



MEMORANDUM – 2017-003

TO : ALL TRADING PARTICIPANTS

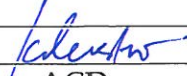


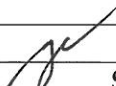
SUBJECT : TRADING OF DOLLAR-DENOMINATED SECURITIES:
ACCOUNTING AND RECORDING GUIDELINES FOR TRADING
PARTICIPANTS

DATE : 30 JANUARY 2017

For your information and guidance, please refer to the attached letter dated 20 January 2017 from the Securities and Exchange Commission regarding the implementation of Accounting and Recording Guidelines for Trading Participants (the Guidelines) in relation to the trading of Dollar-Denominated Securities.

Also, attached herewith is a copy of the Guidelines (**Annex A**).


CORNELIO C. GISON
President

			
ACD	FHRAD	IED	SD



MARKETS AND SECURITIES REGULATION DEPARTMENT

20 January 2017

CAPITAL MARKET INTEGRITY CORPORATION

Unit 27-E1, 27TH Floor
Tower One and Exchange Plaza
Ayala Ave., Makati City

Attention: Mr. Cornelio C. Gison
President

Re: CMIC Guidelines on Dollar Denominated Securities Trading (DDS)

Gentlemen:

This is to acknowledge your letter dated 23 November 2016, submitting the CMIC Guidelines on Dollar Denominated Securities Trading. As noted in the meeting last 22 December 2016 between this Department and CMIC, the Guidelines include provisions on separate accounting for DDS transactions, End-of-day Translation, Customer Account Ledger, RBCA Requirement, and Reserve Requirement for DDS Liabilities, Taxes and Fees.

In the said meeting, CMIC was directed to submit more information and clarifications on the following:


1. How a dollar account can be recognized by the trading system to support CMIC procedures of maintaining two separate ledgers for investor/s clients.
2. Checklist of requirements before a client shall be allowed to trade DDS.
3. How the exchange rate or conversion rate shall be considered in the system for the purpose of valuation of DDS transactions.

In an email dated 03 January 2017, CMIC submitted PSE Memorandum CN-No. 2016-0085 for the application and eligibility guidelines for trading DDS. It includes the checklist of requirements for eligibility to trade DDS, guidelines on operational readiness for trading DDS and a copy of the certification of operational readiness.

CMIC also mentioned that PSE informed them that the trading system has a currency field which will be activated for trading DDS. This will then enable the back office system to determine whether the transaction is Peso-denominated or Dollar-denominated for proper recording. The PSE will also make the Philippine Peso to US Dollar exchange rate available for downloading by the trading participants.

We trust that you have sufficiently studied the specific requirements and safeguards for DDS trades under the submitted guidelines and take responsibility when specific action may be required of your office as regards the implementation of the above guidelines.

Yours most respectfully,


VICENTE GRACIANO P. FELIZMENIO JR.
Director


Felizmenio

CAPITAL MARKETS INTEGRITY CORPORATION

**Trading of Dollar-Denominated Securities
Accounting and Recording Guidelines for Trading Participants**

On 10 November 2016, the Securities and Exchange Commission approved the Philippine Stock Exchange (PSE) Rules on Trading of Dollar-Denominated Securities (DDS).

The Bangko Sentral ng Pilipinas (BSP) has earlier commented that the DDS Rules may be subject to the following law, rules and regulations falling under the purview of the BSP:

- The New Central Bank Act
- BSP Circular Letter dated 24 September 2002
- BSP Manual of Regulations on Foreign Exchange Transactions

The Rules contain provisions that have accounting, recording and reporting impact on Trading Participants, such as:

