CMIC MEMORANDUM – 2018-037

TO : **All Trading Participants, Market Participants, and Other Stakeholders**

SUBJECT : **Proposed CMIC Guidelines on Securities Borrowing and Lending (SBL) and Short Selling**

DATE : **13 December 2018**

The Capital Markets Integrity Corporation ("CMIC") is inviting all trading participants, market participants, and other stakeholders to submit their comments on the *Proposed CMIC Guidelines on Securities Borrowing and Lending (SBL) and Short Selling ("Proposed Guidelines on SBL and Short Selling").*

For reference, attached is the *Proposed Guidelines on SBL and Short Selling*, together with sample scenarios showing the impact of SBL and short selling transactions in the Risk Based Capital Adequacy computation and a template for *Short Position Report.*

Comments on the *Proposed Guidelines on SBL and Short Selling* may be submitted to CMIC on or before **26 December 2018** through any of the following means:

Personal delivery : Capital Markets Integrity Corporation
10F PSE Tower, 5th Avenue corner 28th Street
Bonifacio Global City, Taguig

Email : info@cmic.com.ph; acd@cmic.com.ph

Fax : (632) 659 6001; (632) 856 3058

Thank you.

DAISY P. ARCE
President

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CAPITAL MARKETS INTEGRITY CORPORATION
PROFESSIONALISM, INTEGRITY, TEAMWORK, COURAGE, HONESTY AND FAIRNESS

IMPLEMENTING GUIDELINES ON SECURITIES BORROWING AND LENDING ("SBL") AND SHORT SELLING

I. GENERAL GUIDELINES

1. Short sale transactions shall only be limited to "eligible securities", which shall refer to securities of listed companies in the PSEi and exchange traded funds. Short selling of non-eligible securities is strictly prohibited.

2. Upon receiving an order to sell short, the order should be indicated on the selling order and throughout all the records pertinent to the sale. Prior to acceptance of any short sale order, the Trading Participant ("TP") shall arrange to borrow the securities to ensure delivery thereof by settlement date.

3. Short sale transactions shall be distinguished from selling error transactions. Short sale transactions shall be recorded directly on the account ledger of the customer while selling error transactions shall be recorded in the TP's error account.

4. TPs shall ascertain that the parties have entered into the necessary borrowing arrangements prior to entering a short sale transaction, specifically:

    a. A TP who lends securities of one client to another client must be registered with the Securities and Exchange Commission ("SEC") and have a Securities Lending Authorization Agreement ("SLAA") in place;
    b. TPs who are lending and borrowing shares with their counterparties should have a Master Securities Lending Agreement ("MSLA"); and
    c. Customers of the TP that are lending and borrowing shares to/from each other should also have an MSLA.

5. Naked short selling is not allowed. Customers are required to execute a notarized undertaking prior to entering a short sale specifying, among others, that the customers understand the securities laws, rules, and guidelines related to short selling, including the prohibition against naked short selling.

6. Regulation of short sale transactions shall be governed by the pertinent securities laws, including, but not limited to the CMIC Rules, these Implementing Guidelines, and other applicable rules.

II. GUIDELINES ON FAIR PRESENTATION AND REPORTING

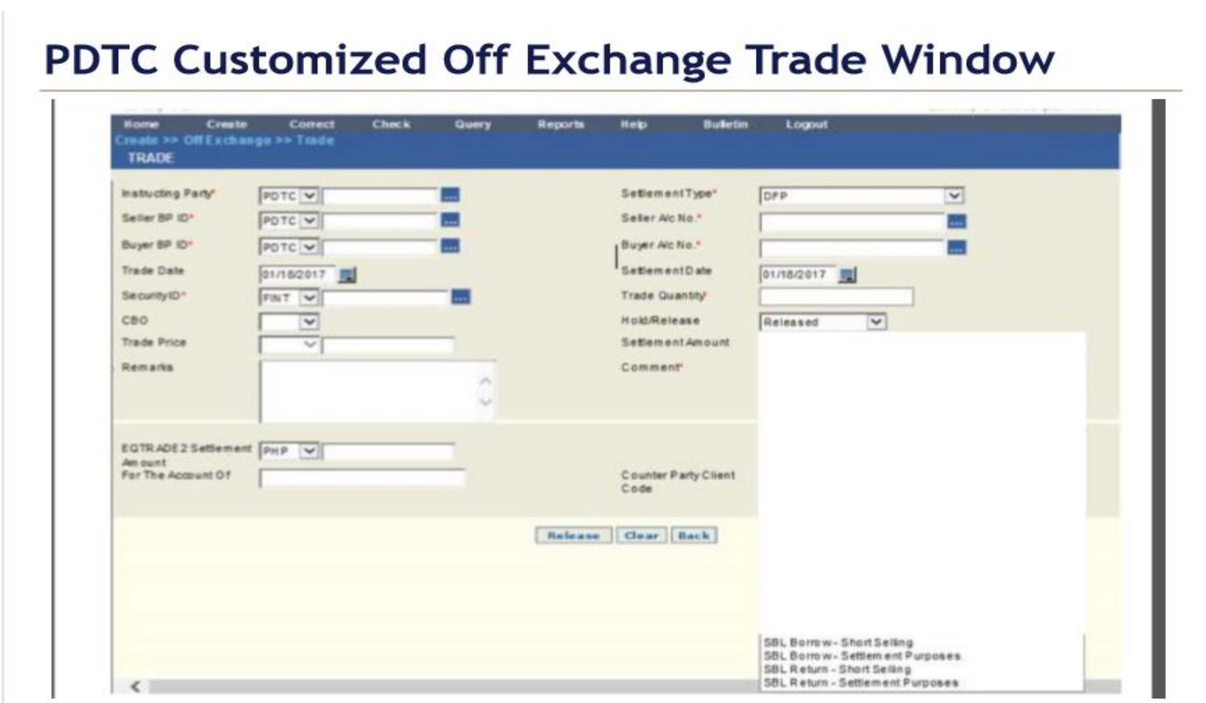
1. The lending of securities shall be recorded in the following manner:

