



SECURITIES  
CLEARING CORPORATION  
OF THE PHILIPPINES

October 2, 2012

SECURITIES AND EXCHANGE COMMISSION  
SEC Building, EDSA East Greenhills  
Mandaluyong City



Attention: Mr. Vicente Graciano P. Felizmenio  
Director  
Market Regulation Department

Re: Application to Operate as Securities Depository

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Gentlemen:

We refer to your letter dated September 20, 2012, directing the Securities Clearing Corporation of the Philippines ("SCCP") to, among others, submit a summary of its application to function as a securities depository within five (5) days from receipt thereof.

In compliance with the directive of the Commission, we provide below a brief outline of our application for a license to operate a securities depository.

Business/Operational Model

SCCP is proposing a multi-depository framework which will allow several entities to perform depository functions in the same market. However, since the clearing and settlement system is designed such that a security can reside in only one depository, the Issuer has to select the depository where all its shares will be lodged.

The trading, clearing, and settlement process under the multiple depository model will essentially be the same as the existing process flow, except that under the proposed model, Trading Participants holding securities lodged in different depositories must apply as depository participants of all such depositories. The SCCP Clearinghouse, for its part, will be sending credit instruction messages to all such depositories.

## Benefits of allowing the SCCP to act as a securities depository

### *1. Prevention of operational and systemic risks*

Integration of the clearing and depository functions within the SCCP will result in seamless electronic connectivity between the settlement, clearing, and depository processes and help minimize the risks attendant to the current back and forth transmission of data and procedures between the clearing and settlement house and the depository.

Furthermore, SCCP can make such adjustments or changes to the hardware and/or software solutions used by the depository as may be necessary to avoid severe service interruptions.

### *2. Substantial reduction in the depository fees and other depository-related fees*

Since the SCCP Depository will leverage on the existing infrastructure of the clearinghouse, depository services and value-added services can be offered to depository participants at a lower cost.

SCCP Depository proposes to charge a securities transfer transaction fee of Twenty five Pesos (P25.00), VAT inclusive, per side, and depository maintenance fee of one-half basis point per annum (.005%), VAT inclusive, based on the market value of holdings as of month-end, which are significantly lower than those currently being charged by the existing depository.

In addition, SCCP Depository will waive telecommunication fees which are, at present, being collected from depository participants.

### *3. Introduction of client sub-account structure*

The SCCP Depository will have a system capable of recording the ownership of shares down to the beneficial owner level and a system for investors to access their account information and monitor the movement of their shares through the use of individual access codes provided to each investor through the depository participant.

To encourage the use of the client sub-account structure, the SCCP Depository will provide this facility free of charge.

### *4. Flexibility to support new projects of The Philippine Stock Exchange (the "Exchange")*

The operation of a depository under the umbrella of the Exchange will allow the Exchange to undertake the introduction of new products and services with urgency.

Among the projects that are in the pipeline are the establishment of a multilateral lending facility for securities borrowing and lending and launch of the Name on Central Depository account structure. The success of these projects depends to a large extent on the alignment of interests between the Exchange and the depository.

*5. Direct connectivity with Transfer Agents*

Since the SCCP will have direct connectivity with the transfer agents, securities may be transferred from the depository to the registry, at the instance of the investor, in an efficient and timely manner.

*6. Daily Reconciliation of Balances*

SCCP Depository will perform reconciliation of end-of-day balances with the Transfer Agents on a daily basis to ensure that all transfers of shares are accurately posted in the records of the Transfer Agent. This will also facilitate the easier and faster monitoring of foreign ownership levels.

*7. Jumbo-less Environment*

SCCP Depository will operate under a jumbo-less environment in accordance with Section 43 of the Securities Regulation Code and the Amended Rule on Lodgment of Securities.

*8. Real Time Gross Settlement of Trades*

The system of the SCCP Depository allows "value for value" real time gross settlement of trades through the DVP/RVP facility where securities can be transferred with payment via link up to the Settlement Banks, thereby ensuring that final and irrevocable transfer of securities will occur simultaneously with the transfer of funds.

*9. Easier access by the Capital Market Integrity Corporation ("CMIC") to necessary information*

Since the SCCP Depository will be operated within the PSE environment, access by CMIC to information needed for investigation and audit purposes will be easier, enabling it to perform its regulatory functions more effectively.

Target security instrument and target participants

Only equities listed in the Exchange shall be accepted for lodgment with the SCCP Depository. Lodgment shall be done through duly admitted depository participants.

Under the proposed SCCP Depository Rules, brokers, dealers, securities custodians, and such other persons as the SCCP may reasonably consider as qualified may be admitted as depository participants.

To summarize, the operation by the SCCP of a securities depository will result in significant reduction in friction costs, prevention of operational and systemic risks, and enhanced services to market participants.

We trust the foregoing is sufficient for your purposes. Please do not hesitate to communicate with us should you require further information. In this regard, we suggest that future correspondences concerning the depository project be addressed to Ms. Rachelle Blanch, the Depository Project Manager.

Thank you.

Very truly yours,



**RENEE D. RUBIO**  
Chief Operating Officer

CC: **MR. HANS B. SICAT**  
President and CEO  
Securities Clearing Corporation of the Philippines

**MS. RACHELLE BLANCH**  
Depository Project Manager



SECURITIES  
CLEARING CORPORATION  
OF THE PHILIPPINES

June 26, 2012

SECURITIES AND EXCHANGE COMMISSION

Sec Bldg., EDSA, Greenhills,  
Mandaluyong City

Attention: Mr. Vicente Graciano P. Felizmenio, Jr.  
Director, Market Regulation Department

Gentlemen:

We submit herewith the detailed statements and information requested in your letter of May 31, 2012, a fax copy of which we received on June 4, 2012.

To present the information in a clear and logical manner, we marked and attached these statements as exhibits according to the order in which they were referred to in your letter.

We trust you will find everything in order. Thank you.

Very truly yours,

*R. Blanch*

RACHELLE BLANCH

Depository Project Manager



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<p>Detailed narrative and graphic description of the depository system and procedures to include, among others, lodgment and upliftment processes, corporate action processes (e.g., dividend distribution, proxy issuance, pledge, etc.), recording of ownership and movements of share ownership. (Specify the different scenarios, e.g., crediting of an account during lodgment, debiting and crediting of accounts arising from settlement of trades, etc. Also, please refer to the particular rules and procedures, if any. Otherwise, state that there is no rule or procedure covering a scenario).</p>	Exhibit J
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An undertaking to comply and enforce compliance by its participants with the provisions of the SRC and any amendment thereto, and the implementing rules or regulations made or to be made thereunder, and the clearing agency/depository rules.	Exhibit W



Exhibit A

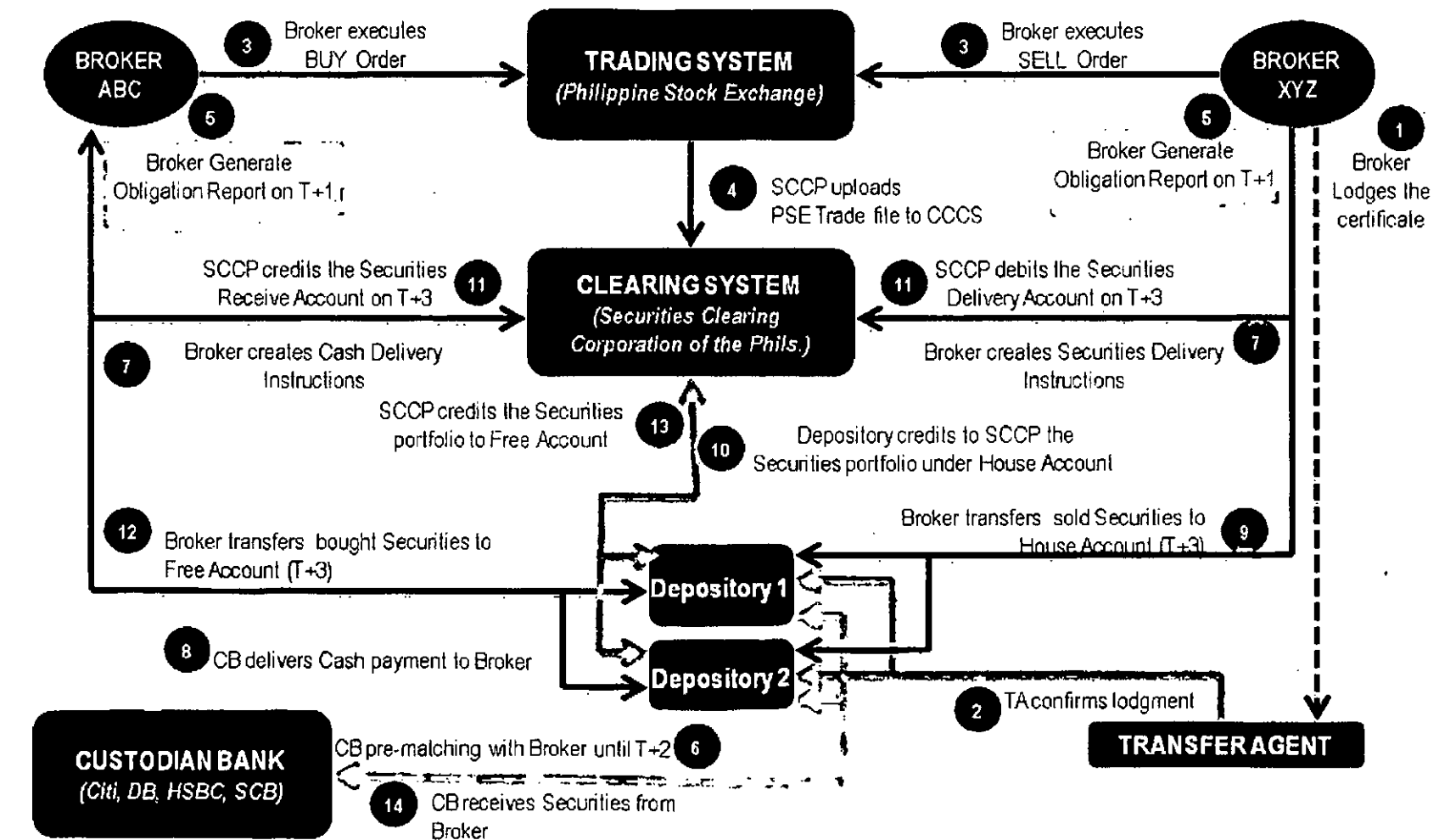
**Business and Operational Model**

The SCCP intends to operate its own depository which is envisioned to co-exist with PDTC under a multiple depository framework. Under this set-up, two or more depositories may connect to the SCCP clearing system.

A graphic and narrative description of the proposed business and/or operational model is attached hereto for your reference.



