AMENDED RULES GOVERNING SECONDARY MARKET TRADE OF GOVERNMENT SECURITIES

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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

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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)

It shall be the duty of the Settlement Bank to inform RoSS of its Overnight Lending to dealers and to request earmarking of subject GS in its favor. (As amended)

RULE 8. Statement of Securities Account. — RoSS shall give a daily and a monthly Statement of dealers' Principal Securities Account and Client Securities Account Dealers, however, shall assume the responsibility of informing their clients of the status of clients respective accounts. (As amended)

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RULE 9. Service and Redemption. —

(a) The Bureau shall make payment in accordance with RoSS which, in turn, shall pay the dealer whose name appears in the registry. (As amended)

(b) On coupon due date/maturity date, the Bureau shall advise settlement Bank to credit the Settlement Account of each dealer with the amount of coupon payment, net of tax/redemption value of GS. (As amended)

RULE 10. Accounting Requirements. —

10.1 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, 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 securities;

(b) a general ledger (or other records) maintained in detail 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.

10.2 Accounting System for GS

10.2.1. Treasury Bills

(a) Purchase of Treasury Bills

Dr. Investments in T/Bills xxx

Dr. Prepaid Final Tax xxx

Cr. MC/Cash/Due from BSP xxx

(b) Amortization of T-Bills at the end of the month

i. Interest Income = (Discount) (Days run/Original Term)

Dr. investments in T/Bills xxx

Cr. Interest Income xxx

ii.. Income Tax Incurred = (W/holding Tax) (Days run/Original Term)

Dr. Provision for Income Tax xxx

Cr. Prepaid Final Tax xxx

(c) Treasury Bills

Dr. MC/Cash/Due from BSP xxx

Cr. Prepaid Final Tax xxx

Cr. Trading Gain/ (Loss) xxx

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Cr. Investments in T/Bills xxx

(d) Closing of Prepaid Final Tax

Dr. Trading Gain/ (Loss) xxx

Cr. Prepaid Final Tax xxx

FORMULA FOR PRICING T-BILLS

(a) Purchase Price (PP) (Pre-Tax) = FV (360) / 360 +(Y) (T)

Discount = FV-PP (Pre-Tax)

Withholding Tax = Discount x Tax Rate

PP (after Tax) = PP (Pre-Tax) + W/holding Tax

(b) Selling Price (SP) (Pre-Tax) = FV (360)/360 + (Y) (# of days to run)

Discount = FV-SP (Pre-Tax)

Withholding Tax = Discount x Tax Rate

SP (after Tax) = SP (Pre-Tax) + Withholding Tax

(c) Interest Income Earned = PP (Pre-Tax) (Y) (orig. term - # of days to run/360)

(d) Trading Gain/(Loss) = SP (Pre-Tax) - PP (Pre Tax) - Interest Income Earned

10.2.2 Treasury Bonds

FORMULA FOR PRICING T-BONDS

(a) When simply carried in GSEDs' books

Month-end accruals are booked as follows:

Face Value x coupon rate x days-run/360

Dr. Accrued Interest Receivable xxx

Cr. Interest Income (net of tax) xxx

Cr. Taxes Payable xxx

Current Yield Computations, coupon/price (as determined by market) Yield to Maturity (conventional method)

(b) When T-Bonds are sold in the Secondary Market (Price Quoted)

If sold at premium, i.e., 101

Principal is (FV x 1.01) xxx

Accrued Interest (FV x CR x TE) xxx

Taxes Payable (xxx)

Net Sale Price xxx

Dr. MC/Cash xxx

Dr. Taxes Payable xxx

Cr. Trading Accounts Sec/Inv. xxx

Cr. Trading Gains xxx

Cr. Accrued Interest Receivable xxx

Yield Equivalent Calculations

Current Market Yield xxx

Yield to Maturity xxx

Return (CD-Act/360) xxx

10.3. Duty to check accuracy of statement of accounts and reports

It shall be the responsibility of each dealer to check and reconcile with its own records/books the statement of securities accounts and reports generated by RoSS in, relation to the registration, clearing and settlement of GS, and to properly notify RoSS in writing of any error or omission contained therein within two (2) business days from receipt of the statement of accounts/reports. (As amended)

