2.2 Technical Meanings

Words or abbreviations which have well-known technical or trade meanings and which are not expressly defined in the SCCP Rules shall be used in accordance with such recognized meaning. In the absence of any explicit definition, such terms and expressions shall be construed according to the context it was used, with technical terms given its technical meaning and in accordance with the custom and practice observed in the domestic and global capital market industry. Unless otherwise provided herein, all terms of accounting used herein shall be construed in accordance with generally accepted accounting principles in effect in the Philippines on the date applied.

1.2.3 Persuasive Authority

Widely accepted and established terminologies and practices in other jurisdictions where a clearing system has been in operation shall have a persuasive effect in the resolution of any questions arising from the SCCP Rules.

1.2.4 Titles and Subtitles

Titles of the articles, sections, subsections, paragraphs and subparagraphs are placed herein for convenient reference only and shall not to any extent have the effect of modifying, amending or changing the express terms and provisions of the SCCP Rules.

1.2.5 Persons

Unless otherwise provided herein, words denoting persons shall include an individual, a corporation, partnership, joint venture, trust, unincorporated organization and government, whether domestic or foreign, a subdivision, agency or instrumentality thereof and any other legal or commercial entity.

1.2.6 Words and Gender or Number

As used herein, unless the context clearly indicates the contrary, the singular number shall include plural, the plural the singular, and the use of any gender shall be applicable to all genders.

1.2.7 Conflict

In case of conflict between the provisions of the SCCP Rules and any other applicable document between SCCP and the Clearing Member, the provisions of the SCCP Rules shall prevail.

1.2.8 Authority to Interpret and Application

SCCP shall have the authority to interpret the SCCP Rules **and SCCP Operating Procedures** in accordance with their spirit and intent in case of silence or ambiguity, **which interpretation shall be final and binding on all parties.** ~~of the SCCP Rules.~~

Rule 1.3 The ~~Central~~ Clearing and Settlement System (“C&S System”)

1.3.1 The System and Services of the SCCP

SCCP, through its ~~Central~~ **C&S** System, shall perform the following functions:

- (a) Clearing and Settlement of SCCP-Eligible Trades as fed into the ~~Central~~ **C&S** System;
- (b) Performance of Fails Management;
- (c) Establishment, maintenance and administration of the Clearing Fund;
- (d) Risk monitoring and management of all SCCP-Eligible Trades cleared and settled through the ~~Central Clearing~~ **C&S** System; and
- (e) Such other services necessary or incidental to the Clearing and Settlement of SCCP-Eligible Trades.

1.3.2 Service Availability

SCCP shall accept for Clearing within the ~~Central Clearing~~ **C&S** System SCCP-Eligible Trades between Clearing Members of good standing in SCCP.

1.3.3 Service Commitment of SCCP

SCCP shall provide prompt, accurate and reliable Clearing and ~~for~~ Settlement services in accordance with the SCCP Rules.

1.3.4 Liabilities

SCCP shall be liable only for such actual damages as may be properly substantiated by Clearing Members and validated by SCCP due to the error of the latter or any defect in the ~~Central Clearing~~ **C&S** System directly attributable to the fault of SCCP.

Rule 1.4 SCCP Rules and SCCP Operating Procedures

1.4.1 Amendment of SCCP Rules

The SCCP Board may from time to time amend the SCCP Rules, subject to approval by the SEC. SCCP shall promptly notify Clearing Members of any proposal to change, revise, add, or repeal any rule and of the text of the proposed rule and a brief description of its purpose and its effective date. Clearing Members may, within the time prescribed by the SCCP Board, submit to SCCP for its consideration their comments with respect to any such proposal.

1.4.2 SCCP Operating Procedures

SCCP may prescribe and from time to time amend the SCCP Operating Procedures. Clearing Members shall be bound by the SCCP Operating Procedures and amendments thereto in the same manner as they are bound by the SCCP Rules.

1.4.3 Effective Date

Any new rule or amendment to the existing rules shall be made effective fifteen (15) days from the date of approval by the Commission unless otherwise provided for by the SCCP Board or the Commission.

Rule 1.5 Accounts

1.5.1 Cash Settlement Account

Each Clearing Member shall open and maintain with any of the Settlement Banks a Cash Settlement Account to be used solely for effecting the actual Settlement of the Cash Element of any SCCP-Eligible Trade. **If a Clearing Member wishes to trade in Securities denominated in an Eligible Currency other than Philippine Pesos, it must maintain a Cash Settlement Account in its own name and denominated in that Eligible Currency for the settlement of the Cash Element in the C&S System.**

SCCP is hereby deemed as duly and irrevocably authorized by a Clearing Member to direct the Settlement Bank to credit money entitlements and/or debit money obligations resulting from the Settlement of Cash Elements of a SCCP-Eligible Trade to or from the Clearing Member's Cash Settlement Accounts.

~~One Cash Settlement Account shall be required for each kind of Securities being settled, i.e. one Cash Settlement Account for equities, another for Government Securities.~~

A Clearing Member holding both a principal and a client account may use a single Cash Settlement Account for the purpose of Settlement as described above, but the Clearing Member shall at all times be solely responsible for said client accounts.

1.5.2 Cash Collateral Deposit Account

Each Clearing Member shall open and maintain with his current Settlement Bank a Cash Collateral Deposit Account to be used solely for Cash Deposits by Clearing Members to cover calculated exposures on their unsettled Trades. **Clearing Members trading Securities denominated in Philippine Peso and other Eligible Currency must maintain separate Cash Collateral Deposit Accounts for each currency.** SCCP shall have the authority to draw from the Cash Collateral Deposit Account in the manner and instances prescribed in the SCCP Procedures. The conduct and operations of the Cash Collateral Deposit Account shall depend on the collateral requirements and procedures prescribed by the SCCP.

1.5.3 Change of Accounts

A Clearing Member shall not close or change its designated Settlement and/or Collateral Accounts, or modify SCCP's authority in respect thereof, or change its designated Settlement Bank, except upon submission of the required documentation and written approval of SCCP.

Rule 1.6 Fees and Fines

1.6.1 Fees in General

Each Clearing Member shall pay such fees in accordance with a schedule as may be promulgated from time to time by SCCP for regular services availed of from SCCP or the ~~Central Clearing~~ **C&S** System (See *Annex 7 --Schedule of Fees, Fines and Penalties*). Special services, which are not included in the schedule, shall be subject to such fees as the SCCP Board may determine.

1.6.2 Fines

SCCP may discipline any Clearing Member with fines in such amounts as SCCP shall promulgate from time to time upon the finding by SCCP of any of the following grounds:

- (a) Violation by a Clearing Member of a provision of SCCP Rules;
- (b) Non-performance by a Clearing Member of an obligation;

- (c) Performance or non-performance by a Clearing Member of any conduct deemed contrary to the interests of Clearing Members or the Central Clearing System;
or
- (d) Other grounds similar to the foregoing.

1.6.3 Monthly Billing

SCCP shall establish and revise a reasonable and non-discriminatory basis of the timing, manner and amounts of which fees, charges and fines are determined and collected by SCCP. The schedule of fees, charges and fines, as well as the manner of payment thereof, shall be furnished to Clearing Members thirty (30) days prior to its effective date or such shorter periods as SCCP may prescribe but not less than five (5) days prior to said effective date, unless otherwise provided, fees and charges for regular Settlement shall be payable monthly; other fees and charges shall be payable on demand.

Rule 1.7 Records

1.7.1 Retention of Records

SCCP shall retain its relevant records of the Clearing and Settlement of Trades for a period of ten (10) years from Transaction Date.

1.7.2 Confirmation

Before the close of the Business Day following the Business Day on which a report or record is made available by the ~~Central Clearing~~ **C&S** System to a Clearing Member, the Clearing Member shall verify the accuracy, completeness and correctness of such report or record and raise with SCCP any discrepancy with the Clearing Member's internal records. After that period, the Clearing Member is deemed to have confirmed the accuracy, completeness and correctness of such report or record.

1.7.3 Correction

SCCP may correct or adjust any entry in any report or record in the ~~Central Clearing~~ **C&S** System and forthwith notify the Clearing Member concerned, provided, that the correction or adjustment does not prejudice SCCP or any Clearing Member nor affect the integrity of the data.

1.7.4 Best Evidence

The records of the ~~Central Clearing~~ **C&S** System shall prevail over the Clearing Member's internal records and shall constitute, with respect to the Clearing and Settlement of all SCCP-Eligible Trades, the best evidence of such Trades, without prejudice to the right of the Clearing Member's clients to prove their rights, title and entitlements.