## ANNEX A: PROPOSED DEPOSITORY MODEL FOR MULTIPLE DEPOSITORY





## **ANNEX A: PROPOSED DEPOSITORY MODEL FOR MULTIPLE DEPOSITORY**

### **Process Description**

- 1 Selling Broker may lodge the certificate of the Securities to its respective Depository if such shares are still in physical certificates.
  - 2 Upon successful verification, the Transfer Agent confirms the lodgment with each Depository. Securities are now lodged in the Depository in scripless form.
  - 3 Broker executes a Sell/Buy Order in the Exchange based on the instruction of the client.
  - 4 After the end of the trading session, SCCP uploads the trade file from PSE to the CCCS system.
  - 5 SCCP performs multilateral netting to arrive at a net obligation/entitlement position for each Broker. Broker is required to generate the Obligation Report.
  - 6 Where applicable, Brokers and Custodian Banks perform pre-matching of instructions and positions from T+0 to T+2.
  - 7 Within T+0 to before 12:00NN of T+3, Selling Broker creates Securities delivery instruction and Buying Broker creates Cash delivery instruction in the CCCS system.
  - 8 Before 12:00NN of T+3, Custodian Bank delivers the Cash payment to the Buying Broker (Off-Exchange Settlement).
  - 9 Within T+0 to before 12:00NN of T+3, Selling Broker transfers the Securities for settlement from "Free" account to the "House" account in the each Depository System.
  - 10 Each Depository transfers to SCCP the Securities under the "House" account of Brokers.
  - 11 During the settlement run, SCCP debits the Securities Delivery account of the Selling Broker and credits the Securities account of the Buying Broker.
  - 12 Buying Broker transfers the Securities to "Free" account if the shares are due to the Custodian Bank.
  - 13 SCCP sends a credit instruction message to each Depository to the Selling Broker's "Free" account.
  - 14 Broker-Custodian Off-Exchange transaction. Custodian Bank receives the Securities from the Buying Broker.
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## Exhibit B

### **Reason for Business Proposal and Effect on the Current Clearing and Settlement Environment**

The SCCP seeks to set up a depository system primarily to minimize operational and systemic risks that are likely to arise as a result of the clearinghouse and the depository being operated by different entities. If allowed to be the operator of both the clearinghouse and the depository, SCCP can make the necessary modifications to the depository system to ensure a robust depository environment and lessen the risk of settlement fails.

In addition, since the SCCP Depository will leverage on the existing infrastructure of the clearinghouse, it is able to offer depository services and value-added services at a significantly lower cost.

From the regulatory perspective, the operation of a depository within the PSE environment is more favorable because the Capital Markets Integrity Corporation will have easier access to information on client's accounts held by the PSE Trading Participants.

The proposed model envisages multiple depositories to enable the depository participants, and ultimately, the investors to reap the benefits of competition. This is also consistent with the thrust of the Securities Regulation Code to establish a free market that regulates itself and the Constitutional prohibition against monopoly.

Since the SCCP clearing and settlement system is designed such that a security can reside in only one depository, each issuer has to choose the depository wherein all its shares will be lodged. Accordingly, membership in the depository will be issuer-determined. By way of example, if the issuer of "X" shares opts to lodge its shares with the SCCP Depository, all brokers, custodian banks and institutional investors holding "X" shares have to apply for admission to the SCCP Depository.

The proposed framework will follow basically the same procedure for clearing and settlement. The only difference is that depository participants who hold or own securities lodged in different depositories have to be members in both depositories and use two different systems.

### **Exhibit C**

#### **Non-exclusivity**

SCCP, acting as depository, will not require, directly or indirectly, all companies listed in the PSE to exclusively engage SCCP as their depository.

### **Exhibit D**

#### **Target Security Instruments**

Only equities listed in the PSE may be lodged with the SCCP Depository.

### **Exhibit E**

#### **Target Participants**

Under Rule 2.1.1 of the proposed SCCP Depository Rules, only brokers, dealers, securities custodians and such other party as the SCCP may reasonably consider qualified, such as but not limited to financial institutions, insurance companies, investment houses, funds, and trust companies, may be admitted as depository participants.

A copy of the proposed participation agreement is attached hereto as Exhibit E-1 for your reference.



SECURITIES  
CLEARING CORPORATION  
OF THE PHILIPPINES

2<sup>nd</sup> floor Philippine Stock Exchange Plaza, Ayala Triangle  
Ayala Avenue, Makati City  
Metro Manila, Philippines

**DEPOSITORY PARTICIPANTSHIP MASTER AGREEMENT**

We hereby agree to become a Participant of the Securities Clearing Corporation of the Philippines ("SCCP") in order to use the SCCP Depository facility (the "System") for the central handling of securities that are traded on the stock exchange and subjected to Transactions and/or Corporate Actions.

This Depository Participant Master Agreement (the "Agreement") constitutes the requisite Representations and Warranties and Terms and Conditions for the use of the SCCP Depository system, and is valid and binding on the Participant, its directors, officers, employees, agents, representatives, and Participant's clients.

Name of Participant : \_\_\_\_\_  
Address : \_\_\_\_\_  
Telephone Numbers : \_\_\_\_\_  
Fax Numbers : \_\_\_\_\_  
Email Address : \_\_\_\_\_  
Official Contact Person : Name \_\_\_\_\_  
Title \_\_\_\_\_

**Representations and Warranties**

Participant represents, warrants, and undertakes on a continuing basis that:

1. It is a duly organized corporation registered with, and duly licensed by, the relevant government agency and/or regulatory authority.
2. It has secured all necessary corporate and other approvals to enter into this Agreement and to be strictly bound by all the rules, regulations and procedures of SCCP now existing or which may, in the future, come into existence by amendment or otherwise.
3. Upon Participant's acceptance into the SCCP System, it shall faithfully and timely pay all fees, charges, interests and costs that may be imposed by SCCP in connection with the Participantship as well as for the use of the System.

4. It has, and shall maintain, the necessary and appropriate equipment for access to and use of the System, including but not limited to software, hardware, Internet service, and other requirements that are compliant with the technical specifications to be issued by SCCP from time to time. Costs and expenses in connection with such equipment and services shall be for the sole account of the Participant.
5. It has obtained copies of the SCCP Depository Rules and SCCP Depository Operating Procedures and that its directors, officers, and employees have reviewed and are familiar with the same.
6. The execution of this Agreement and all other documents and instruments necessary to access the System signifies the Participant's willingness to be bound by the Terms and Conditions of this Agreement, the SCCP Depository Rules, SCCP Depository Operating Procedures, and all other orders, directives and issuances from SCCP, which may be issued or amended from time to time by SCCP at its discretion. It is understood that SCCP shall give notice of such orders, directives, issuances or amendments, including the date on which these will take effect, to the Participant through the Depository System, or by electronic mail at the last email address provided by the Participant, or by confirmed facsimile transmission, or by personal delivery, or via posting on the official website of SCCP at least five (5) days prior to their effectivity, unless by its nature the order, directive, issuance or amendment must take effect sooner to ensure the integrity of the System and/or the market, in which case notice of the same through the means stated above shall be sufficient.

#### **Terms and Conditions**

1. The Terms and Conditions contained in this Agreement, including the SCCP Depository Rules, SCCP Depository Operating Procedures, and orders, directives and issuances from SCCP, are non-negotiable. Strict compliance with the same is expected of the Participant. Participant agrees that non-compliance with the foregoing shall render it liable to disciplinary proceedings, including suspension or termination of the Participantship.
2. Continued usage of the System by the Participant after receipt of notice of any amendment to the SCCP Depository Rules or SCCP Depository Operating Procedures shall be deemed acceptance of such amendment in the absence of any comments received from the Participant during the comment period.
3. Participant's Settlement Bank is:  
☐ BDO Unibank Inc.  
☐ Deutsche Bank AG  
☐ Metropolitan Bank and Trust Company  
☐ Rizal Commercial Banking Corporation  
☐ Other Settlement Bank accredited by SCCP: \_\_\_\_\_

4. It has, and shall maintain, the necessary and appropriate equipment for access to and use of the System, including but not limited to software, hardware, Internet service, and other requirements that are compliant with the technical specifications to be issued by SCCP from time to time. Costs and expenses in connection with such equipment and services shall be for the sole account of the Participant.
5. It has obtained copies of the SCCP Depository Rules and SCCP Depository Operating Procedures and that its directors, officers, and employees have reviewed and are familiar with the same.
6. The execution of this Agreement and all other documents and instruments necessary to access the System signifies the Participant's willingness to be bound by the Terms and Conditions of this Agreement, the SCCP Depository Rules, SCCP Depository Operating Procedures, and all other orders, directives and issuances from SCCP, which may be issued or amended from time to time by SCCP at its discretion. It is understood that SCCP shall give notice of such orders, directives, issuances or amendments, including the date on which these will take effect, to the Participant through the Depository System, or by electronic mail at the last email address provided by the Participant, or by confirmed facsimile transmission, or by personal delivery, or via posting on the official website of SCCP at least five (5) days prior to their effectivity, unless by its nature the order, directive, issuance or amendment must take effect sooner to ensure the integrity of the System and/or the market, in which case notice of the same through the means stated above shall be sufficient.

#### **Terms and Conditions**

1. The Terms and Conditions contained in this Agreement, including the SCCP Depository Rules, SCCP Depository Operating Procedures, and orders, directives and issuances from SCCP, are non-negotiable. Strict compliance with the same is expected of the Participant. Participant agrees that non-compliance with the foregoing shall render it liable to disciplinary proceedings, including suspension or termination of the Participantship.
2. Continued usage of the System by the Participant after receipt of notice of any amendment to the SCCP Depository Rules or SCCP Depository Operating Procedures shall be deemed acceptance of such amendment in the absence of any comments received from the Participant during the comment period.
3. Participant's Settlement Bank is:  
☐ BDO Unibank Inc.  
☐ Deutsche Bank AG  
☐ Metropolitan Bank and Trust Company  
☐ Rizal Commercial Banking Corporation  
☐ Other Settlement Bank accredited by SCCP: \_\_\_\_\_



The Account Numbers of Participant's Accounts in the Settlement Bank required for the use of the System under the SCCP Depository Rules and SCCP Depository Procedures are as follows:

