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RSA RULE 19-1 REGISTRATION OF BROKERS AND DEALERS AND THEIR PERSONNEL

SEC FINANCIAL AND OPERATIONAL RULES, July 10, 1996

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(a) Registration of Brokers and Dealers in Securities

(1) Every application for registration of a broker dealer in securities shall be filed on SEC Form 19-1 which must be verified under oath.

(A) Such application shall contain information with regard to all branch offices of the registrant, if any.

(B) Amendments to SEC Form 19-BD shall be filed by the registrant within ten (10) days of any change to the information previously filed with the Commission.

(2) The application shall be submitted in two (2) copies accompanied by the following papers or documents:

(A) A continuing authorization for the Commission's duly authorized representatives to verify the registrant's bank accounts. The authorization shall be for all banks wherein accounts are maintained by the broker or dealer, its subsidiaries and its affiliates and persons under common control with or by the broker or dealer and shall be continuous with registration by the Commission.

(B) Surety bond in the amount of P5,000,000.00 for a broker, and P1,000,000.00 in the case of a dealer. The surety bond shall be filed in the original and a duplicate thereof, and should be accompanied by the required clearances of the bonding company issued by the Supreme Court of the Philippines, the Regional Trial Court of the locality wherein the principal office of the insurance company is located, and a statement from the Office of the Insurance Commissioner that the authority of the bonding company to issue surety bonds is still valid and the maximum amount it can underwrite per risk.

(C) Valid work permits of foreigners connected in any capacity with applicant.

(D) If the application is for the registration of a stock broker and the applicant is a corporation, it should also submit:

(i) Certification of the Corporate Secretary that the Board of Directors has authorized, in a resolution, the President and Secretary to sign an Irrevocable Consent to Service of Process upon the Securities and Exchange Commission as service to the corporation.

(ii) A copy of the resolution of the stockholders authorizing the corporation to engage in stock brokerage business or in the business of dealer in securities if said business activities are not provided for in the primary purpose clause of the Articles of Incorporation of the company, and

(E) The broker or dealer's latest audited financial statement.

(3) A minimum net capital in the amount of P10,000,000.00 is required of every applicant for registration as a broker or dealer in securities.

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(4) Upon filing of the application the following fees shall be collected:

(A) Broker — P10,000.00

(B) Dealer — P10,000.00

(C) Branch Office — P5,000.00

(5) All securities issuers, selling their own securities without the intervention of duly registered brokers or dealers in securities, are deemed dealers pursuant to Section 19 of the Revised Securities Act and shall be registered as such dealers in accordance with these rules.

(b) Registration of Salesmen

(1) Only a natural person who is employed by a broker or dealer shall be registered as a salesman.

(2) Application for registration of a salesman shall be filed in SEC Form 19-S in two copies verified under oath by the broker or dealer who is the employer of the salesman. The salesman's registration shall cease when he is no longer employed by the broker or dealer.

(3) A filing fee of P1,000 shall be collected by the Commission upon filing of the application.

(4) If the applicant is applying for registration as a salesman for the first time, he must first be certified by the Philippine Stock Exchange as a Certified Securities Representative.

(5) Notice of discontinuation of employment of a salesman, and the reasons therefor, shall be given by the employing broker or dealer by filing SEC Form 19-ST with the Commission not later than 30 days after the discontinuation of the employment of the salesman.

(c) Every person registered pursuant to this Rule shall file the appropriate registration renewal form and pay to the Commission by December 1 of each year an annual renewal fee as follows:

Broker — P5,000.00

Dealer — P5,000.00

Branch Office — P2,500.00

Salesman — P500.00

If such fee is not paid or the registration renewal form is not filed by any person as required, the registration of such person shall be suspended until payment has been made but if not paid prior to the expiration of 30 days after the required payment date, the registration shall be terminated. (Amends Rules on Registration and Licensing Stockbrokers, Dealers in Securities and Their Salesmen [as amended] issued October 15, 1981.)

RSA RULE 24 (b)-1

Lending and Voting Customers' Securities

A broker or dealer which extends credit to a customer shall not without the written consent of the customer, lend the latter's securities to itself or to anyone else, or vote them as if they were its own. (Amends Rules B.17 of the 1938 Rules)

RSA RULE 24 (b)-2

Customer Protection-Reserves and Custody of Securities

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(a) Physical Possession or Control of Securities

(1) A broker or dealer on a daily basis shall obtain and shall thereafter maintain the physical possession or control of all fully paid securities and excess margin securities carried by a broker or dealer for the account of customers.

