



MEMORANDUM

TPA - No. 2012-0139

The Philippine Stock Exchange, Inc.

<input type="checkbox"/> Trading Rules	<input type="checkbox"/> Computer Systems Update
<input type="checkbox"/> Membership Rules	<input type="checkbox"/> Administrative Matters
<input type="checkbox"/> Listing Rules	<input checked="" type="checkbox"/> Others: DMA Rules

To : **THE INVESTING PUBLIC**

Subject : **FOR PUBLIC COMMENTS: PROPOSED DIRECT MARKET ACCESS (DMA) RULES**

Date : **August 23, 2012**

We would like to invite all concerned parties to send their comments to the attached proposed rules on Direct Market Access (DMA) rules.

Direct Market Access (“DMA”) is an arrangement that allows investors to enter orders into the Exchange’s trading system (*PSEtrade*) for execution without Trading Participant’s intervention.

The proposed DMA Rules seek to provide the regulatory framework for the provision by Trading Participants of DMA services and lay down certain requirements that Trading Participants and clients must comply with in order to address the potential risks associated with DMA trading.

We would appreciate receiving your comments **not later than 5:00pm of September 7, 2012** (Friday). Please send comments to Ms. Sandra Runas (airunas@pse.com.ph) or call 819-4432 for any questions/inquiries.

(Original signed)

RACHELLE C. BLANCH
VP & Head, Market Operations Division

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Section 1. Short Title

These Rules may be cited as the “DMA Rules”.

Section 2. Definition of Terms

As used in these Rules and unless the context otherwise requires:

“**CMIC**” shall refer to the Capital Markets Integrity Corporation.

“**Direct Market Access**” or “**DMA**” shall mean an arrangement whereby a Trading Participant’s client is permitted to enter orders to buy or sell securities including any modifications and cancellations directly into the PSE trade matching system for automatic execution without any intervention by the Trading Participant.

“**DMA Client**” shall refer to the Trading Participant’s client availing of the DMA Service.

“**DMA Facility**” shall refer to any infrastructure (i.e. technical systems and/or connecting systems) that may be used by market participants for the provision of DMA Services.

“**DMA Orders**” shall refer to orders to buy or sell securities placed through the DMA Facility.

“**DMA Service**” shall refer to services as described in Section 3 of these rules.

“**DMA Trading Participant**” shall mean an entity that owns and operates a trading right pursuant to the Exchange By-laws and applicable rules, and authorized by the Exchange to provide DMA Services.

“**Exchange**” or “**PSE**” shall mean The Philippine Stock Exchange, Inc.

“**PSEtrade**” shall refer to the Exchange’s electronic trading system.

Section 3: DMA Services

DMA Services shall mean services that allow the client of a DMA Trading Participant to place buy or sell orders for securities without trading participant intervention. DMA Services shall have the following types:

a. Automatic Order Routing (AOR)

- a type of DMA Service wherein a trading participant permits its DMA Clients to send orders electronically to the DMA Trading Participant’s infrastructure, which in turn automatically sends the order to the *PSEtrade*. The two (2) types of AOR are the following:

- (i) Internet Trading – if client is using the web-based trading application provided by the trading participant;
- (ii) Straight Through Processing (STP) – if client uses an order execution system, whether provided by the trading participant or a third party service provider, that is directly connected to the trading participant’s infrastructure.

- b. Sponsored Access
 - a type of DMA Service wherein a trading participant permits a client to transmit orders for execution directly to the PSEtrade without passing through the trading participant's infrastructure

Section 4. Requirements for Providing DMA Services

Any trading participant intending to provide DMA Services shall comply with the following requirements prior to commencement:

- a. DMA Facility has been certified by the PSE pursuant to Section 5 of these Rules;
- b. DMA Trading Participant shall execute a DMA agreement with PSE;
- c. DMA Trading Participant shall provide such information and documents as the PSE may require, including but not limited to the following:
 - (i) Template of the agreement to be executed between the DMA Trading Participant and its DMA Client, which at the minimum, shall state:
 1. The duties, obligations and rights of the DMA Trading Participant and the DMA Client in relation to the provision of the DMA Services;
 2. DMA Client's obligation to execute orders in compliance with Exchange rules, and other existing regulations;
 3. Existence of risk parameters that the DMA Trading Participant may use;
 4. Situations in which DMA Client's orders may not be executed or cancelled;
 5. Process of DMA Order posting and execution;
 6. Service level commitment;
 7. Alternative means of order posting, modification or cancellation.
 8. DMA Client's consent to the submission of any electronic recording of online transactions to the concerned regulatory body;
 9. DMA Trading Participant's right to act (i.e. modify or cancel) on a DMA Order to ensure fair and orderly trading;
 10. Instances when DMA Services may be cancelled or terminated by the DMA Trading Participant or the PSE;

