

## THE PHILIPPINE STOCK EXCHANGE, INC.

- |                                     |   |
|-------------------------------------|---|
| <input type="checkbox"/> Trading    | <input type="checkbox"/> Public Advisory                          |
| <input type="checkbox"/> Disclosure | <input type="checkbox"/> Administrative/Technology Matters        |
| <input type="checkbox"/> Listing    | <input checked="" type="checkbox"/> Others: SBL and Short Selling |

**TO :** THE INVESTING PUBLIC AND MARKET PARTICIPANTS

**SUBJECT :** Regulatory Framework for Securities Borrowing and Lending and Short Selling Transactions

**DATE :** October 2, 2023

The Exchange is pleased to inform the public of the following regulatory milestones in connection with the PSE's Securities Borrowing and Lending ("SBL") and Short Selling programs.

### **I. Securities Borrowing and Lending**

#### ***A. Confirmation by the BIR of the Registrability of a GMSLA***

In a letter dated September 6, 2023, the Bureau of Internal Revenue ("BIR") informed the Exchange that the BIR may accept the filing and registration of a Global Master Securities Lending Agreement ("GMSLA") in case at least one party to an SBL transaction is a foreign national, for purposes of eligibility of the parties' SBL transactions for tax-free status, provided that:

1. The GMSLA complies with BIR Revenue Regulations No. 10-2006 ("RR No. 10-2006"), as amended by BIR Revenue Regulations No. 1-2008, and Securities and Exchange Commission ("SEC") Memorandum Circular No. 7, series of 2006;
2. The GMSLA is accompanied by an addendum or Supplemental Agreement that addresses the deficiencies in cases where the GMSLA fails to adhere to the requirements in RR No. 10-2006, as amended; and
3. The GMSLA is filed for BIR registration within one (1) month from date of its execution.

CMDD	FD	IRD	MOD	TD	HRD / RISK / SU	CCD / FMD / AD	OGC	COO
Tel. No.: (632) 8876-4888						E-mail Address: investing@pse.com.ph		

In case the GMSLA is executed outside of the Philippines, the same must be authenticated or an apostille affixed by the relevant agency of the country where it was executed. Given the processing time needed for authentication/apostille of the GMSLA, the BIR will accept a photocopy of the executed GMSLA for purposes of registration, provided a notarized Deed of Undertaking in the prescribed form attached hereto as Annex "A" is also submitted.

Only SBL transactions undertaken after registration of the GMSLA and its Supplemental Agreement shall be eligible for the aforementioned conditional tax-free status.

***B. Acceptance by the SEC of Certain Offshore Collaterals***

As announced in PSE Memorandum CN-No. 2023-0027 dated May 24, 2023, the SEC has approved the following offshore collaterals for SBL transactions involving at least one foreign party:

1. Cash in USD, EUR, JPY, GBP and AUD;
2. Government and agency debt of member-countries of the Organization for Economic Co-operation and Development with a minimum of BBB rating; and
3. Constituents of benchmark indices of World Federation of Exchanges member-exchanges.

For more details on this matter, please refer to the aforesaid memorandum, a copy of which is attached hereto as Annex "B".

**II. Short Selling**

***A. Effectivity of the PSE Guidelines for Short Selling Transactions***

Further to PSE Memorandum CN-Nos. 2018-0035 and 2019-0004, and following the recent regulatory developments, the Exchange is pleased to announce that the PSE Guidelines for Short Selling Transactions ("Short Selling Guidelines") shall take effect immediately.

A copy of the Short Selling Guidelines is attached hereto as Annex "C".

***B. Additional Eligible Securities for Short Selling Transactions***

Pursuant to Section 1.a of the Short Selling Guidelines, please be informed that the MidCap Index constituents and Dividend Yield Index constituents are now included as eligible securities for short selling transactions, in addition to PSEi constituents and exchange traded funds.

CMDD	FD	IRD	MOD	TD	HRD / RISK / SU	CCD / FMD / AD	OGC	COO
Tel. No.: (632) 8876-4888					E-mail Address: investing@pse.com.ph			

The Exchange shall advise the public in due course of the official launch and implementation of the PSE Short Selling program.