(2) A broker or dealer shall not be deemed to be in violation of the provisions of paragraph (a)(1) regarding physical possession or control of customers' securities if, solely as the result of normal business operations, temporary lags occur between the time when a security is required to be in the possession or control of the broker or dealer and the time that it is placed in the firms' physical possession or under the firm's control, Provided, the broker or dealer takes timely steps in good faith to establish prompt physical possession or control. The burden of proof shall be on the broker or dealer to establish that the failure to obtain physical possession or control of securities carried for the account of customers is merely temporary and solely the result of normal business operations including same day receipt and redelivery (turnaround), and to establish that the firm has taken timely steps in good faith to place them in the broker or dealer's physical possession or control.

(3) A broker or dealer shall not be deemed to be in violation of the provisions of paragraph (a) (1) of this rule regarding physical possession or control of fully-paid or excess margin securities borrowed from any person, Provided, That the broker or dealer and the lender, at or before the time of the loan, enter into a written agreement that, at a minimum;

(A) Sets forth in a separate schedule or schedules the basis of compensation for any loan and generally the rights and liabilities of the parties as to the borrowed securities;

(B) Provides that the lender will be given a schedule of the securities actually borrowed at the time of the borrowing of the securities;

(C) Specifies that the broker or dealer must:

i) provide to the lender, upon the execution of the agreement or by the close of the business day of the loan if the loan occurs subsequent to the execution of the agreement, collateral, consisting exclusively of cash or Republic of the Philippines Treasury bills and Treasury notes or an irrevocable letter of credit issued by a Bank as defined in Section 2(1) of the RSA which fully secures the loan of securities, and

(ii) must mark the loan to the market not less than daily and, in the event the market value of all the outstanding securities loaned at the close of trading at the end of the business day exceeds 100 percent of the collateral then held by the lender, the borrowing broker or dealer must provide additional collateral of the type described in paragraph (a)(3)(C)(i) to the lender by the close of the next business day as necessary to equal, together with the collateral then held by the lender, not less than 100 percent of the market value of the securities loaned;

(b) Control of Securities — Securities under the control of a broker or dealer shall be deemed to be securities which:

(1) Are represented by one or more certificates in the custody or control of a depository, clearing corporation or other organization registered with the Commission in accordance with Section 40 of the RSA the delivery of which certificates to the broker or dealer does not require the payment of money or value, and if the books or records of the broker or dealer identify the customers entitled to receive specified number or units of the securities so held for such customers collectively, or

(2) Are carried for the account of any customer by a broker or dealer are carried in a special omnibus account in the name of such broker or dealer with another broker or dealer, such securities being deemed to be under the control of such broker or dealer to the extent that it has instructed such carrying broker or dealer to maintain

physical possession or control of them free of any charge, lien, or claim of any kind in favor of such carrying broker or dealer or any person claiming through such carrying broker or dealer, or

(3) Are the subject of bona fide items of transfer; provided that securities shall be deemed not to be the subject of bona fide items of transfer if, within 40 calendar days after they have been transmitted for transfer by the broker or dealer to the issuer or its transfer agent, new certificates conforming to the instructions of the broker or dealer have not been received by him, he has not received a written statement by the issuer or its transfer agent acknowledging the transfer instructions and the possession of the securities or he has not obtained a revalidation of a window ticket from a transfer agent with respect to the certificate delivered for transfer; or

(4) Are in the custody of a foreign depository, foreign clearing agency or foreign custodian bank which the Commission upon application from a broker or dealer, the Philippine Stock Exchange, or upon its own motion, shall designate as a satisfactory control location for securities; or

(5) Are in the custody or control of a bank as defined in Section 2(1) of the RSA the delivery of which securities to the broker or dealer does not require the payment of money or value and the bank having acknowledged in writing that the securities in its custody or control are not subject to any right, charge, security interest, lien or claim of any kind in favor of a bank or any person claiming through the bank; or

(6) (A) Are held in or are in transit between offices of the broker or dealer; or

(B) Are held by a corporate subsidiary if the broker or dealer owns and exercises a majority of the voting rights of all of the voting securities of such subsidiary, assumes or guarantees all of the subsidiary's obligations and liabilities, operates the subsidiary as a branch office of the broker or dealer, and assumes full responsibility for compliance by the subsidiary and all of its salesmen and other personnel with the provisions of the securities laws of the Republic of the Philippines as well as for all of the other acts of the subsidiary and such persons; or

