



# REVISED CLEARINGHOUSE OPERATING PROCEDURES

OF THE

SECURITIES CLEARING CORPORATION OF THE PHILIPPINES

APPROVED BY THE SECURITIES AND EXCHANGE COMMISSION  
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## **1.0 Introduction**

### **1.1 Rules**

These procedures have been adopted under the Rules of the Securities Clearing Corporation of the Philippines (SCCP) with respect to the services performed by SCCP. The terms used in these Procedures shall have the same definitions as they have in the Rules.

All references to a "day", "yesterday", "today" and similar references herein refer to Business Days unless specified as "calendar days". Terms used in any form, document, or report referred to herein shall have the same definition as they have in the Rules and these Procedures.

### **1.2 Services**

SCCP provides the following services:

- (a) Clearing and Settlement of Security and Cash Elements of trades as fed into the SCCP Clearing System;
- (b) Performance of fails management;
- (c) Maintenance and administration of the Clearing and Trade Guaranty Fund (CTGF);
- (d) Risk monitoring and management of all trades Cleared and Settled through the SCCP Clearing System; and
- (e) Other services necessary or incidental to the Clearing and Settlement of SCCP-Eligible Trades.



## 2.0 Clearing and Settlement of Trades

### 2.1 Introduction

#### 2.1.1 Scope

The Clearing and Settlement procedures described herein are limited to SCCP-Eligible Trades.

SCCP does not perform any Clearing and Settlement services for non-Exchange trades.

#### 2.1.2 Delivery-versus-Payment

SCCP guarantees a Delivery-versus-Payment (DVP) Settlement of these eligible trades. SCCP has adopted a DVP net settlement system for SCCP-Eligible Trades.

#### 2.1.3 Entities

SCCP interfaces with various entities to effect delivery of the Securities and Cash Elements to the Net Receiving Clearing Members as specified in the Contracts:

- (a) The Philippine Stock Exchange, Inc. (PSE) – provides direct primary input of equities trade contracts as an electronic feed from PSE's information system.
- (b) Depository Facilities – perform book-entry transfer of Securities from the Net Selling Clearing Members to the Net Receiving Clearing Members. Includes the Philippine Depository and Trust Corp. (PDTC), formerly the Philippine Central Depository, Inc. (PCD).
- (c) Registry Facilities – perform book-entry transfer and recording of registered ownership of Securities. Includes the various stock transfer and registry agents.
- (d) Settlement Bank(s) – perform the physical transfer of Cash to effect the Cash Settlement of any SCCP-Eligible Trades.
- (e) Clearing Members – execute transfer and delivery instructions into the SCCP Central Clearing System.



#### **2.1.4 Central Clearing and Central Settlement (CCCS) System**

The Clearing and Settlement process is supported by an automated system called the Central Clearing and Central Settlement (CCCS) System, which is solely owned and operated by SCCP. The system is web-based, and uses online and/or file transfer interfaces with the entities as mentioned in *Section 2.1.3* above.

#### **2.1.5 Settlement Cycle**

Settlement shall be performed on a rolling T+3 cycle. Settlement Date shall be three (3) Business Days after Transaction Date (T+3). Settlement Cut-Off shall be at 12:00 NN of Settlement Date.

### **2.2 Securities Accounting and Settlement**

#### **2.2.1 Flag-level Netting**

The Clearing Members' Securities delivery obligations and entitlements shall be netted out on a flag-level basis, namely: LP-Local Principal, LC- Local Client, FP-Foreign Principal, and FC-Foreign Client, to arrive at either a net selling or net buying position for such security and flag.

#### **2.2.2 Settlement of Contracts**

Upon satisfactory verification of Securities in the Securities Delivery Accounts of the Net Selling Clearing Members, SCCP effects simultaneous Settlement of the securities settlement Contracts through the enhanced Central Clearing System whereby delivery and receipt of Securities to counterparties are satisfied.

### **2.3 Cash Settlement**

#### **2.3.1 Multilateral Netting**

SCCP has adopted a multilateral netting system for Cash payment whereby Clearing Members' monetary entitlements and obligations are netted to arrive at a Net Money Obligation or Entitlement.

#### **2.3.2 Cash Settlement Account with Settlement Banks**

Clearing Members are required to open accounts with designated Settlement Banks through which Net Money Obligations are debited and Net Money Entitlements are credited for Settlement of Trades on Settlement Date.



### **2.3.3 Settlement of Contracts**

Upon satisfactory verification of Cash in the Cash Delivery Account of the Net Buying Clearing Members, SCCP effects simultaneous Settlement of the cash settlement Contracts through the enhanced Central Clearing System whereby delivery and receipt of Cash to counterparties are satisfied.

## **2.4 The Clearing and Trade Guaranty Fund**

### **2.4.1 Default of a Clearing Member**

SCCP shall manage a guaranty fund, called the Clearing and Trade Guaranty Fund (CTGF), and any such other funds, which, in the reasonable discretion of the SCCP Board, are deemed necessary to establish. The CTGF shall be a Risk Management tool designed to protect Clearing Members and/or the Central Clearing System of SCCP against the Default of a Clearing Member to deliver its committed Securities and/or Cash for Settlement. Refer to *Section 4.0 Clearing and Trade Guaranty Fund*.

#### **2.4.1.1 Default through Cash Failure**

When a Contract fails to settle due to Cash insufficiency, SCCP shall advance the deficit, hold in escrow the receiving Securities of the Defaulting Clearing Member, the amount of which shall not be less than the amount of the Cash fail, and charge the Defaulting Clearing Member a penalty on the principal amount advanced as published in the *Schedule of Penalties and Sanctions in Section 3.14*, and in the event that the Defaulting Clearing Member still fails to deliver Cash payment by 9:15 AM of the following Business Day after Settlement Date, SCCP shall perform a Sell-Out Procedure of the Securities held in escrow in accordance with *Section 3.10 of its Fails Management System*.

#### **2.4.1.2 Default through Securities Failure**

When a Contract fails to settle due to insufficient Securities, SCCP shall hold in escrow the receiving Cash and/or Securities of the Defaulting Clearing Member, the total amount of which shall not be less than the amount of the Security fail. In the event that the Defaulting Clearing Member still fails to deliver the required Securities by 9:15 AM of the following Business Day after Settlement Date, SCCP shall perform a Buy-In of the required quantity of Securities on behalf of the affected Clearing Members (see *Section 3.10*). The Defaulting Clearing Member shall be liable for any difference from the original contract price including a penalty on any advance made from the CTGF to facilitate the Buy-In trade, as published in the *Schedule of Penalties and Sanctions in Section 3.14*.



### 2.4.2 Credit Facilities

A CTGF account shall be opened and maintained by SCCP with each of the authorized Settlement Banks to perform the trade guaranty operations described above. To minimize the actual drawing from the CTGF, the SCCP shall establish and maintain credit facilities with the Settlement Banks for said trade guaranty operations.

## 2.5 Process Description

The following is an overview of the day-to-day processing of trades starting from Trade Date through its Settlement three days later. It includes a short description of each of the reports provided by SCCP. These reports shall provide the Clearing Members with the information required to perform the actions and processes that will ensure orderly Clearing and Settlement of SCCP-Eligible Trades, and will ensure proper disclosure requirements from its Clearing Members. Detailed instructions for actual operation of the Central Clearing System may be found in the *Central Clearing and Central Settlement (CCCS) System User's Manual*.