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4. The Participant agrees that any migration of its accounts to SCCP and the System from its current system includes all risks attendant thereto, and SCCP shall not be liable for any loss, damage or injury that may be incurred as a result of such migration.
5. Participant shall designate in the form prescribed by SCCP an administrator ("User Administrator") who shall be responsible for Participant's access to and use of the System ("User Administration"). User Administration includes, but is not necessarily limited to, the creation of User IDs, assignment of authorized Users, and the creation, deletion, and modification of passwords. Participant shall immediately notify SCCP in writing of any change in the User Administrator. All acts of the User Administrator are hereby deemed authorized by, and are binding upon, the Participant. The Participant shall be fully responsible for the conduct and actions of its personnel who access and use the System.
6. The Participant shall be responsible for securing its password, keyfile, any other access information, and accounts and for maintaining the security and integrity of its systems, processes and procedures. Any action or instruction carried out in the System after access to the same has been gained by the use of any User ID, password or keyfile of the Participant shall be presumed to be done on behalf of the Participant, with the latter's knowledge and consent and its full legal capacity and authority. SCCP shall not be liable for any loss or damage of any kind suffered by the Participant, its directors, officers, employees, agents, representatives and its clients for any unauthorized access to the System, or misuse or mishandling of the same.
7. The Participant shall indemnify and hold harmless SCCP and its respective directors, officers, employees, from and against any direct loss, damage, cost, expense, liability or claim (including without limitation, the cost of legal counsel to advise on or defend against such claims) suffered by or made against it, them or any of them arising from any act or omission of SCCP pursuant to the act, instruction, or omission of the Participant.
8. The Participant agrees to hold harmless SCCP and all other Participants, as well as all their respective partners, directors, trustees, officers, employees from and against any direct loss, damage, cost, expense, liability or claim (including without limitation the cost of legal counsel to advise on or defend against such claims) suffered or incurred by or made against it, them or any of them arising from:
  - 8.1. Any interruption, malfunction or disruption of any service in the System to the extent caused or contributed directly or indirectly by any negligent, reckless, willful, fraudulent or dishonest act or omission of a Participant or of any director, trustee, officer, partner, employee, servant, contractor or agent of a Participant done while acting in the course of office or employment or made possible by information or opportunities afforded by such office or employment;
  - 8.2. Any false, incomplete, or inaccurate information or documentation provided by the Participant;

- 8.3. Performance by SCCP of any procedure which it must or may perform under the SCCP Depository Rules or SCCP Depository Operating Procedures including, without limitation, the making of corrections of any entry among others, made reasonably necessary under the circumstances subject to prior notice to the Participant.
- 8.4. The reliance on or use by SCCP of any declaration provided by the Participant in the form and time required by SCCP and made in the manner contemplated by the SCCP Depository Rules;
- 8.5. Participant's failure to provide or cause to be provided a declaration as required;
- 8.6. Reliance by any person on a declaration or information provided by the Participant; or
- 8.7. Any breach of the Participant's obligations, covenants, representations or warranties under this Agreement, the Depository Rules, or any other document executed by the Participant in connection with the access to and use of the System.
9. The Participant shall immediately notify SCCP of any unauthorized use of its password, keyfile, other access information and accounts, or other breach of its security.
10. In accessing and using the System, the Participant shall operate only such equipment and system configurations with minimum requirements that SCCP may issue from time to time. Participant shall be solely responsible for all consequences, whether direct or indirect, of its failure to comply with the technical and configuration requirements of SCCP.
11. The Participant shall be responsible for establishing and maintaining adequate business continuity and disaster recovery plans to ensure continuous access by way of telecommunications services to the System. Any damage or loss suffered by any party, including the Participant, due to non-compliance with this requirement or the failure of its established business continuity and disaster recovery procedures.
12. The Participant may use the System only for its own account. Any other access or use is unauthorized and will subject the Participant to disciplinary action, including suspension or termination.
13. The execution of this Agreement, as well as access to and use of the System by the Participant shall be conclusively deemed to constitute a waiver of any confidentiality or secrecy laws, whether existing now or in the future, to the extent required to be disclosed to relevant government agencies and regulators, subject to prior written notice to the Participant.
14. SCCP and the Participant shall not be responsible for any failure to perform any of its functions if such failure is due to force majeure, or if such performance will result in a breach of any applicable law, rule or regulation. The term "force majeure" as used herein means any event or cause beyond the reasonable control of SCCP and the Participant, including but not limited to unavailability of communications systems, sabotage, fire, flood, calamity, earthquake, damage to or destruction of SCCP and the Participant's facilities without fault on the part of SCCP and the Participant, acts of God, explosions, loss or malfunction of utilities, civil commotions, strikes or industrial actions of any kind, riots, insurrection, war, or acts of government. SCCP shall notify the Participant of its

inability to carry out its functions or to provide services as soon as practicable after the occurrence of the force majeure event.

15. SCCP shall undertake best efforts to ensure the security and integrity of the System. This notwithstanding, the Participant acknowledges that no computerized or electronic system is failsafe, and that there are inherent risks in computer systems, including but not limited to virus contamination, system delays, errors, deletions, defects, system failures, technical malfunctions, hacking and other security breaches and disruption of internet services. The Participant agrees that SCCP shall not be responsible for any loss or damage of any kind suffered by the Participant in connection with the use of the System, where caused by events beyond reasonable control of SCCP.
16. The Participant acknowledges and agrees that the System may be periodically unavailable for maintenance or other grounds. SCCP shall give sufficient prior notice to the Participant of such unavailability. In case of unexpected system unavailability, SCCP shall provide written notice as soon as possible after such occurrence.
17. No advice or information, in whatever form, obtained by the Participant or its agents and representatives from SCCP, except if system-generated, shall be deemed to create any warranty or representation not expressly stipulated herein.
18. In case of disputes, the Participant agrees to refer to the electronic logs and records generated by the System and the physical records of SCCP for resolution.
19. Except as may otherwise be required by law, by any court order, government agency or regulator (in which case the Participant(s) whose transaction, date and/or information is subject of the law, order or request shall be duly advised before any intended disclosure), SCCP shall maintain the confidentiality of all transactions, data, and/or information provided by or pertaining to the Participant.
20. By accessing and using the System, the Participant represents and warrants to SCCP that it has explained the SCCP Depository Rules and SCCP Operating Procedures to its clients, and has secured the agreement of its corresponding clients to fully comply with the SCCP Depository Rules and SCCP Depository Operating Procedures and any amendments, supplements or modifications thereto, and that the clients have agreed that:
  - 20.1. Securities under the clients' control, custody or Beneficial Ownership shall be held by the Participant in the SCCP Depository System; and
  - 20.2. The clients shall comply and be bound by the Participant's Instructions with respect to such Securities.
21. The Participant acknowledges that all securities held in Client Sub-accounts as defined in the SCCP Depository Rules are the property of its clients. In the creation of such Client Sub-accounts the Participant shall provide, and shall thereafter continue to provide, the Client with all pertinent information relative to the securities of the client held in the Client Sub-accounts. Clients may inquire such information from SCCP for verification purposes. Prior to the releasing of such information, SCCP shall require the clients to submit a copy of their Customer Account Information Form (CAIF) with duly stamped CCCS Sub-account code corresponding to its client code assigned by the Participant together with two (2) valid Identification cards for validation purposes
22. In the event that SCCP is served notice of bankruptcy or insolvency proceedings involving the Participant, whether the said proceedings are voluntary or otherwise, or if

SCCP is served notice of any attachment, injunction, sequestration order, levy, or any other involuntary lien (hereafter referred to as "encumbrance") over the Securities held by or under the control of the Participant in its Client Sub-accounts from any court, regulatory body, quasi-judicial body, or government agency of competent jurisdiction and authority, SCCP shall receive such notice of encumbrance and shall immediately notify the Participant of such encumbrance. The Participant shall be obligated to act upon such notice promptly and in an appropriate manner. SCCP shall automatically segregate those Client Sub-accounts subject to the encumbrance on the Participant's Proprietary Account for appropriate action of the PSE Market Regulation Division or its successor, PSE President, PSE Market Integrity Board or its successor, or SCCP President.

23. In case of Defective Lodgement of securities as defined in the SCCP Depository Rules, the Participant agrees to immediately comply with the provisions of the said Rules relative thereto, as well as with any directive, order or instruction of SCCP.
24. The Participant agrees to secure the Credit Undertakings as defined in the SCCP Depository Rules for the use of the System in such amounts, terms and conditions as may be prescribed by SCCP. The Participant acknowledges and agrees that SCCP may group the Participants into classes for purposes of prescribing the type and amount of Credit Undertaking that each Participant may be required to extend to satisfy any and all losses caused by Participant's failure to satisfy its obligations for the use of the System or in the Settlement Services. Upon default by any Participant in its obligations, SCCP may collect directly on the Credit Undertaking.
25. Notwithstanding any provision herein to the contrary, SCCP shall hold the Participant, its directors, officers, employees free and harmless from any direct losses, damages, liabilities, costs and expenses that may be incurred or sustained by the Participant arising from any willful misconduct or gross negligence of, or willful breach of any of the terms and conditions of this Agreement by, SCCP, its directors, officers, employees, agents and contractors in implementing this Agreement.
26. This Agreement shall be valid and binding upon the parties and shall remain in full force and effect unless otherwise terminated as provided in the next succeeding clause.
27. In case of violation of this Agreement or any provision of the SCCP Depository Rules or SCCP Operating Procedures as determined by SCCP, access to the System may be immediately suspended, denied or revoked, with prior notice, at the discretion of SCCP. This Agreement may be terminated by SCCP for any cause upon prior notice of at least three (3) business days. The Participant may terminate this Agreement by giving at least three (3) business days' prior written notice to SCCP. Access to the System shall be automatically denied upon termination of this Agreement. For the avoidance of doubt, all obligations of the Participant to SCCP incurred or arising under this Agreement for services rendered prior to the effective date of suspension or termination shall be due and settled in full without need of demand.
28. In case of conflict between the provisions of the SCCP Depository Rules and any other applicable document between SCCP and the Participant, the provisions of the SCCP Depository Rules shall prevail.
29. In case of doubt as to the interpretation of the whole or part of this Agreement, the interpretation of SCCP shall prevail.
30. This Agreement is entered into as a single master agreement constituting contractual obligations between the undersigned Participant and all other Participants, and between SCCP and every one of its Participants, including the undersigned Participant and the

respective successors, permitted assignees and lawful representatives of all. Every transaction of Participants and of SCCP and anything done pursuant to this Agreement is entered into in reliance on the fact that this Agreement forms a single master agreement between Participants and between Participants and SCCP, all of whom would not otherwise transact with one another.