(7) Are in transit to or from depositories, dealers, banks, custodians, transfer agents and clearing corporations which are otherwise good control locations pursuant to the term of this rule, Provided, such items shall have been in transit from or to the broker or dealer for a period of not more than five (5) business days from the day they are first put in transit, and Provided further, the books and records of the broker or dealer clearly account for such items. An "in transit" account may be used for this purpose; or

(8) Are held in such other locations as the Commission shall upon application from a broker, dealer or the Philippine Stock Exchange find and designate to be adequate for the protection of customer securities.

c) Requirement to Reduce Securities to Possession or Control

(1) Not later than the next business day, a broker or dealer, as of the close of the preceding business day, shall determine from the firm's books or records the quantity of fully paid securities and excess margin securities in its possession or control and the quantity of fully paid securities and excess margin securities not in its possession or control. In making this daily determination inactive margin accounts (accounts having no activity by reason of purchase or sale of securities, receipt or delivery of cash or securities or similar type events) may be computed not less than once weekly. If such books or records indicate, as of the close of the business day, that the broker or dealer has not obtained physical possession or control of all fully paid and excess margin securities as required by this paragraph (c) and there are securities of the same issue and class in any of the following non-control locations:

(A) Securities subject to a lien securing monies borrowed by the broker or dealer or securities loaned to another broker or dealer, then the broker or dealer shall, not later than the business day following the day on which such

determination is made, issue instructions for the release of such securities from the lien or return such loaned securities and shall obtain physical possession or control of such securities within 2 business days following the date of issuance of the instructions in the case of securities subject to lien securing borrowed monies and within 5 business days following the date of issuance of instructions in the case of securities loaned; or

(B) Securities included on his books or records as failed to receive more than 30 calendar days, then the broker or dealer shall, not later than the business day following the day on which such determination is made, take prompt steps to obtain physical possession or control of securities so failed to receive through a buy-in procedure or otherwise; or

C) Securities receivable by the broker or dealer as a stock dividend receivable stock split or similar distribution for more than 45 calendar days, then the broker or dealer shall, not later than the business day following the day on which such determination is made, take prompt steps to obtain physical possession or control of securities so receivable through a buy-in procedure or otherwise.

(2) A broker or dealer which is subject to the requirements of this rule with respect to physical possession or control of fully paid and excess margin securities shall prepare and maintain a current and detailed description of the procedures which it utilizes to comply with the possession or control requirements set forth in this rule.

(3) A broker or dealer which is subject to this rule shall record information relating to physical possession and control of fully paid and excess margin securities on a quarterly basis and submit such record to the Philippine Stock Exchange, in the case of a member of that Exchange, or to the Commission, in the case of a non-member, in accordance with Appendix A[*].

(d) Special Reserve Bank Account for the Exclusive Benefit of Customers

(1) Every broker or dealer shall maintain with a bank or banks at all times when deposits are required or hereinafter specified a "Special Reserve Bank Account for the Exclusive Benefit of Customers" (hereinafter referred to as the "Reserve Bank Account"), and it shall be separate from any other bank account of the broker or dealer. Such broker or dealer shall at all times maintain in the Reserve Bank Account, through deposits made therein, cash and/or qualified securities in amounts computed in accordance with the formula attached hereto as Appendix B.

(2) It shall be unlawful for any broker or dealer to accept or use any of the amounts under items comprising Total Credits under the formula referred to in paragraph (d)(1) except for the specified purposes indicated under items comprising Total Debits under the formula, and, to the extent Total Credits exceed Total Debits, the net amount thereof shall be maintained in the Reserve Bank Account required by paragraph (d)(1).

(3) (A) Computations necessary to determine the amount required to be deposited pursuant to paragraph (d)(1) shall be made weekly, as of the close of the last business day of the week and the deposit so computed shall made no later than 1 hour after the opening of banking business on the second following business day; Provided, however, a broker or dealer which has aggregate indebtedness not exceeding 800 percent of net capital (as defined in RSA Rule 24 (a)-1 and which carries aggregate customer funds as defined in paragraph (m)(10) of this rule as computed at the last required computation pursuant to this rule, not exceeding P25 million, may in the alternative make the computation monthly, as of the close of the last business day of the month, and in such event, shall deposit not less than 105 percent of the amount so computed no later than 1 hour after the opening of banking business on the second following business day.

