



MEMORANDUM

CN - No. 2023-0053

THE PHILIPPINE STOCK EXCHANGE, INC.

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| <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 |

TO : THE INVESTING PUBLIC AND MARKET PARTICIPANTS

SUBJECT : REGULATORY REQUIREMENTS FOR SECURITIES BORROWING AND LENDING

DATE : October 11, 2023

The Exchange is issuing this reminder to market participants and the investing public regarding the documentary requirements for securities borrowing and lending (“SBL”), as set out in the SEC Memorandum Circular No. 07-2006, BIR Revenue Regulations No. 10-2006, as amended by BIR Revenue Regulations No. 1-2008, PSE Short Selling Guidelines, PSE Rules and Guidelines on Securities Borrowing and Lending, CMIC Implementing Guidelines on SBL and Short Selling, and to the extent applicable, the operating guidelines of the lending agent (e.g., Guidelines on Philippine Depository & Trust Corp. (“PDTC”) Lending Agency Service):

1. Securities Lending Authorization Agreement (“SLAA”)

An owner of securities (“Client”) who wants to lend his securities through a lending agent shall execute an SLAA with his lending agent, whereby the Client authorizes his lending agent to offer his securities for lending under the terms set out in the SLAA. As stated in CMIC Implementing Guidelines on SBL and Short Selling, a trading participant who lends securities of one client to another client must be registered as a lending agent with the SEC and have an SLAA in place. Authorization letters from lending Clients shall not be sufficient. Further, if Client will lend his securities through the PDTC Lending Agency Service or other similar lending agents which do not deal with lending clients directly, Client shall execute an SLAA (“SLAA1”) with a Lender Depository Participant (or an equivalent intermediary) which shall, in turn, execute a separate SLAA (“SLAA2”) with PDTC or another lending agent.

The SLAA shall contain, at the minimum, the terms set out in Section 9 of SEC Memorandum Circular No. 7-2006 and should be executed prior to the delivery of securities by the Client to the lending agent. Such SLAA is not required to be registered

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with the Exchange or the BIR but shall be kept for inspection and audit of the CMIC. A sample SLAA is downloadable from the PSE website (www.pse.com.ph).

A lending agent cannot bundle the securities of multiple Clients in one SLAA.

The following institutions may engage in direct lending without appointing a lending agent, provided they have a securities lending system (or have appointed a third party provider of the securities lending system) for execution of SBL transactions: (1) domestic banks and branches of foreign banks, (2) investment houses, (3) investment companies, (4) insurance companies, (5) pension funds or retirement plans maintained by the Government of the Philippines or managed by a bank or other persons authorized by the Bangko Sentral ng Pilipinas to engage in trust functions, (6) securities dealers (with respect to its proprietary shares), and (7) other entities that may be declared by the SEC as qualified to engage in direct lending.

2. Master Securities Lending Agreement (“MSLA”)

Prior to the execution of the first SBL transaction, the parties to the SBL transaction shall execute an MSLA which shall contain, at the minimum, the terms enumerated in Section 8 of SEC Memorandum Circular No. 7-2006. The standard MSLA is downloadable from the PSE website.

For an SBL transaction to qualify for tax exemption, the MSLA must be registered with and approved by the Bureau of Internal Revenue. Registration of the MSLA should be made within two (2) weeks from execution if executed in the Philippines and within one (1) month if executed outside the Philippines. Failure to register the MSLA will make the SBL transaction a sale and purchase of the borrowed shares of stock/securities outside the PSE that shall be subject to the corresponding capital gains tax and documentary stamp tax.

A Client who is lending his securities through a lending agent shall not be a signatory to the MSLA. The signatories to the MSLA involving such Client are the lending agent and the borrower or borrower’s agent.

If Client will lend his securities through the PDTC Lending Agency Service, PDTC, as the lending agent, and the depository participant borrowing for its client or for its own account shall be the signatories to the MSLA. The lending Client, the trading participant/depository participant representing the lending Client, and the borrowing client shall not be signatories to the MSLA.

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3. SBL Confirmation Notice

Each SBL transaction shall be covered by a confirmation notice that specifies the details of the SBL transaction, including the reference number, contract date, names of lender and borrower, type and quantity of borrowed securities, term, delivery date, market value of borrowed securities, collateral, MSLA reference number and settlement date.

The sample Confirmation Notice is available for download in the PSE website.

For your information and guidance.

(original signed)

Ramon S. Monzon

President and CEO

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