

[SEC, July 17, 1997]

AMENDED RULES GOVERNING SECONDARY MARKET TRADE OF GOVERNMENT SECURITIES

Pursuant to Section 129 of Republic Act No. 7653, otherwise known as "The New Central Bank Act", mandating the return of fiscal functions by the Bangko Sentral ng Pilipinas to the Department of Finance, the Securities and Exchange Commission, pursuant to the powers vested in it under existing laws, hereby promulgates the following amended rules to govern the secondary market trade of Government Securities:

RULE 1. Rationale for the Rules. —

- (a) All dealings in securities are impressed with public interest, therefore, should be subject to prudential rules and licensing, such as, uniform calculation formulae and uniform accounting method and system.
- (b) Only Securities and Exchange Commission (SEC) licensed dealers can engage in the business of buying and selling securities.
- (c) Members of the public can only buy from or sell to licensed dealers.
- (d) Dealers must agree to certain conventions or practices to ensure an orderly, efficient, transparent and honest market of securities. These conventions should be articulated in writing and agreed to by prospective and licensed dealers.
- (e) For this purpose, there must be adequate training and roster of eligible dealers, that is, trained and licensed. Such that, transfer of dealers from one institution to another should be subject to presentation of certificate of good conduct.

RULE 2. Objectives of the Rules. —

- (a) The ordinary registration and settlement of Government Securities (GS) trades in the secondary market.
- (b) The Convention of Delivery-Versus-Payment (DVP) and Real-Time-Gross-Settlement (RTGS) basis (transaction by transaction) of GS.
- (c) The absence of systemic risk/disruption of the Philippine financial system.
- (d) The efficiency, simplicity, transparency of the secondary market of GS.
- (e) Lower cost of delivery/settlement of GS through electronic trading.
- (f) Professionalization through ethical standards of trading.

RULE 3. Definition of Terms. — For the purpose of these Rules, the following terms shall have the following meaning:

"Autodebit/Autocredit Authorization" shall mean an instruction in writing of dealers, in such form as hereby prescribed as being valid, to effect actual securities/cash transfer between different Securities/Cash Accounts of a dealer or to the Securities/Cash Account of another dealer; (As amended)

"Book-entry delivery" shall mean a method of delivering securities which is constructive, not physical, that permits trades to settle by debiting or crediting securities account by book entry;

"Bureau" shall refer to the Bureau of the Treasury or its officials, in appropriate cases,

"Commission" shall refer to the Securities and Exchange Commission or officials, in appropriate cases;

"Dealer" shall mean any person as defined in Section 2 of the Revised Securities Act or its amendments;

"Delivery-Versus-Payment" or *"DVP"* shall mean a method of executing transaction in which the buyer receives trade securities from the seller only against buyer's full payment of the securities; conversely, the seller delivers trade securities to the buyer only against receipt of buyer's full payment;

"Pledge Instruction" shall mean an instruction of a dealer, in such form as hereby prescribed as being valid, to segregate and earmark securities in favor of another dealer or the Settlement Bank or any pledgee; (As amended)

"Real-Time-Gross-Settlement" or *"RTGS"* shall mean an immediate settlement of the transactions in GS through electronic processing without netting;

"Registry of Scripless Securities" or *"RoSS"* shall refer to the registry of ownership of or interest in scripless securities floated by the Republic of the Philippines, maintained by the Bureau of the Treasury; (As amended)

"Securities Account" shall mean each Principal Securities Account and Client Securities Account allocated to and administered by dealers in which GS owned by or pledged to or lent to of such dealers or their clients are credited; conversely, or from which GS sold by or pledged by or borrowed by such dealers or their clients are debited; (As amended)

"Settlement Account" shall mean, in relation to each dealer, the cash account maintained with the Settlement Bank for the purpose of paying for GS transactions;

"Settlement Bank" shall mean the bank designated and approved by RoSS for the money payment purposes of GS transactions, and for receipt of credit for matured GS or coupons; (As amended)

"Trade Instruction" or *"TI"* shall mean an instruction of a dealer to effect book-entry

delivery of GS to the Principal Securities Account or Client Securities Account of a dealer, or to the Principal Securities Account or Client Securities Account of another dealer. (As amended)

RULE 4. Persons Authorized to Trade. — Only dealers who wish to engage in the regular business of buying and selling GS after accessing the Registry of Scripless Securities (RoSS) may trade in GS.

Such dealer shall meet the following:

- (a) Currently licensed by the Commission to deal in securities;
- (b) Undertaking to comply with any law, regulation, order or convention and any requirement pursuant thereto, applicable to person who deal and trade in GS; and
- (c) Execution of Autocharge, Autocredit and Autopledge to/from a Cash/Securities Account to/from another.

RULE 5. Persons Not Authorized to Trade. — Non-dealer may access RoSS only through a dealer with whom proper bilateral funding arrangements shall have been concluded. (As amended)

RULE 6. Procedures for Trading. —

6.1. *Securities Account* — Each dealer shall open and maintain Principal Securities Account and Client Securities Account/s with RoSS for official record-keeping of inventory and trades of their GS, and that of their clients. (As amended)

6.2. *Autodebit/Autocredit Authorization* — Each dealer shall authorize the Bureau in writing through an autocharge/autocredit authorization, to debit/credit their Securities Account upon debit/credit instruction, the same autocharge/autocredit for the Settlement Bank to debit and/or credit their Settlement Account.