    1.1. For borrowing shares:
        1.1.1. Stock credit memo for the entry of securities for the borrower.
        1.1.2. Stock debit memo for securities of the lender.
    1.2. For the return of the shares:
        1.2.1. Stock debit memo for the entry of securities for the borrower.
        1.2.2. Stock credit memo for the securities of the lender.

2. As necessary borrowing arrangements shall be made prior to entering a short selling order, the mere presentation of authorization letters from lending clients shall not be sufficient to prove compliance with the rules on short selling.

3. Short selling orders must be clearly noted as "short" in the order tickets and confirmation invoices issued by the TP to the client.

4. The TP, through its account with the Philippine Depository and Trust Corporation ("PDTC"), shall indicate whether a transfer of shares to another depository participant is for the purpose of short selling through express comments in the depository system, as shown below:



***Note**: If the transfer is within the same omnibus account in the depository, the TPs shall submit a Daily Depository Participants Report for SBL transactions to the Philippine Stock Exchange.*

a. Impact on Risk Based Capital Adequacy (RBCA) Requirement

ACCOUNTS AFFECTED	IMPACT ON RBCA
1. CASH *TP must have a separate bank account for cash used as collateral in the borrowing and lending transactions.*	ELIGIBLE ASSET INCREASE IN NLC[1]
2. TRADING ACCOUNT SECURITIES ("TAS") /OTHER LONG-TERM INVESTMENTS ("OLTI") *Depending on the classification of securities borrowed or lent, corresponding debit or credit on these accounts is to be recorded.*	ELIGIBLE ASSET INCREASE IN NLC INCREASE IN PRR[2] *(if classified as TAS)*
3. RECEIVABLE FOR SECURITIES FAILED TO DELIVER *For lender: in the delivery (debit) and return (credit) of lent shares to the borrower.*	ELIGIBLE ASSET INCREASE IN NLC INCREASE IN CRR[3]
4. SECURITIES SOLD NOT YET REPURCHASED *For borrower: in the delivery (credit) and return (debit) of borrowed shares from the lender*	AGGREGATE INDEBTEDNESS INCREASE IN AI/NLC[4]
5. RECEIVABLE FOR SECURITIES BORROWED *For borrower: in the delivery (debit) and return (credit) of collateral to the lender.*	ELIGIBLE ASSET INCREASE IN NLC INCREASE IN CRR
6. PAYABLE FOR SECURITIES LOANS *For lender: in the delivery (credit) and return (debit) of collateral from the borrower*	AGGREGATE INDEBTEDNESS INCREASE IN AI/NLC
Refer to ***Annex "A"*** *for the accounting treatment of different scenarios, as well as its direct impact on RBCA.*	

b. Required Entries in the Ledgers of the Borrower and the Lender for Shares Movement

1. OUT-LENT
   In the lender's ledger for the delivery of lent shares to the borrower.

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[1] Net Liquid Capital
[2] Position Risk Requirement
[3] Credit Risk Requirement
[4] Aggregate Indebtedness/Net Liquid Capital

2. IN-LENT
   In the lender's ledger for the return of lent shares by the borrower.

3. IN-BORROWED
   In the borrower's ledger for the acceptance of borrowed shares from the lender.

4. OUT-BORROWED
   In the borrower's ledger for the return of borrowed shares to the lender.

5. OUT-COLLATERAL
   In the borrower's ledger for the delivery of securities collateral to the lender.
   In the lender's ledger for the return of securities collateral to the borrower.

6. IN-COLLATERAL
   In the borrower's ledger for the return of securities collateral from the lender.
   In the lender's ledger for the delivery of securities collateral from the borrower.

III. REPORTORIAL REQUIREMENTS

In accordance with Article VII, Section 10 of the CMIC Rules, the reportorial requirements in relation to the short selling transactions of a TP are as follows:

> *"Short selling transactions shall be governed by these rules and the revised Rules on Short Selling and implementing guidelines.*
>
> *"(a) Calculation. The Trading Participant shall calculate,* ***as of 15th day and as of the last day of each calendar month****, the aggregate short position of each individual account in respect of each security.*
>
> *"(b) Written Report. The Trading Participant shall file a written report of the calculation of the short position to CMIC* ***within two (2) days following the date of computation****."*
>
> Refer to Annex "B" for the suggested Short Position Report Template.