Any responsibility and liability for the actions or processes of the Clearing Members herein shall be solely the Clearing Members' and SCCP shall not be liable for any errors or omissions of the Clearing Members in this regard.

### 2.5.1 At Trade Date (T + 0):

Clearing Members shall enter their trades using PSE's system, for the regular matching and contract number assignment performed by PSE, or using any trading facility recognized by SCCP for eligible trades on other Securities. At the end of the trading session on Trade Date, Clearing Members shall immediately report any discrepancies or errors in SCCP-Eligible Trades listed in the *PSE DTR Report* to PSE, in compliance with pertinent *PSE Rules & Regulations*. After approved corrections have been applied, if any, the matched trade data captured in the PSE System shall be electronically forwarded to the Central Clearing System. The data shall be entered into the system and the first settlement report shall be made available, i.e. the Daily Transaction Report, which provides the Clearing Member with its day's trades summarized by contract number. It shall serve as a reconciliation tool for Clearing Members to compare with their own back-office data. It shall also confirm the trades that have actually been entered into SCCP's Clearing System for Settlement. A Cash List shall also be generated for use by the Settlement Banks in determining the net cash positions, i.e. net Due Clearing obligations and net Due Broker entitlements of Clearing Members on subject trades. 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"). The Obligation Report shall be made available to the Clearing Members via the report function provided in the CCCS System. Any discrepancies or other errors shall be reported immediately to SCCP and PSE.





### **2.5.2 1st Business Day after Trade Date (T + 1):**

The Obligation Report shall be updated for any requested amendments or changes to the matched trade data.

The Cash List shall also be available to the Settlement Banks through file upload on the SCCP FTP server.

### **2.5.3 2nd Business Day after Trade Date (T + 2):**

The Obligation Report shall be updated for any requested amendments or changes to the matched trade data.

### **2.5.4 3rd Business Day after Trade Date (T + 3):**

The Projection Report shall be available to Clearing Members via the report function of the Central Clearing System. Remedial actions to correct any anticipated short positions during Settlement should be immediately initiated by the Clearing Members.

#### **2.5.4.1 Prior to Settlement (9:00 AM – 12:00 NN):**

(a) Clearing Members:

- (1) Processing of direct transfers of securities certificates or borrowing of Securities to cover short securities positions (as per Projection Report) before 12:00 NN.
- (2) Execution of securities transfer instructions from the Deposit Accounts to the Delivery Accounts in the CCCS.
- (3) Securities that are not yet in the Securities Delivery Accounts in the CCCS by the 12:00 NN Settlement Cut-Off shall be considered as failed or defaulted Contracts to be addressed by SCCP's *Fails Management System in Section 3.0*.
- (4) Deposit of funds into the Cash Settlement Accounts before 12:00 NN.
- (5) Execution of book transfer instructions from the Deposit Accounts to the Delivery Accounts in the CCCS.
- (6) Payments that are not yet in the Cash Delivery Account in the CCCS by the 12:00 NN Settlement Cut-Off shall be considered as failed or defaulted Contracts to be addressed by SCCP's *Fails Management System in Section 3.0*.



- (b) Settlement Banks:
  - (1) Accept deposits and confirm funds to the SCCP through the CCCS system, up to 12:00 NN.
  - (2) Upon confirmation of the funds to the CCCS, said funds shall be transferred to the SCCP Nostro Account with the pertinent Settlement Bank.
- (c) Depository/Registry:
  - (1) Clearing direct transfers of securities certificates up to 12:00 NN; facilitating non-Exchange transfers of Securities for delivery.
  - (2) Confirm Securities deposit to the SCCP through the CCCS system.

SCCP shall coordinate with the Settlement Banks, Depository or Registry facilities and Clearing Members prior to the Settlement Cut-Off at 12:00 NN to ensure resolution of short positions.

#### **2.5.4.2 Settlement Processing (12:00 NN – 5:00 PM):**

- (1) All Cash and Securities delivery instructions shall be settled first before the receiving instructions.
- (2) Settlement of Clearing Members' transfer instructions from the Receive Accounts back to the Deposit Accounts and any other transfer instructions within the Clearing Members accounts.
- (3) Settlement of wire transfer instructions.
- (4) Cash shortages shall be funded using the CTGF or any credit facilities maintained with the Settlement Banks by 1:15 to facilitate the 1:30 PM Due Broker crediting.
- (5) By 1:30 PM, the Sweep-Out process shall be conducted wherein the CCCS system will instruct the Settlement Banks to credit the Due Broker proceeds to the respective Cash Settlement Accounts of the Receiving Clearing Members.
- (6) Several reports shall be generated for SCCP's use, which shall highlight Defaulted Transactions for follow-up and resolution by SCCP.



## **2.6 Reports**

Reports shall be produced by SCCP on Settlement Date (T+3) and the day after Settlement Date (T+4) as follows:

(a) Morning Failures (after Settlement run)

This report shall provide SCCP with a list of pending fails for follow-up action and actual settlement Defaults subject to Buy-In/Sell-Out (BISO)

(b) Buy-In/Sell-Out Notice (5:00 PM of T+3).

This is an official notice to the Defaulting Clearing Member of its outstanding obligation, and of SCCP's intention to buy/sell the Security on behalf of the affected Clearing Member. The BISO Notice shall be delivered to the Defaulting Clearing Member via confirmed facsimile not later than 5:00 PM.

(c) Additional Reports shall also be generated as follows:

(i) Notice of Possible Overnight Cash/Security Fail to be sent to the CMIC;

(ii) Buy-in/Sell-Out Request to be sent to the PSE; and

(iii) Notice of Possible Preventive Suspension to be sent to the Defaulting Clearing Member

(d) Failed Exchange Trades Report (8:00 AM of T+4)

For SCCP's use, this lists all Failed Trades due to short Securities or short Cash; and subject to Buy-In or Sell-Out.

(e) Demand Notice (12:00 NN of T+4)

This is an official notice to the Clearing Member that an advance was made from the CTGF to allow its failing Contract to settle, and that an immediate reimbursement is required.



## **2.7 Early Delivery of Securities**

Within T+0 to T+2, the Clearing Member has an option to do early delivery of Securities that had caused the negative exposures prior to Settlement Date.

### **2.7.1 Procedure for Early Delivery of Securities**

- (1) Within T+0 to T+2, the Clearing Member shall notify SCCP via fax of its intention to do early delivery of securities for settlement in writing. Any securities in the Delivery Account, after the settlement run, shall be classified as an early delivery transaction intended to satisfy a future securities delivery obligation.
- (2) Upon receipt of the notice by SCCP, Clearing Member shall execute a Securities transfer from his Deposit (LC/LP/FC/FP) Account to the Delivery (LC/LP/FC/FP) Account of the subject Securities. Clearing Member shall ensure sufficiency of Securities in its CCCS Securities Deposit Accounts to enable successful Securities transfer of subject shares to the Delivery Account.
- (3) Clearing Member shall not withdraw or effect a securities transfer instruction to debit subject Securities from the Delivery Account. Any withdrawal of the subject Securities from the Delivery Account shall be considered by SCCP as a withdrawal or cancellation of the early delivery by the Clearing Member concerned. If, at any given Settlement Period, the Clearing Member uses securities which are the subject of the early delivery transaction for settlement of another obligation involving the same securities, it shall also be considered as a withdrawal or cancellation of the Early Delivery instruction.
- (4) An early delivery made by a Clearing Member of securities causing negative exposures on its unsettled trades shall reduce its computed net negative exposure, thereby reducing its collateral requirement.
- (5) Procedures or mechanics for Securities transfers shall be as described in the CCCS User's Manual.