(B) If a broker or dealer, computing on a monthly basis, has, at the time of any required computation, aggregate indebtedness in excess of 800 percent of net capital, such broker or dealer shall thereafter compute weekly as

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aforesaid until four successive weekly computations are made, none of which were made at a time when his aggregate indebtedness exceeded 800 percent of his net capital.

(C) Computations in addition to the computations required in this paragraph (d)(3), may be made as of the close of any other business day, and the deposits so computed shall be made no later than 1 hour after the opening of banking business on the second following business day.

(D) The broker or dealer shall make and maintain a record of each such computation made pursuant to this paragraph (d)(3) and submit such computation quarterly to the Philippine Stock Exchange, in the case of a member of that Exchange, or to the Commission in the case of a non-member.

(e) Notification of Banks — A broker or dealer required to maintain the Reserve Bank Account prescribed by paragraph (d) of this rule shall obtain and preserve in accordance with RSA Rule 37 (a)-2 a written notification from each bank in which the firm has its Reserve Bank Account that the bank was informed that all cash and/or qualified securities deposited therein are being held by the bank for the exclusive benefit of customers of the broker or dealer in accordance with the regulations of the Commission, and are being kept separate from any other accounts maintained by the broker or dealer with the bank, and the broker or dealer shall have a written contract with the bank which provides that the cash and/or qualified securities shall at no time be used directly or indirectly as security for a loan to the broker or dealer by the bank and shall be subject to no right, charge, security interest, lien or claim of any kind in favor of the bank or any person claiming through the bank.

(f) Withdrawals from the Reserve Bank Account — A broker or dealer may make withdrawals from the firm's Reserve Bank Account if and to the extent that at the time of the withdrawal the amount remaining in the Reserve Bank Account is not less than the amount then required by paragraph (d) of this rule. A bank may presume that any request for withdrawal from a Reserve Bank Account is in conformity and compliance with this paragraph (f). On any business day on which a withdrawal is made, the broker or dealer shall make a record of the computation on the basis of which the firm makes such withdrawal, and the broker or dealer shall preserve such computation in accordance with RSA Rule 37 (a)-2.

(g) Buy-In of Short Security Differences — A broker or dealer shall within 45 calendar days after the date of the examination, count, make verification and comparison of securities pursuant to RSA Rule 37 (a)-13, preparation of the annual report of financial condition in accordance with RSA Rule 37 (a)(6), or for any other purpose, buying in all short security differences which are not resolved during the 45-day period.

(h) Notification in the Event of Failure to Make a Required Deposit — If a broker or dealer shall fail to make in its Reserve Bank Account a deposit, as required by this rule, the broker or dealer shall by fax, telegram or other similar means, immediately notify the Commission and the Philippine Stock Exchange, if it is a member of that Exchange, and shall promptly thereafter confirm such notification in writing, including the reasons for such failure.

(i) Exemptions — (1) The provisions of this rule shall not be applicable to a broker or dealer who carries no margin accounts, promptly transmits all customer funds and delivers all securities received in connection with its activities as a broker or dealer and does not otherwise hold funds or securities for, or owe money or securities to customers.

(2) Upon written application by a broker or dealer, the Commission or the Philippine Stock Exchange, if the broker or dealer is a member of the Exchange, may exempt such broker or dealer from the provisions of this rule, either unconditionally or on specified terms and conditions, if the Commission or the Philippine Stock Exchange finds that the broker or dealer has established safeguards for the protection of funds and securities of customers

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comparable with those provided for by this rule and that it is not necessary in the public interest or for the protection of investors to subject the particular broker or dealer to the provisions of this rule.

(j) Delivery of Securities — Nothing in this rule shall be construed as affecting the absolute right of a customer of a broker or dealer to receive in the course of normal business operations following demand made on the broker or dealer, the physical delivery of certificates for:

1) Fully paid securities to which he is entitled, and

2) Margin securities upon full payment by such customer to the broker or dealer of his indebtedness to the broker or dealer and, subject to the right of the broker or dealer to retain collateral for the firm's own protection beyond the requirements of RSA Rule 23 (b)-1, excess margin securities not reasonably required to collateralize such customer's indebtedness to the broker or dealer.

(k) Completion of Sell Orders on Behalf of Customers — if a broker or dealer executes a sell order of a customer (other than an order to execute a sale of securities which the seller does not own) and if for any reason whatever the broker or dealer has not obtained possession of the securities from the customer within 10 business days after the settlement date, the broker or dealer shall immediately thereafter close the transaction with the customer by purchasing securities of like kind and quantity.

