



GUIDELINES ON SECURITIES BORROWING AND LENDING

The following are the guidelines in relation to SBL transactions:

A Introduction

1.01 In accordance with SRC Rule 30.2- Transactions and Responsibilities of Brokers and Dealers, all trading participants in SBL transactions shall adopt prudent practices, act at all times with integrity, and observe the highest standards of market conduct including the following:

- (a) act with due skill, care and diligence;
- (b) be trained in the practices of SBL transactions and be familiar with these Rules and guidelines; and
- (c) accept responsibility for the actions of their agents and staff.

1.02 All participants should be aware of their exposure to the following risks:

- (a) Credit risks on the exposures which Lenders/Lending Agents take as a result of their SBL transactions with their Borrowers and these would include:
 - (i) contract claims for return of securities; and/or
 - (ii) contract claims for entitlements and standardized lending agreements;
- (b) Collateral risks where the collateral or margin given or taken can fluctuate substantially in value in a volatile market relative to the value of the securities borrowed; and
- (c) Settlement risks that will arise in the transfer of Shares of Stock and Collateral among a number of counter-parties.

1.03 System Requirements and Transaction Monitoring

- (a) All participants acting as either as principal or agent shall determine and ensure that it has the adequate systems and procedures to perform the settlement, reportorial and documentation requirements for the effective management of the risks associated with SBL transactions. These should include but not be limited to the following items:
 - (i) establish, retain and periodically update their documentation to comply with the requirements of the applicable laws and regulations and these Rules;
 - (ii) suitable internal controls designed to ensure that any Shares of Stock lent have been properly authorized before they are delivered to the Borrower; and
 - (iii) clear and timely records showing, among others:
 - (1) the value of the Shares of Stock borrowed or lent;
 - (2) the composition of the Shares of Stock borrowed or lent; and
 - (3) fee or income received, when applicable
 - (b) The following critical activities performed by the Lending Agent should be considered by the Trading Participant/Agent-Facilitator for dissemination to their client, whenever applicable:
 - (i) marking-to-market of Shares of Stock lent vis-à-vis the Collateral;
 - (ii) recording and distribution of cash dividends, rights, and other corporate actions;
 - (iii) investment and management of cash collateral; and
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- (iv) reporting requirements for tax and other regulatory purposes.
- 1.04 Managing Counter-party Risks
- (a) A Lender shall disclose to the Borrower, in the Confirmation Notice, whether it is acting in the capacity of :
 - (i) Direct Lender; or
 - (ii) Lending Agent;
 - (b) A Trading Participant should monitor its exposure to its counter-parties on a daily basis to enable accurate monitoring of credit risks. Prescribed exposure limits as defined under the Risk-Based Capital Adequacy Requirement as stated in SEC Memorandum Circular No. 16, Series of 2004 should be maintained for all parties.
 - (c) A Trading Participant should provide adequate internal controls to ensure that all securities lent and borrowed are properly authorized. An adequate internal control shall mean that all transactions are authorized by responsible personnel acting within the scope of their prescribed authority and responsibility;
 - (d) A Lender/Lending Agent shall undertake a thorough credit assessment of their counter-party;
 - (e) When the Lender is an Agent-Facilitator, the parties should make the appropriate arrangements for the identity of the principals to be established before each SBL transaction is executed, at least by means of an agreed identification code.
- B. Guidelines and Procedures
- 2.01 Documentary Requirements and Registration
- (a) Prior to engaging in any SBL transaction with a Lender and/or Lending Agents, all Borrowers shall execute and register with the Bureau of Internal Revenue ("BIR"), pursuant to BIR Revenue Regulations 10-2006, or amendments thereto, their MSLA that specifies and defines the terms and conditions of their SBL transactions;
 - (b) In cases where the participants' MSLA adopts and/or incorporates modifications to the prescribed MSLA uploaded in the Exchange's website, the Borrower shall attach to the MSLA submitted for registration with the BIR a summary of the modifications, stating the changes made and an explanation for each modification.
 - (c) A Trading Participant acting as a Trading Participant/Agent-Facilitator shall likewise enter into a SLAA with its client and as a Lender, with the Lending Agent. Such SLAA is not required to be registered with the Exchange or with the BIR and shall be kept for inspection and audit of the PSE-MRD;
- 2.02 All participants to an SBL transaction shall ensure that they have duly-executed the above-mentioned documents, among others, and have assured themselves of their legality and effectivity;
- 2.03 Trading Participants who engage in SBL transactions are required to submit to the PSE-MRD a certified-true copy of the certificate of registration of their MSLA with the BIR within fifteen (15) days from issuance by the BIR of the certificate of registration.