## 3.0 Fails Management System

### 3.1 Fails Management by SCCP

Upon a Clearing Member's failure to deliver Securities or make Due Clearing payments within the specified settlement period, SCCP will implement its Fails Management procedures in accordance with the SCCP Rules.

### 3.2 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 can occur in the payment of the buyer or in the Securities delivery of the seller. In order not to prejudice the interests of the innocent affected Clearing Members, it is crucial that a Fails Management System for settlement assurance is adopted.

### 3.3 Objective

The purpose of Fails Management is to assure the expeditious Settlement of a Contract wherein a Clearing Member has failed in the timely delivery of its Settlement obligations.

### 3.4 Need for Confidentiality

In order to allow SCCP to immediately acquire Securities to settle a failed Contract due to non-delivery, and/or to recover the advances made from the Clearing and Trade Guaranty Fund (CTGF) by Defaulting Clearing Members, there shall be no special or advance announcement of Buy-In/Sell-Out (BISO) procedures, which form part of the Fails Management Procedures undertaken by the SCCP.

### 3.5 Late Cash Payment

A Cash payment shall be considered late when the deposit by the Clearing Member and confirmation in the CCCS System by the Settlement Bank are received after the 12:00 NN Settlement Cut-Off on Settlement Date (T+3). Penalties shall be applicable in accordance with the *Sanction Table in Section 3.14*.



### **3.6 Late Securities Delivery**

A Securities delivery shall be considered late when delivery by the Clearing Member and sufficient credits of Securities are effected in the Securities Delivery Account with the Depository or Registry after the 12:00 NN Settlement Cut-Off on Settlement Date (T+3). Penalties shall be applicable in accordance with the *Sanction Table in Section 3.14*.

### **3.7 Handling of Late Payments**

Cash payments received beyond the Settlement Cut-Off shall be considered delayed or late payments. However, all Clearing Members with Cash entitlements shall still be credited with funds during regular Settlement using the Clearing and Trade Guaranty Fund (CTGF) or any existing credit facilities with the Settlement Banks. Penalties prescribed in the *Sanction Table of Section 3.14* shall be imposed on the Defaulting Clearing Member.

### **3.8 Handling of Late Deliveries**

Securities obligations received beyond the Settlement Cut-Off shall be considered delayed or late deliveries subject to regular Settlement processing. Penalties prescribed in the *Sanction Table of Section 3.14* shall be imposed on the Defaulting Clearing Member.

### **3.9 Fails Management System Notices**

Several notices shall be produced and issued by SCCP during the implementation of its Fails Management System:

- (a) Notice of Securities Default (1:30 PM of T+3 or end of settlement run)

This notice shall be issued to the affected Clearing Member/s to inform such Clearing Member(s) of the unsettled Contract and to give assurance that the fail is being properly addressed by SCCP's Fails Management System.

- (b) Notice of Completed Late Settlement – Payment (upon receipt of confirmation of late payment of Cash)

This notice shall be issued to the net paying Clearing Members whose payments on their (late) Cash obligation have already been received.



- (c) Notice of Completed Late Settlement – Securities (upon verification of late Securities delivery)

This notice shall be issued to Clearing Members who have already delivered on their (late) Securities obligation.

- (d) Notice of Securities Delivered (upon verification of late Securities delivery)

This notice shall be issued to the affected Clearing Members whose securities entitlements have been delivered and settled.

- (e) Notice of Possible Overnight Cash Fail (3:00 PM)

This notice shall be issued to the CMIC to notify them of the Net Due Clearing Members who have not yet paid their Cash obligation as of 3:00 PM of T+3.

- (f) Notice of Possible Overnight Security Fail (3:00 PM)

This notice shall be issued to the CMIC to notify them of the Net Selling Clearing Members who have not yet delivered their Securities obligation as of 3:00 PM of T+3.

- (g) Buy-In/Sell-Out Notice (5:00 PM)

This notice shall be issued to the Defaulting Clearing Member upon its failure to deliver Securities/make payment of Cash within the specified period of Settlement to qualify as an overnight fail. This notice shall inform the Clearing Member that if the delinquency is not remedied by 9:15 AM of the following Business Day (T+4), it would be subjected to a Buy-In/Sell-Out (BISO) Procedure and shall be suspended from Trading.

- (h) Buy-In/Sell-Out Request (5:00 PM)

This notice shall be given to the PSE to notify them of the possible Buy-In/Sell-Out transaction that will take place the following business day (T+4). This shall contain the code and name of the Security and the number of shares that would be subject of the BISO.

- (i) Notice of Preventive Suspension (5:00 PM).

This notice shall be issued to the Defaulting Clearing Member to inform that such Clearing Member will be placed under preventive suspension after expressing inability to settle obligation by 9:15 AM of the next day.

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.

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



(j) Demand Notice (12:00 NN, T+4)

This notice shall be issued to the Defaulting Clearing Member to demand immediate monetary settlement of the advance made from the CTGF to allow its failing Contract to settle, including the penalties and other charges applicable thereto.

### **3.10 Fails Management Mechanisms**

#### **3.10.1 Credit Facility Utilization or CTGF Advances for Cash Fails**

In the event that a net paying Clearing Member fails to meet the payment deadline for Settlement of his trade, the SCCP will use any credit facility or the CTGF to advance the corresponding amount (payment) to the Net Receiving Clearing Members.

#### **3.10.2 Holding of Cash or Securities in Escrow**

In the event of a Cash fail, SCCP shall choose from any of the Defaulting Clearing Member's security entitlements and cancel any pending security transfer instructions by the Defaulting Clearing Member from the Receive to the Deposit Accounts for such Security/Securities. SCCP shall transfer and hold in its escrow account the number of shares of said Security whose equivalent market amount is equal to or greater than the amount of the Cash fail, until payment has been made.

In the event of a Security fail, SCCP shall hold in escrow:

- (a) the Defaulting Member's receivable Cash, if the Defaulting Member has a Net Money Entitlement; and/or
- (b) any of the Defaulting Member's receivable Securities as SCCP deems appropriate, if the Defaulting Member has no Money Entitlement or is less than the amount of the Security fail;

wherein the total amount shall be equal to or greater than the amount of the Security fail.

SCCP shall cancel any pending book and/or security transfer instructions by the Defaulting Clearing Member corresponding to the Cash and/or Securities that shall be held in escrow and transfer such in the SCCP escrow account until deliveries have been made.

SCCP shall have the authority to use any Cash and /or Security transferred to the SCCP escrow account as collateral in any bank borrowings or Securities borrowings for the purpose of covering the Settlement obligation of the Defaulting Clearing Member.