In addition to the above requirements, the following are requirements that must be complied with in relation to short selling transactions:

1. ***Master Securities Lending Agreement (MSLA)***
   The Lender/Lending Agent and the Borrower shall execute an MSLA which shall comply with the requirements provided in Sections 6 and 7 of the SBL Revenue Regulations. In addition:
   - *(i) The Borrower shall register the MSLA with the BIR in accordance with Section 8 of the SBL Revenue Regulation prior to the execution of the first SBL transaction; and*

(ii) The Borrower shall inform its counterparty as soon as practicable, of the fact of the registration of the MSLA with the BIR.

2. ***Securities Lending Authorization Agreement (SLAA)***
   A person acting as Lending Agent on behalf of another person shall execute an SLAA duly executed by the latter before the first SBL transaction on behalf of the said person.

3. ***Confirmation Notice***
   Each SBL transaction shall be evidenced by a Confirmation Notice (in the format substantially prescribed in SBLF3) that specifies the details of the SBL transaction and shall be kept and maintained by both parties.

4. ***Certification of Submission of Bi-annual Summary Reports of Outstanding and Liquidated SBL Transactions and Stock Returns***
   *In the format substantially prescribed in the SBLF5, said report must be submitted **within five (5) calendar days from the filing thereof with the BIR.***

5. ***Bi-annual Summary reports of the Outstanding and Liquidated SBL Transactions and Stock Returns***
   *All TPs who participate in SBL shall submit, **within fifteen (15) calendar days after the end of every six months,** a summary of all its SBL transactions (in the format provided in SBLF2a & 2b) to the CMIC as additional report to the RBCA requirement.*

IV. PENAL PROVISIONS

Failure to abide by any provisions of these Guidelines and the other rules related to the regulation of short sale may be considered as a violation, pursuant to Article XII, Section 3 of the CMIC Rules, which expressly provides, in part, the following:

Grave violations

- *Unauthorized use or disposition of funds or securities entrusted by a client to a Trading Participant in the course of its trading business including violation of securities borrowing and lending rules (as indicated in subparagraph (ii) of Section 3 (a) of Article XII of the CMIC Rules).*

Major violations

- *Violation of SRC Rule 49.2 on Customer Protection Reserves and Custody of Securities other than the violation set out in subparagraph (ii) of Section (3) (a) of this Article XII;*

  Major violations shall include, but not limited to, the following:

  1.) Short sale transactions of director, officer or principal stockholder involving securities of the corporation in which they are director, officer or principal stockholders as provided for in CMIC Rule Article VII Section 10 (h) in relation to Article IV, Section 5.3, paragraph (a) of the Revised Trading Rules

2.) *Naked Short Selling, as provided for in Article IV, Section 5.2, paragraph (d) on the Revised Trading Rules*

3.) *Violation of Up Tick Rule as provided for in CMIC Rule Article VII Section 10 (e) in relation to Article IV, Section 5.2, paragraph (b) of the Revised Trading Rules*

Minor violations

- *All violations other than those mentioned in paragraphs (a) and (b) Section 3 of Article XII shall be considered minor violations of the Securities Laws.*

The appropriate disciplinary actions may be meted out by CMIC on the erring TP after the conduct of an investigation, in accordance with Article II of the CMIC Rules.

V. EFFECTIVITY

These Guidelines shall take effect fifteen (15) calendar days after publication in the CMIC website.

* * *

ANNEX "A"

GENERAL ASSUMPTIONS:

- *All loaned securities are short sold within the borrowing period (2 years)*
- *Manufactured income from the loaned securities are recorded separately*
- *There are no changes in the market value of securities used as collateral*

I. TP AS DIRECT LENDER

CASE	DEBIT	CREDIT
TP DELIVERED/LENT THE SHARES	*Receivable for Securities Failed to Deliver*	*Trading Account Securities**
TP RECEIVED CASH AS COLLATERAL	*Cash-Collateral*	*Payable for Securities Loans*
TP RECEIVED SECURITIES AS COLLATERAL	*Trading Account Securities**	*Payable for Securities Loans*
TP RECEIVED THE LENT SHARES	*Trading Account Securities**	*Receivable for Securities Failed to Deliver*
TP RETURNED THE CASH COLLATERAL	*Payable for Securities Loans*	*Cash-Collateral*
TP RETURNED THE SECURITIES AS COLLATERAL	*Payable for Securities Loans*	*Trading Account Securities**

**Assuming the shares are classified as Trading Account Securities*

Example I-A

TP ABC lent its 20,000 PGOLD shares to TP DEF in exchange for ***securities collateral.***

(The 20,000 PGOLD shares have fair market value ("FMV") of 46.70 per share.)