2.04 Collateral and Risk Management

- (a) A daily "mark-to-market" valuation method for the Collateral must be in place to ensure that margin calls and release of excess collateral, as agreed by the parties, are made on a timely basis.
- (b) All Lenders/Lending Agents must have clear guidelines as to the type of Collateral to be accepted, taking into account factors that may affect the value of the Collateral.
- (c) All participants should be alert to possible settlement risks and take steps to ensure that exposure is minimized and properly controlled.
- (d) When a Trading Participant/Agent Facilitator acts as an agent for more than one Lender, a system should be in place for determining the amount of Collateral received by the particular Lending Agent/s on behalf of each client, and for determining the amount each client is entitled to in case of Borrower's default.
- (e) When a Lending Agent is operating a lending pool, it should inform the Lender that the Collateral assigned to the latter shall be placed in a pool.

2.05 Corporate Actions

- (a) The rights of each party should be defined in the MSLA and SLAA, in case of any corporate action or any merger, dissolution, insolvency, etc., affecting the borrowed securities and Collateral involved in the SBL;
- (b) All Lenders/Lending Agents shall have, among others, a Securities Lending System, as provided for in Sec. 6 of the SEC SBL Circular, to be able to monitor and allocate voting rights, dividend payments, stock rights distribution, and any other corporate action to the beneficial owners. In line with this, all arrangements to be followed in the events of a rights issue or other corporate action may be established by all the parties before the Shares of Stock are lent, with due recognition of applicable laws and regulations, rules of the Exchange, and any deadlines imposed by the various parties' local agents or custodians.
- (c) SBL transactions involve the transfer of title to the Shares of Stock lent and, unless otherwise agreed to by the parties, any voting rights are transferred along with the title.
- (d) A Trading Participant who borrows Shares of Stock from its own clients, whether as the final Borrower or Agent-Facilitator, aside from engaging the services of a Lending Agent, should put the Lender on notice that any voting rights will be transferred along with legal title to the Shares of Stock and that the Lender will therefore not be exercising his/her rights until that Shares of Stock are returned to him/her, unless a written proxy or voting trust is executed in accordance with law.
 - (i) Lenders need to be aware that if they lend their entire holding of a particular Share of Stock, they may cease to receive information about corporate events in relation to it.

2.06 Return of Shares of Stock and/or Collateral.

- (a) In accordance with the MSLA, either party may terminate the SBL transaction.
- (b) The Lender may recall the securities upon giving prior notice to the Borrower (within normal settlement cycle) or the Borrower may find it advantageous to return the Shares of Stock.



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- (c) Upon receipt or notification of the return of the Shares of Stock, the Lender/Lending Agent is obliged to return the Collateral to the Borrower pursuant to the terms of the MSLA.

2.07 Regulatory Reporting

Trading Participants engaged in SBL must submit to the Market Regulatory Division of the Exchange ("PSE-MRD"), within fifteen (15) calendar days after the end of every six months the following reports:

- (a) Monthly Summary of Securities Lending Ledger, SBLF 2a
- (b) Monthly Summary of Securities Borrowing Ledger, SBLF2b

However, in addition to the above-mentioned, the Exchange may review other SBL records and reports in accordance with its conduct of regular audits and investigations by the PSE-MRD. Thus, all records required under these Rules should be made available by the Lender and the Borrower at all times for regular and spot checks and audits of the Exchange and the Commission.