### **3.10.3 Sell-Out**

After an advance of payment has been made by SCCP and the Defaulting Clearing Member still does not comply with the deadline for payment of his outstanding obligation, SCCP will undertake a Sell-Out Procedure on the shares held in escrow. When at 9:15 AM on T+4, no payment is still rendered, SCCP shall automatically execute a Sell-Out at 10:00 AM. All penalties and charges such as applicable taxes and transaction costs and penalties for the use of the CTGF shall be deducted from the proceeds of the sale in order to liquidate the account of the Defaulting Clearing Member. Refer to *Section 3.13 for Procedures for Buy-In/Sell-Out*.

The Sell-Out transaction/s shall be entered into the PSE Trading System as a normal trade which shall undergo regular Settlement wherein Settlement Date shall take effect on T+3.

### **3.10.4 Buy-In**

In the event that the net selling Clearing Member fails to meet the delivery deadline for overnight Failed Trade (and a borrowing of the Securities had not been successfully executed with a potential lender) at 9:15 AM of T+4, SCCP shall undertake a Buy-In Procedure in order to acquire the Securities that need to be delivered to the affected Clearing Member(s). SCCP shall automatically execute a Buy-In at 10:00 AM. All expenses or costs arising from the Buy-In transaction shall be charged to the Defaulting Clearing Member in addition to the penalties prescribed in the *Sanction Table in Section 3.14*. Refer to *Section 3.13 for Procedures for Buy-In/Sell-Out*.

The Buy-In transaction/s shall be entered into the PSE Trading System as a normal trade which shall undergo regular Settlement wherein Settlement Date shall take effect on T+3.

### **3.10.5 Price Setting Mechanism**

#### **3.10.5.1 Buy-In Price**

The Buy-In Price shall be the prevailing offer or market price as of execution of the Buy-In. In any event that there has been no offer price set, the Buy-In Price shall be determined by setting the price lower than:

- (a) the last closing price plus two price fluctuations;
- (b) the last transaction price; or
- (c) the current offer price or market price,

until the Buy-In Procedure is completed.

If the Buy-In Price is lower than the contract price, the difference between the Buy-In Price and the contract price would be credited to the CTGF.



If the Buy-In Price is higher than the contract price, then the difference would be charged to the Defaulting Clearing Member.

### **3.10.5.2 Sell-Out Price**

The Sell-Out Price shall be the prevailing bid or market price as of execution of the Sell-Out. In any event that there has been no bid price set, the Sell-Out price shall be determined by setting the price higher than:

- (a) the last closing price less two price fluctuations;
- (b) the last transaction price; or
- (c) current bid price or market price,

until the Sell-Out Procedure is completed.

If the Sell-Out Price is higher than the contract price, the difference between the Sell-Out Price and the contract price would be credited to the CTGF.

If the Sell-Out Price is lower than the contract price, then the difference would be charged to the Defaulting Clearing Member.

## **3.11 Alternative Cash Settlement for a Security Fail**

SCCP shall invoke the Alternative Cash Settlement in the event that the SCCP President or COO decides to make payment of Cash in lieu of Securities to the Clearing Members affected by the default based on the provisions set forth in Section 3.5 of the Rules.

### **3.11.1 Procedure for Alternative Cash Settlement**

- (1) In the event of a failed Buy-In of all or part of the Securities which are the subject of the default, and the SCCP President or COO decides to invoke the Alternative Cash Settlement, SCCP shall notify the defaulting Clearing Member and the Clearing Members affected by the default of SCCP's decision to make money compensation in lieu of delivery of the subject Securities.
- (2) SCCP shall provide a Compensation Value to the Clearing Members receiving Cash in lieu of Securities by computing for the value of the Securities based on the highest price in a regular lot at the time of the execution of the Alternative Cash Settlement plus a premium of 10%. In the event that the Securities subject of the default were not traded at the time of the execution of the Alternative Cash Settlement, the highest price shall refer to the highest price of said securities in a regular lot on the day it was last traded.



- (3) SCCP shall convert the outstanding Securities obligation of the defaulting Clearing Member into Cash obligation in accordance with the formula provided in Section 3.5 of the Rules and the above section of this Operating Procedure. SCCP shall notify the defaulting Clearing Member of its new Cash obligation. In the same manner, SCCP shall notify the Clearing Members affected by the default of their new Cash entitlements.
- (4) Within the same day and where it is still applicable, SCCP shall effect settlement instructions in the CCCS system to settle the cash compensation.
- (5) SCCP shall use the Cash for the settlement of the new Cash obligation in the following order of utilization until full settlement has been achieved:
  - a. Any Cash entitlement of the defaulting Clearing Member held in escrow by SCCP.
  - b. Margin Collateral submitted by the defaulting Clearing Member.
  - c. Mark-to-Market Collateral submitted by the defaulting Clearing Member.
  - d. Contribution of the Clearing Member to the CTGF
  - e. Fund appropriated by SCCP in its Reserve Account for the account of the CTGF.
  - f. Credit lines availed of by SCCP.
  - g. The mutualized CTGF contributions.
- (6) SCCP shall deliver the Cash entitlements due to the Clearing Members affected by the default within the same day of the execution of the Alternative Cash Settlement.

### **3.11.2 Liability of SCCP**

The SCCP President or COO shall not be held liable to any party for its decision to exercise the Alternative Cash Settlement.

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

### **3.12 Liability of Defaulting Brokers**

In all cases, all additional expenses and charges (such as but not limited to management fees, taxes, out-of-pocket costs, fines and penalties) incurred by SCCP in connection with the Fails Management Procedures are chargeable against the Defaulting Clearing Member.



### **3.13 Procedures for Buy-In/Sell-Out (BISO)**

#### **3.13.1 Execution of the Buy-In/Sell-Out**

In order to expedite the carrying out of the BISO procedures, SCCP shall coordinate with the PSE in undertaking the BISO on the PSE trading floors or PSE trading facilities during trading hours. All Buy-In and Sell-Out transactions shall be coursed through PSE's Trading Participants and shall be coordinated by the SCCP with the PSE Floor Trading and Arbitration Committee (FTAC) or any PSE department so authorized by the PSE Board.

#### **3.13.2 Notice of Buy-In/Sell-Out**

Upon a Clearing Member's failure to deliver Securities or make actual payment of Cash within the specified period of Settlement (T+3), SCCP shall issue a Buy-In/Sell-Out Notice to the Defaulting Broker. The Notice shall inform the Clearing Member that if the delinquency is not remedied by 9:15 AM of the next trading day (T+4), it would be subjected to a BISO Procedure. The Notice shall contain the code and name of the Security and the quantity of shares that would be subject to the Buy-In/Sell-Out.

#### **3.13.3 Preparation of a BISO Order**

When a necessity to undertake a BISO Procedure arises, a BISO Order shall be prepared by SCCP, signed by the Chief Operating Officer, and copy furnished to the President of the PSE.

#### **3.13.4 Brokers' Commission**

A Buy-In/Sell-Out transaction shall not be subject to Brokers' Commission.

#### **3.13.5 Trade Contracts**

SCCP shall enter into trade contracts with as many Clearing Members as are required to raise the necessary quantity of Securities in the original contract or to liquidate held securities. Buy-In transaction(s) shall be recorded with SCCP as the "Buyer", acting for and on behalf of the Defaulting Seller. The Cash Element shall be funded from the Clearing Fund for the Defaulting Seller's account. Sell-Out transaction(s) shall likewise be treated with the SCCP as the "Seller".