1.7.5 Confidentiality

Each Clearing Member shall be entitled to the confidentiality of all entries or data in the ~~Central Clearing~~ **C&S** System with regard to the Clearing Member. Any information about a Clearing Member or its accounts in the ~~Central Clearing~~ **C&S** System or obtained by SCCP in the course of its operations shall be kept confidential by SCCP, unless:

- (a) Required by law, or an order of a court, judicial or quasi-judicial body, or an order of or a request from a government agency exercising jurisdiction over the Clearing Member or the Transaction;
- (b) The Clearing Member for justifiable grounds authorizes and directs SCCP to disclose the information;
- (c) Made to directors, employees, agents, auditors or legal counsel of SCCP, to the extent required to perform their duty; or
- (d) The disclosure is statistical, summary of other format without identifying the Clearing Member.

Before disclosing the information under any of the foregoing, SCCP shall notify the Clearing Member concerned unless SCCP is specifically prohibited to do so. The notification requirement shall not apply to SCCP officers and employees who are directly involved in the Clearing and Settlement process.

Rule 1.8 Audit

1.8.1 System Audit

SCCP shall appoint an independent external auditor responsible for auditing the ~~Central Clearing~~ **C&S** System. The auditor's duties shall include but not be limited to:

- (a) Reviewing the physical and environmental security of SCCP's premises;
- (b) Reviewing the integrity of the ~~Central Clearing~~ **C&S** System, including the maintenance of security and confidentiality over the data of individual Clearing Members;
- (c) Reviewing the suitability of the system of internal controls of SCCP;
- (d) Reviewing the processing of Trades in accordance with Clearing Member instructions; and
- (e) Reviewing the integrity and reliability of the data processing and the physical facilities of SCCP.

1.8.2 Financial Audit

SCCP shall appoint an independent external auditor to audit the financial standing of SCCP as well as the Clearing Fund. Within thirty (30) days after the date SCCP files its annual fiscal return with the *Bureau of Internal Revenue*, SCCP shall make available for Clearing Members the audited financial statements of SCCP and the Clearing Fund for such fiscal year.

Rule 1.9 Notices

1.9.1 To Participants

Unless otherwise specified in the SCCP Operating Procedures, a notice to be given by SCCP to a Clearing Member under the SCCP Rules shall be deemed as validly given to a Clearing Member when made in writing and personally delivered or sent by confirmed facsimile transmission or recorded telecommunication, to the last known business address, telephone or facsimile number as notified by the Clearing Member to SCCP in writing. Each Clearing Member shall provide SCCP with the correct contact name, address, telephone and facsimile numbers on which SCCP and Clearing Members can rely for the purpose of this SCCP Rule.

Any such notice sent by hand, facsimile, electronic mail, or other automated means, will be deemed to have been received by the Clearing Member on the date it was sent.

1.9.2 To SCCP

Unless otherwise specified in the SCCP Operating Procedures, a notice to be given by a Clearing Member to SCCP under the SCCP Rules shall be deemed as validly given to SCCP when received by the President or Chief Operating Officer of SCCP in writing and delivered at the head office of SCCP or sent by confirmed facsimile transmission at the number specified by SCCP.

Rule 1.10 Appeal and Arbitration

1.10.1 Appeal to SCCP Board

A Clearing Member who is adversely affected by any decision of SCCP management may appeal the decision to the SCCP Board within ten (10) Business Days from the date the decision is made known to the Clearing Member, stating therein the grounds for the appeal. Within twenty (20) Business Days from the date SCCP is notified, the SCCP Board shall not be bound by the technical rules of evidence in the conduct of the hearing and deliberation of the decision under appeal. No final decision shall become effective until affirmed by a majority of the members of the SCCP Board and the Clearing Member has been notified of the decision.

1.10.2 Settlement by Arbitration

Subject to prior compliance with the procedure in *Rule 1.10.1* if applicable, any controversy or claim against or arising out or relating to the SCCP Rules, except any appeal to disciplinary actions imposed by the SCCP pursuant to *Rule 2.5.5*, shall be resolved solely and exclusively by means of arbitration in accordance with the rules of the *Philippine Dispute Resolution Center, Inc.* then in effect except as modified herein. There shall be three (3) arbitrators appointed in accordance with the arbitration rules. The arbitration shall be held in Makati City. The arbitration proceeding shall be conducted in, and the award shall be rendered in, the English language. Substantive aspects of the dispute shall be settled by applying the laws of the Philippines. Any award of the arbitration tribunal shall be final and binding upon the parties and may be enforced by judgment of a competent court having jurisdiction in the premises.

Rule 2: SCCP Clearing Membership Rules

Rule 2.1 Clearing Members

2.1.1 Qualified Applicants

An applicant to be a Clearing Member in the ~~Central Clearing~~ **C&S** System must be:

- (a) A duly licensed broker and/or dealer of Securities by the SEC;
- (b) A participant in good standing of the PSE, or a participant in good standing of any other facility/ies for trading for other securities;
- (c) A participant in good standing of the Depository, Registry or any such SCCP-accredited securities agency; and
- (d) An account holder in good standing of the Settlement Bank.

2.1.2 Qualifications and Standards

An eligible person/entity qualifies as a Clearing Member if:

- (a) It is in good standing under the laws pursuant to which it is established and regulated as certified to by the appropriate government or other regulatory agency exercising jurisdiction over it;
- (b) It owns, manages, controls or has custody of Securities;
- (c) It is not subject to a relevant legal or regulatory disqualification;
- (d) It has adequate trained personnel, premises, hardware, software and data processing capabilities, telecommunications link-up, books and records enabling it to fulfill its obligations and operational requirements promptly and accurately;
- (e) It meets a satisfactory capital ratio as determined by SCCP; and
- (f) It meets such other standards and processes and such other qualifications satisfactory to SCCP for the protection of SCCP and other Clearing Members, such as non-conviction of a securities-related crime, and should not be a subject of injunction from any securities-related transaction, suspension or expulsion from a securities exchange, a national securities association or a clearing or depository corporation, or should not be charged with misrepresentation or omission of a material fact to SCCP.

Rule 2.2 Application Procedure

2.2.1 Application for Clearing Membership

An applicant shall accomplish and deliver to SCCP all the documents contained in the *Membership Kit* to be provided by SCCP. (Refer to Annexes 1-6 for samples of the currently required forms.)

2.2.2 Deficiencies in Application

If an applicant fails to submit all the proper information and documents that may be required by SCCP, SCCP may, depending on the nature and gravity of the deficiency as determined by SCCP, deny the application outright or allow the applicant to correct the deficiency within fifteen (15) days from receipt of notice from SCCP.

If the applicant fails to sufficiently correct its deficiencies during the period, the application shall be deemed abandoned. On the other hand, if the applicant submits the required information or correct its deficiencies during the period, then the application shall be deemed amended accordingly.

Any misleading information by or misrepresentation on the part of the applicant that may be discovered prior to approval by SCCP of the application shall result in immediate disqualification of the application with prejudice to a re-filing of the same. If said misleading information or misrepresentation is discovered after approval of the application by SCCP, the Clearing Member shall be subjected to disciplinary action as provided under Sections 2.3.8 and 2.5.1 hereof, without prejudice to revocation of the transgressor's Clearing Membership at the discretion of SCCP.

2.2.3 Deferral

The SCCP Board may defer its approval of a Clearing Membership Application until such time as SCCP has adequate personnel, facilities, data processing capacity or such operational capability to provide its services to additional Clearing Members without impairing its ability to service existing Clearing Members, to assure the prompt and efficient Clearing and Settlement of Trades, and to carry out its functions in the normal course of business. However, the Clearing Membership Application of applicants, which have been deferred pursuant hereto, may be approved as soon as the capabilities of SCCP permit, in the order in which Clearing Membership Applications were filed with SCCP.

2.2.4 Approval

Upon approval of the Clearing Membership Application by SCCP, SCCP shall immediately inform the affected applicant, and upon receipt of such notice, the said applicant shall be deemed a Clearing Member entitled to and responsible for all the rights and privileges and obligations of a Clearing Member to the ~~Central Clearing~~ **C&S** System.