For your information and guidance.

*(original signed)*

**Ramon S. Monzon**

*President and CEO*

CMD	FD	IRD	MOD	TD	HRD / RISK / SU	CCD / FMD / AD	OGC	COO
Tel. No.: (632) 8876-4888					E-mail Address: <a href="mailto:investing@pse.com.ph">investing@pse.com.ph</a>			

**ANNEX "A"**

**DEED OF UNDERTAKING**

I, [NAME], of legal age, Filipino, and with address at [ADDRESS], after having been duly sworn in accordance with the law, hereby depose and state that:

1. I am the [DESIGNATION] of [NAME OF COMPANY] (the "**Company**") with principal office address at [ADDRESS];
2. I am the duly authorized representative of the Company to file and process with the Bureau of Internal Revenue ("**BIR**") the registration of the Global Master Securities Lending Agreement between the Company and [NAME OF COMPANY] executed on [DATE OF DOCUMENT] ("**GMSLA**"), as evidenced by the [Board Resolution] / [Secretary's Certificate] dated [DATE OF DOCUMENT] which is attached herewith as Annex "**A**";
3. In connection with aforesaid registration, the Company undertakes to submit the apostilled copy of the GMSLA to the BIR within thirty (30) days from the execution date of the GMSLA;
4. The Company acknowledges that failure to submit the apostilled copy of the GMSLA within the provided period without justifiable reason shall be deemed automatic withdrawal of the application for registration.
5. This affidavit is executed in compliance with the requirements of the BIR in the registration of GMSLA pursuant to Revenue Regulations No. 10-2006, as amended.

**IN WITNESS WHEREOF**, I have hereunto affixed my signature this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_ at \_\_\_\_\_.

\_\_\_\_\_  
[•]  
AFFIANT

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_ at the City of \_\_\_\_\_, Philippines, the affiants exhibiting to me his/her \_\_\_\_\_ issued by \_\_\_\_\_ with no. \_\_\_\_\_ which will expire on \_\_\_\_\_.

NOTARY PUBLIC

Doc No. \_\_\_\_;  
Page No. \_\_\_\_;  
Book No. \_\_\_\_;  
Series of 20\_\_.



# MEMORANDUM

**CN - No. 2023-0027**

## THE PHILIPPINE STOCK EXCHANGE, INC.

- |                                     |  |
|-------------------------------------|--|
| <input type="checkbox"/> Trading    | <input type="checkbox"/> Public Advisory   |
| <input type="checkbox"/> Disclosure | <input type="checkbox"/> Administrative/Technology Matters   |
| <input type="checkbox"/> Listing    | <input checked="" type="checkbox"/> Others: <b>SEC Approval of Offshore Collateral in SBL Transactions</b> |

**TO :** THE INVESTING PUBLIC AND MARKET PARTICIPANTS

**SUBJECT :** ACCEPTANCE OF OFFSHORE COLLATERAL IN SECURITIES BORROWING AND LENDING TRANSACTIONS INVOLVING AT LEAST ONE FOREIGN PARTY

**DATE :** May 24, 2023

Please be advised that the Securities and Exchange Commission ("SEC") has approved the Exchange's request to allow offshore collaterals for securities borrowing and lending ("SBL") transactions involving at least one foreign party, provided that, the participants are considered Qualified Buyers as defined under the 2015 Implementing Rules and Regulations of the Securities Regulation Code ("SRC Rules"). If represented by a prime broker, the client should be a Qualified Buyer who is properly apprised of the risks attendant to this kind of agreement. A prime broker refers to a large financial institution that offers a variety of services to large institutional clients or hedge funds. These services include, but are not limited to, execution of trades, settlement, financing, and custodianship.

The following offshore collaterals are allowed:

1. Cash in USD, EUR, JPY, GBP and AUD;
2. Government and agency debt of member-countries of the Organization for Economic Co-operation and Development with a minimum BBB rating; and
3. Constituents of benchmark indices of World Federation of Exchanges member-exchanges.