Once SCCP has entered into a trade contract and matched a corresponding bid contract, it shall be considered irrevocable, and liability shall rest upon the Defaulting Clearing Member to honor the contract.



### **3.13.6 Accrual of Interest Charges**

- (a) After the Buy-In transaction is executed, SCCP shall borrow the same number of shares bought-in to effect immediate delivery of the undelivered Securities to the affected Clearing Members. Interest and other charges accruing from this transaction prior to the T+3 Settlement shall be charged to the account of the Defaulting Clearing Member.
- (b) After the Sell-Out transaction is executed, interest charges shall continue to accrue against the account of the Defaulting Clearing Member prior to the T+3 Settlement.

### **3.13.7 Demand Notice**

The trade details from the Buy-In/Sell-Out transaction shall be relayed to the Defaulting Clearing Member via a Demand Notice for which monetary settlement shall be demanded by SCCP. The Demand Notice shall include the amount of the cash advance plus the applicable penalties as scheduled on the aforementioned *Sanction Table in Section 3.13* and such other interests or charges.

### **3.13.8 Immediate Suspension**

In the event that monetary settlement of the Demand Notice is not made within the prescribed period on T+4 (within 12:00 NN to 3:00 PM), a recommendation for immediate suspension of the Defaulting Clearing Member shall be effected. The action for immediate suspension shall be lifted upon payment or monetary settlement of the Demand Notice, subject to confirmation by the SCCP Fails Management Committee or the SCCP Board of Directors.

### **3.13.9 Continuous Charging of Penalties**

In the event that monetary settlement of the Demand Notice is not paid as demanded, penalties shall continue to be assessed as scheduled on the *Sanction Table in Section 3.13* until settled by the Defaulting Broker.



### 3.14 Schedule of Penalties and Sanctions

Offense	Action/Penalty
Late Cash Payments (Cash Payments made after 12:00 NN but no later than 2:00 PM on Settlement Date)	₱1,000 + $\frac{1}{8}$ of 1% or 0.00125 of the value of the cash fail plus any charges incurred by SCCP should advances from the Settlement Bank or from the CTGF have been made, plus any actual out-of-pocket expenses incurred by SCCP to resolve the cash fail.
Late Securities Delivery (Securities deliveries made after 12:00 NN but no later than 2:00 PM on Settlement Date)	₱1,000 + $\frac{1}{8}$ of 1% or 0.00125 of the market value of the securities fail plus any charges incurred by SCCP should advances from the Settlement Bank or from the CTGF have been made, plus any actual out-of-pocket expenses incurred by SCCP to resolve the securities fail.
Cash Fails (Cash payments made after 2:00 PM on Settlement Date or not made at all)	₱1,000 + $\frac{1}{4}$ of 1% or 0.0025 of the value of the cash fail compounded daily until paid or until payment of any advances made from the Settlement Bank or the CTGF is made plus any actual out-of-pocket expenses incurred by SCCP to resolve the cash fail and if not paid by 9:15 AM of T+4, a preventive suspension shall be imposed on the Defaulting Member.
Securities Fails (Securities deliveries made after 2:00 PM on Settlement Date or not made at all)	₱1,000 + $\frac{1}{4}$ of 1% or 0.0025 of the market value of the securities fail compounded daily until delivery is rendered or until payment of any advances made from the Settlement Bank or the CTGF is made plus any actual out-of-pocket expenses incurred by SCCP to resolve the securities fail and if not delivered by 9:15 AM of T+4, a preventive suspension shall be imposed on the Defaulting Member.

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



## 4.0 Clearing and Trade Guaranty Fund

### 4.1 SCCP's Obligations

SCCP shall establish the Clearing and Trade Guaranty Fund to assist it in meeting its obligations under Contracts arising pursuant to *Rule 3.2*. These obligations shall include all SCCP-Eligible Trades where corresponding payment of Net Money Obligations or delivery of net Securities deliverables had been Failed or Defaulted.

#### 4.1.1 Coverage of SCCP-Eligible Trades

SCCP-Eligible Trades referred to as covered by the CTGF, Fails Management System and Collateral Deposit System of SCCP shall pertain only to legitimate trades of Securities, which have been executed using the facilities of the PSE or any trading facilities recognized by SCCP, with strict compliance to appurtenant laws, codes and rules. These shall specifically exclude PSE block transactions and negotiated deals.

### 4.2 Composition of the Fund

The Clearing Fund is comprised of the following:

- (a) PSE Contribution or the "seed money" transferred by the Exchange to SCCP in order to accelerate the building up of the Clearing Fund;
- (b) Contributions required of Clearing Members; and
- (c) The interest income generated from the investments of the Clearing Fund.

### 4.3 Contributions Required of Clearing Members

#### 4.3.1 Monthly Contributions Required of Clearing Members

For the purpose of building up the Clearing Fund of SCCP, Clearing Members are required to contribute to the fund, on a monthly basis, an amount based on the Clearing Members' total monthly turnover value net of block sales and cross transactions of the same flag.



#### **4.3.1.1 Calculation of Clearing Members' Contributions**

Each Clearing Member's monthly contributions to the CTGF shall amount to 1/500 of 1% applied to the Clearing Member's total monthly turnover value less block sales and cross transactions of the same flag.

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

#### **4.3.1.2 Collection of Clearing Members' Contributions**

SCCP shall collect the Clearing Members' contributions to the CTGF on a monthly basis. Every first Business Day of the month, SCCP shall generate the billing notices to be sent to all Clearing Members on the same day. Deadline for payment shall be within seven (7) calendar days after receipt of the billing notice by the Clearing Member.

#### **4.3.1.3 SCCP Directive on the Non-Refundability of the Clearing Members' Contributions**

As part of the build-up plan of SCCP on the Clearing Fund, the SCCP Board approved the non-refundability of the monthly contributions by the Clearing Members, retroactively. Said contributions shall form part of the Clearing Fund, administered and accounted separately by the SCCP.

#### **4.3.2 Initial Contributions Required of Clearing Members**

Initial Contributions required of new Trading Participants or Trading Participants who are resuming trading operations after having been temporarily suspended or ceased their trading operations.

- (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 (Php 100 Thousand).
- (b) For Trading Participants who are resuming trading operations after having been temporarily suspended or 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.





#### **4.3.2.1 Collection of the Initial Contribution**

For new Trading Participants in inactive status, 50% of the required contributions shall be payable upon approval of the Trading Participant's admittance to the Exchange, while the remaining balance shall be payable prior to the commencement of the Trading Participant's trading operations.

#### **4.3.2.2 Review of the Initial Contribution**

SCCP shall review and adjust the Initial Contribution after six (6) calendar months from the commencement of the Trading Participant's trading operation. SCCP shall compute for the Clearing Fund's Ideal Fund Size for the said period and apply the effective rate of 11% on the Trading Participant's Ideal Fund Contribution based on their Daily Average Trade Value (DATV) for the period specified.

If on the subsequent review after the six (6) month period, it was found out that the Initial Contribution made by the Trading Participant is insufficient based on the computed Ideal Fund Size, SCCP shall collect payment of the amount of deficiency on the following Business Day after the 6-month period of adjustment. Conversely, any excess on the Initial Contribution shall be refunded on the following Business Day after the 6-month period of adjustment.