(l) Extensions of Time — If an appropriate committee of the Philippine Stock Exchange is satisfied that a broker or dealer which is a member of that Exchange is acting in good faith in making the application and that exceptional circumstances warrant such action, such committee, on application of the broker or dealer, may extend any period specified in paragraphs (c)(1)(B) and (C), paragraph (g) and paragraph (k) of this rule, relating to the requirement that such broker or dealer take action within a designated period of time to buy-in a security, for one or more limited periods commensurate with the circumstances. Each such committee shall make and preserve for a period of not less than 3 years a record of each such extension granted which shall contain a summary of the justification for the granting of the extension.

(m) Definitions — For the purpose of this rule:

(1) The term "customer" shall mean any person from whom or on whose behalf a broker or dealer has received or acquired or holds funds or securities for the account of that person. The term shall not include a broker or dealer nor shall it include general partners or directors or principal officers of the broker or dealer or any other person to the extent that the person has a claim for property or funds which by contract, agreement or understanding, or by operation of law, is part of the capital of the broker or dealer or is subordinated to the claims of creditors of the broker or dealer. The term a "customer" shall, however, include a broker or dealer to the extent the broker or dealer maintains an omnibus account for the account of customers with the broker or dealer.

(2) The term "securities carried for the account of the customer" (also "customer securities") shall mean:

(A) Securities received by or on behalf of a broker or dealer for the account of any customer and securities carried long by a broker or dealer for the account of any customer; and

(B) Securities sold to, or brought for, a customer by a broker or dealer.

(3) The term "fully paid securities" shall include all securities carried for the account of a customer in a cash account or a margin account if they have been fully paid for; Provided, however, That the term "fully paid securities" shall not apply to any securities which are purchased in transactions for which the customer has not made full payment.

(4) The term "margin securities" shall mean those securities which have been purchased by a customer on the

basis of credit extended by a broker or dealer pursuant to the provisions of Section 23 of the Revised Securities Act and RSA Rule 23 (b)-1.

(5) The term "excess margin securities" shall mean margin securities having a market value in excess of 140 percent of the total of the debit balances in the customer's account or accounts encompassed by paragraph (m)(4) which the broker or dealer identifies as not constituting margin securities.

(6) The term "qualified security" shall mean a security issued by the Republic of the Philippines or a security in respect of which the principal and interest are guaranteed by the Government of the Philippines.

(7) The term "bank" shall mean a bank as defined in Section 2(1) of the RSA.

(8) The term "free credit balances" shall mean liabilities of a broker or dealer to customers which are subject to immediate cash payment to customers on demand, whether resulting from sales of securities, dividends, interest, deposits, commodity interest contracts, pre-need plans or otherwise.

(9) The term "other credit balances" shall mean cash liabilities of a broker or dealer to customers other than free credit balances.

(10) The term "funds carried for the account of any customer" (also "customer funds") shall mean all free credit and other credit balances carried for the account of the customer.

(11) The term "principal officer" shall mean the president, executive vice president, treasurer, secretary or any other person performing a similar function with the broker or dealer. Any other officer of a broker or dealer is a customer of the broker or dealer.

(12) The term "household members and other persons related to principals" includes husbands or wives, children, sons-in-law or daughters-in-law and any household relative to whose support a principal contributes directly or indirectly. For purposes of this paragraph (m)(12), a principal shall be deemed to be director, general partner or principal officer of the broker or dealer.

(13) The term "affiliated person" includes any person who directly or indirectly controls a broker or dealer or any person who is directly or indirectly controlled by or under common control with the broker or dealer. Ownership of 10% or more of the common stock of the relevant entity will be deemed prima facie control of that entity for purposes of this paragraph.

(14) The term "omnibus account" shall mean an account in which a broker or dealer effects transactions for its customer through another broker.