11. Possibility of discrepancy in the data displayed, technical glitches, delayed execution and other risks associated with DMA transactions; and
 12. Statement that the PSE shall not be liable to the DMA Client or third parties for damages suffered as a result of the use or availment of the DMA Services.
- (ii) Certification from CMIC that the DMA Trading Participant has submitted written policies and procedures covering, at the minimum, the following:
1. Risk management;
 2. Monitoring and managing of DMA Orders;
 3. Handling of DMA Orders breaching the trading thresholds and other circumstances which may require confirmation;
 4. Handling of errors and/ or exceptions including but not limited to:
 - (a) recommended solutions;
 - (b) escalation procedures;
 5. Business continuity and disaster recovery; and
 6. Validation of identity of the person accessing the DMA Service.
- d. DMA Trading Participant shall have a designated and an alternate personnel for monitoring and managing DMA Clients and DMA Orders. The designated and the alternate personnel must be SEC Licensed Salesmen/Traders. The names of the DMA Trading Participant's designated and alternate personnel must be submitted to the Exchange;
- e. Audit trail facility that shows details of each instruction executed through the DMA Facility, including but not limited to the items stated in Section 11 hereof;
- f. Automated risk management system before the order is sent to the PSEtrade for controlling exposure to DMA Clients. The Trading Participant shall define the minimum risk filters as stated in Section 10 hereof;
- g. DMA Trading Participants shall inform PSE in writing of the commencement of DMA Services at least five (5) trading days ahead of the scheduled date of commencement;
- h. For Sponsored Access: The DMA Trading Participant shall maintain a record of the names of its DMA Clients and/or their duly authorized employees, their position/designation and user details including User IDs. Only duly authorized employees or representatives of a DMA Client may access its DMA account.

Section 5. System Certification

- a. The DMA Facility shall comply with the minimum functional requirements set by the Exchange.

- b. DMA Trading Participant shall provide to the Exchange, in addition to the requirements indicated in Section 4, the following information:
 - (i) Measures to ensure the operational integrity, security, reliability;
 - (ii) Server size and capacity;
 - (iii) Mechanisms to prevent the execution of unintended duplicate orders;
- c. Executable copy of the certified version of the DMA Facility software shall be provided by the DMA Trading Participant to PSE.

Section 6. System Re-Certification

The DMA Trading Participant shall notify the Exchange in writing of any enhancements or modifications to the previously-certified DMA Facility, with a complete description of the enhancements or modifications. If the intended enhancements or modifications are determined by the Exchange to be significant in nature:

- a. The Exchange shall conduct a re-certification of the DMA Facility prior to conducting live trading;
- b. The DMA Trading Participant shall pay re-certification fee; and
- c. The DMA Trading Participant shall provide the Exchange a copy of the executable file of the modified version of the DMA Facility software.

Section 7. Security System

- a. The DMA Trading Participant shall ensure that the following minimum security measures are built into the DMA Facility:
 - 1. Authentication process (i.e., use of User ID and password);
 - 2. Automatic expiry of passwords every ninety (90) days;
 - 3. System to ensure that the authentication process shall not be by-passed;
 - 4. Automatic log-out or session time-out if there is no activity for a period of at least ten (10) minutes; and
 - 5. A firewall configured for the provision of DMA Services.
- b. The DMA Trading Participant shall ensure that the following minimum measures are observed in operating the DMA facility:
 - 1. The access to and from the location of the DMA facility is controlled, recorded and monitored;
 - 2. The DMA facility is regularly maintained and the procedures for maintenance are accessible to the authorized personnel;

Section 8. Restrictions on the Use of DMA Facility

The DMA Trading Participant shall observe the following restrictions:

- a. The DMA Trading Participant shall limit access of the DMA Facility to its clients and persons authorized by the trading participant; and
- b. Multiple log-in shall not be allowed. Login shall not be allowed if the user is currently logged.

In case the DMA Trading Participant fails to strictly adhere to these requirements, the Exchange may take any of the actions enumerated in Sections 12 and 13 of these Rules as the Exchange may deem necessary, without prejudice to any action that the CMIC may take pursuant to its rules.

Section 9. Responsibilities of DMA Trading Participant

- a. The DMA Trading Participant shall be ultimately responsible for all DMA Orders entered by its clients, whether such DMA Orders were entered with or without DMA Trading Participant's knowledge.
- b. The DMA Trading Participant shall ensure that the DMA Clients are knowledgeable of the PSE trading rules and proper use of the DMA Facility.
- c. The DMA Trading Participant shall communicate promptly all revisions and updates to laws and rules to the DMA Clients.
- d. The DMA Trading Participant shall notify the Exchange of any change in the designated and the alternate personnel five (5) trading days prior to effectivity date.
- e. The DMA Trading Participant shall perform daily reconciliation of DMA Client accounts (between DMA Facility and back office system) to ensure accuracy of information.
- f. The DMA Trading Participant shall regularly review and adjust, as it may deem necessary, the risk parameter values of the DMA Client.
- g. The DMA Trading Participant shall ensure that the DMA Facility has integrated measures to prevent the buying and selling of securities by the same client at the same price.
- h. The DMA Trading Participant shall make available the executed agreement between the trading participant and the DMA Client to the concerned regulatory bodies upon request.
- i. The DMA Trading Participant shall, upon the directive of the Exchange, CMIC or SEC, make such enhancements or modifications to the DMA Facility as may be necessary to comply with regulatory requirements that may be issued subsequent hereto. If the enhancements or modifications are significant in nature, the Exchange shall require system re-certification.