RULE 11. Operating Forms. — In connection with the RoSS, the following forms shall be used by the dealers:

(a) Confirmation of Outright Sale/Purchase an entry to be made by the Seller/Purchaser-dealer, confirming to RoSS that it has sold/purchased unto/from Buyer/Seller-dealer the GS described thereat; (As amended)

(b) Confirmation of Sale/Purchase of GS with an Obligation to Repurchase/Resell: an entry to be made by the Seller/Purchaser-dealer, confirming to RoSS that it has sold/purchased unto from Buyer/Seller-dealer with an obligation to repurchase/resell the GS described thereat; (As amended)

(c) Confirmation of GS Lending/Borrowing: an entry to be made by the Lender/Borrower-dealer, confirming to RoSS that it has lent/borrowed unto/from Borrower/Lender-dealer the GS described thereat; (As amended)

(d) Declaration of GS Pledge Transaction: an entry to be made by the Pledgor-dealer, declaring that it has entered into a pledge transaction pledging the GS described thereat; and (As amended)

(e) Notice of Release of GS Pledge Transaction: an entry to be made by the Pledgee, giving notice to RoSS that it has released the GS Pledge Transaction it had entered into involving the GS described thereat. (As amended)

RULE 12. Records Examination. — All accounts, forms, books and other records of dealers shall be subject to such reasonable periodic examination as the Commission may deem necessary and/or appropriate in the interest of the public and/or for the protection of GS investors.

RULE 13. Market Ethics. —

13.1. General — In the trading of GS, all dealers must:

(a) Observe high standards of ethics and conduct in the transaction of their business;

(b) Not engage in any business conduct or practice which is unbecoming or detrimental to the public interest; and

(c) Be of such character and business repute and have such experience and training consistent with the standards described in clauses (a) and (b).

13.2. Acts Subject to Disciplinary Proceedings

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13.2.1. The Commission may, motu propio or upon verified complaint, conduct disciplinary proceedings against a dealer in respect of an act of misconduct committed by it. Such act of misconduct includes: (As amended)

(a) breach of these Rules;

(b) being subject to an adverse finding by any association or any other organization/entity to which the dealer is subject; (As amended)

(c) errors, delays or other conduct detrimental to the operations of RoSS; (As amended)

(d) selling without inventory or expectation of inventory of securities or buying securities without funds or credit line available;

(e) participating or knowingly allowing its name to be used in respect of any advertisement or sales literature in connection with GS which is false, misleading or inaccurate;

(f) engaging in GS unauthorized transactions;

(g) engaging in "churning" or excessive trading;

(h) failure to comply with any decision or order of the Commission; and (As amended)

(i) such other misconduct or acts demonstrating unworthiness of the dealer to engage in the business of buying and selling GS, and which is detrimental to the interest of other dealers and/or the general public. (As amended)

13.2.2. For the purpose of any such disciplinary proceeding, the Commission may exercise such power/s granted to it under existing laws. (As amended)

13.3. Administrative Sanctions on Dealers

13.3.1. The Commission may, after proper notice and hearing, impose any or all of the following administrative sanctions (As amended)
(a) Suspension, or revocation of dealer's license to engage in the business of buying and selling GS; (As amended)

(b) Imposition of a fine on the dealer;

(c) Publicly censure the dealer; and

(d) Other penalties as the Commission shall consider appropriate in the circumstances, and within its power under existing laws. (As amended)

13.3.2. The imposition of any of the foregoing administrative sanction shall be without prejudice to the filing of civil/criminal charges against the violator-dealer, (As amended)

13.4. Cease and Desist Order — The Commission may, after proper investigation, motu propio, or upon verified complaint, issue a cease and desist order without the necessity of a prior hearing if in its judgment the misconduct will likely cause grave or irreparable injury, and may further order that immediate action be taken by the dealer to correct the conditions resulting from the misconduct or violation. (As amended)

Any person aggrieved by a cease and desist order issued pursuant to the preceding paragraph shall have five (5) days from the receipt of the order within which to request in writing a hearing. If no such hearing is requested within said period, the order shall be final. (As amended)

RULE 14. Effectivity. — These Amended Rules shall take effect after completion of its publication once a week

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for two (2) consecutive weeks in at least two newspapers of general circulation or in the Official Gazette.

Adopted: 17 July 1997

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