Appendix A

Information Relating to Possession or Control Requirements Under RSA Rule 24 (b)-2

Report Date _____

1. Customers' fully paid securities and excess margin securities not in the broker's or dealer's possession or control as of the report date [for which instructions to reduce to possession or control had been issued as of the report date but for which the required action was not taken by respondent within the time frame specified under RSA Rule 24 (b)-2:

Market Valuation P _____
Number of items _____

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or

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control had not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations' as permitted under RSA Rule 24 (b)-2:

Market Valuation P _____
Number of items _____

Appendix B

Formula for Determination of Reserve Requirements of Brokers and Dealers Under RSA Rule 24 (b)-2

Report Date _____

Credits

Debits

1. Free credit balances and other credit P balances in customers' security accounts. (See Note A)

xxx

2. Monies borrowed collateralized by securities carried for the account of customers.

xxx

3. Monies payable against customers' securities loaned. (See Note B)

xxx

4. Customers' securities failed to receive. (See Note C)

xxx

5. Credit balances in firm accounts which are attributable to principal sales to customers.

xxx

6. Market value of stock dividends, stock splits and similar distributions receivable outstanding over 45 calendar days.

xxx

7. Market value of short security count differences over 30 calendar days old.

xxx

8. Market value of short securities and credits (not to be offset by longs or by debits) in all suspense accounts over 30 calendar days.

xxx

9. Market value of securities which are in transfer in excess of 40 calendar days and have not been confirmed to be in transfer agent or the issuer during the 40 days.

xxx

10. Debit balances in customers' cash or margin accounts excluding unsecured accounts and accounts doubtful of collection. (See Note D)

xxx

11. Securities borrowed to effectuate short sales by customer and securities borrowed to make delivery on customers' securities failed to deliver.

xxx

12. Failed to deliver customers' securities not older than 30 calendar days.

xxx

TOTAL CREDIT
P TOTAL DEBITS
P

13. Excess of total credits (sum of items 1-9) over total debits (sum of times 10-12) required to be on deposit in the "Reserve Bank Account". If the computation is made monthly as permitted by paragraph (d) of Rule 24(b)-2, the deposit shall be not less than 105 percent of the excess of total credits over total debits.

P_____

NOTE A: Item 1 shall include all outstanding drafts payable to customers which have been applied against free credit balances and shall also include checks drawn in excess of a bank balance per the records of the broker or dealer.

NOTE B: Item 3 shall include in addition to monies payable against customers' securities loaned the amount by which the market value of securities loaned exceeds the collateral value received from the lending of such securities.

NOTE C: Item 4 shall include in addition to customers' securities failed to receive the amount by which the market value of securities failed to receive and outstanding more than thirty-four (34) calendar days from transaction date exceeds their contract value.

NOTE D: (1) Debit balances in margin accounts shall be reduced by the amount which a specific security which is collateral for margin accounts exceeds in aggregate value 15 percent of the aggregate value of all securities which collateralize all margin accounts receivable, provided, however, the required reduction shall not be in excess of the amount of the debit balance required to be excluded because of this concentration rule. A specified security is deemed to be collateral for a margin account only to the extent it represents in value not more than 140

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percent of the customer debit balance in a margin account.

(2) Debit balances in special omnibus accounts, or similar accounts carried on behalf of another broker or dealer, shall be reduced by any deficits in such accounts (or if a credit, such credit shall be increased) less any calls for margin, mark to the market, or other required deposits which are outstanding 5 business days or less:

(3) Debit balances in customers' cash and margin accounts included in the formula under item 10 shall be reduced by an amount equal to 1 percent of their aggregate value.

(4) Debit balances in cash and margin accounts of household members and other persons related to principals of a broker or dealer and debit balances in cash and margin accounts of affiliated persons of a broker or dealer shall be excluded from the Reserve Formula, unless the broker or dealer can demonstrate that such debit balances are directly related to credit items in the formula.

(5) Debit balances in margin accounts shall be reduced by the amount by which any single customer's debit balance exceeds 25% (to the extent such amount is greater than P1,250,000.00) of the broker-dealer's tentative net capital (i.e., net capital prior to securities haircuts) unless the broker or dealer can demonstrate that the debit balance is directly related to credit items in the Reserve Formula. Related accounts (e.g., the separate accounts of an individual, accounts under common control or subject to cross guarantees) shall be deemed to be a single customer's accounts for purposes of this provision.

If the Philippine Stock Exchange of which the broker or dealer is a member is satisfied, after taking into account the circumstances of the concentrated account including the quality, diversity and marketability of the collateral securing the debit balances of margin accounts subject to this provision, that the concentration of debit balances is appropriate, then the Philippine Stock Exchange may grant a partial or full exception from this provision.

The debit balance may be included in the Reserve Formula computation for five business days from the day the request is made.