#### **4.3.3 Collection of Deficiencies of Active Trading Participants**

SCCP, on a daily basis, monitors the level of total Trade Value. 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, collection of all deficiencies in the Clearing Fund contributions by the Clearing Members shall be imposed.

CTGF deficiency per Clearing Member shall be calculated by applying the 11% ideal rate to the Daily Average Trade Value for the preceding six (6) months. Payments on the deficiency shall be collected by SCCP on the Business Day after the two (2) month period.

SCCP may adjust the current collection rate of 1/500 of 1%, upon the approval of the Board or the Commission, to keep the CTGF level at par with that of the ideal level.

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



#### 4.4 Calculation of the Ideal Fund Size

SCCP reviews the adequacy of the Clearing Fund on a semi-annual basis or at any period prescribed by the Board by computing for the Ideal Fund Size. The Ideal Fund Size of the Clearing Fund is calculated using the previous six (6) months' net trades of the four (4) largest Clearing Members. Using the formula of the Ideal Fund Size as described in the succeeding section, the computed amount is the amount of the Ideal Fund Size to cover exposure in one (1) Trading Day. SCCP, for conservative estimation of the Ideal Fund Size, computes for the amount of the Ideal Fund Size to cover exposure in one (1) Settlement Cycle.

##### 4.4.1 Formula of the Ideal Fund Size

SCCP adopts the Value at Risk (VaR) Method of computing for the Ideal Fund Size (IFS).

$$IFS = ( \text{Net Trades}_{LM} \times LP \times ( ( \frac{SDV \times RL}{100} ) + ADV ) ) + ( \text{Net Trades}_{LM} \times LP \times FC \times \frac{180}{360} )$$

where:

Net Trades<sub>LM</sub> = Net Trade Value of the four (4) largest members on a 3-day Settlement Cycle for the period of sizing.

LP = Liquidation Period, which is accounted for by the settlement period of T+3, with an allowance for next day Buy-In/Sell-Out Procedure, which also requires another 3 days for Clearing and Settlement. Liquidation period is set at 7 days.

SD = Standard Deviation of price changes over the liquidation period. The variability, spread or dispersion of a set of data/outcomes around the expected value. Set at 3.23, which means that, on any given day, there is a 67% chance (probability level) that prices in the same Security could move up or down by as much as 3.23%

ADV = Average Historical Aggregate Daily Volatility in share prices; the expected (mean) change in price of the portfolio. The ADV is set at 0.04 or 4%.

FC = Financing Cost, which is at 15% per annum

RL = Risk Level required, which is set at a constant factor of 2.33 to achieve a 99% coverage.



## 5.0 Risk Management and Monitoring

### 5.1 Risk Management and Monitoring by SCCP

SCCP shall establish a Risk Management System as part of its Risk Management functions to facilitate the monitoring of SCCP that would help prevent any untoward event that may affect the Clearing and Settlement operations.

### 5.2 Risk Monitoring System

The Risk Monitoring System of SCCP comprises of various systems that review and monitor Clearing Members' capability to settle their Settlement obligations.

### 5.3 Reporting Requirements

#### 5.3.1 Financial and Operational Statements

SCCP is authorized by the Clearing Members to acquire audited/reviewed copies of their financial and operational statements and other similar reports from the CMIC. Correspondingly, SCCP is authorized by the Clearing Members to provide CMIC with relevant information necessary in the conduct of their duties.

SCCP requires that all financial reports and submissions required by the designated examining authorities shall be furnished to SCCP as well.

#### 5.3.2 Quarterly Filing Requirements Questionnaire

SCCP requires that the Clearing Members file by the 15th business day of each new quarter the following information, which is referred to as the Quarterly Filing Requirements Questionnaire:

- (a) Whether the Clearing Member has any instruction from PSE or SEC to reduce or suspend its trading activity. If so, the Clearing Member must state what activities are restricted, e.g., margin trading or short-selling;



- (b) Whether there are pending suits against the Clearing Member. If so, an explanation of the nature of these suits must be provided; and
- (c) Whether there are cancellations of credit lines or facilities from financial institutions. If so, the reasons cited by the financial institutions must be provided.

Refer to *Annex 10 of the SCCP Rules* for the sample questionnaire.

### **5.3.3 Other Reporting Requirements**

SCCP may require the submission of such other information as it may reasonably determine to be necessary for the performance of its Risk Management and Monitoring functions.

### **5.3.4 Clearing Members' Database**

SCCP shall maintain a database of Clearing Members' financial data obtained from the audited figures of CMIC. This database shall also include, but not be limited to, the Clearing Members' membership profile, trading activity and settlement history.

## **5.4 Daily Monitoring**

SCCP shall conduct a general monitoring system that analyzes the potential risks on Clearing Members' activity and settlement capability. Exception reports shall be generated for those accounts that exceed a level of risk whose parameters shall be determined by the SCCP Board.

### **5.4.1 Monitoring of CTGF Adequacy**

SCCP shall conduct a monitoring system that shall look into the adequacy of the Clearing Members' CTGF contributions in relation to their total value of pending trades in order to measure the exposure of SCCP and the CTGF relative to each Broker's outstanding settlement obligations.

### **5.4.2 Monitoring of Clearing Members' Trading Activity**

Potential price risks on selected issues shall be identified and measured by closely monitoring the trading activity of Clearing Members. Considerably large volumes of trades on a particular issue in relation to the Clearing Member's general trading activity shall be reviewed for possible risks of concentration. Risk on undue concentration shall be appropriately referred to CMIC who will decide whether further action is needed.



### **5.4.3 Marking-to-Market**

SCCP shall perform daily Mark-to-Market calculations to determine the total Net Negative Exposure on the price risk of all the unsettled Trades of each Clearing Member.

### **5.4.4 Fails Monitoring (Late or Overnight Fails)**

A complete record of Cash and Securities Fails shall be kept and maintained by SCCP. Information on the date of fail, amount of fail, time of Settlement and reason for failure shall be indicated. Recurring fails by a Clearing Member shall be reported to the CMIC for proper action. Recurring fails shall be defined as fails committed by a single Clearing Member, occurring at least twice within a period of seven trading days.

SCCP may establish such other methods of monitoring information as it may reasonably determine to be necessary for the performance of its Risk Management and Monitoring functions.

## **5.5 Risk Containment or Management Measures**

### **5.5.1 Special Clearing and Settlement**

#### **5.5.1.1 Clearing Member Reaching Risk Level**

In the event that certain risk levels, as defined by the SCCP Board, have been reached by a particular Clearing Member and such Clearing Member has trades pending for Settlement, within T+0 to T+2, said Clearing Member may be required to effect early Settlement of his trade obligations.

#### **5.5.1.2 Trades Exhibiting Price and Volume Surges**

Clearing Members with trades on particular issues that exhibit unusual price and volume surges, determined as such based on certain criteria to be established by the SCCP Board, shall also be required to effect early Settlement of their trades involving said issues.

### **5.5.2 Mark to Market Collateralization Requirements**

Upon determination of a Clearing Member's exposure to price risk, and that such risk had been determined to be beyond the acceptable risk level as defined by the SCCP Board, said Clearing Member shall be required to put up collateral as provided for in Section 6.0 Mark to Market Collateral Deposit System.