Section 10. Risk Management Protocols

- a. The DMA Trading Participant shall define automated pre-trade risk filters before a DMA Client is allowed access to the DMA Facility, for the purpose of ensuring that the DMA Order is within the capacity of the DMA client to execute and settle. For this purpose, the DMA Trading Participant shall put in place a system for assessing the risk profile of its DMA Clients.
- b. The DMA Trading Participant shall determine the type of risk filters according to the risks that are being managed, subject to the following minimum requirements:
 - (i) **Trade exposure** – parameter for identifying the exposure in which a DMA Client can trade. The parameter shall be based on:
 1. Gross buying/selling transactions; or
 2. Net buying/selling transactions.
 - (ii) **Order size** – parameter for identifying the maximum of each DMA Order which a DMA Client can enter. The parameter shall be based on:
 1. value in Peso (PhP); or
 2. volume (number of shares); or
 3. a combination of any of the above.
 - (iii) **Price limit** – parameter for identifying the maximum price of the DMA Order which a DMA Client can enter. The parameter shall be based on:
 1. percentage (%) away from the last traded price; or
 2. percentage (%) away from the last adjusted closing price; or
 3. ticks (bid/offer) away from the last traded price; or
 4. ticks (bid/offer) away from the last adjusted closing price; or
 5. a combination of any of the above.
- c. The DMA Trading Participant shall have internal policies and procedures in place for setting the risk parameters and ensure that all changes to the values are immediately updated and logged. The DMA Trading Participant shall ensure that the risk parameters are set up only by persons authorized by the DMA Trading Participant.

Section 11. System Log

- a. The DMA Trading Participant shall maintain a system log which includes, without limitation, the following details:
 - (i) Trading Account, User ID and IP address of the DMA Client responsible for the DMA Order;
 - (ii) Unique code to identify DMA Orders and trades;
 - (iii) Date and time-stamp of all system logs including confirmations/acknowledgements of *PSEtrade*;

- (iv) DMA Client log-in and log-out and how the DMA Client was logged out of the system (i.e. manual or automated);
 - (v) Result of risk parameter check (i.e. Accept or Reject and risk parameter/s that triggered rejection); and
 - (vi) All instructions related to the DMA Order made by the DMA Client (i.e. order posting, modification, and cancellation).
- b. The DMA Trading Participant shall maintain a copy of all system logs for at least ten (10) years and make the same available for inspection by the Exchange and/or CMIC upon demand.

Section 12. Termination of DMA Services

- a. The DMA Trading Participant shall notify the Exchange of the termination of DMA Services no less than thirty (30) days prior to the effective date of the end of service.
- b. The DMA Trading Participant shall notify its DMA Clients in writing, no less than thirty (30) days before the effective date of end of service, of the termination of its provision of DMA Services. The notification shall include the following:
 - (i) Contact information of the Trading Participant; and
 - (ii) The DMA Service end date;

Section 13. Suspension or Revocation of DMA Services

- a. The Exchange may, without prior notice, take any of the actions enumerated below:
 - (i) Immediately disconnect the DMA Facility if such facility or any component thereof causes any problem to the *PSEtrade*;
 - (ii) Suspend or revoke the authorization of a DMA Trading Participant to offer DMA Services where there is a breach or likelihood of breach of any of the provisions of the Securities Regulation Code, rules of the Exchange, and issuances of the Securities and Exchange Commission in relation to the provision of DMA Services;
 - (iii) Upon the recommendation of the CMIC or SEC, suspend or revoke the authorization of a DMA Trading Participant to offer DMA Services; or
 - (iv) Upon the recommendation of SEC, direct a DMA Trading Participant to suspend or terminate the provision of DMA Services to any one or more of its DMA Clients.

- b. The Exchange shall not be liable to the DMA Trading Participant, its DMA Clients, or any other party in the event of disconnection.

Section 14. Reinstatement or Lifting of Suspension of DMA Services

The Exchange shall lift the suspension imposed pursuant to the preceding section and reinstate the DMA Services if the reason or cause of the suspension has been resolved to the satisfaction of the Exchange.

Section 15. Non-Waiver

No failure or delay by the Exchange in enforcing any of the provisions of these Rules shall prejudice and/or restrict the rights of the Exchange to require compliance with said provision nor shall it operate as a waiver for any subsequent breach.

Section 16. Applicability of the Revised Trading Rules

The PSE Revised Trading Rules, particularly its provisions on the cancellation of orders and/or trades, shall apply to the buying and selling of securities via the DMA Facility insofar as they are not inconsistent with these Rules.

Section 17. These Rules shall take precedence over Article XXII of the Implementing Guidelines of the Revised Trading Rules (“Common Customer Gateway Guidelines”).