



MEMORANDUM – 2023-008

TO : THE TRADING PARTICIPANTS
SUBJECT : PROPOSED T+2 SETTLEMENT CYCLE
DATE : 11 MAY 2023

This is in reference to the initiative of the Securities Clearing Corporation of the Philippines (“SCCP”) to implement a new settlement cycle from T+3 to T+2.

On 10 May 2023, the Capital Markets Integrity Corporation (“CMIC”) received from the Securities and Exchange Commission (“SEC”) a notice stating that the SCCP is requesting the SEC’s support in the implementation of the T+2 settlement cycle, given that the shortening of the settlement cycle will redound to the benefit of the Philippine capital markets.

The SEC further provided that the possible change in the settlement cycle will have a direct effect on the computation of the risk-based capital adequacy (“RBCA”) of the trading participants. Hence, the SEC has directed CMIC to submit a summary of comments, concerns, and/or issues of the trading participants regarding the ongoing initiative.

CMIC recognizes that this initiative will have a clear impact on the computation of the RBCA and other relevant capitalization requirements that must be complied with by the trading participants. As a necessary consequence of the preceding circumstances, revisions to the relevant provisions of the CMIC Rules may be proposed and submitted to the SEC for consideration, in accordance with the Securities Regulation Code and its Implementing Rules and Regulations.

The following are the revisions to the CMIC Rules that may be proposed by CMIC:

- *Article VII, Section 5 (a).*

Purchases by a customer in a cash account shall be paid in full within ~~three (3) business days after the trade date~~ the settlement period provided by the Exchange or the Clearing Agency, or as may be prescribed by the Commission.

- *Article VII, Section 10 (d).*

No Trading Participant shall accept a long sale order from a customer, unless he has made a determination that the customer owns the security and will deliver in good deliverable form within ~~three (3) business days of the execution of the order~~ the settlement period provided by the Exchange or the Clearing Agency, or as may be prescribed by the Commission. The determination must include a notation on the order ticket at the time the order is taken which reflects the conversation with the customer as to the present location of the securities, whether they are in good deliverable form, and the customer's ability to make delivery.

- *Article VIII-A, Section 2 (2.4)(B)(3).*

Specific and General Provisions for Overdue Accounts shall be computed in accordance with the ~~Schedule for Part 4 of SEC Memorandum Circular No. 16 series of 2004~~ schedule duly prescribed by the Commission.

- *Article VIII-A, Section 2 (2.6)(A)(A.1)(a)(a.24).*

Negative Exposure - shall mean the loss due to market or price risk in the event of a default by a Trading Participant as a member of the Clearing Agency in its settlement obligations. It shall be based on the existing obligations of the Trading Participant over the last ~~three (3) settlement periods~~ settlement period provided by the Exchange or the Clearing Agency, or as may be prescribed by the Commission.

- *Article VIII-A, Section 2 (2.6)(A)(A.3)(c)(c.2)(ii).*

All unsecured advances and loans; deficits in customers' and non-customers' unsecured and partly secured notes; deficits in special omnibus accounts or similar accounts carried on behalf of another Trading Participant, after application of calls for margin, marks to the market or other required deposits that are outstanding ~~three (3) business days or less~~ within the settlement period provided by the Exchange or the Clearing Agency, or as may be prescribed by the Commission; deficits in customers' and non-customers' unsecured and partly secured accounts after application of calls for margin, marks to the market or other required deposits that are outstanding

~~three (3) business days or less within the settlement period provided by the Exchange or the Clearing Agency, or as may be prescribed by the Commission~~, except deficits in cash accounts for which no more than one extension respecting a specified securities transaction has been requested and granted; the market value of stock loaned in excess of the value of any collateral received therefore; and any collateral deficiencies in secured demand notes in conformity with SRC Rule 49.1 (G) .

- *Article VIII-A, Section 2 (2.6)(A)(A.6)(b)(b.7)(iii).*

Notwithstanding the computation in Subsection A.6 (b.7) (ii) above, where delivery or settlement is not made within ~~three (3) trading days from due date~~ the settlement period provided by the Exchange or the Clearing Agency, or as may be prescribed by the Commission, the Counterparty Risk Requirement of the Trading Participant shall be the full contract value of the transaction.

It must be underscored that the foregoing are only the initial changes that may be proposed by CMIC as a consequence of the initiative, and they are without prejudice to: (a) proposals of the other regulatory authorities; (b) actions that may be taken thereon by the SEC; (c) modification of the above initial revisions or inclusion of additional revisions by CMIC; and (d) remedies that may be resorted to by CMIC, as may be made necessary by the governing conditions.

Accordingly, the trading participants are requested to submit to CMIC (via info@cmic.com.ph) their comments, concerns, and/or issues, if any, relative to the initiative to implement a new settlement cycle of T+2 and/or the above changes to the rules that may be proposed by CMIC. The comments shall be submitted not later than 18 May 2023 (Thursday).

Thank you.

(original signed)
DAISY P. ARCE
President

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