Proposed Trial Balance Entries

Receivable for Securities Failed to Deliver	934,000.00	
Trading Account Securities		934,000.00
To record out of lent securities (T+0 to T+3)		
Trading Account Securities	1,050,000.00	
Payable for Securities Loans		1,050,000.00
To record receipt of securities collateral - at least 105% of the MV of lent shares		
21,000 JGS shares used as collateral with MV of 50 pesos per share		
Trading Account Securities	1,000,000.00	
Receivable for Securities Failed to Deliver		934,000.00
Unrealized gain on trading account securities		66,000.00
To record return of lent shares (at MV of shares on the day of return)		
20,000 PGOLD shares with FMV of 50 pesos per share		
Payable for Securities Loans	1,050,000.00	
Trading Account Securities		1,050,000.00
To record return of securities collateral to the borrower		

Effect on RBCA

Go To

RISK-BASED CAPITAL ADEQUACY WORKSHEET

May 31, 2018

	ADJUSTED	SUBMITTED	DIFFERENCE
Assets	2,108,797,163	2,107,747,163	1,050,000
Liabilities	1,167,635,267	1,166,585,267	1,050,000
Equity as per books	941,161,896	941,161,896	
Net Liquid Capital (NLC)	821,625,968	821,625,968	
Less:			
Operational Risk Reqt (Schedule ORR-1)	107,875,872	107,875,872	
Position Risk Reqt (Schedule PRR-1)	3,364,099	3,335,099	29,000
Counterparty Risk (Schedule CRR-1 and detailed schedules)	14,763	14,763	
Large Exposure Risk (Schedule LERR-1, LERR-2, LERR-3)			
Total Risk Capital Requirement (TRCR)	111,254,734	111,225,733	29,000
Net RBCA Margin (NLC-TRCR)	710,371,235	710,400,235	(29,000)
Liabilities	1,167,635,267	1,166,585,267	1,050,000
Add: Deposit for Future Stock Subscription (No application with SEC)			
Less: Exclusions from Aggregate Indebtedness			
Others	4,083,237	3,033,237	1,050,000
Total adjustments to AI	(4,083,237)	(3,033,237)	(1,050,000)
Aggregate Indebtedness	1,163,552,030	1,163,552,030	
5% of Aggregate Indebtedness	58,177,602	58,177,602	
Required Net Liquid Capital (> of 5% of AI or P5M)	58,177,602	58,177,602	
Net Risk-based Capital Excess / (Deficiency)	763,448,367	763,448,367	
Ratio of AI to Net Liquid Capital	142%	142%	0%
RBCA Ratio (NLC / TRCR)	739%	739%	0%

1. *NLC – NO EFFECT; INCREASE IN ASSET IS OFFSET BY THE INCREASE IN LIABILITIES*
2. *AI – NO EFFECT; (refer to CMIC Rules, Article VIII Section 2 (2.6) A (A.1) (a.2))*
3. *PRR – INCREASE IN PRR (due to difference in MV of lent shares and shares received as collateral; collateral > lent)*
4. *CRR – INCREASE* ***WHEN*** *THE MV OF LENT SHARES (plus fees) EXCEEDS MV OF COLLATERAL (refer to SEC Memo 16 Series of 2004, Subsection VI, B 7a)*
5. *RBCA – DECREASE IN RBCA RATIO (due to increase effect on PRR &/or CRR)*

Example I-B
TP ABC lent its 20,000 PGOLD shares to TP DEF in exchange for ***cash collateral.***
(The 20,000 PGOLD shares have an FMV of 46.70 per share.)

Proposed Trial Balance Entries

Receivable for Securities Failed to Deliver	934,000.00	
Trading Account Securities		934,000.00
To record out of lent securities (T+0 to T+3)		
Cash - Collateral	952,680.00	
Payable for Securities Loans		952,680.00
To record receipt of cash collateral - 102% of the MV of lent shares		
Trading Account Securities	1,000,000.00	
Receivable for Securities Failed to Deliver		934,000.00
Unrealized gain on trading account securities		66,000.00
To record return of lent shares (at MV of shares on the day of return)		
20,000 PGOLD shares with FMV of 50 pesos per share		
Payable for Securities Loans	952,680.00	
Cash - Collateral		952,680.00
To record return of cash collateral to the borrower		

Effect on RBCA

Go To

RISK-BASED CAPITAL ADEQUACY WORKSHEET
May 31, 2018

	ADJUSTED	SUBMITTED	DIFFERENCE
Assets	2,108,699,843	2,107,747,163	952,680
Liabilities	1,167,537,947	1,166,585,267	952,680
Equity as per books	941,161,896	941,161,896	
Net Liquid Capital (NLC)	821,625,968	821,625,968	
Less:			
Operational Risk Reqt (Schedule ORR-1)	107,875,872	107,875,872	
Position Risk Reqt (Schedule PRR-1)	3,101,599	3,335,099	(233,500)
Counterparty Risk (Schedule CRR-1 and detailed schedules)	14,763	14,763	
Total Risk Capital Requirement (TRCR)	110,992,234	111,225,733	(233,500)
Net RBCA Margin (NLC-TRCR)	710,633,735	710,400,235	233,500
Liabilities	1,167,537,947	1,166,585,267	952,680
Add: Deposit for Future Stock Subscription (No application with SEC)			
Less: Exclusions from Aggregate Indebtedness			
Others	3,985,917	3,033,237	952,680
Total adjustments to AI	(3,985,917)	(3,033,237)	(952,680)
Aggregate Indebtedness	1,163,552,030	1,163,552,030	
5% of Aggregate Indebtedness	58,177,602	58,177,602	
Required Net Liquid Capital (> of 5% of AI or P5M)	58,177,602	58,177,602	
Net Risk-based Capital Excess / (Deficiency)	763,448,367	763,448,367	
Ratio of AI to Net Liquid Capital	142%	142%	0%
RBCA Ratio (NLC / TRCR)	740%	739%	2%

