

[SEC, October 17, 1996]

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 (BSP) to the Department of Finance (DoF), the following Rules are hereby promulgated 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 orderly 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 systematic risk/disruption of the Philippine financial system.
- d. The efficiency, simplicity and 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 cash transfer between different Cash Accounts of a dealer or to the Cash Account of another dealer;

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

"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 accounts by book entry;

"Commission" shall refer to the Securities and Exchange Commission or its 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 for 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 earmark Government Securities in his Securities Account in favor of another Dealer or the Settlement Bank or any pledgee;

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

"Securities Account" shall mean each account and sub-accounts allocated to and administered by dealers in which GS owned by or pledged to or lent to of such dealers are credited; conversely, or from which GS sold by or pledged by or borrowed by such dealers are debited;

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

"Settlement Bank" shall mean the bank designated and approved by the Bureau for the money payment purposes of GS transactions;

"Trade Instruction" or "TI" shall mean an instruction of a dealer, in such form as hereby prescribed as being valid, to effect book-entry delivery of GS to a Securities

Account or Securities Sub-Account of a dealer, or to the Securities Account or Securities Sub-Account of another dealer.

Rule 4

Persons to Trade

Only dealers who wish to engage in the regular business of buying and selling GS after accessing the Registration of Scripless Securities (RoSS) may trade in GS.

Such dealer shall meet the following:

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

Rule 5

Person Not Authorized to Trade

Non-dealer may access the System through a dealer with whom proper bilateral funding arrangements shall have been concluded.

Rule 6

Procedures for Trading

Trading shall be done through an electronic dealing system, in the following manner:

6.1 Outright Sale/Purchase

- a. Dealers shall input the corresponding trade instruction (Confirmation of Outright Sale of GS for the selling dealer and Confirmation of Outright Purchase of GS for the purchasing dealer), which will be matched by the Bureau with the Settlement Bank and when matched, the relevant transaction shall be cleared by the Bureau.
- b. Based on the trade instruction of the dealers, the Bureau shall verify the sufficiency of GS in the Securities Account of the selling dealer and the sufficiency of cash in the Settlement Account of the paying dealer. Once matched, the Bureau shall clear the transaction by causing the relevant amount to be debited and credited on the respective Settlement Account of the dealers. Simultaneously, the Bureau shall debit the Securities Account of the selling dealer and credit the Securities Account of the purchasing dealer.

6.2 Repurchase/Resell Agreement

- a. Dealers shall input 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 based on the same, the Bureau shall verify the sufficiency of GS in the Securities Account of the selling dealer and the sufficiency of cash in the Settlement Account of the paying dealer.

- b. Once the securities in the Securities Account of the selling dealer and the cash in the Settlement Account of the paying dealer matched, the Bureau shall clear the transaction by causing the simultaneous debit and credit of the relevant amount on the respective Settlement Account of the dealers and the debit and credit of the relevant GS on the respective Securities Account of the dealers.
- 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 relevant GS in accordance with the Revised Securities Act.

6.3 Lending/Borrowing

Lender-dealer shall input a Confirmation of GS Lending in favor of the Borrower-dealer, who, in turn, shall input a Confirmation of GS Borrowing. Based on the same, the Bureau shall verify the availability of free GS in the Securities Account of the Lender-dealer. Once verified, the Bureau shall clear the transaction by causing the relevant GS to be debited and credited on the respective Securities Account of the Lender-dealer and Borrower-dealer.

6.4 Pledge

- a. Pledgor-dealer shall input a Pledge Instruction and based on the same, the Bureau shall verify the availability of free GS in the Securities Account of the Pledgor-dealer. Once verified, the Bureau shall clear the transaction by causing the relevant GS to be earmarked in favor of the Pledgee.
- b. Pledged GS shall not be eligible for any trade transaction unless the Pledgor-dealer and Pledgee input the necessary instruction for the release of the same.

Rule 7

Procedures for Settlement

7.1 DVPand RTGS

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.

7.2 Securities Account and Settlement Account

Each dealer shall maintain a Securities Account with the Bureau and a Settlement Account with the Settlement Bank.

7.3 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, and the same autocharge/autocredit for the Settlement Bank to debit and/or credit their Settlement Account.

7.4 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.

7.5 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 Securities Account with the Bureau, subject to the terms and conditions of the Settlement Bank.

It shall be the duty of the Settlement Bank to inform the Bureau of its Overnight Lending to dealers and to request earmarking lending to dealers and to request earmarking of subject GS in its favor.

7.6 Documentary Stamp Tax Payments

It shall be the obligation of dealers to ensure that all Documentary Stamp Tax (DST) due on their GS transactions are paid,

Rule 8

Accounting Requirements

8.1 Duty to keep records

It shall be the responsibility of each dealer to keep and maintain at all times a proper system of books and records necessary to record properly its business transactions and financial charts in accordance with the prescribed accounting system, including, without limitation:

- a. blotters (or other records of original entry) containing an itemized daily record of all purchases and sales of securities, all receipts and deliveries of securities, all receipts and disbursements of cash and all other debits and credits. Such record shall show the account for which each transaction was effected, the trade dates and description of the securities;
- b. a general ledger (or other records) maintained in detail reflecting all assets and liabilities, income and expense and capital accounts; and
- c. ledger accounts (or other records) itemizing separately as to each cash and securities account of every client, all purchases, sales, securities and all other debits and credits to such account.

8.2 Accounting System for GS