2.2.5 Clearing Membership Fee

An applicant who has been accepted as a Clearing Member shall pay the required acceptance fee in the amount, form and manner set forth in the SCCP Rules. (See Annex 7 – SCCP Schedule of Fees, Fines and Penalties)

2.2.6 Clearing Member as Principal

Only Clearing Members shall be entitled to settle contracts with SCCP and to participate in the comparison and other operations, covered by the SCCP Rules. A Clearing Member who compares, settles or carries out any contract or transaction for another person who is not a Clearing Member, shall be deemed to act as and shall be liable as principal in these underlying contracts or transactions.

Rule 2.3 Warranties and Representations

2.3.1 Binding Effect of SCCP Rules

The SCCP Rules shall be binding upon the Clearing Members, its officers, directors, employees, agents, and its clients, and shall be deemed to form an integral part of the terms and conditions of every related contract or transaction which the Clearing Member may enter into with its clients.

2.3.2 Deposits or Contributions to the Clearing Fund

Each Clearing Member shall timely, fully and properly remit all its deposits or contributions to the Clearing Fund in accordance with the SCCP Rules.

2.3.3 Authority to Transact, Warranties and Non-Liability

Any Trade fed into the ~~Central Clearing~~ **C&S** System shall be deemed by SCCP as having been performed in accordance with the instructions given by a Clearing Member and that such instructions constitute the representation and warranty of Clearing Member that it **such Trade is lawful or legitimate and such Clearing Member** has full power, right and authority to perform the Trade or other transaction in accordance with its client's instructions.

Any instruction given by a Clearing Member for the clearing and/or settlement of a Trade constitutes the representation and warranty of Clearing Member that it has and will continue to maintain balances in its Securities and Cash Settlement Account sufficient to support all Trades specified in such instruction.

SCCP, its directors, officers, employees, agents and contractors ("SCCP Related Parties") shall not be liable to any party for any loss, damage, cost, expense, action or claim arising from SCCP's performance of clearing and settlement transactions. For this reason, Clearing Members shall hold harmless and shall fully indemnify SCCP and the SCCP Related Parties from and against any loss, damage, cost, expense, liability, action or claim

(including without limitation the cost of legal and non-legal counsel to advise on or defend against such claims) suffered or incurred by or made against SCCP arising from SCCP's performance of clearing and settlement transactions pursuant to the Trade fed by a Clearing Member into the C&S System.

2.3.4 Authority from Client

Each Clearing Member warrants to SCCP that it has obtained the accession of its clients to the SCCP Rules, and SCCP Operating Procedures and any amendments, supplements or modifications thereto, and that the client has agreed to abide by the Clearing Member's transactions with respect to the subject Cash and Security. SCCP shall not be bound to take notice of any right or agreement of a Clearing Member's client or any third party regarding the Beneficial Owners of subject Cash and Security.

2.3.5 Irrevocable Authority

Each Clearing Member irrevocably and by special power of attorney, authorizes SCCP to be its attorney-in-fact to do such acts and to exercise such powers on behalf of such Clearing Members as may be delegated to the SCCP by the SCCP Rules, together with such powers as are necessary or incidental thereto. SCCP shall not be obligated in any event to determine the legal or other requirements to be followed in the pursuit of such rights or actions, or the desirability or necessity of taking any such steps.

2.3.6 Execution of Other Acts

Upon request from SCCP, a Clearing Member shall promptly perform such required acts and shall execute such required documents as SCCP may reasonably require to enable SCCP to comply with its functions.

2.3.7 Reporting of Fraud

To the extent of its knowledge of such matters, a Clearing Member shall report to SCCP:

- (a) Any violation of the SCCP Rules or misuse of the ~~Central Clearing~~ **C&S** System;
- (b) Any error regarding any data in the ~~Central Clearing~~ **C&S** System;
- (c) Any fraud or criminal activity committed or about to be committed in connection with the ~~Central Clearing~~ **C&S** System;
- (d) Any unauthorized or criminal access to or use of the ~~Central Clearing~~ **C&S** System; or
- (e) Any negligent, fraudulent or willful act or omission by any Clearing Member or staff of SCCP.

2.3.8 Submission to Disciplinary Action

Each Clearing Member shall abide by all disciplinary measures imposed by SCCP on such Clearing Member, including fines, suspension and termination, and hereby waives all its other rights to remedies inconsistent with the SCCP Rules.

2.3.9 Verification of Warranties

SCCP may rely on any representation or warranty, express or implied, made or deemed made by a Clearing Member by its accession to the SCCP Rules. Nevertheless, SCCP may take steps to verify the representation or warranty and, for such purpose, require a Clearing Member to provide such information or document as may be relevant to the verification, without in any way being considered as having waived its right to rely on the representation or warranty of the Clearing Member.

2.3.10 Declarations

Each Clearing Member shall provide or cause to be provided, as and when required, a declaration containing such information with respect to any Trade to comply with:

- (a) A lawful request of the issuer of the Security in order to comply or facilitate compliance with any legislation, rule, regulation, order of a court or administrative or regulatory body, by-law or provision to which the issuer is subject; or
- (b) Any legislation, regulation, or order of a court or administrative or regulatory body.

Rule 2.4 Clearing Membership Indemnity and Liability

2.4.1 Indemnity of Clearing Member for Services

Clearing Members shall hold harmless SCCP and all other Clearing Members, as well as all their respective partners, directors, trustees, officers, employees, agents and contractors from and against any loss, damage, cost, expense, liability or claim (including without limitation the cost of legal counsel to advise on or defend against such claims) suffered or incurred by or made against it, them or any of them arising from:

- (a) Any interruption, malfunction or disruption of any service in the ~~Central Clearing~~ **C&S** System to the extent caused or contributed by any negligent, reckless, willful, fraudulent or dishonest act or omission of a Clearing Member or of any director, trustee, officer, partner, employee, servant, contractor or agent of a Clearing Member done while acting in the course of office or employment or made possible by information or opportunities afforded by such office or employment;
- (b) Any incorrect information or documentation provided by a Clearing Member;

- (c) Performance by SCCP of any procedure which it must or may perform under the SCCP Rules or SCCP Operating Procedures including without limitation the making of corrections of any entry; drawing on the Required Deposit of a Clearing Member when warranted, drawing on the Clearing Fund on behalf of a Defaulting Clearing Member, and others;
- (d) The reliance on or use by SCCP of any declaration provided by a Clearing Member in the form and time required by SCCP and made in the manner contemplated by the SCCP Rules;
- (e) A Clearing Member's failure to provide or cause to be provided a declaration as required;
- (f) Reliance by any person on a declaration as required; or
- (g) Any breach of a Clearing Member's obligations, representations or warranties.

2.4.2 Indemnity for Clearing Member's Request

Each Clearing Member shall indemnify and hold harmless SCCP, and its respective directors, officers, employees, agents and contractors from and against any loss, damage, cost, expense, liability or claim (including without limitation, the cost of legal counsel to advise on or defend against such claims) suffered by or made against it, them or any of them arising from any act or omission of SCCP pursuant to a Clearing Member's request.

2.4.3 Exclusive Liabilities

SCCP shall not be liable for the performance of any function that is due to be performed by related settlement agencies such as Depository and Registry facilities and the Settlement Bank or any other settlement agency systems. Neither shall SCCP be liable for any loss, damage, cost, expense and liability suffered by a participant arising from the use of any Depository, Registry, Settlement Bank or any other settlement agency systems.

Rule 2.5 Suspension and Termination

2.5.1 Causes for Suspension or Termination

A Clearing Member may be suspended or terminated from the ~~Central Clearing~~ **C&S** System, depending on the existence and the gravity of the following grounds as determined by SCCP in its sole discretion:

- (a) Material or persistent breach by the Clearing Member of the provisions of the SCCP Rules and/or the SCCP Operating Procedures;
- (b) Repeated violations by the Clearing Member of acts punishable with fines;

- (c) Suspension of the Clearing Member for a third time shall result in revocation or termination of its clearing membership;
- (d) Ineligibility, loss of qualification or non-compliance by the Clearing Member with SCCP's Clearing Membership standards;
- (e) Adverse effect on the integrity or interests of SCCP or other Clearing Members by the financial or operating condition, or continuation of the Clearing Membership, of the Clearing Member;
- (f) Revocation of the registration or license, or expulsion or suspension, of the Clearing Member by the regulatory or competent authority having jurisdiction over it;
- (g) Order or decision of a competent judicial or administrative authority enjoining the Clearing Member from engaging in or continuing any conduct or practice related to Securities or payment transactions; or
- (h) When the SCCP Board, in its discretion, determines that other similar or adequate cause for suspension or termination exists.