1. *NLC – NO EFFECT; INCREASE IN ASSET IS OFFSET BY THE INCREASE IN LIABILITIES*
2. *AI – NO EFFECT; (refer to CMIC Rules, Article VIII Section 2 (2.6) A (A.1) (a.2))*
3. *PRR – DECREASE IN PRR (for the lent shares)*
4. *CRR – INCREASE* ***WHEN*** *THE MV OF LENT SHARES (plus fees) EXCEEDS MV OF COLLATERAL (refer to SEC Memo 16 Series of 2004, Subsection VI, B 7a)*
5. *RBCA – INCREASE IN RBCA RATIO (due to decrease in PRR) &/or DECREASE IN RBCA RATIO (due to increase in CRR)*

II. TP AS DIRECT BORROWER

CASE	*DEBIT*	*CREDIT*
TP BORROWED THE SHORT SOLD SHARES FOR DELIVERY	*Trading Account Securities**	*Securities Sold Not Yet Repurchased*
TP DELIVERED CASH AS COLLATERAL	*Receivable for Securities Borrowed*	*Cash-Collateral*
TP DELIVERED SECURITIES AS COLLATERAL	*Receivable for Securities Borrowed*	*Trading Account Securities**
TP RETURNED THE BORROWED SHARES	*Securities Sold Not Yet Repurchased*	*Trading Account Securities**
TP RECEIVED THE CASH COLLATERAL	*Cash-Collateral*	*Receivable for Securities Borrowed*
TP RECEIVED THE SECURITIES AS COLLATERAL	*Trading Account Securities**	*Receivable for Securities Borrowed*

**Assuming the shares are classified as Trading Account Securities*

Example II-A
TP DEF borrowed 20,000 PGOLD shares from TP ABC in exchange for ***securities collateral.***
(The 20,000 PGOLD shares have an FMV of 46.70 per share.)

Proposed Trial Balance Entries

Due from Clearing House (20,000 PGOLD @ 48.00)	960,000.00	
Trading Account Securities		960,000.00
To record short selling of PGOLD shares		
Cash	960,000.00	
Due from Clearing House		960,000.00
To record receipt of cash from clearing house		
Trading Account Securities	934,000.00	
Securities Sold Not Yet Repurchased		934,000.00
To record borrowed securities (T+0 to T+3)		
Receivable for Securities Borrowed	1,050,000.00	
Trading Account Securities		1,050,000.00
To record out of securities collateral - at least 105% of the MV of borrowed shares		
21,000 JGS shares used as collateral with MV of 50 pesos per share		
Securities Sold Not Yet Repurchased	934,000.00	
Unrealized loss on trading account securities	66,000.00	
Trading Account Securities		1,000,000.00
To record return of borrowed shares (at MV of shares on the day of return)		
20,000 PGOLD shares with FMV of 50 pesos per share		
Trading Account Securities	1,050,000.00	
Receivable for Securities Borrowed		1,050,000.00
To record receipt of securities collateral from the lender		

Effect on RBCA

Go To

RISK-BASED CAPITAL ADEQUACY WORKSHEET
May 31, 2018

	ADJUSTED	SUBMITTED	DIFFERENCE
Assets	2,108,797,163	2,107,863,163	934,000
Liabilities	1,167,519,267	1,166,585,267	934,000
Equity as per books	941,277,896	941,277,896	
Net Liquid Capital (NLC)	821,741,968	821,741,968	
Less:			
Operational Risk Reqt (Schedule ORR-1)	107,875,872	107,875,872	
Position Risk Reqt (Schedule PRR-1)	3,095,099	3,335,099	(240,000)
Counterparty Risk (Schedule CRR-1 and detailed schedules)	24,043	14,763	9,280
Large Exposure Risk (Schedule LERR-1, LERR-2, LERR-3)			
Total Risk Capital Requirement (TRCR)	110,995,014	111,225,733	(230,720)
Net RBCA Margin (NLC-TRCR)	710,746,955	710,516,235	230,720
Liabilities	1,167,519,267	1,166,585,267	934,000
Add: Deposit for Future Stock Subscription (No application with SEC)			
Less: Exclusions from Aggregate Indebtedness			
Total adjustments to AI	(3,033,237)	(3,033,237)	
Aggregate Indebtedness	1,164,486,030	1,163,552,030	934,000
5% of Aggregate Indebtedness	58,224,302	58,177,602	46,700
Required Net Liquid Capital (> of 5% of AI or P5M)	58,224,302	58,177,602	46,700
Net Risk-based Capital Excess / (Deficiency)	763,517,667	763,564,367	(46,700)
Ratio of AI to Net Liquid Capital	142%	142%	0%
RBCA Ratio (NLC / TRCR)	740%	739%	2%