31. Participant shall not assign any rights and obligations under this Agreement without the prior written consent of SCCP. In the event SCCP authorizes such assignment, Participant warrants and represents that its assignee is qualified and competent to undertake and perform all of Participant's rights and obligations under this Agreement as well as the SCCP Depository Rules and the SCCP Depository Operating Procedures and shall remain liable to SCCP in case of failure of our assignee to comply therewith. SCCP may assign all or part of its rights and obligations under this Agreement to any person without having to secure Participant's consent.
32. This Agreement shall be construed and governed by the laws of the Republic of the Philippines without regard to the conflict of laws provisions thereof.
33. Any dispute or difference between the parties relating to their rights or obligations under this Agreement shall first be referred for consideration by one party to the other by written notice containing the specific issue(s) disputed and requesting that such dispute(s) be resolved. If the parties are not able to resolve the matter amicably within a period of fifteen (15) working days, then either party may submit the dispute for arbitration in accordance with the following:
  - 33.1. The arbitration proceedings shall be conducted before the Philippine Dispute Resolution Center, Inc. ("PDRCI") accordance with the arbitration laws of the Philippines, as supplemented by the PDRCI rules of the domestic arbitration. Each party shall appoint one arbitrator. The arbitrators thus appointed shall select a third arbitrator who shall act as the chairman of the arbitration panel.
  - 33.2. Unless agreed otherwise by the parties, the arbitration shall be conducted in the English language in Metro Manila, Philippines.
  - 33.3. The parties agree that this arbitration clause is an explicit waiver of immunity against validity and enforcement of the award or any judgment thereon made pursuant thereto and that such award or judgment thereon, if unsatisfied, shall be enforceable in any court having jurisdiction in accordance with its laws against any party participating in the arbitration.
  - 33.4. The costs of arbitration shall be allocated by the arbitration tribunal or panel. In the event that the decision of the arbitration tribunal or panel orders a compromise in the dispute, or is such that neither party prevails in the dispute, the costs shall be divided equitably between the parties.
  - 33.5. The parties agree that the award of the arbitration tribunal shall be the sole remedy for all claims and counterclaims concerning the matter in dispute presented to the arbitration tribunal.
34. The Participant acknowledges that SCCP, in providing its depository services to Participants, may be subject to certain domestic and foreign laws, rules, regulations and treaties, and to agreements entered into, instruments and declarations made and acts done by SCCP from time to time. Participant agrees to comply therewith no later than two (2) days after notice by SCCP of the relevant provisions thereof. This compliance

period may be reasonably extended based on meritorious grounds, taking into account the prevailing circumstances, at the discretion of SCCP.

35. The Participant understands and agrees that this Agreement does not create any partnership, joint venture or any other similar legal relationship between or among it and SCCP, nor shall there be deemed to be any employer-employee relationship between its personnel and that of SCCP by virtue of the terms of the use of the System, this Agreement, the SCCP Rules and the SCCP Operating Procedures.
36. Any provision of this Agreement that is prohibited, unenforceable or invalid shall be ineffective and deemed severed from this Agreement without affecting the enforceability of the remaining provision thereof.
37. This Agreement constitutes the entire agreement between the Participant and SCCP with respect to the subject matter hereof, and shall supersede all prior expressions of intent or understanding with respect to the rights and obligations contemplated herein. The Participant hereby acknowledges that it has freely entered into this Agreement and agrees to all the terms and conditions thereof.

**SIGNED BY THE PARTICIPANT**

This \_\_\_\_ day of \_\_\_\_\_, 20\_\_ at \_\_\_\_\_.

by: \_\_\_\_\_ by: \_\_\_\_\_  
(Please sign over printed name) (Please sign over printed name)  
Duly Authorized Signatory Duly Authorized Signatory

Title: \_\_\_\_\_ Title: \_\_\_\_\_  
(Please Print) (Please Print)

\_\_\_\_\_  
(for SCCP purposes only)

**ACCEPTED BY**

power of the Board of Directors of SCCP at its meeting of \_\_\_\_\_, in the  
year \_\_\_\_\_ in Makati, Metro Manila, Philippines.

**AND SIGNED BY**

**THE SECURITIES CLEARING CORPORATION OF THE PHILIPPINES**

this \_\_\_\_ day of \_\_\_\_\_, in the year \_\_\_\_ in Makati City, Metro Manila,  
Philippines.

by: \_\_\_\_\_ by: \_\_\_\_\_  
(Please sign over printed name) (Please sign over printed name)  
Duly Authorized Signatory Duly Authorized Signatory

title: \_\_\_\_\_  
(Please print)

title: \_\_\_\_\_  
(Please print)

### ACKNOWLEDGEMENT

REPUBLIC OF THE PHILIPPINES )  
\_\_\_\_\_ )s.s.

BEFORE ME, a Notary Public for and in \_\_\_\_\_, on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ personally appeared the following:

Name	Competent Evidence of Identity		Community Tax Certificate	
	Type of ID	ID Number and Expiry Date (if applicable)	Number	Date/Place Issued

known to me and to me known to be the same persons who executed the foregoing Depository Participant Master Agreement and acknowledged to me that the same is their free and voluntary act and deed, as well as the free and voluntary act and deed of the Corporations which they respectively represent.

WITNESS MY HAND AND NOTARIAL SEAL on this the date and place first above-written.

NOTARY PUBLIC

Doc. No.  
Page No.  
Book No.  
Series of 20\_\_\_\_\_.

**Exhibit F**

**Restrictions on the Use of the Depository System**

To ensure the reliability of the depository system, those seeking admission as depository participants have to meet the qualifications and standards set out in Rule 2.1.2 of the proposed SCCP Depository Rules.

SCCP also limits access to the depository system to the participants' designated representatives or alternates and provides for circumstances under which a participant's access to the depository system may be restricted. These access and use restrictions are described in Rules 2.3.1, 2.3.2, 2.6.5 of the proposed SCCP Depository Rules and Section 12.1.1 of the proposed SCCP Depository Operating Procedures.

For your ease of reference, we attach a matrix of the above-cited provisions as **Exhibit F-1**.



**Exhibit F-1: Qualifications or criteria that have the effect of denying or limiting access or use of the Depository System**

<i>Section Number</i>	<i>Section Title</i>	<i>Provision</i>
Rules- 2.1.2	<i>Qualifications and Standards</i>	<p>A party qualifies as a Participant if:</p> <ol style="list-style-type: none"> <li>1. It is duly licensed by the relevant government agency or regulatory authority; and</li> <li>2. It is in good standing under the Philippine laws pursuant to which it is established and regulated as certified to by the appropriate government or other regulatory agency exercising jurisdiction over it; and</li> <li>3. It owns, manages, controls or has custody of Securities; and</li> <li>4. It is not subject to a relevant legal or regulatory disqualification; and</li> <li>5. It has adequate trained personnel, premises, hardware, software and data processing capabilities, telecommunications link-up, books and records enabling it to fulfill its obligations and operational requirements promptly and accurately; or</li> <li>6. It meets such other standards and processes and such other qualifications satisfactory to SCCP for the protection of SCCP and other Participants, and is not subject to any disqualification, including conviction by a competent judicial or administrative body of an offense involving moral turpitude, fraud, embezzlement, counterfeiting, theft, estafa, misappropriation, forgery, bribery, false oath, or perjury, or of a violation of securities, commodities, banking, real estate or insurance laws and regulations, suspension or expulsion from a securities exchange, a clearing or depository corporation, or accused of misrepresentation or omission of a material fact to SCCP.</li> </ol> <p>* SCCP reserves the right to deny the application or access of the Participant in the Depository System if he/she fails to meet the qualifications aforementioned.</p>

**Exhibit F-1: Qualifications or criteria that have the effect of denying or limiting access or use of the Depository System**

Rules-2.3.1	<i>Authorized Representatives</i>	<p>Not later than sixty (60) days from approval of the application, the Participant shall duly designate in writing a representative(s) and alternate(s) who shall be authorized to act on behalf of the Participant on all matters relating to the Depository System. The written designation shall include the corresponding contact information of the representative(s) and the alternate(s). The Participant shall promptly notify SCCP in writing of any change in the representative(s) and/or the alternate(s) and their corresponding contact information.</p> <p>SCCP will allow access and/or participation by the Participant in the Depository System <b>solely through the duly designated representative(s) or, in his absence, the alternate(s).</b> SCCP may rely on, and the Participant shall be bound by, all communications and instructions in whatever form, acts and/or omissions by the Participant's duly authorized representative(s) or alternate(s). Lastly, SCCP will only act on any communication or instruction from the Participant if such communication or instruction is made by a duly authorized representative(s) or alternate(s), or if such communication or instruction constitutes an instruction as defined by these Depository Rules.</p>
Rules-2.3.2	<i>Security</i>	<p>The Participant represents and warrants to SCCP that <b>only</b> the Participant's representative(s) or alternate(s) can access and use the Depository System. Further, the Participant represents and warrants to SCCP that the key file and passwords to the Depository System shall <b>not</b> be disclosed, or made available, to anyone other than the Participant's duly authorized representative(s) and alternate(s).</p>
Rules-2.6.5	<i>Effects of Suspension or Termination</i>	<p>A Participant whose Participantship status is suspended or terminated shall <b>not</b> be allowed to gain access and use the facilities of the SCCP Depository System.</p>
DOP- 12.1.1	<i>Restriction of Participant's Access to the Depository System</i>	<p>When warranted under the circumstances, and upon prior notice, SCCP may restrict the Participant's access to the Depository System pending a review to determine whether there is a ground to suspend or terminate the Participant.</p>

**Exhibit G**

**Procedure for Disciplining Depository Participants**

The grounds for disciplinary action are enumerated in Rule 2.6.1 of the proposed SCCP Depository Rules while the procedures for disciplining depository participants and the schedule of penalties are outlined in Rules 2.4.9, 2.6.2 to 2.6.7, and 2.6.9 of the proposed SCCP Depository Rules and Sections 3.4, 12.1.2, 12.3.2, and 12.5 of the proposed SCCP Depository Operating Procedures.

A matrix of said rules is attached hereto as **Exhibit G-1** for your easy reference.

Exhibit G-1: Fair procedure for disciplining depository participants and the penal and/or schedule of sanctions		
Rules-2.4.9	<i>Submission to Disciplinary Action</i>	Each Participant shall abide by all disciplinary measures imposed by SCCP on such Participant, including <b>reprimand, warning, fines, suspension and termination</b> , and hereby waives any right it may have to delay or render useless the enforcement of such disciplinary action.
Rules-2.6.1	<i>Causes for Suspension or Termination</i>	<p>A Participant's Participantship status may be suspended or terminated for any of the following grounds as determined by SCCP in its <b>sole discretion</b>:</p> <ol style="list-style-type: none"> <li>1. Breach by the Participant of any provision of the SCCP Depository Rules and/or the SCCP Depository Operating Procedures;</li> <li>2. Violation by the Participant of securities laws, rules and regulations;</li> <li>3. Loss of qualification or non-compliance by the Participant with SCCP's Participantship standards;</li> <li>4. Circumstances affecting the financial or operating condition of the Participant including, but not limited to, the voluntary or involuntary filing of a petition for bankruptcy, winding-up, liquidation, receivership or insolvency of the Participant; the filing of a voluntary or involuntary application for suspension of payments of the Participant; the disposal by the Participant of all or substantially all of its assets; assignment by the Participant of its assets for the benefit of creditors; dissolution of the Participant (whether voluntary or involuntary); take-over of Participant's operations pursuant to the Securities Regulation Code (Republic Act No. 8799, as amended) and its Rules; or the merger or consolidation involving the Participant (except where the surviving entity is the Participant), reorganization or restructuring of the Participant;</li> <li>5. Revocation of the registration or license, or suspension, or expulsion of the Participant by any regulatory or competent authority having jurisdiction over it (including the SRO to which the Participant belongs, if any);</li> </ol>