2.5.2 Procedure for Suspension or Termination

A Clearing Member shall be notified in writing at its last registered address of the existence of any ground for suspension. The notice shall state in reasonable detail the nature of the violation and the facts constituting the violation. Within five (5) Business Days from receipt of the notice, the Clearing Member may file its written response, explaining, clarifying or commenting on the matters stated in the notice. The Clearing Member may likewise be required to be present in a hearing for an opportunity to further explain, clarify or comment on matters touched upon in its written response. The Clearing Member may, if so desired, be assisted by counsel during such hearing.

2.5.3 Preventive Suspension

Notwithstanding the foregoing, SCCP may, in order to avoid grave and irreparable damage to the ~~Central Clearing~~ **C&S** System, order the immediate suspension of a Clearing Member pending notice, hearing and final decision on its suspension or termination, until SCCP determines that the ground no longer exists, at which time SCCP shall lift the preventive suspension.

2.5.4 Decision of Suspension or Termination

Any final decision suspending or terminating a Clearing Member shall be in writing, stating the grounds for violation and the facts constituting the violation, the period of suspension or the effective date of termination. A fine may be meted out concurrently with suspension or termination. No decision of suspension or termination shall take effect until the Clearing Member has received the written decision of the SCCP or its authorized representatives. SCCP shall also notify the Securities and Exchange Commission, the PSE, and any other institutions involved in the Clearing and Settlement process of such suspension so that these persons may be able to perform activities as may be required of them under the law or under their own rules and regulations based on the circumstance.

2.5.5 Appeal to Decision

A Clearing Member may contest any final decision of suspension or termination by filing an appeal with the SEC within ten (10) Business Days from receipt of the decision. The suspension or termination of the Clearing Member shall remain effective notwithstanding the appeal.

2.5.6 Survival of Obligations

The suspension, termination or resignation of a Clearing Member shall not in any way reduce its duties, liabilities or obligations under the SCCP Rules which have otherwise accrued or existed as of the date of such suspension, termination or resignation, or which may thereafter arise by reason of transactions, facts or circumstances occurring or in existence on or before such date.

2.5.7 Civil and Criminal Liability

The suspension, termination or resignation of a Clearing Member shall not prejudice the right of SCCP and/or any other Clearing Member/s to take civil or criminal action against the suspended, terminated or resigned Clearing Member.

Rule 3: Continuous Net Settlement

Rule 3.1 Daily Multilateral Netting

CCCS **The C&S System** operates under continuous net settlement system and as such daily multilateral netting occurs upon receipt of the Trades from the Exchange. The CCCS **C&S System** performs the netting process as soon as the Trades are uploaded to the system. The Securities Settlement instructions are netted multilaterally into a net receipt or delivery position in a given Security for each Clearing Member. All Cash debits and credits from these Securities Settlement instructions are also netted into a single net cash position for each Clearing Member. There will no longer be a direct link between the original counterparties of the Trades; instead, all Clearing Members will have a direct obligation to deliver or right to receive to/from SCCP.

Rule 3.2 Novation of Exchange Trades and Replacement of Parties to PSE Trade Contracts

Shortly after this multilateral netting takes place, Novation of the original PSE Trade contracts occurs and the SCCP now stands between the original trading parties and becomes the Central Counterparty to each Trade cleared through it. SCCP replaces each net position with a settlement obligation/receipt for the scheduled Settlement Date. On Settlement Date, book-entry settlement instructions will be created for each net position to facilitate movements from the net delivering Clearing Members to the net receiving Clearing Members. Consequently, each net delivery obligation shall be replaced by a new settlement Contract between the net delivering Clearing Member as seller and SCCP as buyer, as principals to such Contract, and each net entitlement shall be replaced by a new settlement Contract between the net receiving Clearing Member as buyer and SCCP as seller, as principals to such Contract.

SCCP shall settle and guarantee block sales, except those that do not conform to the Settlement Cycle.

Rule 3.3 Terms of Novation

SCCP's obligations as Central Counterparty, whether as seller or buyer under Contracts, as the case may be, under the terms of Novation, shall be performed in the manner and form and by such time as may be prescribed in the Rules.

The benefit of the performance by SCCP of such obligations is conferred upon Clearing Members as Principals and not upon any other person whatsoever.

Subject as otherwise provided in the Rules, Contracts shall be on the same terms as the relevant exchange Trade replaced by such Contracts.

Rule 3.4 Allocation Algorithm

In effecting Settlement of its obligations to deliver Cash and Securities arising out of the settlement Contracts, SCCP may allocate Cash and Securities available to it to Clearing Members due to receive Cash and/or Securities in accordance with the an allocation algorithm **that is being implemented by the C&S System.** ~~that is based on the highest outstanding netted amounts to be received by the Clearing Members. A priority list will be set up according to this rule and the system will attempt to settle the largest outstanding netted amounts first, as provided in the Operational Procedures, or in such other manner as it considers appropriate.~~

~~SCCP may effect partial deliveries in respect of its obligations to deliver Securities arising out of Contracts.~~

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)~~ **(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.

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 normal market 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 normal market on the day it was last traded.

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

Amended effective 01 April 2013. Approved by the SEC on 21 February 2013.

Rule 4: Clearing and Settlement of PSE Trades

Rule 4.1 Pre-Clearing and Settlement

4.1.1 Trade Feed

On Transaction Date, Trades matched through the electronic order matching system of the PSE or any trading facility recognized by the SCCP, shall be sent real time to the SCCP through the Trade Feed immediately after the applicable trading hours.

4.1.2 Cash List

By the first Business Day following the Transaction Date, SCCP shall provide the Settlement Banks, through file upload, a Cash List that would disclose the Net Money Obligation or Net Money Entitlement of its Clearing Members account holders. This shall also disclose how much a one Settlement Bank should pay the other Settlement Bank for the synchronization of funds among them during the settlement day.

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~~.

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.

4.1.5 Interim Reports

SCCP shall furnish the transacting Clearing Members from time to time prior to Settlement Date with such reports, updates and statements as will inform them of the status and requirements of their Trades necessary for Settlement.

Unless otherwise stated in the Rules, any report, update, or statement provided by SCCP shall, in the absence of manifest error, be conclusive as to its subject matter.

Except as otherwise agreed by SCCP, the failure of a Clearing Member to promptly inform SCCP of any error or omission in any report, update, or statement within one (1) Business Day from receipt of notice shall constitute a waiver in favor of SCCP by such Clearing Member of any right to require

rectification. SCCP may, in its discretion, entertain a late request for rectification. Provided, however, that notwithstanding the foregoing, SCCP shall entertain a Clearing Member's request for rectification if the PSE approved a cancellation or amendment of trade executed by such Clearing Member.

To avoid any doubt, SCCP shall not be obliged to entertain any notification of error or omission in any report, update, or statement or any request to rectify any error or omission in any report, update, or statement from any person other than from a Clearing Member.

4.1.6 Settlement Reports

SCCP shall furnish the Clearing Members with reports that will inform them of the status and requirements of their Trades necessary for Settlement.

~~SCCP shall, within the Transaction Date, furnish each Clearing Member through the Central Clearing System a report ("Daily Transaction Report"), which shall indicate the Trades such Clearing Member has entered into on the specified Transaction Date, including the following:~~

- ~~(a) — The name of the issue;~~
- ~~(b) — The number of Securities;~~
- ~~(c) — The names of the Clearing Member counterparties;~~
- ~~(d) — The value of the Trade;~~
- ~~(e) — The contract order number regarding the matched Trade; and~~
- ~~(f) — Other relevant matters.~~

4.1.6.1 Obligation/Entitlement Reports

~~SCCP shall also furnish each Clearing Member with the value of its qualified Trades and shall summarize therein the **This report is a summary of** Cash and Securities net obligation or net entitlement of such Clearing Member for Settlement of its Trades for the particular Transaction Date. ("Obligation Report").~~

4.1.6.2 Security Position Projection Report

~~On Settlement Date, SCCP shall furnish each Clearing Member through the Central Clearing System with a report ("Projection Report") which **This report** shall indicate the expected long or short positions of the Securities Element of specified Trade/s as of a certain Settlement Date. Upon receipt by the Clearing Member of the projection report, the Clearing Member shall take appropriate measures to ensure that it shall have the sufficient amount of the Security Element of the particular Trade/s in its Securities Settlement Account by the Settlement Cut-Off.~~

4.1.6.3 Settlement Report

This report shall indicate the long or short positions of the Cash and Securities Element of specified Trade/s on Settlement Date. This report shall be used by the Clearing Member to check if it already has sufficient amount of Cash in its Cash Settlement Account and Securities in its Securities Settlement Account by the Settlement Cut-Off.