Pursuant to SEC Memorandum Circular No. 6, series of 2021 which amended SRC Rule 10.1.3, the following are considered as Qualified Buyers:

- i. Bank;

CMDD	FD	IRD	MOD	TD	HRD / RISK / SU	CCD / FMD / AD	OGC	COO
Tel. No.: (632) 8876-4888					E-mail Address: investing@pse.com.ph			



- ii. Registered investment house;
- iii. Insurance company;
- iv. Pension fund or retirement plan maintained by the Government of the Philippines or any political subdivision thereof or managed by a bank or other persons authorized by the Bangko Sentral ng Pilipinas ("BSP") to engage in trust functions;
- v. Registered Securities Dealer;
- vi. An account managed by a Registered Broker under a discretionary arrangement as provided for in the other relevant provisions in the 2015 SRC Rules;
- vii. Registered Investment Company (e.g., mutual fund companies);
- viii. Provident fund or pension fund maintained by a government agency or by a government or private corporation and managed by an entity authorized accordingly by the BSP or the SEC to engage in trust function or in fund management;
- ix. A trust corporation that is authorized by the BSP to perform the acts of a trustee;
- x. Unit investment trust funds that are established in accordance with rules and regulations of the BSP;
- xi. A fund established and covered by a trust or IMA agreement under a discretionary arrangement in accordance with rules and regulations of the BSP (a discretionary arrangement means that the entity managing the fund is granted authority to decide on the investment of the trust funds or IMA funds);
- xii. A fund established and covered by a trust or IMA agreement under a non-discretionary arrangement in accordance with rules and regulations of the BSP, provided that the beneficial owner/s or principal/s of such fund possess the qualifications on financial capacity and sophistication as specified in SRC Rules 10.1.11.1 for natural persons, and 10.1.11.2 for juridical persons; and provided also, that the treatment of such fund as qualified buyer does not contravene the trust or IMA agreement;
- xiii. A fund established and covered by a trust or IMA agreement wherein the beneficial owner or principal of the fund has been deemed or conferred as a qualified buyer under SRC Sec. 10.1 (l) or SRC Rule 10.1.11;
- xiv. An entity with quasi bank license issued by BSP;
- xv. Pre-need company authorized by the Insurance Commission;
- xvi. Collective Investment Scheme authorized by the relevant regulatory authority pursuant to existing laws and regulations;
- xvii. A listed entity on the Philippine Stock Exchange, or a related body corporate of a Philippine Stock Exchange listed entity provided that it engages the service of a professional fund manager, through direct hire or via outsourcing to an authorized fund management entity;
- xviii. A foreign entity not being established or incorporated in the Philippines that, if established or incorporated in the Philippines, would be covered by one of the preceding paragraphs; and

CMDD	FD	IRD	MOD	TD	HRD / RISK / SU	CCD / FMD / AD	OGC	COO
Tel. No.: (632) 8876-4888						E-mail Address: investing@pse.com.ph		

- xix. Such other person as the Commission may by rule or order determine as qualified buyers, on the basis of such factors as financial sophistication, net worth, knowledge, and experience in financial and business matters, or amount of assets under management

In relation to item (xix) above, natural persons and juridical persons who possess the qualifications under SRC Rule 10.1.11.1 and SRC Rule 10.1.11.2, respectively, shall also be considered Qualified Buyers.

For your information and guidance.

*(Original Signed)*

**Ramon S. Monzon**  
*President and CEO*

CMDD	FD	IRD	MOD	TD	HRD / RISK / SU	CCD / FMD / AD	OGC	COO
Tel. No.: (632) 8876-4898					E-mail Address: <a href="mailto:investing@pse.com.ph">investing@pse.com.ph</a>			

---

## GUIDELINES FOR SHORT SELLING TRANSACTIONS

### 1. Eligible Securities

- a. All PSEi member companies and exchange traded funds are deemed Eligible Securities.

The Exchange may review and amend the criteria for Eligible Securities from time to time, in support of securities borrowing and lending activities and to manage risk.

- b. An Eligible Security must maintain a ratio of short interest to outstanding shares ("Short Interest Ratio") at less than or equal to ten percent (10%) ("Short Interest Threshold") or as may be prescribed by the Exchange. Any change in the prescribed Short Interest Threshold shall be subject to prior approval of the Securities and Exchange Commission.