**Exhibit G-1: Fair procedure for disciplining depository participants and the penal and/or schedule of sanctions**

		<ol style="list-style-type: none"><li>6. Order or decision of a competent judicial or administrative authority enjoining the Participant from engaging in or continuing any conduct or practice related to Securities or payment transactions; or</li><li>7. Similar or analogous circumstances that in the reasonable opinion of SCCP warrants the suspension or termination of the Participantship status.</li></ol> <p>A Participant whose status is suspended or terminated shall be <b>barred</b> from accessing and utilizing the SCCP Depository System. A Participant who is suspended for the <b>third time</b> may have its Participantship status <b>terminated</b>.</p>
Rules-2.6.2	<i>Procedure for Suspension or Termination</i>	<p>Whenever any of the grounds mentioned in Rule 2.6.1 above, is present:</p> <ol style="list-style-type: none"><li>1. SCCP shall notify the Participant in writing, at its last registered address on record with SCCP, of the existence of any such ground(s). Such notice shall be sent in accordance with Rule 1.10.1 hereof and shall set forth the ground(s) constituting the violation and the facts in support thereof.</li><li>2. Within five (5) Business Days from such notice, the Participant shall file its written response explaining, clarifying or commenting on the ground(s) stated in the notice. Failure of the Participant to timely file its written response shall result in the waiver by the Participant of its right to file such response.</li><li>3. An Investigation Committee composed of the SCCP President or duly designated alternate, SCCP Chief Operating Officer or duly designated alternate, and SCCP legal counsel shall convene no later than three (3) Business Days from receipt of Participant's written response or from the lapse of the period within which to file the same, for the purpose of conducting an investigation and deliberating on the sufficiency of the ground(s) against the</li></ol>

**Exhibit G-1: Fair procedure for disciplining depository participants and the penal and/or schedule of sanctions**

		<p>Participant.</p> <p>4. The Participant may be required by the Investigation Committee to be present during the investigation to further explain, clarify, comment on matters touched upon in its written response, or respond to questions from the Investigation Committee.</p> <p>5. The Participant may, if so desired, be assisted by legal counsel during such hearing. The Investigation Committee shall then decide whether there are sufficient ground(s) to suspend or terminate the Participant's Participantship status and/or to take such other action as it may deem necessary under the circumstances.</p>
Rules-2.6.3	<i>Decision of Suspension or Termination</i>	<p>Any decision suspending or terminating a Participant shall be in writing, stating the basis thereof, and imposing the period of suspension or the effective date of termination. A fine may be meted out concurrently with suspension or termination, at the discretion of the Investigation Committee. No decision to suspend or terminate the Participantship status shall take effect until a notice of such decision has been sent to the Participant pursuant to Rule 1.10.1. SCCP shall also notify the Securities and Exchange Commission, the PSE, and any other institutions involved in the Depository process for their information and/or appropriate action.</p>
Rules-2.6.4	<i>Appeal of the Decision</i>	<p>A Participant may appeal any decision to suspend or terminate its Participantship status by filing a <b>written appeal</b> with the SCCP Board within ten (10) Business Days from receipt of the decision. The suspension or termination of the Participantship status shall remain effective pending the outcome of such appeal.</p>
Rules-2.6.5	<i>Effects of Suspension or Termination</i>	<p>A Participant whose Participantship status is suspended or terminated shall <b>not</b> be allowed to gain access and use the facilities of the SCCP Depository System. SCCP shall determine what actions may be taken with respect to Transactions of a suspended or terminated Participant which have not been settled or completed, as well as with</p>

**Exhibit G-1: Fair procedure for disciplining depository participants and the penal and/or schedule of sanctions**

		<p>respect to Securities held by the Participant in its Proprietary Securities Account and Client Securities Account.</p> <p>SCCP may take any action it deems necessary to maintain the provision of Services and the integrity of the SCCP Depository System.</p>
Rules- 2.6.6	<i>Preventive Suspension</i>	Notwithstanding the foregoing, SCCP may, in order to <b>avoid grave and irreparable damage</b> to the Depository System, order the immediate suspension of a Participant pending notice, hearing and final decision on its suspension or termination, until SCCP determines that the risk of damage no longer exists, at which time SCCP may lift the preventive suspension.
Rules- 2.6.7	<i>Automatic Suspension or Termination</i>	Any Participant who is suspended or terminated as a Trading Participant or Clearing Member shall <b>automatically</b> be suspended or terminated as a Depository Participant.
Rules-2.6.9	<i>Civil and Criminal Liability</i>	The suspension, termination or resignation of a Participant shall <b>not</b> prejudice the right of SCCP and/or any other Participant(s) to take or maintain any civil, criminal or administrative action against the suspended, terminated or resigned Participant.
DOP-3.4	<i>Suspension and Termination</i>	<p>In the event that a Participant was suspended or terminated under Rule 2.6 of the Depository Rules, SCCP shall immediately restrict the access of the Participant to the Depository System and shall notify the Participant in writing, as soon as practicable, of the basis for imposing the restriction.</p> <p>If the Participant is suspended under Rule 2.6.1.d (take-over of the Participant's operations pursuant to the SRC and its Rules) or Rule 2.6.1.e (revocation of the registration or license, or suspension, or expulsion of the Participant by any regulatory or competent authority having jurisdiction over it, including the SRO to which the Participant belongs, if any) then such suspension shall remain in effect until such time as the SRO or entity exercising jurisdiction over the Participant notifies SCCP that it is returning control over the Participant's operations or is lifting the</p>

**Exhibit G-1: Fair procedure for disciplining depository participants and the penal and/or schedule of sanctions**

		<p>suspension, as the case may be.</p> <p>In either case, SCCP shall abide by instructions from the SRO or entity exercising jurisdiction over the Participant for the duration of the suspension. The PSE-Market Regulation Division (PSE-MRD) or its successor shall file a petition with the Securities and Exchange Commission (SEC) to grant the take-over of the Participant's operations. Upon approval of the petition, the PSE-MRD or its successor shall be allowed to execute transactions in behalf of the Participants, but with close supervision of the SEC.</p> <p>The Participant shall submit to SCCP the detailed list of its Clients together with the corresponding Client Account Information Forms and forward same to the PSE-Market Regulation Division (PSE-MRD) or its successor. In the absence thereof, SCCP shall rely on the instruction of PSE-MRD or its successor, or the Securities and Exchange Commission (SEC), on the client information. SCCP shall allow the PSE-MRD or its successor to access the Securities Accounts of the subject Participant. SCCP shall comply with the PSE-MRD's or its successor's instructions relative to those Securities Accounts.</p>
DOP-12.1.2	<i>Suspension or Termination of Participant</i>	<p>Upon the determination by SCCP that the Participant has violated any of the SCCP Rules or Operating Procedures, SCCP may suspend or terminate the Participant's Participation status effective upon serving of notice of the decision to the Participant.</p>
DOP- 12.3.2	<i>Suspension of Securities</i>	<p>SCCP may <b>discontinue the eligibility</b> of any Security previously accepted as eligible based on grounds set forth in Section 1.6.2 of the Rules.</p> <p>Furthermore, any security which was accepted by SCCP as an eligible security, but which was subsequently deemed ineligible, shall be kept in the SCCP Depository system for safekeeping until further notice, subject to certification by the Participant that all taxes applicable for transfers between or among Participants' accounts have been paid.</p>



**Exhibit G-1: Fair procedure for disciplining depository participants and the penal and/or schedule of sanctions**

DOP-12.5	<i>Credit Undertaking</i>	<ol style="list-style-type: none"><li>1. The Participants may be required to provide Credit Undertakings for the Depository Service and/or the Settlement Service in such amounts, terms and conditions as may be prescribed by the Depository for Participants utilizing a particular Service to satisfy any and all losses caused by Participant's failure to satisfy its obligations in the Depository Service or in the Settlement Services.</li><li>2. Upon <b>failure</b> of the Participant to provide the Credit Undertaking, SCCP <b>may suspend</b> the Participant until such Credit Undertaking is given to SCCP.</li><li>3. Upon default by any Participant in its obligations in a particular Service, SCCP may recover directly from the Credit Undertaking to answer for such losses, with or without notice to the Participant.</li></ol>
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**Exhibit H**

**Procedures for Prevention and/or Detection of Fraudulent and Manipulative Acts**

The procedures and mechanisms for the prevention and/or detection of fraudulent and manipulative acts and practices are set out in Rules 2.4.8, 3.2.1.4, 3.2.1.6, and 4.1.3 of the proposed SCCP Depository Rules and Sections 6.3 and 12.6 of the proposed SCCP Depository Operating Procedures.

A matrix of said provisions is attached hereto as **Exhibit H-1** for your easy reference.

EXHIBIT H-1: Procedures to prevent and/or detect fraudulent and manipulative acts and practices in the Depository System		
Rules- 2.4.8	<i>Reporting of a Fraud</i>	Whenever a Participant acquires any information relating to any matter set forth below (a-e), the Participant shall be obligated to immediately <b>submit a detailed written report</b> to the President and CEO of SCCP or his designated representative.
Rules-3.2.1.4	<i>Defective Certificates</i>	Confirmation by the Transfer Agent that the Securities surrendered by the Participant are not Defective Securities renders the crediting of such Securities final and irrevocable. Notwithstanding such confirmation by the Transfer Agent, <b>SCCP shall have the right to declare any Securities to be Defective Securities</b> when warranted under the circumstances, and any such Defective Securities that have been subject to immediate credit shall, within one Business Day, and without prejudice to the right of SCCP to call on any applicable Warranty, be uplifted from the Depository System and automatically delivered to the Transfer Agent of the Issuer concerned. If there is an insufficient amount of Securities in the Securities Account to be uplifted, the Participant shall, without need of demand and without delay, be obligated to immediately deliver to SCCP a sufficient quantity of such Securities to account for the deficiency.
Rules-3.2.1.6	<i>Suspension of Security Deposit/Lodgement</i>	The SCCP may, for reasonable cause, suspend or prohibit the Security Deposit/Lodgement of certain Securities in the Depository System. The decision to suspend or prohibit such security deposit/ lodgement shall be final and not subject to appeal.
Rules-4.1.3	<i>Tax Clearances</i>	The Participant to DVP/RVP and DFOP/RFOP shall submit to SCCP on a monthly basis a written <b>certification</b> in a form prescribed by SCCP, signed by its authorized representative(s) or alternate(s), that there is <b>no change in Beneficial Ownership</b> (in the case of DFOP/RFOP), and that all applicable taxes have been paid and all applicable tax clearances have been obtained.
DOP-6.3	<i>Defective Security Deposit/ Lodgement</i>	In the event that the Deposit/Lodgement of securities in the Depository is considered defective as defined in Section 5.1.2 of the Depository Rules, SCCP shall immediately temporarily freeze all shares of the Issuer, which belong to the particular class of the

**EXHIBIT H-1: Procedures to prevent and/or detect fraudulent and manipulative acts and practices in the Depository System**