Rule 4.2 Clearing and Settlement of Securities Element

4.2.1 Clearing of Security Element

Unless otherwise provided by the SCCP Board, a Clearing Member's delivery obligations and entitlements of the Security Element of a Trade shall be determined on a flag-netting basis in accordance with the SCCP Operating Procedures.

~~4.2.2 Projection Report~~

~~On Settlement Date, SCCP shall furnish each Clearing Member through the Central Clearing and Settlement System with a report ("Projection Report") which shall indicate the expected long or short positions of the Securities Element of specified Trade/s as of a certain Settlement Date. Upon receipt by the Clearing Member of the projection report, the Clearing Member shall take appropriate measures to ensure that it shall have the sufficient amount of the Security Element of the particular Trade/s in its Securities Settlement Account by the Settlement Deadline.~~

4.2.2 ~~4.2.3~~ Settlement of Security Element

SCCP shall, on Settlement Date, effect instructions in the Central Clearing **C&S** System for the Settlement of the Security Element.

Rule 4.3 Clearing and Settlement of Cash Element

4.3.1 Clearing of Cash Element

Payment obligations and entitlements of a Clearing Member for the Cash Element of Trade/s shall be established on a multilateral netting process whereby the total Cash Element obligations of a Clearing Member are netted from the same Clearing Member's Cash Element entitlements in accordance with the SCCP Operating Procedures. SCCP shall arrive at either a Net Money Entitlement due to a Clearing Member or a Net Money Obligation due from a Clearing Member.

4.3.2 Settlement of Cash Element

On Settlement Date, the Settlement Bank shall confirm to the SCCP through the ~~Central Clearing~~ **C&S** System any amount in the Clearing Members' settlement account, thereby effecting transfer of said amount to the SCCP Nostro account. SCCP shall, on Settlement Date, effect instructions in the **C&S** ~~Central Clearing~~ System for the Settlement of the Cash Element.

Rule 4.4 Fungibility

Each Clearing Member agrees that Securities in ~~CCCS~~ **the C&S System** may be treated by SCCP as fungible with Securities of the same issue. No Clearing Member will be entitled to any specific Securities in ~~CCCS~~ **C&S System** and unless otherwise provided, SCCP's obligation to a Clearing Member will be to allow withdrawal of, subject to the Rules, up to the number of Securities in the deposit account of such Clearing Member at any time.

Rule 4.5 Special Restrictions

Nothing in the SCCP Rules shall be construed as permitting any Clearing Member to attach any condition or restriction on the Settlement of Trades, and any such condition or restriction which is imposed contrary hereto shall be void and of no effect, and non-compliance with any such condition or restriction shall not invalidate that Settlement.

Rule 4.6 Effect of Settlement

Upon Settlement of the Security Element and Cash Element of a Trade, the Trade shall be deemed final and irrevocable and unwinding thereof shall not be allowed under any circumstances.

Rule 5: The Clearing and Trade Guaranty Fund

Rule 5.1 Establishment of a Clearing Fund

5.1.1 Required Contributions into the Clearing Fund

The SCCP Board shall establish a fund to provide resources to assist the SCCP in meeting its obligations as Central Counterparty with respect to SCCP-Eligible Trades. That fund shall constitute the Clearing and Trade Guaranty Fund ("Clearing Fund") which shall be used only if SCCP is unable to meet its obligations under Contracts as Central Counterparty by reason of Defaults by its Clearing Members, and shall be used only in accordance with the Rules.

5.1.2 Composition of the Clearing Fund

The Clearing Fund is comprised of the following:

- (a) ~~Contribution by The Philippine Stock Exchange, Inc.;~~ **Seed money contribution of the Exchange in order to accelerate the building up of the Clearing Fund;**
- (b) **Contributions by SCCP;**
- (c) Contributions required of Clearing Members; **and**
- (d) Interest income from the investments of the Clearing Fund

5.1.3 Additional Resources to the Clearing Fund

SCCP may from time to time establish such additional arrangements including but not limited to, credit facilities and insurance policies, as it may from time to time deem appropriate for purposes of providing additional resources to the Clearing Fund. SCCP may use the Clearing Fund as collateral in securing credit facilities from the Settlement Banks obtained only for the purpose of settling Failed Trades.

The cost and expenses incurred in establishing, maintaining, managing, administering, availing and terminating such arrangements shall be paid out of the Clearing Fund, and will be reimbursed by the Defaulting Clearing Member, in case of an avilment of the credit facility to settle a Failed Trade.

5.1.4 Build Up of the Clearing Fund

The Clearing Fund shall be reviewed semi-annually or at any period prescribed by the SCCP Board. The Ideal Fund Size of the Clearing Fund shall be computed by applying the Value at Risk (VaR) model on the previous six (6) months' Net Trades of the four (4) largest Clearing Members during the period of computation.

Continuous build-up of the Clearing Fund to attain the computed Ideal Fund Size shall be made through the implementation of the following measures:

- (1) Collection of monthly contributions from the active Clearing Members of an amount equivalent to 1/500 of 1% of the Clearing Members' Trade value for the month, net of block sales **that do not conform to the settlement cycle** and cross transactions of the same flag, or at a rate prescribed by the SCCP Board and approved by the Commission.

Amended effective 01 August 2007. Approved by the SEC on 28 June 2007.

- (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) For Trading Participants which are resuming trading operations after having been temporarily suspended or after having ceased their trading operations, same computation shall apply but the amount of the required Initial Contribution shall be net of any contributions previously made to the CTGF.
 - (c) **The Initial Contribution to the CTGF is payable in full prior to the commencement of the Trading Participant's trading operations.**

~~For new Trading Participants in inactive status, (50%) of the Required Contribution shall be payable upon the approval of the Trading Participant's admittance to the Exchange. The remaining balance shall be payable prior to the commencement of the Trading Participant's trading operations.~~

- (d) **In the case of a new Trading Participant acquiring an existing Trading Participant, the notarized written consent of the existing Trading Participant must be given to SCCP so that its existing contributions can be included in the Initial Contribution of the new Trading Participant.**

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 netted obligation** ~~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) Collection from all active Clearing Members of the deficiency in the calculated Ideal Fund Size should the Trade Value reach an average of One Billion Five Hundred Million Pesos (Php 1.5 Billion) daily for a period of two (2) calendar months. CTGF deficiency per Clearing Member shall be calculated by applying the 11% ideal rate to the Daily Average Trade Value of the preceding 6 months. Payment on the deficiency shall commence on the Business Day after the two month period either through an outright or full payment or through the monthly amortization within a period of two (2) years with an imputed interest of 12% per annum.~~

- (3) Notwithstanding the foregoing, SCCP may, in addition to the mandated contributions to the Clearing Fund as provided under this Rule, require all active Clearing Members to make supplemental contributions when, in SCCP's opinion, the size of the CTGF is no longer commensurate to a sustained increase in trade volume.**

5.1.5 Investment of the Clearing Fund

Any funds in the Clearing Fund generated from cash contributions shall be invested as follows:

- (a) Securities issued or guaranteed by the Republic of the Philippines; and
- (b) Such other investments as the SCCP Board may approve taking into consideration the safety and liquidity requirements of the Clearing Fund.

Interest earnings shall be appropriated by SCCP as assets of the Clearing Fund.

5.1.6 Application of the Clearing Fund

The Clearing Fund shall not be used for any purpose other than for:

- (a) Payment of the Net Money Obligations in order to settle a Failed Trade;
- (b) Buy-In of relevant Securities in order to settle a Failed Trade;
- (c) For use as collateral in securing credit facilities from the Settlement Banks for the purpose of settling a Failed Trade;

- (d) For use as collateral in borrowing Securities through the Securities Borrowing and Lending facility;
- (e) Payment of premium on any insurance policy taken for the Clearing Fund; and
- (f) The satisfaction of losses, liabilities and expenses of SCCP incidental to the operation of its Clearing and Settlement functions.

SCCP shall promptly notify the Securities and Exchange Commission in case the Clearing Fund is utilized pursuant to this Rule.