An Eligible Security which breaches the Short Interest Threshold will become ineligible for short selling until such time that its Short Interest Ratio falls back within the prescribed limit.

The "short interest" or the "outstanding short position" refers to the cumulative number of shares of a security sold short that have not yet been closed out, and adjusted for corporate actions as may be applicable.

- c. The Short Interest Ratio of an Eligible Security shall be monitored daily. Changes in eligibility status shall be announced at the end of each trading day and shall take effect on the next trading day.
- d. At the end of each trading day, the Exchange shall publish on its website the gross short selling transactions and outstanding short position of Eligible Securities traded on the Exchange.



## **2. Execution of short selling orders**

- a. The trading system shall not accept Short Selling orders for ineligible securities.
- b. Only Trading Participants are allowed to enter Short Selling orders. Clients who want to place Short Selling orders must course these orders through their respective Trading Participants.
- c. Prior to entering the Short Selling order, the Trading Participant shall determine that the client has entered into the necessary borrowing arrangements for the Eligible Securities subject of the Short Sale.
- d. For Trading Participants whose clients have direct market access (DMA), the Trading Participant shall still enter the Short Selling order on behalf of the DMA client. However, if the Trading Participant has the capability to determine that its DMA client has borrowed the subject securities prior to the entry of any Short Selling order, and upon compliance with such requirements that may be imposed by the Exchange, then the DMA clients of said Trading Participant may be allowed to enter Short Selling orders without the intervention of the Trading Participant.
- e. Short Selling orders shall not be accepted during the following trading phases: Pre-Open and Pre-Close. (*revised January 22, 2019 pursuant to SRC Rule 40.3.3*)
- f. Short Selling orders shall be entered as day orders only.
- g. Trading Participants shall not aggregate Short Selling Orders.
- h. Short Selling orders for the Odd Lot Market and Block Sales shall not be accepted by the trading system.

## **3. Uptick Rule**

Trading Participants must comply with the uptick rule under Section 3 of SRC Rule 24.2-2 and Section 5.2(b) of the Revised Trading Rules of the Exchange, or relevant revisions thereto.

**4. Flagging and Trade Amendments**

- a. A Trading Participant shall flag Short Selling orders accordingly.
- b. If an Eligible Security subsequently becomes ineligible, no Short Selling orders shall be accepted by the trading system on such Security.
- c. A Trading Participant shall not be allowed to amend a trade from Short Sale to a regular sale and vice-versa.

**5. Securities Borrowing and Lending (“SBL”) Procedures for Short Selling Transactions**

The requirements of the PSE and the Securities and Exchange Commission on SBL should be complied with by the short seller for purposes of complying with the PSE Trading Rules prohibition against “naked short sales”.

- a. A depository participant that transfers shares to another depository participant for Short Selling transactions shall indicate “SBL Borrow – Short Selling” or, for Buyback transactions, “SBL Return – Short Selling”, in the depository’s system.

A Buyback transaction shall be understood to be a buy transaction that is executed for purposes of closing or covering a short interest.

- b. For transfers of shares of clients within a depository participant’s omnibus account for short selling and buyback transactions, the depository participant shall report such transfers to the Exchange in such format and manner as the Exchange may prescribe.

**6. Responsibility of Trading Participants**

A Trading Participant shall be responsible for all Short Selling orders that are entered into or executed in the Exchange, regardless of whether such orders are for its own account or for its client’s account.

7. Violations and Penalties

Violations of the relevant provisions of the Revised Trading Rules on Short Selling, these Guidelines, and any amendments thereto shall be penalized in accordance with Article IX of the Revised Trading Rules.

The Trading Participant shall also continue to be bound by the other provisions of the Revised Trading Rules and any amendments thereto, as may be applicable, and shall be held liable for any breach of such rules and regulations.

THE PHILIPPINE STOCK EXCHANGE, INC.

SECURITIES AND EXCHANGE COMMISSION



---

**RAMON S. MONZON**  
President and Chief Executive Officer



---

**VICENTE GRACIANO P. FELIZMENIO, JR.**  
Director  
Markets and Securities Regulation Department



---

**ROEL A. REFRAN**  
Chief Operating Officer