(6) Debit balances of joint accounts, trust accounts, or limited partnerships or similar type accounts or arrangements of a person who would be excluded from the definition of customer ("non-customer") with persons includible in the definition of customer shall be included in the Reserve Formula in the following manner: if the percentage ownership of the non-customer is less than 5 percent then the entire debit balance shall be included in the formula; if such percentage ownership is between 5 percent and 50 percent then the portion of the debit balance attributable to the non-customer shall be excluded from the formula unless the broker or dealer can demonstrate that the debit balance is directly related to credit items in the formula; if such percentage ownership is greater than 50 percent, then the entire debit balance shall be excluded from the formula unless the broker or dealer can demonstrate that the debit balance is directly related to credit items in the formula.

RSA RULE 25-1

Purchases and Sales in Cash Account

(a) Purchases by a customer in a cash account shall be paid in full within three (3) business days after the trade date.

(b) If full payment is not received within the required time period, the broker or dealer shall cancel or otherwise liquidate the transaction, or the unsettled portion thereof, starting on the next business day but not beyond ten (10) business days following the last day for the customer to pay, unless such sale cannot be effected within said period for justifiable reasons.

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(c) If a transaction is cancelled or otherwise liquidated as a result of non-payment by the customer, prior to any subsequent purchase during the next ninety (90) days, the customer shall be required to deposit sufficient funds in the account to cover each purchase transaction prior to execution.

(d) If the amount of money due from a customer a cash account is less than P10,000.00 the broker may choose not to take the action required by paragraph (b).

(e) Exceptions to paragraphs (a), (b) and (c) include when the security purchased is unissued or where the purchase is made by the customer with the understanding that payment is to be made upon delivery.

(f) Written application for an extension of the period of time required for payment under paragraph (a) be made by the broker or dealer to the Philippine Stock Exchange, in the case of a member of the Exchange, or to the Commission, in the case of a non-member of the Exchange Applications for the extension must be based upon exceptional circumstances and must be filed and acted upon before the expiration of the original payment period or the expiration of any subsequent extension.

(g) If a broker or dealer executes a sell order of a customer (other than an order to execute a sale of securities which the seller does not own) and if for any reason whatever the broker or dealer has not obtained possession of the securities from the customer within 10 business days after the settlement date, the broker or dealer shall immediately thereafter close the transaction with the customer by purchasing securities of like kind and quantity.

(h) If the broker is required to take the action required by paragraph (g), prior to any subsequent sale during the next ninety (90) days, the customer will be required to place the securities on deposit in the account prior to execution of the transaction.

RSA RULE 27 (b)-1

Prohibition on Guarantees Against Loss

No broker, dealer or salesman shall guarantee a customer against loss in any securities account of such customer carried by the broker or dealer or in any securities transaction effected by the broker or dealer with or for the customer.

RSA RULE 37 (a)-6

Annual Audited Financial Reports of Brokers and Dealers

(a) Every broker or dealer registered pursuant to RSA Rule 19-1 shall file annually with the Commission and with the Philippine Stock Exchange in the case of a member of that Exchange at the close of its fiscal year an audited financial report by an independent certified public accountant and a statement of management responsibility of said broker or dealer.

(b) Unless the broker or dealer notifies the Commission otherwise and receives written approval to change the date, December 31st of each year shall be considered the closing of the fiscal year, and the Annual Audited Financial Report is due within 105 days after the close of such fiscal year.

(c) The Annual Audited Financial Report shall contain a Statement of Financial Condition in the format outlined in SEC form 37-AR, a Statement of Income, a Statement of Changes in Financial Condition, a Statement of Changes in Stockholders' or Partners' or Sole Proprietor's Equity, a Statement of Changes in Liabilities Subordinated to Claims of General Creditors, a Computation of Net Capital under RSA Rule 24 (a)-1, Information relating to the Possession or Control Requirements under Appendix A of RSA Rule 24 (b)-2 and a Computation for Determination of Reserve Requirements under Appendix B of RSA Rule 24 (b)-2.

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(d) All supporting papers pertaining to such report or statement must be kept in the possession of the broker or dealer thereafter for at least three years and shall be made available for examination by the Commission and the Philippine Stock Exchange, if the broker or dealer is a member of that Exchange.

(e) For the purpose of this Rule, the term "market value" shall be understood to mean the last sale price of the security on the date of the report of statement; if no sale of the corresponding security is made on that date, it shall be understood to mean the bid price and, in the absence of any buyer, it shall be taken to mean the last sale price which is below the offer price on the date of the report or statement.