		<p>defective security, in the Depository System and shall require the Participant to immediately and unconditionally submit to SCCP the list of client codes where the defective securities were credited within the same day and reverse the credit of deposit instructions. Clearing and settlement of the particular class of the defective security shall be suspended until the freeze is lifted.</p> <ol style="list-style-type: none"><li>1. SCCP shall notify the PSE President and the Chief Operating Officer, or any authorized officer, of the defective Security Deposit/Lodgement. Immediately upon receipt of notice, the PSE shall halt the trading of the particular class of the defective security until further notice from SCCP.</li><li>2. SCCP shall uplift the defective securities from the Securities Account of the Participant in the Depository system and instruct the Transfer Agent of the Issuer concerned to debit in its stock and transfer book the corresponding number of shares in the name of SCCP Nominee Corp.</li><li>3. SCCP shall then issue a Debit memo to the Participant indicating the details of the uplifted securities.</li><li>4. Once the defective Securities have been uplifted and debited from SCCP Nominee Corp., SCCP shall lift the freeze on the class of shares to which the defective Securities belong and shall notify PSE to lift the trading halt on the Security.</li><li>5. If a portion of the Defective Securities is no longer in the Securities Account of the Participant, the Participant shall have the obligation to immediately deliver an equivalent number of shares to the Transfer Agent. The Issuer, Transfer Agent, and the Participant shall remain solidarily liable until such Securities are fully delivered.</li></ol>
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**EXHIBIT H-1: Procedures to prevent and/or detect fraudulent and manipulative acts and practices in the Depository System**

DOP-12.6	<i>Reportorial Requirements</i>	<p>SCCP shall require the Participant to submit on an annual basis the <b>Depository Member Information Form on the 15th business day of January</b>. The Participant is responsible for updating SCCP regarding any change in the information contained in the Depository Member Information Form.</p> <p>The Participant shall be required to submit the following to SCCP on a monthly basis, every 5th business day of the following month:</p> <ol style="list-style-type: none"><li>1. A certification that all applicable taxes have been paid;</li><li>2. A certification that all applicable tax clearances have been obtained;</li><li>3. In case of transfer of Securities under Rule 1.7.3, a certification that there has been no change in beneficial ownership; and</li><li>4. Such other reports as SCCP may require from time to time.</li></ol> <p>Failure to submit the reportorial requirements on the deadline set by SCCP shall subject the Participant to the appropriate <b>penalty</b>.</p>
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**Exhibit I**

**Statement of Readiness and Undertaking to Link SCCP Depository System  
with Capital Market Participants**

The SCCP is ready to connect and link its depository system with other capital market participants within and outside the Philippines, provided that the requirements for interoperability are complied with.

**Exhibit J**

**Depository System and Procedures**

The procedures for lodgment and upliftment of shares, crediting and debiting of shares arising from trades settlement and corporate actions, and other depository processes are described in the attached document labelled as **Exhibit J-1**.

## 1.0 Security Deposit and Withdrawal

### 1.1 Security Deposit (Lodgement)

The participant can choose to send a deposit instruction to CSD also, informing CSD that the securities so registered are to be credited to a specific securities account (4). This deposit instruction will receive the status 'waiting for confirmation' after successful validation and while waiting for the related deposit confirmation. A deposit instruction is considered and consequently treated as a pre-advice: there will be no movements generated upon the receipt of such a participant deposit instruction.

Once the certificated securities are converted into scripless securities, transfer agent must send a deposit confirmation to CSD (DCONF function), together with the identification of the securities account in which the securities are to be credited at the CSD system and the reference number of the related deposit instruction created by the participant (6). It is this deposit confirmation, which is coming from the transfer agent that will generate the necessary movements. The DCONF will search for a related deposit instruction but whether the matching instruction is found or not is irrelevant. In both cases, 'matching instruction found' and 'matching instruction not found', the DCONF will create a transaction in order to generate the movements required for positioning. Unsuccessful positioning can only occur when the receiving account or the security concerned are 'Blocked for closure' or 'closed'.

Participants can inquire on the status of their deposit instructions or generate a daily statement to trace closely the progress of the deposit and to complain to the issuer or transfer agent in the event of delay or mistake.

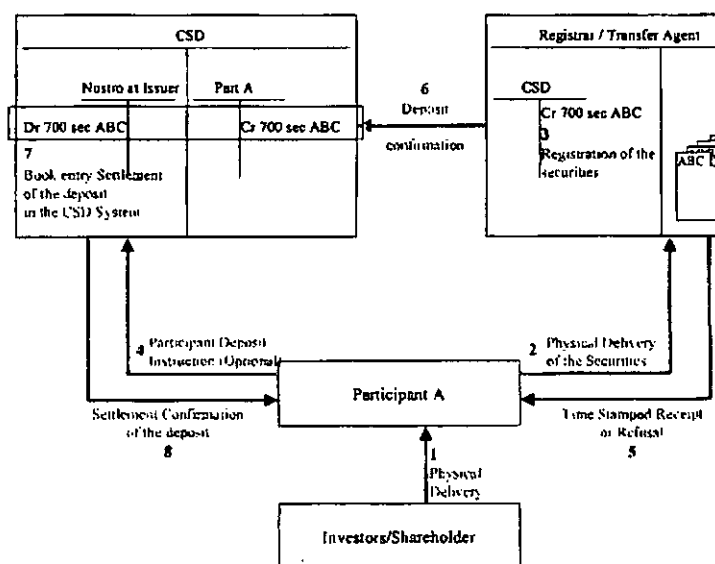
Only financial institutions may open accounts with CSD. Investors must have accounts with securities companies or custodian banks. CSD is not concerned with the relationships between its depositors and their clients, or their procedures for processing deposits in securities accounts with broker-dealers or custodian banks. Clients of broker-dealers or custodian banks have no claim on CSD, but only on their brokers or custodians. (In the case of bankruptcy of the broker-dealer or custodian bank, the administrator of the bankruptcy procedures will deal with the relationships with CSD.)

CSD will have no facilities for handling physical securities and therefore clients will deposit and withdraw securities directly with and from transfer agents. (Ordinarily, CSD clients will provide this service for their own clients.)



## CCCS Depository Functional Specifications Version 1.0

Since CSD, the Issuer, and CSD clients reconcile account balances daily, any differences can be quickly traced.



The actions to be taken by each involved party during the deposit of securities into a CSD account are as follows:

### Participants

The participants will input all deposit request data into the CSD system. The transmittal form, a copy of the identity card and the certificates will be sent to the Transfer Agent. The participants will also be able to check the status of all the deposit requests 'waiting for deposit confirmation'. After the deposit confirmation, the participants will find the deposited amount of securities on their depository account ('Available' status) into the System.

### Issuer/transfer agent

As soon as the Transfer Agent has confirmed that the investor certificates are valid and has processed a change on its internal records, the Transfer Agent will input deposit confirmation and send it to CSD.

### CSD

After the Transfer Agent has sent the deposit confirmation, CSD will update the account position and the request status. At that time, the securities position will be available in the participant's account, and CSD will send the latest status to the Participant.

## 1.2 Security Withdrawal (Upliftment)

Securities Account holders with CSD are aware of their securities positions at the end of each working day. Unless the account is blocked or subject to some special restrictions, the account holder may order

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CSD at any time to withdraw the securities out of the account in CSD, provided that the security is not completely dematerialized or immobilized.

In the case of withdrawal, the exact name, nationality, and tax identification number of the person to whom the securities are to be issued must be sent to CSD so that CSD can pass this information on to the transfer agent. CSD will regard the securities as off its ledgers for the purpose of entitlements as of the date of its confirmation to the issuer and will send a confirmation to the client to this effect. The client will pick up the certificate from the issuer/transfer agent. If there is any delay (provided that the fault is not that of CSD) the liability will be on the issuer.

**Process**

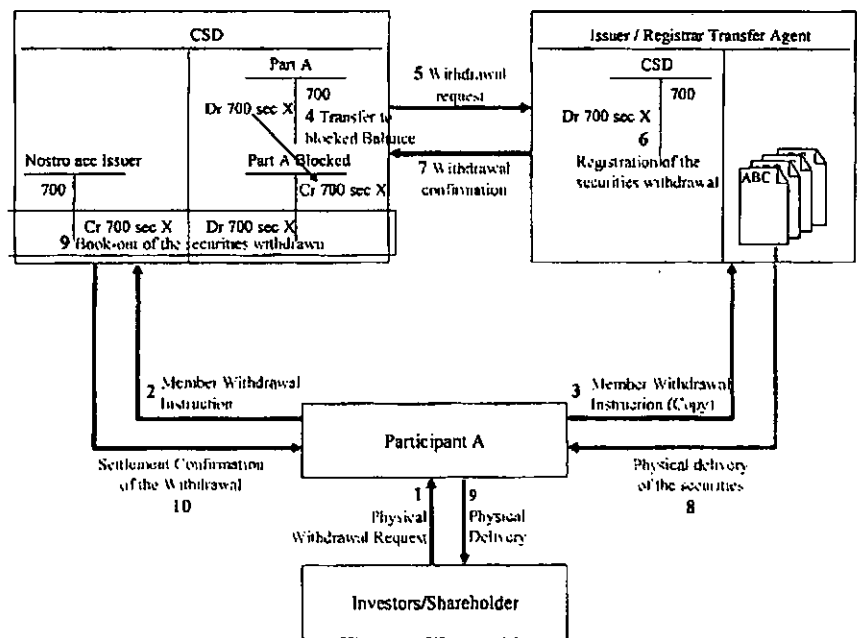
The withdrawal process is initiated by the participant, sending a withdrawal request to CSD (SECW function) (2). The withdrawal form and supporting document must also be delivered to the Issuer/Transfer Agent (manual process) (3).

CSD will check that the investor has sufficient balance to cover the request (4). If there is an insufficient balance, the system will reject the request. Successful positioning of the request will block the amount of securities 'to-be-withdrawn' by transferring them to the "Transfer out" balance of the participant's deposit account. This withdrawn position is no longer accessible to the investor.

CSD will forward the withdrawal request data to the Transfer Agent (5). If the withdrawal request data from CSD matches with all documents received from the participant, the transfer agent will input the acceptance of the withdrawal request and register the withdrawal in its own system (6). The transfer agent will make the securities concerned available to the participant (8) and confirms the execution of the withdrawal in its system to CSD (7). The incoming registrar's confirmation must match with a participant's withdrawal instruction with status 'waiting for confirmation' in order to be able to continue its life cycle. If a matching instruction is found, a transaction will be created to generate the movements in order to transfer the blocked securities out of the system (9). Settlement of a withdrawal confirmation can only be unsuccessful if the participant's account or the security concerned became 'blocked for closure' while waiting for the confirmation to come in.

Once the withdrawal request has been confirmed by the Transfer Agent and the position has been removed from the system, the Participant can verify if the new certificates are already available at the Issuer/Transfer Agent (manual process) (10).