5.1.7 Order of Application of the Clearing Fund and Notice

Subject to applicable restrictions on the CTGF or any portion thereof, the CTGF may be applied in the following order of priority:

- a. **Contributions made by the Defaulting Clearing Member, if applicable;**
- b. **Interest accruing to the CTGF and appropriated to the CTGF;**
- c. **Contributions made by SCCP;**
- d. **Contributions made by the Non-Defaulting Clearing Member (or all Clearing Members if paragraph (a) is not applicable) on a pro rata basis according to the proportion contributed by the Non-Defaulting Clearing Members.**

SCCP shall notify the Defaulting Clearing Member concerned in the case of an application under paragraph (a) of Rule 5.1.7 and shall notify all Non-Defaulting Clearing Members in the case of an application under paragraph (d) of this Rule.

5.1.8 5.1.7 Replenishment of Contributions

Whenever the contribution of a Clearing Member is applied in accordance with *Rule 5.1.6 (a)-(e)*, SCCP shall require, and the Clearing Member shall promptly replenish the deficiency of its contributions as a result of such application.

A Defaulting Clearing Member shall be liable to reimburse the CTGF in full for any amount paid out of the CTGF as a result of its default, including interest accrued from the date of payout from the CTGF.

If any amount paid out of the CTGF is subsequently recovered in whole or in part, SCCP shall credit the amount so received to the CTGF in the reverse order in which it was paid out under Rule 5.1.7 (Order of Application of Clearing Fund and Notice).

Rule 5.2 Return of Required Contributions

Contributions to the Clearing Fund shall be refunded as trade-related assets to a Clearing Member in the following cases:

- (1) Any excess of the Initial Contribution required of new Trading Participants applying with the PSE or upon resumption of trading operations as stated in Rule 5.1.4, and
- (2) Upon cessation of business of the Clearing Member and/or upon termination of their membership with SCCP, provided that all liabilities of such Clearing Member owing to the SCCP at the time of termination, whether actual or contingent, shall have been satisfied or paid in full, and shall take into account any pending and previous applications of the Clearing Fund at the time of such termination.

Amended effective 01 August 2018. Approved by the SEC on 13 March 2018.

Rule 5.3 Liability for Insolvency

SCCP shall be responsible for ensuring that SCCP-Eligible Trades submitted to €CCS the C&S System are fully settled. However, when a Clearing Member becomes exposed to insolvency, whether imminent or actual, and will consequently be unable to timely and completely fulfill its obligations corresponding to such SCCP-Eligible Trades, SCCP shall satisfy the insolvent Clearing Member's delivery commitments and/or monetary obligations in the Clearing and Settlement of its unsettled Trades by sourcing all necessary amounts from the Clearing Fund. Advances made from the Clearing Fund shall be for the account of the insolvent Clearing Member to be paid from the proceeds of sale of its assets, if applicable.

Rule 6: The Fails Management System

Rule 6.1 Rationale

Although the Delivery-versus-Payment mode of Settlement eliminates principal risk by ensuring that delivery is made only upon payment and vice versa, it does not eliminate the presence of other settlement-related risks such as market risk, liquidity risk and systemic risk. This is true because delays or actual Defaults or Failed Trades can occur in the payment of the buyer or in the Securities delivery of the seller. In order not to prejudice innocent affected Clearing Members, it is crucial that a Fails Management System for settlement assurance is adopted.

Rule 6.2 ~~6.1~~ Failure to Deliver Cash Element

If, during the settlement run on Settlement Date, a Clearing Member who has a Net Money Obligation does not have sufficient funds in its Cash Settlement Account to settle its Net Money Obligation, SCCP shall hold in escrow the Defaulting Member's receivable Securities in the amount equal to or greater than the amount of the cash fail.

6.2.1 ~~6.1.1~~ Settlement of Cash Fail Failed Trades through the Clearing Fund

If, by the end of banking hours on Settlement Date, a Clearing Member who has a Net Money Obligation does not have sufficient funds in its Cash Settlement Account to settle its Net Money Obligation:

(a) SCCP shall **may** apply available cash in the Clearing Fund **or the additional sources of liquidity provided under Rule 5.1.3** to settle the Net Money Obligation of the Defaulting Clearing Member; and

(b) If the cash derived from Rule 6.2.1(a) is insufficient, SCCP may arrange a Sell-Out of the shares held in escrow to settle the remaining unpaid Net Money Obligation of the Defaulting Clearing Member.

~~(b) Unless otherwise set by the SCCP Board, the total advances from the Clearing Fund shall bear interest based on the prevailing overnight borrowing rate of the *Bangko Sentral ng Pilipinas*, plus a spread, until the advances are fully paid, and shall be stipulated in the Demand Notice for payment to be issue by SCCP.~~

~~6.1.2 Settlement of Failed Trades through the Sell-Out Procedure~~

~~If, by 9:15 AM of the Business Day after Settlement Date, a Clearing Member who has a Net Money Obligation is not able to make actual payment to SCCP of the total amount of the Outstanding Obligation to settle the Cash Element of its PSE Trade, SCCP shall automatically execute a Sell-Out Procedure of the Securities held in escrow to settle said obligation as described in the SCCP Operating Procedures.~~

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

Upon failure of the Clearing Member to make cash payment to settle its obligations on the scheduled Settlement Date, and SCCP, as the Central Counterparty has made an advance from the CTGF or has utilized its credit facility with a Settlement Bank, SCCP shall issue a Sell-Out Notice to the Defaulting Clearing Member. The Sell-Out Notice shall indicate the code and name of the Security and the number of shares that would be the subject of the Sell-Out. A Sell-Out Request indicating the code and name of the Security and the number of shares that would be subject of the Sell-Out shall be sent to the PSE notifying the latter of SCCP's intent to execute a Sell-Out.

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.

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

Amended effective 23 July 2012. Approved by the SEC on 28 June 2012.

~~6.2.3~~ ~~6.1.4~~ Execution of Sell-Out

If by 9:15 AM of the Business Day after Settlement Date, the Defaulting Clearing Member still fails to make actual payment to SCCP of ~~its~~ ~~his~~ Outstanding Obligation, SCCP shall **post sell orders in the normal market of the PSE trading system for the number of Securities held in escrow to replenish the cash advanced by SCCP or to directly settle the remaining unpaid Net Money Obligation of the Defaulting Clearing Member** ~~execute a Sell-Out of the shares held in escrow by entering into a Sale Transaction as a normal Trade, as described in the SCCP Operating Procedures.~~

In case the number of shares to be sold out is less than the minimum board lot for that Security, SCCP may execute the Sell-Out for the minimum board lot in the normal market. The Defaulting Clearing Member shall be required to settle the excess sold out shares.

6.2.4 Procedure in case Cash is Delivered

Should the Defaulting Clearing Member be able to deliver its cash obligation prior to the execution of the Sell-Out request, SCCP shall withdraw the Sell-Out request.

In the event that Securities have already been sold-out and the Defaulting Clearing Member was able to deliver the Cash subject of the Failed Trade, the Sell-Out transaction shall still be for the account of the Defaulting Clearing Member.

6.2.5 Settlement of Sell-Out Transactions

Sell-Out Transactions shall follow the regular settlement cycle.

6.2.6 ~~6.1.5~~ Authority of SCCP

SCCP shall be hereby deemed as duly and irrevocably authorized by a Clearing Member, in the event of a Failed Trade, to:

- (a) ~~Cancel the transfer of the Defaulting Clearing Member's Net Securities Entitlement and credit the Securities to SCCP escrow account~~ **Hold in escrow the equivalent Securities Entitlement of the Defaulting Clearing Member,** as described in the SCCP Operating Procedures; and
- (b) Use any Security transferred to SCCP escrow account, upon default of the Clearing Member to make actual payment of its Outstanding Obligation, as the subject of the Sell-Out Procedure or as collateral for purposes of covering the amount advanced by SCCP from the CTGF, whether involving a bank borrowing or not, to settle its Outstanding Obligations. All resulting expenses including, but not limited to, interest, charges and taxes incurred shall be for the account of the Defaulting Clearing Member.

6.2.7 ~~6.1.6~~ Sell-Out Price and Other Damages

The Sell-Out price shall be the prevailing bid or market price as of execution of the Sell-Out, which shall be the best execution price. In the event that there has been no bid price set, the Sell-Out shall be executed at the higher of the last closing price less two price fluctuations, or the last transaction price, or the current bid price or market price, until the Sell-Out Procedure is completed.

The Defaulting Member shall only be considered to have satisfactorily complied with all its obligations to SCCP upon full payment of its Outstanding Obligations including interest and other fees and costs attendant thereto.