6.3. *Trading Hours* — Trading shall be from 9:30 A.M. to 12 Noon, Monday through Friday, unless a weekday is a public holiday. Dealers, however, shall have until 1:30 P.M. to register their trade/s with RoSS. (As amended)

6.4. *Trading Lot* — There shall be no minimum/maximum trading lot in the secondary market trade of scripless GS. (As amended)

6.5 *Trading* — Trading shall be done through any of the available electronic systems linked with RoSS, in the following manner: (As amended)

6.5.1. *Outright Sale/Purchase*

(a) Dealers shall match the corresponding trade instruction (Confirmation of Sale of GS for the selling dealer and Confirmation of Purchase of GS for the purchasing dealer), and when matched, shall input the same, which shall be acknowledged by RoSS in an appropriate form by indicating a "POSTED" status. (As amended)

(b) Based on the matched trade instruction of the dealers, RoSS shall

verify the sufficiency of GS in the Securities Account of the selling dealer. Once verified, RoSS shall clear and register the transaction by causing the relevant GS to be debited and credited on the respective Securities Account of the selling dealer and purchasing dealer. (As amended)

6.5.2. *Repurchase/Resell Agreement*

(a) Dealers shall match the corresponding trade instruction (Confirmation of Sale of GS with an Obligation to Repurchase for the selling dealer and Confirmation of Purchase of GS with an Obligation to Resell for the purchasing dealer), and when matched, shall input the same, which shall be acknowledged by RoSS in an appropriate form by indicating a "POSTED" status. (As amended)

(b) Based on the matched trade instruction of the dealers, RoSS shall verify the sufficiency of GS in the Securities Account of the selling dealer, and once verified, RoSS shall clear and register the transaction by causing the debit and credit of the relevant GS on the respective Securities Account of the dealers. (As amended)

(c) Failure of a dealer to repurchase/resell GS subject of his Repurchase/Resell Agreement within the stipulated period shall subject such dealer to a penalty for every day of delay in repurchasing/reselling the relevant GS in accordance with the Revised Securities Act and its amendments.

6.5.3 Lending/Borrowing — Dealers shall match the corresponding trade instruction (Confirmation of GS Lending for the Lender-dealer and Confirmation of GS Borrowing for the Borrower-dealer), and when matched, shall input the same, which shall be acknowledged by RoSS in an appropriate form, indicating a "POSTED" status. Based on the matched trade instruction of the dealers, RoSS shall verify the availability of free GS in the Securities account of the Lender-dealer. Once verified, RoSS shall clear and register the transaction by causing the relevant GS to be debited and credited on the respective Securities Account of the Lender-dealer and Borrower-dealer. (As amended)

6.5.4. *Pledge*

(a) Pledgor-dealer shall input a Pledge Instruction, which shall be acknowledged by RoSS, indicating a "POSTED" status. Based on the same, RoSS shall verify the availability of free GS in the Securities Account of the Pledgor-dealer, and once RoSS shall clear and register the transaction by causing relevant GS to be registered/recorded in the Securities Account of the Pledgee, and to be segregated and earmarked in favor of the pledgee in the Securities Account of the Pledgor-dealer. (As amended)

(b) Pledgor-dealer shall furnish RoSS a copy of the Contract of Pledge. (As amended)

(c) Pledged GS shall not be eligible for any trade: (a) unless otherwise

agreed upon by the Pledgor and Pledgee, and made known to RoSS; (b) until Pledgee input a Notice of Release of GS Pledge Transaction for the release of the pledged GS. (As amended)

6.6 No Failed Trades — Dealers shall ensure that all trades are cleared and settled, having sufficient securities and cash/credit in their corresponding Settlement Accounts. (As amended)

There shall, be no failed trades. At best, a trade with insufficient securities/funds will be queued by RoSS until the dealer corrects the deficiency before the end of the trading hours, in which event RoSS shall clear/settle the trades queued on a first-in-first-out basis. (As amended)

6.7. No Trading of Matured GS — Dealers shall not trade GS on its maturity date. (As amended)

6.8. Proof of Transfer — Book-entry transfer of ownership of GS in the secondary market by RoSS shall be binding on the parties to the transfer, and shall be final, conclusive and irrevocable unless RoSS had acknowledged receipt of a contrary notice before the entry was made. (As amended)

RULE 7. Procedures for Settlement. —

7.1. DVP and RTGS

(a) Settlement of all GS transactions will always be on a Delivery-Versus-Payment (DVP) basis, i.e., delivery will be simultaneous with payment, and on a Real-Time-Gross-Settlement (RTGS) basis, i.e., trade for trade and not netting.

(b) Pending, however, full electronic interface by dealers to RoSS and to the Settlement Bank, RoSS, at the end of the trading but not later than 4:00 P.M. shall net all trades of all dealers for final settlement by the Settlement Bank; Provided, that settlement shall be on the same day. (As amended)

7.2. Settlement Account — Each dealer shall open and maintain a Settlement Account with the Bangko Sentral ng Pilipinas (BSP) or any Bank of their choice which, like BSP, shall agree to service their settlement of scripless securities trade immediately upon notice of a transaction concluded. (As amended)

7.3. Money Position and Estimated Trade — At the start of trading hours, each dealer should know and validate the funds available in his Settlement Account. Further, each dealer shall calculate the amount needed for his trade settlement for the day.

7.4. Overnight Lending — If the Settlement Account balance of a dealer in his estimation is not sufficient for his estimated deals for the day or in any event of insufficiency of funds of a dealer, such dealer should make an arrangement with the Settlement Bank for an Overnight Lending collateralized by free GS in the dealer's Principal Securities Account with RoSS, subject to the terms and conditions of the Settlement Bank. (As amended)