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## 2.0 Corporate Actions

A corporate action is an action taken by the issuer of a security, affecting the investor's direct economic or ownership rights, represented by that security.

Central Settlement's corporate action services cover the mandatory, mandatory with options and voluntary corporate actions. In terms of processing, mandatory and voluntary corporate actions differ in the following way:

- Mandatory or non-elective corporate actions do not require any action or instruction from the investors. Mandatory actions are automatically processed by the system and accounted for on the effective date.
- On the contrary, voluntary corporate actions require action by the holders of the security and processing will depend on the holders' instruction.

The Central Settlement solution supports the following list of corporate actions:

Corporate actions	
Mandatory corporate actions	<ul style="list-style-type: none"><li>▪ Interest payment</li><li>▪ Redemption payment (supporting early redemption and partial redemption)</li><li>▪ Cash dividend</li><li>▪ Stock dividend (Stock bonus)</li><li>▪ Mixed cash &amp; stock dividend</li><li>▪ Rights distribution</li><li>▪ Mandatory conversions (stock amalgamation and stock split – with/without change in ISIN code)</li></ul>
Mandatory corporate actions with options	<p>The system supports the receipt of instructions from participants related to options on mandatory corporate actions:</p> <ul style="list-style-type: none"><li>▪ Choice dividend</li><li>▪ Conversion option</li></ul>
Voluntary corporate actions	<ul style="list-style-type: none"><li>▪ Exercise of rights</li><li>▪ Bond conversion into new shares</li><li>▪ Subscription Exercise (IPO, via delivery of allotment rights)</li><li>▪ Proxy voting (invitation distribution to the general meeting)</li></ul>

Parameters input on corporate actions

The first step in corporate actions handling is the data capture of corporate action information as well as setting up of parameters. Such information is available on the prospectus during issuance of the underlying security, with additional information (e.g. floating rates, dividend payment details etc) being provided during the life of the security.

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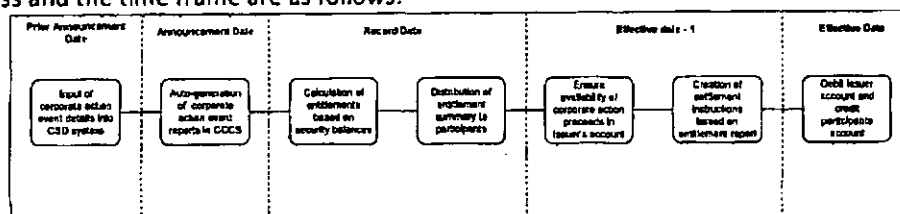
The following table summarizes the input parameters upon creating a corporate action in the system.

Parameters	Description
Corporate Action Type	Type of corporate action, e.g. Interest payment, cash dividend, stock bonus, etc.
Announcement Date	The date when the upcoming corporate event will be announced electronically to the participants
Record Date	The date the system calculates the entitlement for each participant
Effective Date	The settlement date of the instructions to distribute the proceeds to the participants
Start Date	Starting date on which the participants can enter an instruction (this is applicable for the voluntary corporate action)
Deadline Date	Last date on which the participants can enter an instruction
Issuer's Account	Account ID from which the proceeds will be distributed
Underlying/Exercise Instrument	The ID of the instrument subject to the upcoming corporate event. E.g. dividend payment of XYZ share – here XYZ share is the underlying instrument.
Proceeds Instrument	E.g. (PHP) cash for interest payment, XYZ-Rights for rights distribution, etc.
Exercise Ratio/Proceed Ratio	To indicate how many proceeds will be distributed per unit of exercise instrument
Rounding Method	In case both exercise and proceeds instrument are security (e.g. stock bonus), this field indicates the rounding method, i.e. round-up, round-down, cash-in-lieu

The corporate action process as supported by Central Settlement is described in the following sections.

## 2.1 Mandatory corporate action

The process and the time frame are as follows:



**Figure 1 - Processing of mandatory corporate action**

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- 2.1.1 Before announcement date: on behalf of issuer the central securities depository/registry enters the details pertaining to the corporate action event through the system's workstation.
- 2.1.2 On the announcement date: a report will be automatically distributed via workstation to all participants, announcing the upcoming corporate event.
- 2.1.3 On record date: the system calculates the security balances and entitlement of all participants and distributes the entitlement reports to the participants and the summary entitlement report to issuer via the workstation.
- 2.1.4 On the effective date – 1 (end of day process): settlement instructions are created, based upon the calculated entitlement (see n° 3), to distribute the proceeds (securities or cash) from the issuer's account to the participants. Note that these settlement instructions have a settlement date on the effective date.
- 2.1.5 On the effective date the settlement instructions will settle. Movements are created to debit the proceeds from the issuer's account and to credit the instrument to the participant's account.

Before settlement can take place (before the effective date), the issuer must provide the securities/cash in his account, by depositing securities in his account at the CSD or cash at the payment bank.

Central Settlement also supports the tax calculation for the proceeds from the corporate event. The tax amount is calculated based on the proceeds amount and the pre-defined tax rate. Separate cash settlement instructions will be created, if the issuer opts for the tax to be calculated by the system.

### 2.2 Mandatory corporate action with options

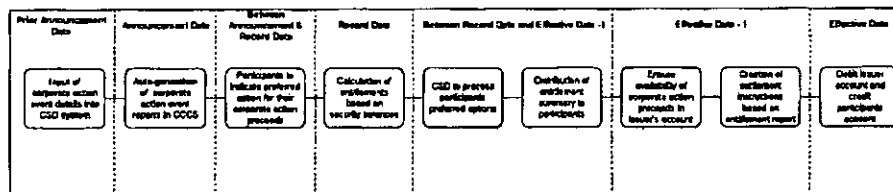


Figure 2 - Processing of mandatory corporate action with options

Mandatory corporate action with options follows the same steps as mandatory corporate action, however between the record date and effective date the participants are allowed to indicate their preference for the proceeds. This type of corporate action typically is used when the issuer provides the participants with more than one option to choose.

Central Settlement provides a mechanism so that the participants can indicate their option by entering an instruction through the workstation.

The solution also provides a mechanism to allow the CSD (on behalf of the issuer) to create settlement instructions in response to the participant's request.

### 2.3 Voluntary corporate action

The process and the time frame are described as follow:

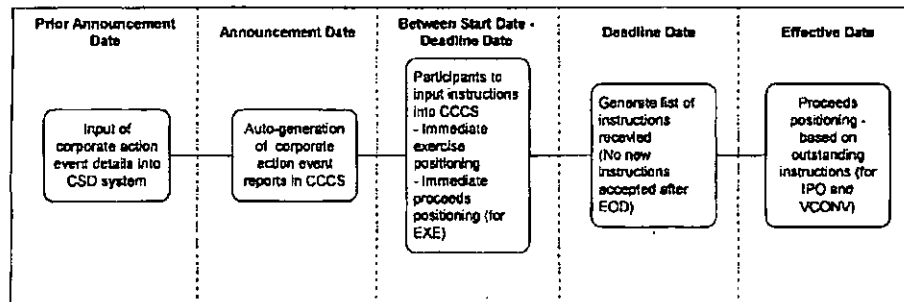


Figure 3 - Processing of voluntary corporate action

- 2.3.1 Before announcement date: on behalf of issuer the CSD enters the details pertaining to the corporate action event through the system's workstation.
- 2.3.2 On the announcement date: a report will be automatically distributed via workstation to all participants, announcing the upcoming corporate event.
- 2.3.3 Between the start and deadline date: the participants can enter their instructions to response to the corporate event. E.g. for the 'Initial Public Offering/IPO' corporate event, the participants can enter an instruction to indicate how many securities he wishes to subscribe. The positioning of exercise instrument takes place immediately (on the same date) upon successful validation of the VCA (voluntary corporate action) instruction entered by the participant. E.g. for the IPO, a settlement instruction is created to transfer the money from participant account to issuer's account.

For corporate action of type EXE (execution of rights), the positioning of proceed instrument will take place immediately upon successful exercise positioning; while for corporate action of type IPO and VCA, proceed positioning will take place on the effective date.

- 2.3.4 On the effective date: the proceeds will be distributed according to the rules defined in the corporate action.



### 3.0 Delivery Free of Payment (DFOP) and Receipt Free of Payment (RFOP)

#### 3.1 General Description

DFOP/RFOP can be used by participants (such as settlement agents) to move securities from the seller's account to the buyer's account as a result of an off-exchange trade, or as result of client side settlement between a settlement agent and a custodian bank.

Participants enter into trades and use CSD (for all instructions) to settle the securities only. The cash is settled independently between the two transacting parties. The trade is therefore 'Free of Payment' or 'Free of Receipt' from CSD's perspective. There will only be a transfer of securities in CSD between the securities accounts of two different participants. Settlement is trade-for-trade.

Settlement of a DFOP/RFOP instruction involves validation, matching and positioning of the trade. A trade is based on a message from a participant. Before a trade can exist in the system, it will have to be authenticated and validated. Validation error leads to immediate "rejection" of the message. If no problems occur the instruction will be created with the state "validated".

DFOP/RFOP instructions require matching. If the matching counterparty instruction is not yet present, the status is updated to "unmatched". The instruction will not remain indefinitely in this status. After a specified number of days it becomes "overdue". In case the counterparty instruction is present, a transaction is created and linked to the matching instruction both with status "ready for positioning".

The transaction has its own lifecycle. It will retrieve the movements from the instruction and will take care of positioning. If the positioning result that the instruction receives from the transaction is successful, the status of the instructions is updated to "settled". If the first positioning attempt is not successful, the status is updated to "failed". It will remain in this status until it is notified of successful positioning. At the end of the day it will return to the "ready for positioning" state. This process will be repeated until the maximum number of recycling days is exceeded; at this point it becomes "overdue". From the state "ready for positioning" and "failed" the instruction status will be updated to "deleted" if an account or a member is blocked for closure.