- Separate reporting in the TP trade reports (e.g. CTF, DTR, ABC, Purchases and Sales) for DDS transactions
- Opening of a US dollar account (FCDU) with any universal or commercial bank by TPs intending to participate in the trading of DDS
- Designation of US dollars as settlement currency; opening of a separate US dollar cash settlement account with the designated settlement bank for *Due Clearing* obligations and *Due Broker* entitlements
- Generation of Obligation Report for DDS transactions
- Payment of contributions to the CTGF in Philippine Peso using the PDEX closing USD exchange rate on transaction date
- Separate computation for *Mark-to-Market Collateral Deposit* (MMCD) for DDS transactions; mark-to-market collateral requirements of the Securities Clearing Corporation of the Philippines (SCCP) must be in US dollar; opening of a separate US dollar cash collateral deposit account for DDS transactions is required

Accounting and Reporting Guidelines

Given these provisions, TPs' back office systems, whether manual or computerized, should be ready to account, record and report their DDS transactions. The following guidelines shall be considered:

1. *Separate accounting for DDS transactions*

The books and records rule under SRC Rule 52.1 and Article IX of CMIC's rule continue to apply for DDS transactions.

Blotters and similar records of daily DDS transactions shall be prepared as basis of original entry in the books.

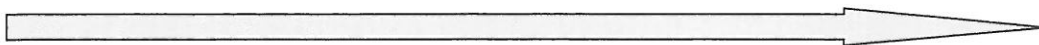
TPs' accounting system and procedures will have to be enhanced to separately record/post and account for DDS transactions (herein referred to as "sub-ledger"). The enhanced features may mirror the current general ledger system used by the TPs which record transactions in Philippine pesos.

The DDS sub-ledger system should be able to generate, in US dollar currency, trial balance, accounts receivable and accounts payable, subsidiary ledgers, customer/client account ledgers, cash account ledgers (e.g. cash settlement account, collateral deposit account), stock position reports, detailed collateral valuation reports, valuation portfolios and other regulatory and operational reports, statements of assets and liabilities and profit and loss and other ledger accounts.

2. *End-of-day Translation*

Given that TPs are required to compute their aggregate indebtedness and net capital on a daily basis, it becomes necessary that the trial balance for DDS transactions be translated to Philippine pesos using the PDEX closing US dollar exchange rate at the end of the day for convenience. The translated trial balance shall be aggregated with the Philippine peso trial balance to produce the consolidated trial balance in Philippines pesos. The consolidated trial balance becomes the basis for computing the daily aggregate indebtedness and net capital.

DDS Trial Balance in US\$	Translate DDS Trial Balance to Pesos using PDEX closing US\$ exchange rate at end- of-day	Add Balances to	Primary Book's Peso Trial Balance	Consolidated Trial Balance in Pesos
---------------------------	---	-----------------	-----------------------------------	-------------------------------------



3. *Customer Account Ledger*

TPs will now prepare two Statements of Account (SOA) for clients on a monthly basis - one on their DDS transactions and another on their Peso-denominated securities transactions.

4. *RBCA Requirement*

Computations related to Risk-Based Capital Adequacy will be on an entity basis, using the consolidated trial balance/financial statements in Philippine pesos.

5. *Reserve Requirement for DDS Liabilities*

TPs offering DDS to its clients should open a Dollar Denominated reserve bank account, specifically to cover the TPs obligation to its clients, using the same reserve formula as provided by the CMIC Rules in relation to SEC Memo No. 16, series of 2004.

6. *Taxes*

As invoicing of DDS transactions will be in US dollars, tax computations such as VAT and withholding taxes on commissions will be based on US dollar amounts.

Based on *BIR Revenue Regulation 06-2006*, these taxes computed in US dollars shall be translated to Pesos and paid to the BIR.

This is subject to confirmation with the BIR.

7. *Fees*

The Rules provide that all applicable fees and penalties shall be paid in Philippine pesos. When conversion from US dollars is needed, the Philippine-peso value shall be computed on transaction date using the PDEX closing US dollar exchange rate.

If invoicing of fees is in US dollars, recording of the same shall be in the DDS books. Payment in Philippine pesos, if sourced from the Peso books, will create a "Due to Peso books" in the DDS records and a corresponding "Due from US dollar books" in the Peso/primary accounting records.

Additional guidelines and clarifications will be issued as new situations arise.

For your guidance.