1. *NLC – NO EFFECT; INCREASE IN ASSET IS OFFSET BY THE INCREASE IN LIABILITIES*
2. *AI – INCREASE IN AI (@mv of shares borrowed)*
3. *PRR – DECREASE IN PRR (due to shares used as collateral > MV of shares borrowed)*
4. *CRR – INCREASE IN CRR (difference between MV of collateral and the MV of shares borrowed)(refer to SEC Memo 16 Series of 2004, Subsection VI, B 7a)*
5. *RBCA – INCREASE/DECREASE IN RBCA RATIO (due to decrease in PRR & increase in CRR)*

Example II-B

TP DEF borrowed 20,000 PGOLD shares from TP ABC in exchange for ***cash collateral.***

(The 20,000 PGOLD shares have an FMV of 46.70 per share.)

Proposed Trial Balance Entries

Due from Clearing House (20,000 PGOLD @ 48.00)	960,000.00	
Trading Account Securities		960,000.00
To record short selling of PGOLD shares		
Cash	960,000.00	
Due from Clearing House		960,000.00
To record receipt of cash from clearing house		
Trading Account Securities	934,000.00	
Securities Sold Not Yet Repurchased		934,000.00
To record borrowed securities (T+0 to T+3)		
Receivable for Securities Borrowed	952,680.00	
Cash-Collateral		952,680.00
To record out of cash collateral - at least 102% of the MV of borrowed shares		
Securities Sold Not Yet Repurchased	934,000.00	
Unrealized loss on trading account securities	66,000.00	
Trading Account Securities		1,000,000.00
To record return of borrowed shares (at MV of shares on the day of return)		
20,000 PGOLD shares with FMV of 50 pesos per share		
Cash-Collateral	952,680.00	
Receivable for Securities Borrowed		952,680.00
To record receipt of cash collateral from the lender		

Effect on RBCA

Go To

RISK-BASED CAPITAL ADEQUACY WORKSHEET

May 31, 2018

	ADJUSTED	SUBMITTED	DIFFERENCE
Assets	2,108,797,163	2,107,863,163	934,000
Liabilities	1,167,519,267	1,166,585,267	934,000
Equity as per books	941,277,896	941,277,896	
Net Liquid Capital (NLC)	821,741,968	821,741,968	
Less:			
Operational Risk Reqt (Schedule ORR-1)	107,875,872	107,875,872	
Position Risk Reqt (Schedule PRR-1)	3,357,599	3,364,099	(6,500)
Counterparty Risk (Schedule CRR-1 and detailed schedules)	16,257	14,763	1,494
Large Exposure Risk (Schedule LERR-1, LERR-2, LERR-3)			
Total Risk Capital Requirement (TRCR)	111,249,728	111,254,733	(5,005)
Net RBCA Margin (NLC-TRCR)	710,492,240	710,487,235	5,005
Liabilities	1,167,519,267	1,166,585,267	934,000
Add: Deposit for Future Stock Subscription (No application with SEC)			
Less: Exclusions from Aggregate Indebtedness			
Total adjustments to AI	(3,033,237)	(3,033,237)	
Aggregate Indebtedness	1,164,486,030	1,163,552,030	934,000
5% of Aggregate Indebtedness	58,224,302	58,177,602	46,700
Required Net Liquid Capital (> of 5% of AI or P5M)	58,224,302	58,177,602	46,700
Net Risk-based Capital Excess / (Deficiency)	763,517,667	763,564,367	(46,700)
Ratio of AI to Net Liquid Capital	142%	142%	0%
RBCA Ratio (NLC / TRCR)	739%	739%	0%

1. *NLC – NO EFFECT; INCREASE IN ASSET IS OFFSET BY THE INCREASE IN LIABILITIES*
2. *AI – INCREASE IN AI (@mv of shares borrowed)*
3. *PRR – DECREASE IN PRR (due to difference in MV of shares borrowed and done price of the short sold shares)*
4. *CRR – INCREASE IN CRR (difference between MV of collateral and the MV of shares borrowed)(refer to SEC Memo 16 Series of 2004, Subsection VI, B 7a)*
5. *RBCA – INCREASE/DECREASE IN RBCA RATIO (due to decrease in PRR & increase in CRR)*