### **5.5.3 Recommendation for Special Audit by the CMIC and Suspension from Trading**

#### **5.5.3.1 Special Audit**

In the event that certain risk alert levels established by SCCP have been reached by a particular Clearing Member, said Clearing Member may be recommended for a special audit by the CMIC.

#### **5.5.3.2 Suspension**

Upon determination of actual exposure of a particular Clearing Member to settlement risk and depending on the existence and gravity of the condition, such Clearing Member may also be recommended by the SCCP for suspension from trading or placed under preventive suspension status. SCCP shall notify CMIC immediately.



## 6.0 Mark-to-Market Collateral Deposit (MMCD) System

### 6.1 Marking-to-Market

SCCP uses the method of Marking-to-Market to determine the effect of price fluctuation on the three (3) days unsettled Trades of the Clearing Members. Marking-to-Market is applied by SCCP by comparing the Market Value of the Clearing Member's unsettled Trades based on the last closing price with the Contract Value of the Trades.

### 6.2 Computation of Exposures

SCCP computes for the exposures of each Clearing Member on one trading day by calculating for the Net Negative Exposures of the Clearing Member's buy and sell transactions. In computing for the Clearing Member's exposure, SCCP compares each trade's Market Value and Contract Value, and the difference shall be the value of exposure on the Clearing Member's Transactions. For buy transactions, if the Market Value is greater than the Contract Value, the exposure is positive. On the other hand, if the Market Value is lesser than the Contract Value, the exposure is negative. For sell transactions, if the Market Value is greater than the Contract Value, the exposure is negative. On the other hand, if the Market Value is lesser than the Contract Value, the exposure is positive. The values of exposure on the Clearing Member's buy and sell transactions are netted to arrive at the Clearing Member's Net Negative or Net Positive Exposure for the specified trading day.

Clearing Members' exposures for the three (3) days unsettled Trades shall be netted out to arrive at the Clearing Members' total Net Negative or Net Positive Exposures.

### 6.3 Determination of Collateral Requirement

Clearing Members with Net Negative Exposures are required to cover the exposure by putting up collateral equivalent to the amount of their computed Net Negative Exposures. Any securities due for settlement that are already transferred in the Delivery Account shall be deemed as an early delivery transaction and will be deducted from the computation of the Clearing Members' collateral requirement.



## 6.4 Notification

SCCP, on a daily basis, computes for the Net Negative Exposures and subsequently, for the Collateral Requirement of all Clearing Members using the Collateral Management Module of CCCS system. Clearing Members with collateral requirement and collateral refund shall be notified via the message board in CCCS, which shall be posted by 6:00 PM after the uploading of the PSE Trades, closing prices and other data needed for the completion of the computation process in the CCCS system. Clearing Members shall be responsible for viewing their messages to ascertain whether they are required to put up collateral or are entitled to a refund. For the corresponding report on the Clearing Members' collateral requirement, concerned Clearing Members may generate the Collateral Requirement Notice in the system.

The Collateral Requirement Notice provides a section for the Clearing Members to advise SCCP of their intention to do Early Delivery. Clearing Members opting to do Early Delivery of Securities are required to fax back to SCCP the duly accomplished section of the said notice no later than 10:00 AM of the day following the computation date.

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

## 6.5 Procedure for Collateralization

Collateralization can be achieved through the deposit of Cash, Securities or a combination of both cash and securities. Deadline for putting up collateral shall be at 12:00 noon of the following business day subsequent to computation date. The Clearing Member may also opt to make an early delivery of any of the securities causing negative exposures on its unsettled trades to reduce or eliminate the computed negative exposure that is required to be covered by collateral.

If the Clearing Member's current collateral requirement is greater than the previous day's collateral requirement, said Clearing Member is required to make an additional collateral to cover for the insufficiency. Any collateral deposited in its Collateral account shall automatically be blocked in the system and will be used to cover the Clearing Member's collateral requirement.

If the Clearing Member's current collateral requirement is lesser than the previous day's collateral requirement, said Clearing Member is entitled to a refund of the excess amount of his collateral. Collateral deposited in the Collateral account, which was previously blocked to cover the Clearing Member's collateral requirement, will become free collateral. Any free collateral in the Collateral account is available for withdrawal.

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





### **6.5.1 Procedure for Cash Collateral Deposit**

Clearing Members opting for cash collateralization are required to open and maintain a Cash Collateral Deposit Account (CCDA) with their Settlement Bank, as well as accomplish the Cash Collateral Deposit Account Agreement. Any amount of collateral requirement should be funded by the Clearing Member by depositing Cash or cleared funds to his CCDA or by ensuring that the available balance in his CCDA is sufficient to cover the amount of the collateral requirement.

SCCP shall upload the Cash Collateral Requirement List to the Settlement Banks. Settlement Banks shall confirm, through an online interface with the SCCP system, the available cash balances in the Clearing Members' CCDA directly to the Clearing Members' Collateral Account in the CCCS system, thereby transferring such amounts in the SCCP Nostro Account.

There is no need for the Clearing Member to make a collateral deposit instruction as confirmed cash balances in its CCDA will automatically be reflected in its Collateral Account in the CCCS system.

#### **6.5.1.1 Insufficient Funds in the Cash Collateral Deposit Account**

Clearing Member may transfer Cash or cleared funds, in the system, to its Collateral Account by:

- (a) Source Account is the DEPOSIT CASH ACCOUNT (CSD)

In the CSD window under Instructions, select CSD Collateral Deposit from the main selection. Transfer Cash to the Collateral Account using Collateral Deposit Creation and indicate Deposit Cash Account as the Source Account. Deposit Cash Account in the system is the confirmed cash balance of the Clearing Member's Cash Settlement Account.

- (b) Source Account is the RECEIVE CASH ACCOUNT (CCH) or the Net Cash Entitlement

In the CCH window under Instructions, select Collateral Management from the main selection. Transfer Cash to the Collateral Account using Collateral Deposit Creation and indicate Receive Cash Account as the Source Account.



### 6.5.2 Procedure for Deposit of Securities as Collateral

SCCP shall only allow Clearing Members opting for Securities Collateralization to pledge eligible Securities as collateral. Using the CCCS System, Clearing Members may transfer Securities to their Collateral Account by:

- (a) Source Account is the DEPOSIT (LC/LP/FC/FP) ACCOUNT (CSD)

In the CSD window under Instructions, select CSD Collateral Deposit from the main selection. Transfer Securities to the Collateral Account using Collateral Deposit Creation and indicate Deposit (LC/LP/FC/FP) Account as the Source Account.

- (b) Source Account is the RECEIVE (LC/LP/FC/FP) ACCOUNT (CCH)

In the CCH window under Instructions, select Collateral Management from the main selection. Deposit Securities to the Collateral Account using Collateral Deposit Creation and indicate Receive (LC/LP/FC/FP) Account as the Source Account.

### 6.5.3 Early Delivery of Securities

Clearing Members may deliver Securities prior to Settlement Date to reduce or offset their negative exposures when said Securities caused the exposure on their trades. For *Procedures on Early Delivery of Securities*, refer to *Section 2.7.1*.

