



# MEMORANDUM – 2023-014

**TO :** THE TRADING PARTICIPANTS, OTHER MARKET PARTICIPANTS, THE INVESTING PUBLIC, AND OTHER INTERESTED PARTIES

**SUBJECT :** REQUEST FOR COMMENTS ON THE PROPOSED AMENDMENTS TO SRC RULES AND MEMORANDUM CIRCULAR NO. 16, SERIES OF 2014 RELATIVE TO THE T+2 SETTLEMENT CYCLE

**DATE :** 21 JULY 2023

The Securities and Exchange Commission (“SEC”) intends to issue amendments on the 2015 Implementing Rules and Regulations of the Securities Regulation Code and SEC Memorandum Circular No. 16, Series of 2004 relative to the T+2 settlement cycle.

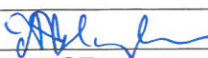
Thus, the SEC is inviting the trading participants, other market participants, the investing public, and other interested parties to submit their views, comments, and inputs on the proposed amendments.

The proposed amendments are herein attached (Annexes A and B).

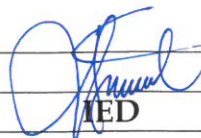
Please address your comments to **Director Vicente Graciano P. Felizmenio, Jr.**, SEC-Markets and Securities Regulation Department (MSRD), SEC Headquarters, 7907 Makati Avenue, Salcedo Village, Bel-air, Makati City. You may email your comments to **msrd\_covid19@sec.gov.ph**, **mrgarcia@sec.gov.ph**, and **debalonzo@sec.gov.ph**, not later than 4 August 2023.

Thank you.

  
**DAISY P. ARCE**  
President

  
ACD

  
FHRAD

  
IED

  
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*Annex A. 2015 SRC RULES*

**2015 SRC RULES  
(AMENDMENTS)**

**49.1.1.5.3. Computation of Net Liquid Capital (NLC)**

In computing NLC, the Equity Eligible for Net Liquid Capital of a Broker Dealer is adjusted by the following, provided, however, that in determining net worth, all long and all short securities position shall be marked to their market value:

49.1.1.5.3.1. XXX

49.1.1.5.3.2. Deducting fixed assets and assets which cannot be readily converted into cash [less any indebtedness excluded in accordance with SRC Rule 49.1.1.5.2.4 of the Definition of the term Aggregate Indebtedness] including, among other things:

49.1.1.5.3 .2.1. XXX

49.1.1.5.3.2.2. 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 Broker Dealer, after application of calls for margin, marks to the market or other required deposits that are outstanding ~~three (3)~~ **two (2)** business days or less; 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)~~ **two (2)** business days or less, except deficits in cash accounts for which not 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 49.1.2 above.

**Rule 50 - Purchases and Sales in Cash Account**

**50.1.** Purchases by a customer in a cash account shall be paid in full within ~~three (3)~~ **two (2)** business days after the trade date.

**Rule 52.1.11. Monthly Aging of Customers Receivables**

**52.1.11.2.** The aging schedule shall indicate the monetary and securities collateral values of the customers' receivable as of end of month, broken down as follows:

<b>Classification</b>
<b>T+0 to T+2 T+1</b>
<b>T+3 T+2 to T+13 T+12</b>
<b>T+14 T+13 to T+30</b>
<b>T+31 up</b>

**52.1.11.3.** Every Broker Dealer shall appropriate Allowance for Doubtful Accounts (ADA) using and in accordance with the following schedule:

<b>Classification</b>	<b>Provision</b>	<b>Base</b>
T+0 to <del>T+2</del> T+1	0	Total Receivables (TR)
<del>T+3</del> T+2 to <del>T+13</del> T+12	2%	TR
<del>T+14</del> T+13 to T+30	50%	TR less collateral (net of haircut)
T+31 up	100%	TR less collateral (net of haircut)

The ADA is computed by getting, for each doubtful account, an amount equivalent to the provision (see Table above) of the amount outstanding, net of collateral (net of haircut). Basis for the computation would be the individual accounts.

**ADOPTION OF THE RISK BASED CAPITAL ADEQUACY REQUIREMENT/RATIO (RBCA)  
FOR BROKERS DEALERS  
(AMENDMENTS)**

**C. Computation of Net Liquid Capital (NLC)**

In computing NLC, the Equity Eligible for Net Liquid Capital of a Broker Dealer is adjusted by the following, provided, however, that in determining net worth, all long and all short securities position shall be marked to their market value:

- i. XXX
- ii. Deducting fixed assets and assets which cannot be readily converted into cash [less any indebtedness excluded in accordance with paragraph (iv) of the Definition of the term Aggregate Indebtedness] including, among other things:
  - a. XXX
  - b. 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 Broker Dealer, after application of calls for margin, marks to the market or other required deposits that are outstanding ~~three (3)~~ **two (2)** business days or less; 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)~~ **two (2)** business days or less, except deficits in cash accounts for. which not 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) above.