6.2.8 ~~6-1-7~~ Interest and Other Fees and Costs

The total advances from the Clearing Fund shall bear interest based on the prevailing overnight borrowing rate of the *Bangko Sentral ng Pilipinas*, plus a spread **as determined by the SCCP Board.**

The total advances from credit facilities shall bear the applicable interest rate and other charges imposed by the lending bank.

The foregoing interest and other charges shall be imposed until the advances are fully paid, and shall be stipulated in the Demand Notice for payment to be issued by SCCP.

Any and all interests, fees, costs and other charges that may be due on the settlement of the Net Money Obligation herein shall be for the sole account of the Defaulting Clearing Member.

Rule 6.3 ~~6-2~~ Failure to Deliver Security Element

If, during the settlement run on Settlement Date, a Clearing Member who has a Net Security Obligation does not have sufficient number of shares in its Security Settlement Account to settle its Net Security Obligation, SCCP shall hold in escrow:

- (a) the Defaulting Member's receivable Cash, if the Defaulting Member has a Net Money Entitlement; and/or
- (b) the Defaulting Member's receivable Securities, if the Defaulting Member has no Money Entitlement;

wherein the total value of the Cash and/or Securities held shall be equal to or greater than the amount of the security fail.

6.3.1 ~~6-2-1~~ Settlement of Failed Trades Securities Fail through Buy-In Procedure

If, by 9:15 AM of the Business Day after Settlement Date, a Clearing Member does not have sufficient Securities in its Securities **Settlement** Account to settle the Security Element of its Trade, SCCP shall post Buy-In orders **in the normal market** ~~on the trading floor~~ of the PSE **trading system** for the number of Securities required to settle the Failed Trade.

6.3.2 ~~6-2-6~~ Procedure for Buy-In: The Buy-In Notice

Upon determination by SCCP of the Defaulting member's inability to deliver the sufficient number of Securities to settle its Outstanding Obligations on the scheduled Settlement Date, SCCP shall issue a Buy-In Notice to the Defaulting Clearing Member. The Buy-In Notice shall indicate the name of the issuer, the number of Securities which are the subject of the Buy-In and the proposed date of the execution of the Buy-In, which shall be on the Business Day after the Settlement Date. A Buy-In Request shall be sent to the PSE notifying the latter of SCCP's intent to execute a Buy-In. The Buy-

In Request shall indicate the name of the issuer, the number of Securities which are the subject of the Buy-In, and the proposed date of execution of the Buy-In.

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.

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

Amended effective 23 July 2012. Approved by the SEC on 28 June 2012.

6.3.3 ~~6.2.3~~ Execution of Buy-In

If, by 9:15 AM of the Business Day after Settlement Date, the Defaulting Clearing Member still fails to deliver the required Securities indicated in the Buy-In Notice, SCCP shall execute a Buy-In of the appropriate number of Securities by entering into Buy Transactions with as many Trading Participants as are required to raise the necessary quantity of Securities. These Buy Transactions shall be entered into as normal Trades, as described in the SCCP Operating Procedures.

In case the number of shares to be bought-in is less than the minimum board lot for that Security and, in the interest of time, SCCP shall execute the Buy-In for the minimum board lot in the normal market. Excess bought-in shares shall be for the account of the Defaulting Clearing Member.

6.3.4 Procedure in case Securities are Delivered

Should the Defaulting Clearing Member be able to deliver its securities obligation prior to the execution of the Buy-In request, SCCP shall withdraw the Buy-In request.

In the event that Securities have already been bought-in and the Defaulting Clearing Member was able to deliver the shares subject of the Failed Trade, the Buy-In transaction shall still be for the account of the Defaulting Clearing Member.

6.3.5 ~~6.2.4~~ Settlement of Buy-In Transactions ~~Delivery of Securities~~

~~Buy Transactions shall undergo the same settlement procedures wherein final settlement shall take effect on the scheduled Settlement Date. SCCP shall borrow the same number of shares bought in to effect immediate delivery of the undelivered Securities to the affected receiving Clearing Member(s).~~

Buy-In Transactions shall follow the regular settlement cycle.

6.3.6 ~~6.2.5~~ Authority of SCCP

SCCP shall be hereby deemed as duly and irrevocably authorized by a Clearing Member, in the event of a Failed Trade, to:

- (a) ~~Cancel the transfer of the Defaulting Clearing Member's Net Cash and/or Securities Entitlement and credit the Cash and/or Securities to the SCCP escrow account~~ **Hold in escrow the equivalent Cash and/or Securities Entitlement of the Defaulting Clearing Member,** as described in the SCCP Operating Procedures; and
- (b) Use any Cash or Securities **held in escrow** ~~transferred to the SCCP Central Clearing House account during the settlement run~~ as the subject for the Buy-In/Sell-Out procedure to cover the outstanding security obligation. ~~All expenses, i.e. interest, charges, taxes inherent to the loan shall be for the account of the Defaulting Clearing Member.~~

6.3.7 ~~6.2.6~~ Buy-In Price and Other Damages

The Buy-In price shall be the prevailing offer or market price as of execution of the Buy-In, which shall be the best execution price. In the event that there has been no offer price set, the Buy-In shall be executed at the lower of the last closing price less two fluctuations, or the last transaction price, or the current offer price or market price, until the Buy-In Procedure is completed. Any other fees and costs directly associated with or resulting from the execution of the Buy-In shall be borne by the Defaulting Clearing Member.

The Defaulting Member shall only be considered to have complied with all its obligations to SCCP upon full payment of its Outstanding Obligations including interest and other fees and costs attendant thereto.

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.

New Rule effective 23 July 2012. Approved by the SEC on 28 June 2012.

Rule 6.4 ~~6.3~~ Demand Notice

SCCP shall, within the Business Day wherein the execution of the Buy-In/Sell-Out was effected, furnish the delinquent Clearing Member with a Demand Notice which shall state the exact amount of money obligations of the Defaulting Clearing Member arising from the Buy-In/Sell-Out, including any fees and costs directly associated with or resulting from the execution of the Buy-In/Sell-Out, excluding any cash amount held in escrow by the SCCP. Within the Business Day on which the Demand Notice shall have been received by the delinquent Clearing Member, SCCP shall instruct and is hereby authorized by the Defaulting Clearing Member to instruct the Settlement Bank to debit the Cash Settlement Account of the Defaulting Clearing Member for the amount indicated in the Demand Notice and credit the Clearing Fund account with the same amount. After the confirmation from the Settlement Bank that the payment has been made, a Cash and/or Securities held in escrow due to the security fail shall be returned to the Defaulting Clearing Member.

Rule 7: Risk Management and Monitoring of PSE Trades

Rule 7.1 Risk Management and Monitoring by SCCP

Settlement assurance by SCCP involves the performance of appropriate risk management functions to forestall any untoward event that may affect the Settlement process. In line with this, SCCP shall establish and maintain a Risk Management and Monitoring (RMM) System.

Rule 7.2 Rationale

Although the Delivery versus Payment method of Settlement, the Fails Management System, and the administration of the Clearing and Trade Guaranty Fund properly address Principal, Liquidity and Systemic Risks inherent in the Settlement of Trades, continuous monitoring of risks that may impair the financial and operational capacity of the Clearing Members to successfully settle their trade obligations is necessary.

Rule 7.3 RMM System

SCCP shall adopt a Risk Management and Monitoring system comprising of:

- (1) An automated risk management system to measure the following:
 - (a) The Clearing Members' ability to meet its Settlement obligations as they come due; and
 - (b) The volatility of the Clearing Member's securities positions (inclusive of dealership positions) and the potential price risk of their portfolios;
- (2) A daily fails monitoring system;
- (3) A collateral deposit system to measure the effect of price fluctuation on the Clearing Members' unsettled Trades and to cover any market movement loss in the event of a default by a Clearing Member of its obligations.

Rule 7.4 Reporting Requirements

SCCP shall require Clearing Members to accomplish and submit reports during specified periods and intervals as the SCCP Board may determine. Reports required of the Clearing Members are intended to monitor the conditions that may affect Clearing Members' ability to meet their Settlement obligations. Such information shall include but not be limited to:

- (a) Whether the Clearing Member has any instruction from the PSE or the SEC to reduce or suspend any of its trading activities, in which event the Clearing Member shall state what activities, including margin trading and short selling, are restricted;
- (b) Whether there are pending suits against the Clearing Member, with a description of the nature of these suits; and
- (c) Whether there are cancellations of credit lines or facilities from financial institutions, with an explanation of the reasons cited by the financial institutions.