III. TP AS LENDING AGENT-(BORROWER AND LENDER ARE BOTH CLIENTS OF THE TP)

CASE	DEBIT	CREDIT
CLIENT LENDER LENT SHARES	*NO ENTRY IN TP'S TRIAL BALANCE*	*NO ENTRY IN TP'S TRIAL BALANCE*
CLIENT BORROWER RECEIVED THE SHARES	*NO ENTRY IN TP'S TRIAL BALANCE*	*NO ENTRY IN TP'S TRIAL BALANCE*
TP RECEIVED CASH DEPOSIT FROM CLIENT BORROWER FOR COLLATERAL TO CLIENT LENDER	*Cash-Collateral* *Payable to client-Borrower*	*Payable to client-Borrower* *Payable to client-Lender*
TP CHARGED CASH FROM CLIENT BORROWER FOR COLLATERAL TO CLIENT LENDER	*Payable to client-Borrower*	*Payable to client-Lender*
CLIENT LENDER RECEIVED THE LENT SHARES	*NO ENTRY IN TP'S TRIAL BALANCE*	*NO ENTRY IN TP'S TRIAL BALANCE*
CLIENT BORROWER RETURNED THE SHARES	*NO ENTRY IN TP'S TRIAL BALANCE*	*NO ENTRY IN TP'S TRIAL BALANCE*
TP RETURNED CASH DEPOSIT FROM CLIENT BORROWER FOR COLLATERAL TO CLIENT LENDER	*Payable to client-Lender* *Payable to client-Borrower*	*Payable to client-Borrower* *Cash-Collateral*
TP RETURNED THE CHARGED CASH FROM CLIENT BORROWER FOR COLLATERAL TO CLIENT LENDER	*Payable to client-Lender*	*Payable to client-Borrower*

Example III-A
Client A of TP ABC lent 20,000 PGOLD shares to Client B of TP ABC in exchange for ***securities collateral.*** *(The 20,000 PGOLD shares have an FMV of 46.70 per share.)*

No Trial Balance entry needed; only memorandum entries needed to transfer the shares from Client A to Client B. Hence, no effect on TP's RBCA.

Example III-B

Client A of TP ABC lent 20,000 PGOLD shares to Client B of TP ABC in exchange for ***<u>cash collateral.</u>*** *(The 20,000 PGOLD shares have an FMV of 46.70 per share.)*

<u>Proposed Trial Balance Entries</u>

Due from Clearing	960,000.00	
Payable to client (borrower)		960,000.00
To record short selling transaction of client B (20,000 @48.00)		
Cash	960,000.00	
Due from Clearing		960,000.00
To record receipt of proceeds from clearing house		
Cash-Collateral	952,680.00	
Payable to Client Borrower		952,680.00
To record receipt of cash deposit from client borrower for collateal to client lender		
Atleast 102% of MV of borrowed shares (20,000 @ 46.70)		
Payable to Client Borrower	952,680.00	
Cash-Collateral		952,680.00
To record return of cash collateral to the borrower		

<u>Effect on RBCA</u>

Go To

RISK-BASED CAPITAL ADEQUACY WORKSHEET

May 31, 2018

	ADJUSTED	SUBMITTED	DIFFERENCE
Assets	2,108,707,163	2,107,747,163	960,000
Liabilities	1,167,545,267	1,166,585,267	960,000
Equity as per books	941,161,896	941,161,896	
Net Liquid Capital (NLC)	821,625,968	821,625,968	
Less:			
Operational Risk Reqt (Schedule ORR-1)	107,875,872	107,875,872	
Position Risk Reqt (Schedule PRR-1)	3,335,099	3,335,099	
Counterparty Risk (Schedule CRR-1 and detailed schedules)	14,763	14,763	
Large Exposure Risk (Schedule LERR-1, LERR-2, LERR-3)			
Total Risk Capital Requirement (TRCR)	111,225,734	111,225,733	
Net RBCA Margin (NLC-TRCR)	710,400,235	710,400,235	()
Liabilities	1,167,545,267	1,166,585,267	960,000
Add: Deposit for Future Stock Subscription (No application with SEC)			
Less: Exclusions from Aggregate Indebtedness			
Others	3,033,237	3,033,237	
Total adjustments to AI	(3,033,237)	(3,033,237)	
Aggregate Indebtedness	1,164,512,030	1,163,552,030	960,000
5% of Aggregate Indebtedness	58,225,602	58,177,602	48,000
Required Net Liquid Capital (> of 5% of AI or P5M)	58,225,602	58,177,602	48,000
Net Risk-based Capital Excess / (Deficiency)	763,400,367	763,448,367	(48,000)
Ratio of AI to Net Liquid Capital	142%	142%	0%
RBCA Ratio (NLC / TRCR)	739%	739%	0%

1. *NLC – NO EFFECT; INCREASE IN ASSET IS OFFSET BY THE INCREASE IN LIABILITIES*
2. *AI – INCREASE IN AI (payable to customer for its short sell transaction; normal transactoin)*
3. *PRR – NO EFFECT ON PRR (shares are not owned by the TP)*
4. *CRR – NO EFFECT ON CRR (client account is not affected)*
5. *RBCA – NO EFFECT*