For purposes of determining "market value" for a short position, where no sale of the corresponding security is made on that date, it shall be understood to mean the offer price and, in the absence of any seller, it shall be taken to mean the last sale price which is above the bid price on the date of the report or statement. (Amends Rule A.9 of the 1938 Rules)

RSA RULE 37 (a)-13

Quarterly Securities Counts by Brokers and Dealers

(a) This rule shall apply to all brokers and dealers registered as such with the Securities and Exchange Commission pursuant to the provision of Section 19 of the Revised Securities Act, Provided, however, that a broker or dealer that promptly transmits all funds and delivers all securities received in connection with its activities as a broker or dealer, and does not otherwise hold securities for itself or hold funds or securities for, or owe money or securities to, customers shall be exempt therefrom.

(b) Any broker or dealer who is subject to the provisions of this rule shall at least once in each calendar quarter:

(1) Physically examine and account all securities held;

(2) Account for all securities in transit, in transfer, pledged, loaned, borrowed, deposited, failed to receive, failed to deliver, subject to repurchase and reverse repurchase agreements, or otherwise subject to its control or direction but not in its physical possession by examination and comparison of the supporting detail records with the appropriate ledger control accounts;

(3) Verify all securities in transfer, in transit, pledged, loaned, borrowed, deposited, failed to receive, failed to deliver, subject to repurchase and reverse repurchase agreements, or otherwise subject to its control or direction but not in its physical possession, where such securities have been in that status for longer than 30 days;

(4) Compare the results of the count and verification with its records; and

(5) Record on its books and records all unresolved differences setting forth the security involved and date of comparison in a security count difference account no later than seven business days after the date of each required quarterly security examination, count and verification in accordance with the requirements of paragraph (c) of this rule. Provided, however, that no examination, count, verification and comparison for the purpose of this rule shall be within two months of or more than four months following a prior examination, count, verification and comparison made hereunder.

(c) The examination, count, verification and comparison may be made either as of a date certain or on a cyclical basis covering the entire list of securities. In either case the recording shall be effected within seven business days subsequent to the examination, count, verification and comparison of particular security. In the event than an examination, count, verification and comparison is made on a cyclical basis, it shall not extend over more than one calendar quarter, and no security shall be examined, counted, verified or compared for the purpose of this rule less than two months or more than four months after prior examination, count, verification and comparison.

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(d) The examination, count, verification and comparison shall be made or supervised by persons whose regular duties do not require them to have direct responsibility for the proper care and protection of the securities or the making or preservation of the relevant records.

(e) The Commission or the Philippine Stock Exchange, if the broker or dealer is a member of that Exchange, may, upon written request, exempt from the provisions of this rule, either unconditionally or on specified terms and conditions, any broker or dealer who satisfies the Commission or the Philippine Stock Exchange that it is not necessary in the public interest and for the protection of investors to subject that particular broker or dealer to certain or all of the provisions of this rule, because of the special nature of the broker or dealer's business, the safeguards it has established for the protection of customers' funds and securities, or such other reasons as may be deemed appropriate.

Old Rules Rescinded by the Commission

"Keeping of Exchange Records," Rule A.2 of the 1938 Rules.

"Insolvency of Members," Rule A.10 of the 1938 Rules.

"Unjustified Failure to Pay Cash or Deliver Securities," Rule A.11 of the 1938 Rules.

"Broker's and Dealer's Officials and Employees to be Reported to Commission," Rule B.2 of the 1938 Rules.

"Termination of Salesmen," Rule B.3 of the 1938 Rules.

"Loaning, Pledging, Commingling and Disposal of Customer's Free Securities," Rule B.16 of the 1938 Rules.

"Pledging Customer's Securities Placed as Guaranty," Rule B.18 of the 1938 Rules.

Untitled: Provisional Rule 23 promulgated on March 3, 1937 and later incorporated into the 1938 Rules.

BED Memorandum Circular No. 17, Series of 1987, entitled "Work Permit of Foreigners as Additional Requirement for Grant of License and Renewal Thereof" (November 10, 1987).

Memorandum Circular No. 08, Untitled, (July 14, 1987).

Effective Date of the New Rules

These rules shall take effect fifteen (15) days after its publication in two (2) newspapers of general circulation in the Philippines.

Adopted:

Recommending Approval:

(SGD.) PERFECTO R. YASAY, JR.
Acting Chairman, Securities and Exchange Commission

Approved By:

(SGD.) ROBERTO F. DE OCAMPO
Secretary, Department of Finance

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[*] Not included here.

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