Rule 7.5 Monitoring System

SCCP shall adopt a system for the monitoring of factors that may affect Clearing Members' ability to settle their trade obligations as they come due. Such factors may include but not be limited to the following:

- (a) Any declaration by a Clearing Member with a history of surveillance or financial problems that it is in the process of liquidation, merger or being acquired;
- (b) Any pending administrative action or investigation against a Clearing Member by a regulatory body such as but not be limited to SEC, BIR, and PSE; and
- (c) Any close or special surveillance being undertaken by a self-regulatory organization against a Clearing Member.

Rule 7.6 Risk Containment Measures

SCCP may, in its discretion, require Early Delivery (i.e., not later than SD-1) of Cash or Securities and/or require additional margins from one or more Clearing Members in the following situations:

- (1) **when, in SCCP's opinion, unstable conditions exist or market conditions or price fluctuations relating to one or more securities at any time require Early Delivery or additional margin to maintain an orderly market or to preserve financial integrity or to minimize the risk of default, in addition to the Mark-to-Market Collateral requirements under Rule 8;**

- (2) when SCCP believes that any Clearing Member is carrying exposure that:
- (a) is larger than is justified by the financial condition of that Clearing Member; or
 - (b) places or may place SCCP at risk;
- (3) where the Clearing Member is found to have a record of frequent rule violations or inadequate or unsound management or serious operational defects which, in SCCP's opinion, places or may place SCCP at risk;
- (4) where market conditions or price fluctuations are such that SCCP deems it necessary, to call upon the Clearing Members whom it believes are affected by such conditions or fluctuations to follow any of the additional risk containment measures under this Rule as determined by SCCP; or
- (5) when certain risk levels have been reached by a particular Clearing Member, as determined by SCCP.

Rule 8: Mark-to-Market Collateral Deposit System

Rule 8.1 Establishment of the Mark-to-Market Collateral Deposit System

SCCP shall implement the Mark-to-Market Collateral Deposit System to fully cover the fluctuations in market prices of the Clearing Members' unsettled Trades of which SCCP, as the Central Counterparty, is exposed to in guaranteeing the settlement of these Trades.

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.

8.1.2 Effect of Market/Price Risk

In case of a Defaulted Trade, SCCP will implement its Fails Management System, more specifically its Buy-In or Sell-Out Procedure for the purpose of making good the Trade to the affected counterparty. If there is a net negative exposure due to price risks, SCCP is exposed not only to the extent of the original value or contract price of the Trade but also inclusive of the value of the price fluctuation that affects the Securities involved.

8.1.3 Need to Eliminate Risk Arising from the Negative Exposure of Price Fluctuation

SCCP has implemented a Collateral Deposit System in order to address Market/Price Risks. In order to eliminate the risk created, Clearing Members with negative price fluctuation exposure are required to immediately make a deposit of cash and/or securities as collateral to the Collateral Account in the amount prescribed by SCCP.

Clearing Members likewise have the option to do an early delivery of securities causing negative exposures ahead of their scheduled settlement date in order to eliminate or reduce their computed negative exposures.

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.

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:

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

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.

8.1.6 Determination of Clearing Member's Daily Mark-to-Market Collateral Exposure

On a daily basis and at the end of every trading session, SCCP shall Mark-to-Market all the unsettled trades of each Clearing Member to determine its total net negative exposure. Any change in market prices resulting from corporate actions (dividends, splits, etc.) will be considered in the Mark-to-Market computation.

8.1.7 Net Negative Exposure Collateral Coverage Policy

Upon determination of Clearing Members' net negative exposures based on the daily Mark-to-Market calculations, Clearing Members shall be required to fully cover the computed amount of negative exposures by putting up collateral(s) in accordance with the full collateralization policy of SCCP.

As part of the collateralization procedures, in the event that a Clearing Member has previous day collateral deposits, said deposits will automatically be blocked in **the C&S System** ~~CCCS~~ to cover the current collateral requirement. In any event that the net negative exposure of a Clearing Member is concentrated on trades of a particular issue, said Clearing Member may opt to do an early delivery of securities ahead of their Settlement Date in order to reduce its computed negative exposures or to the extent that collateral requirements shall no longer be imposed upon delivery of said Securities.

8.1.8 Acceptable Collateral Deposits

SCCP shall accept collateral in the form of Cash and/or Securities. The value of the collaterals pledged should not be lesser than the value of the collateral requirement. Securities collateral shall be valued based on the last closing price. SCCP shall only accept Securities which are prescribed by SCCP as Securities acceptable as collateral based on criteria such as liquidity, activity and market capitalization. The list of acceptable Securities shall be reviewed every six (6) months, and such list shall be posted in the PSE **SCCP** website as soon as available.

8.1.9 Clearing Member Notification

Notification to Clearing Members of their collateral requirement shall be via the message board available in **the C&S System** ~~CCCS~~, which shall be posted by 6:00 PM of the same trading day for which the negative exposure is computed, after the uploading of the PSE Trades, closing prices and other data needed for the completion of the computation process in the ~~CCCS~~ **C&S System**. The Collateral Requirement Notice shall indicate the total amount of net negative exposure that needs to be collateralized by the Clearing Member.

Amended effective 02 February 2012. Approved by the SEC on 26 January 2012.

8.1.10 Cash and/or Securities Collateral Deposits and Early Delivery of Securities

Clearing Members, for collateralization purposes, may deposit Cash and/or acceptable Securities or do an early delivery of Securities to cover for their computed negative exposures.

8.1.10.1 Cash Collateral Deposit

Clearing Members providing Cash as collateral shall be required to open Cash Collateral Deposit Accounts with their Settlement Bank. Clearing Members depositing cash as collateral will need to fund their Cash Collateral Deposit Accounts in the amount required by SCCP no later than 12:00 noon of the next business day following the notification date. Settlement Banks, thru the online interface with **the C&S System** €CCS, will confirm available cash balances in the Clearing Members' Cash Collateral Deposit Accounts. Any funds in the Cash Collateral Deposit Accounts of the Clearing Members, upon deposit confirmation of the Settlement Banks, will be credited directly to the Clearing Members' Collateral Account in **the C&S System** €CCS. Cash collateralization procedures shall be in the manner described in the Operating Procedures and detailed in the €CCS **C&S** User's Manual.

8.1.10.2 Securities Collateral Deposit

Deposit of Securities to be used as collateral is facilitated through the execution of Collateral Deposit instruction by the Clearing Member in the €CCS **C&S** System no later than 12:00 noon of the day following the notification date. Securities to be used as collateral should be Securities prescribed by SCCP as acceptable for collateralization purposes. Securities collateralization procedure shall be in the manner described in the Operating Procedures and detailed in the €CCS **C&S** User's Manual.

8.1.10.3 Early Deliveries of Securities

Clearing Members with computed negative exposures brought about by the concentration of their Trades on a particular issue may opt to do an early delivery of securities ahead of their Settlement Date. Execution of early delivery through the transfer of securities will result in a reduced collateral requirement or a positive exposure, where the Clearing Member shall no longer be required to provide any collateral. Procedures for early delivery shall be in the manner described in the Operating Procedures.

8.1.11 Collateral Refund

After the daily Mark-to-Market computation, any excess collateral previously put up by the Clearing Member may be withdrawn between 9:00 AM and 12:00 NN the following Business Day subsequent to notification date.

8.1.12 Applicable Fines and Penalties

SCCP shall charge any Clearing Member with the applicable fines and penalties upon failure of the Clearing Member to provide for the required collateral by the prescribed 12:00 NN cut-off time. Defaulting Clearing Member shall be notified by SCCP through a billing notice to be sent by 3:00 PM of the same day. Fines and Penalties for non-payment or non-delivery of required collateral shall be as follows:

- (a) First Offense: a payment charge equivalent to $\frac{1}{4}$ of 1% of the required collateral plus actual out-of-pocket expenses incurred by SCCP on the matter.
- (b) Second Offense: a payment charge equivalent to $\frac{1}{2}$ of 1% of the required collateral plus actual out-of-pocket expenses incurred by SCCP on the matter and an issuance of a warning to the Defaulting Clearing Member.
- (c) Third Offense: a payment charge equivalent to 1% of the required collateral plus out-of-pocket expenses incurred by SCCP on the matter and a recommendation for suspension of the Defaulting Clearing Member.