IV. TP AS LENDING AGENT (LENDER IS A CLIENT OF THE TP; BORROWER CLIENT IS OUTSIDE THE TP)

CASE	DEBIT	CREDIT
CLIENT LENDER LENT SHARES	*NO ENTRY IN TP'S TRIAL BALANCE*	*NO ENTRY IN TP'S TRIAL BALANCE*
TP RECEIVED CASH DEPOSIT FROM OTHER TP FOR COLLATERAL TO CLIENT LENDER	*Cash-Collateral* *Payable to other Broker*	*Payable to other Broker* *Payable to client-Lender*
TP APPLIED ITS PAYABLE TO OTHER TP FOR ITS CLIENT'S CASH COLLATERAL	*Payable to other Broker*	*Payable to client-Lender*
CLIENT LENDER RECEIVED THE LENT SHARES/OTHER TP RETURNED THE SHARES	*NO ENTRY IN TP'S TRIAL BALANCE*	*NO ENTRY IN TP'S TRIAL BALANCE*
TP RETURNED THE CASH DEPOSIT FROM OTHER TP	*Payable to client-Lender* *Payable to other Broker*	*Payable to other Broker* *Cash-Collateral*
TP REVERTED BACK ITS PAYABLE TO OTHER TP AS IF TO RETURN THE COLLATERAL	*Payable to client-Lender*	*Payable to other Broker*

Example IV-A
Client A of TP ABC lent 20,000 PGOLD shares to Client B of TP DEF in exchange for ***securities collateral.*** *(The 20,000 PGOLD shares have an FMV of 46.70 per share.)*

No Trial Balance entry needed; only memorandum entries needed to transfer the shares from Client A to Client B of TP DEF. Hence, no effect on TP's RBCA.

Example IV-B

Client A of TP ABC lent 20,000 PGOLD shares to Client B of TP DEF in exchange for ***<u>cash collateral.</u>*** *(The 20,000 PGOLD shares have an FMV of 46.70 per share.)*

<u>Proposed Trial Balance Entries</u>

Cash-Collateral	952,680.00	
Payable to Other Brokers		952,680.00
To record receipt of cash deposit from TP borrower for collateral to client lender		
Atleast 102% of MV of borrowed shares (20,000 @ 46.70)		
Receivable from client lender	952,680.00	
Cash-Collateral		952,680.00
To record transfer of cash collateral from TP DEF to client lender		
Cash-Collateral	952,680.00	
Receivable from client lender		952,680.00
To record return of cash collateral from client lender		
Payable to Other Brokers	952,680.00	
Cash-Collateral		952,680.00
To record return of cash collateral to TP DEF		

<u>Effect on RBCA</u>

Go To

RISK-BASED CAPITAL ADEQUACY WORKSHEET
<u>May 31, 2018</u>

	ADJUSTED	SUBMITTED	DIFFERENCE
Assets	2,107,747,163	2,107,747,163	
Liabilities	1,166,585,267	1,166,585,267	
Equity as per books	941,161,896	941,161,896	
Net Liquid Capital (NLC)	821,625,968	821,625,968	
Less:			
Operational Risk Reqt (Schedule ORR-1)	107,875,872	107,875,872	
Position Risk Reqt (Schedule PRR-1)	3,335,099	3,335,099	
Counterparty Risk (Schedule CRR-1 and detailed schedules)	14,763	14,763	
Large Exposure Risk (Schedule LERR-1, LERR-2, LERR-3)			
Total Risk Capital Requirement (TRCR)	111,225,734	111,225,733	
Net RBCA Margin (NLC-TRCR)	710,400,235	710,400,235	()
Liabilities	1,166,585,267	1,166,585,267	
Add: Deposit for Future Stock Subscription (No application with SEC)			
Less: Exclusions from Aggregate Indebtedness			
Others	3,033,237	3,033,237	
Total adjustments to AI	(3,033,237)	(3,033,237)	
Aggregate Indebtedness	1,163,552,030	1,163,552,030	
5% of Aggregate Indebtedness	58,177,602	58,177,602	
Required Net Liquid Capital (> of 5% of AI or P5M)	58,177,602	58,177,602	
Net Risk-based Capital Excess / (Deficiency)	763,448,367	763,448,367	
Ratio of AI to Net Liquid Capital	142%	142%	0%
RBCA Ratio (NLC / TRCR)	739%	739%	0%

1. *NLC – NO EFFECT; INCREASE IN ASSET IS OFFSET BY THE INCREASE IN LIABILITIES*
2. *AI – NO EFFECT ON AI (due to system netting of Receivable from & Payable to Other brokers; Payable to other broker is presented as negative receivable)*
3. *PRR – NO EFFECT ON PRR (shares are not owned by the TP)*
4. *CRR – NO EFFECT ON CRR (client account is not affected)*
5. *RBCA – NO EFFECT*

ANNEX "B"

SHORT POSITION REPORT

Trading Participant Name:

____

Short Selling Transactions from: ☐ 1-15 ☐ 16-31 Month/Year: ______________________

Aggregate Short Position as of: ☐ 15th ☐ End

ACCOUNT NAME	PSE TC CODE	SHORT SELLING TRANSACTION			NAME OF LENDER *(Other broker's name if outside the TP)*	OUTSTANDING SHORT POSITION
		SECURITY CODE	DATE	VOLUME		

Prepared by: ________________________
(Name and Designation)

Submission date: ______________________