XXX

**SCHEDULE FOR PART 4  
SCHEDULE FOR SPECIFIC AND GENERAL PROVISIONING  
FOR OVERDUE ACCOUNTS**

**A. Customer accounts qualifying as Non-performing Accounts**

Type of account	Criteria for classification of account as non-performing	Date for classification
1. Contra losses	When the account remains unpaid starting from T + 4 or more from the date of	<del>T+4</del> <b>T+3</b>

	contra transaction	
2. Overdue purchase contracts	When the account remains unpaid starting from <del>T+14</del> <b>T+13</b>	<del>T+14</del> <b>T+13</b> or when the broker exercises its right of mandatory close out over the securities serving as collateral
3. Margin Accounts	When, upon making a margin call, the period to put up equity to meet the margin deficiency has expired	Upon expiration of period

#### B. Specific Provision

1. Specific provisions for bad and doubtful accounts shall be made for contra losses, overdue purchase contracts and margin accounts. For purposes of this section, these types of accounts are classified as Doubtful or Loss depending on the default period each respectively has. They are as follows:

Type of Accounts	Period when account is overdue	Classification
1. Contra losses	a. <del>T+4</del> <b>T+3</b> to 30 calendar days b. over 30 calendar das	a. Doubtful b. Loss
2. Overdue purchase contracts	a. <del>T+14</del> <b>T+13</b> to 30 calendar days b. over 30 calendar days	a. Doubtful b. Loss
3. Margin Accounts	When the Equity has fallen below the required minimum margin maintenance and the margin deficiency is more than P10,000.00	Loss

XXX

**SCHEDULE B.2**  
**COUNTERPARTY RISK REQUIREMENT**  
**COUNTERPARTY RISK FACTORS FOR UNSETTLED AGENCY TRADES**  
SRC Rule 49 (H) Subsection VI

Agency Transaction	Time period for application of Percentage	Credit Risk Factor
1. Sell Contract - covers possible risk of failing to receive the security on a sales contract	T to T+2 T+1 of clients	0%
	From T+3 T+2 to T+13 T+12 of clients	8% of the mark to market value of the sell contract multiplied by the CW, for negative counterparty exposure (i.e., if the current market value exceeds the transaction value of the stock)  0% if it is a positive counterparty exposure (i.e. if the current market value is less than the transaction value of the stock)
	Beyond T+13 T+12 of clients	The marked to market value of the contract multiplied by the CW for negative counterparty exposures (i.e., if the current market value exceeds the transaction value of the stock)  0% if it is a positive counterparty exposure (i.e. if the current market value is less than the transaction value of the stock)
2. Buy Contract - covers possible risk of failing to give cash payment on a buy order	T to T+2 T+1 of clients	0%

	From <del>T+3</del> <b>T+2</b> to <del>T+13</del> <b>T+12</b> of clients	8% of the mark to market value of the buy contract multiplied by the CW, for negative counterparty exposure (i.e., if the transaction value exceeds the current market value of the stock)  0% if it is a positive counterparty exposure (i.e. if the transaction value is less than the current market value of the stock)
	Beyond <del>T+13</del> <b>T+12</b> of clients	The marked to market value of the contract multiplied by the CW for negative counterparty exposures (i.e., if the transaction value exceeds the current market value of the stock)  0% if it is a positive counterparty exposure (i.e. if the transaction value is less than the current market value of the stock)

**SCHEDULE B.3**  
**COUNTERPARTY RISK REQUIREMENT COUNTERPARTY RISK FACTORS FOR**  
**UNSETTLED PRINCIPAL TRADES**  
SRC Rule 49 (H) Subsection VI

<b>Principal Transaction</b>	<b>Time period for application of Percentage</b>	<b>Credit Risk Factor</b>
1. Sell Contract - covers possible risk of counterparty failing to deliver	T to <del>T+2</del> <b>T+1</b> of counterparties (i.e. Exchange/Clearing Agency or BD)	0%

securities on a sell order	From <del>T+3</del> <b>T+2</b> to <del>T+13</del> <b>T+12</b> of clients	8% of the mark to market value of the sell contract multiplied by the CW, for negative counterparty exposure (i.e., if the transaction value exceeds the current market value of the stock)  0% if it is a positive counterparty exposure (i.e. if the transaction value is less than the current market value of the stock)
	Beyond <del>T+13</del> <b>T+12</b> of counterparties	The marked to market value of the contract multiplied by the CW for negative counterparty exposures (i.e., if the transaction value exceeds the current market value of the stock)  0% if it is a positive counterparty exposure (i.e. if the transaction value is less than the current market value of the stock)
2. Buy Contract - covers possible risk of counterparty failing to deliver securities on a buy contract	T to <del>T+2</del> <b>T+1</b> of counterparties	0%
	From <del>T+3</del> <b>T+2</b> to <del>T+13</del> <b>T+12</b> of counterparties	8% of the mark to market value of the buy contract multiplied by the CW, for negative counterparty exposure (i.e., if the current market value exceeds the transaction value of the stock)  0% if it is a positive counterparty exposure (i.e. if the current market value is less than the transaction value of the stock)
	Beyond <del>T+13</del> <b>T+12</b> of counterparties	The marked to market value of the contract multiplied by the CW for negative counterparty exposures (i.e., if the current market value exceeds the transaction value of the stock) 0% if it is a positive counterparty exposure (i.e. if the current market value is less than the transaction value of the stock)



**SCHEDULE B.4**  
**COUNTERPARTY RISK REQUIREMENT**  
**COUNTERPARTY RISK FACTORS FOR DEBTS/LOANS, CONTRA LOSS, AND OTHER**  
**DEBTS DUE**

SRC Rule 49 (H) Subsection VI

<b>Debt/Aging Period</b>	<b>Credit Risk Factor (of Counterparty Exposure)</b>
Less than <del>2</del> days <b>1 day</b> (or T+0 to T+ <del>2</del> <b>T+1</b> )	Zero
<del>3-13</del> <b>2-12</b> days (or T+ <del>3</del> <b>T+2</b> to T+ <del>13</del> <b>T+12</b> )	8% of amount due
<del>14</del> <b>13-30</b> days	50% of amount due
Over 30 days	100% of amount due