Early settlement of any Trades, as described in *Section 5.5.1.1*, shall affect the calculated MMCD exposures of both the counterparties to the trade for the original and new Settlement Dates, thereby affecting the net exposure of said Clearing Members.

## 6.6 Refund of Excess Collateral

After collateral has been deposited by a Clearing Member to cover his Net Negative Exposure, it is possible that on the succeeding day/s the Clearing Member shall be entitled to withdraw such collateral, in whole or in part. In any event that after performing the Mark-to-Market calculations for the day, it is determined by SCCP that the Clearing Member's existing collateral value is greater than the collateral requirement, or that the Clearing Member's Net Negative Exposure no longer exists, said Clearing Member will be entitled to either a partial or a full refund, as the case may be.

At 9:00 a.m. of the following business day, the refund shall be made available by the CCCS system by converting the blocked collaterals to free collaterals. Clearing Members may withdraw free collaterals from the Collateral account between 9:00 AM and 12:00 NN. Cash and securities withdrawal from the Collateral account may only be made through the CCCS system.



### **6.6.1 Procedure for Cash Collateral Refund**

Cash collateral may be withdrawn from the Collateral Account between 9:00 am and 12:00 NN daily only through CCCS by executing a Collateral Withdrawal (CCH) and a Wire Transfer (CSD) Instruction, as described in the SCCP Users Manual.

Over-the-Counter withdrawals from the Clearing Member's Cash Collateral Account with the Settlement Bank shall not be allowed in order to restrict withdrawal of blocked cash collateral in CCCS. To enable the Clearing Member to withdraw the excess cash collateral, said Clearing Member should transfer cash to the Deposit Cash Account using the Collateral Withdrawal instruction and subsequently, execute a Wire Transfer instruction to transfer said cash from the Deposit Cash Account to its Working Account. Clearing Members should notify their Settlement Bank which Working Account will be credited for the proceeds of the Wire Transfer, otherwise the bank will refuse such instruction.

#### **6.6.1.1 Collateral Withdrawal in the CCH Window**

Withdraw Cash from the Collateral Account using Collateral Withdrawal Creation and by indicating Deposit Account or Delivery Account as the Target Account. Cash Collateral Withdrawals will only transfer the Cash from the Collateral Account to the Deposit Cash Account or the Delivery Cash Account in the CCCS system. The Deposit Cash Account in CCCS is reflective of the cash balance of the Clearing Member's actual Cash Settlement Account with its Settlement Bank.

#### **6.6.1.2 Wire Transfer in the CSD Window**

Transfer of Cash from the SCCP Nostro Account to any regular working account (non-settlement and non-collateral), enrolled with the respective Settlement Bank, may be done using the Wire Transfer facility of the CCCS System as described in the SCCP Users Manual.

After the settlement run, the system automatically sweeps out any amount of Cash in the CCCS Collateral Account, thereby effecting transfer of funds back to the Clearing Members' Cash Collateral Accounts with their respective Settlement Bank and zeroing out the CCCS Cash Collateral Account.

In the same manner, SCCP will sweep out cash in the CCCS Deposit Cash Account, effecting transfer of funds back to the Clearing Members' Cash Settlement Account. For Clearing Members who executed collateral withdrawal from the Collateral Account to the Deposit Cash Account but were not able to execute a Wire Transfer instruction, said cash will be credited to their Cash Settlement Account and not to their Cash Collateral Account during SCCP's sweep out procedure.



### 6.6.2 Procedure for Securities Collateral Refund

Securities Collateral may be withdrawn by the Clearing Member by transferring Securities from the Collateral Account to the Clearing Member's Deposit (LC/LP/FC/FP) Account or Delivery (LC/LP/FC/FP) Account.

For Securities withdrawal, select Collateral Management under the main selection Instructions. Transfer Securities by executing Collateral Withdrawal Creation, indicating Deposit (LC/LP/FC/FP) or Delivery (LC/LP/FC/FP) as the Target Account.

### 6.7 Applicable Fines and Penalties

In the event that the required collateral deposit or delivery is not made by the prescribed 12:00 NN collateral cut-off, penalties will be charged against the defaulting Clearing Member. SCCP will send a billing notice to the defaulting Clearing Member through fax by 3:00 p.m. of the same day.

Penalties shall be assessed as scheduled in the table below.

Offense	Action/Penalty
Non-Payment or Non-Delivery of Required Collateral (payments/pledges not made by 12:00 NN)	1 <sup>st</sup> Offense: a payment charge equivalent to ¼ of 1% of the required collateral plus actual out-of-pocket expenses incurred by SCCP on the matter.  2 <sup>nd</sup> Offense: a payment charge equivalent to ½ of 1% of the required collateral plus out-of-pocket expenses incurred by SCCP on the matter and an issuance of a warning to the Defaulting Clearing Member.  3 <sup>rd</sup> 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.



**7.0 Mark-to-Market Collateral Deposit (MMCD) Fund  
and Credit Ring Agreement (CRA)**

*(Deleted)*



**Annex 1: SCCP Reports**

<b>Report Name</b>	<b>Day Available</b>	<b>Primary User</b>	<b>Description</b>
Daily Transaction Report	T + 1 (morning)	Broker	The day's trades summarized by order number
Obligation Report	T + 1 (morning)	Broker	Lists value of trades & net due/receivable on cash and securities for each Clearing Member account
Cash List	T + 1 (morning)	Settlement Bank	Net cash settlement position of each Broker for day's trades; summary is net cash position of settlement bank
Projection Report	T + 3 (morning)	Broker SCCP	Lists expected position of securities after next day's settlement; advisory to remedy anticipated short position
Morning Failures	T + 3 (afternoon; after settlement run)	SCCP	List pending fails for follow-up action/actual settlement Defaults for BISO
Notice of Securities Default	T + 3 (1:30 – 3:00 PM)	Broker	Faxed notice to inform affected Clearing Members of the undelivered securities
Notice of Securities Delivered	Upon settlement of security fail	Broker	Faxed notice to inform affected Clearing Members that the securities have been delivered.
Notice of Possible Overnight Cash/Security Fail	T + 3 (3:00 – 5:00 PM)	CMIC	Faxed notice to inform CMIC of the possible overnight fails
Buy-In/Sell-Out Notice	T + 3 (3:00 – 5:00 PM)	Broker	Faxed notice of possible BISO transaction if outstanding obligation is not settled by 9:15 AM of the next business day.
Buy-In/Sell-Out Request	T + 3 (3:00 – 5:00 PM)	PSE	Faxed notice to PSE to inform of the possible BISO transaction the next business day.
Notice of Preventive Suspension	T + 3 (3:00 – 5:00 PM)	Broker	Faxed notice to inform Defaulting Clearing Member of the suspension from trading.



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Demand Notice	T + 4 (12:00 NN – 2:30 PM)	Broker	Faxed notice to inform Defaulted Clearing Member of the charges incurred due to the BISO transaction, including penalty and other applicable charges
Notice of Completed Late Settlement – Payment/Security	T + 4 (morning)	Broker	Faxed notice to inform Defaulted Clearing Member of the time of the late or failed settlement
Billing Statements	T + 4 (morning)	Broker	Faxed statements of SCCP Penalty to Brokers due to late settlement
Statement of Account	Monthly (1st business day of the month)	SCCP Broker	Creates statements for all accounts with outstanding balances; statement is faxed to the Broker