#### 3.1.1 Field Specifications

Table 1: Syntax validation specifications of a DFOP: external format Participant

Field name		Description	Format
External Reference	M	DFOP: Reference assigned by participant to unambiguously identify the message. This reference is used for reporting towards the participant.	CHAR(40)
Instruction Type	M	The type of this instruction	Value = DFOP
Priority code	M	Priority can only be assigned to	Value = High,

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		DFOP/RFOP trades and only the seller can allocate this priority.	Normal or Low
Participant's code	M	Local code, member short-code of seller	CHAR(5)
Participant's account	M	Account number of the deposit account of the seller	CHAR(14)
Counterparty's code	M	Local code, member code of buyer	CHAR(5)
Security code type	M	The type of the security code (ISIN, or Local, etc)	CHAR(10)
Security code	M	Stock Code	CHAR(10)
Security quantity	M	Number of securities	NUMBER(32)
Currency code	M	Valid ISO currency code	CHAR(3)
Settlement Amount	M	Total amount of cash to be settled	NUMBER(32)
Settlement date	M	Contract settlement date	Date
Trade date	M	Date the trade was made	Date
Instruction description	O	This field may contain information only, no instructions are allowed; Free format	Char(100)

**Table 2: Syntax validation specifications of RFOP: external format Participant**

Field name		Description	Format
External Reference	M	RFOP: Reference assigned by participant to unambiguously identify the message. This reference is used for reporting towards the participant.	CHAR(40)
Instruction Type	M	The type of this instruction	Value = RFOP
Priority code	M	Priority can only be assigned to DFOP/RFOP trades and only the seller can allocate this priority.	
Participant's code	M	Local code, member short-code of seller	CHAR(5)
Participant's account	M	Account number of the deposit account of the seller	CHAR(14)
Counterparty's code	M	Local code, member code of buyer	CHAR(5)
Security code type	M	The type of the security code (ISIN, or Local, etc)	CHAR(10)

Security code	M	Stock Code	CHAR(10)
Security quantity	M	Number of securities	NUMBER(32)
Currency code	M	Valid ISO currency code	CHAR(3)
Settlement Amount	M	Total amount of cash to be settled	NUMBER(32)
Settlement date	M	Contract settlement date	Date
Trade date	M	Date the trade was made	Date
Instruction description	O	This field may contain information only, no instructions are allowed; Free Format	Char(100)

### 3.2 Matching of Settlement Instructions

#### 3.2.1 General description

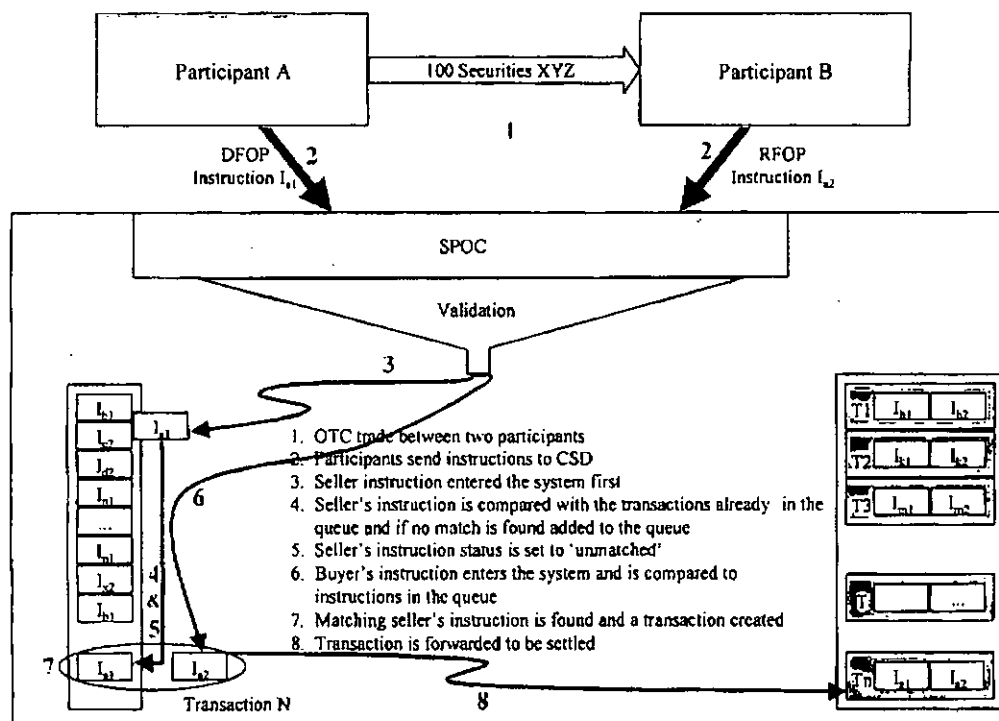
#### 3.2.2 Matching Principles

When two participants agree on a DFOP/RFOP securities transaction, both the seller and the buyer have to enter their part of the transaction into the CSD system. The seller enters his delivery instruction and the buyer enters his receipt instruction separately.

The matching process compares the trade details of the sell and buy instructions in order to identify and link the related instructions. Not all the fields of the instructions need to match; only the fields holding information important for both participants and defined by mutual agreement are matching fields, e.g. the settlement date, security code, security quantity, participant IDs, comment, etc.

Matching is a real-time process and is initiated upon receipt of a successfully validated instruction. The validated instruction is forwarded towards the matching process where it is compared with instructions previously inputted in the system. If the corresponding instruction already entered the system, and matches with the incoming instruction, both instructions are linked and their status updated to 'Ready for positioning'. A transaction is created to enable the positioning. If no corresponding instruction is found, the incoming instruction is stored in the system, waiting for its counter-instruction to enter and the instruction status is set to 'unmatched'.

In the current implementation, the matching process is binding. This means that a matched transaction can only be cancelled or modified upon mutual agreement of both participants and when the cancel instructions of both participants are received.



### 3.2.3 Matching Instructions

Not all instructions require matching in order to be settled. Whether instructions need to be matched or not is dependent on the instruction type. In the current implementation, Delivery Free of Payment (DFOP) and Receipt Free of Payment (RFOP) instructions require matching.

Stock exchange trades are matched at the stock exchange and enter the CCH system as complete transactions making matching an obsolete process.

### 3.2.4 Matching Error reporting

As described above, an instruction can enter the matching process without finding its counter instruction. In this case the status of the instruction is set to 'unmatched', enabling the participants to inquire on the instruction's progress at all times.

In the event of a mismatch in one of the compulsory matching fields, both instructions will end up in the matching queue separately. To avoid having instructions stay unnoticed for too long, reports on unmatched instructions will be generated during the end-of-day reporting. The reports on unmatched instructions will be sent to both the sending party and the counterparty in that specific instruction. It is important that the counterparty is also notified about the unmatched instruction. It enables him to undertake the necessary actions in case he is the cause of the failed matching attempt.

Participants will also be able to conduct their inquiries on-line, notice the remaining 'unmatched' status and undertake the necessary actions to correct their instructions immediately.

The system will not keep the unmatched instructions indefinitely in the system. Instructions that remain unmatched five (5) business days after settlement date, will be removed by updating the status to 'Overdue'. This action will be reported as such to the participant and the counterparty, communicating the removed instruction ID and the reason of the removal.

### 3.3 Matching of DFOP/RFOP instructions

#### 3.3.1 Scenario 1: Matching of DFOP/RFOP instructions: Successful

##### 3.3.1.1 Actors

Internal system: part of the settlement subsystem in CSD

##### 3.3.1.2 Assumptions

- Successfully validated DFOP/RFOP instructions are forwarded for matching.
- The 'unmatched' counter-instruction already entered the system and was successfully validate.

##### 3.3.1.3 Triggering event

A DFOP/RFOP instruction was successfully validated.

##### 3.3.1.4 Outcome

- Two matched instructions
- A transaction with status 'awaiting positioning'

##### 3.3.1.5 Description

	Description of action	R&C
1.	Search instruction table for an instruction with <ul style="list-style-type: none"><li>• status 'Unmatched' and</li><li>• corresponding matching fields</li></ul> Successful	1
2.	Update 'related reference' field of both instructions with the external reference of the matching instruction	2
3.	Update status of matching instructions to 'Ready for positioning'	
4.	Create transaction with status 'awaiting positioning'	

	Description of action	R&C
5.	Forward the transaction for further processing	
<b>Rules/constraints</b>		
	<p>In order to obtain matching, following fields need to correspond on both instructions:</p> <ul style="list-style-type: none"> <li>• Settlement information fields: <ul style="list-style-type: none"> <li>• <i>Participant code</i>: has to match with the Counterparty code of the opposite instruction</li> <li>• <i>Counterparty code</i>: needs to match with the Participant code of the opposite instruction</li> <li>• <i>Instruction type</i>: e.g. a DFOP instruction has to match with an RFOP instruction.</li> <li>• <i>Security code</i></li> <li>• <i>Security quantity</i></li> <li>• <i>Settlement date</i></li> <li>• <i>Cash counter-value</i></li> <li>• <i>Currency</i></li> </ul> </li> <li>• Trade information fields: <ul style="list-style-type: none"> <li>• <i>Trade Date</i>: to determine the date on which there is change of ownership</li> </ul> </li> </ul>	
	<p>The internal format of a DFOP instruction has an attribute 'related reference'. This field will be updated with the 'external reference' of the matching instruction when a matching counter instruction is found.</p>	

### 3.3.2 Scenario 2: Matching of DFOP/RFOP instructions: Unsuccessful

#### 3.3.2.1 Actors

Internal system: part of the settlement subsystem in CSD

#### 3.3.2.2 Assumptions

Successfully validated DFOP/RFOP instructions are forwarded for matching.

#### 3.3.2.3 Triggering event

A DFOP/RFOP was successfully validated

#### 3.3.2.4 Outcome

A DFOP/RFOP with status 'Unmatched'

#### 3.3.2.5 Description

	Description of action	R&C
1.	Search instruction table for an instruction with <ul style="list-style-type: none"><li>• status 'Unmatched' and</li><li>• corresponding matching fields</li></ul> Unsuccessful	1
2.	Update status of matching instructions to 'Unmatched'	2

	Rules/constraints
1.	Matching will be unsuccessful because the counterparty's instruction is not yet available in the 'Waiting for matching' queue, or there are inadmissible differences in one or more matching fields of the participant's and the counterparty's instruction.
2.	If the instruction is still unmatched at the end of the day, both the participant and the counterparty specified in the instruction are notified on the unmatched status of the instruction concerned

### 3.4 Positioning & Settlement of DFOP/RFOP Transaction

#### 3.4.1 General Description

Two corresponding instructions, a deliver (DFOP) and a receive (RFOP) instruction are successfully validated and matched. A transaction is created and forwarded for positioning. The transaction must retrieve the necessary information to create the movements to be assigned to the accounts concerned.

The transaction will generate two movements: a debit to the securities balance of the seller's account, and a credit to the securities balance of the buyer's account.

The general asset model specifies the details of the movements and the checking rules to be applied. Only if all checking rules are satisfied are the movements assigned to the accounts simultaneous, final and irrevocable. The transaction will not settle should one of the checking rules be violated. If such is the case the transaction will become the subject of intra-day recycling, and the participants must be notified about the failed settlement attempt.

### 3.4.2 Scenario 1: Successful Settlement of a DFOP/RFOP Instruction

#### 3.4.2.1 Actors

- DFOP and RFOP instructions
- Settlement sub-system

#### 3.4.2.2 Assumptions

- A DFOP and RFOP instruction are received and successfully validated and matched
- A settlement window for the market concerned is open

#### 3.4.2.3 Triggering event

- An DFOP/RFOP transaction with status 'ready for settlement', reached its settlement date and time
- A positive event occurred in the system triggering a transaction previously failed

#### 3.4.2.4 Outcome

- DFOP instruction status updated to 'settled'
- RFOP instruction status updated to 'settled'

#### 3.4.2.5 Description

	Description of action	R&C
1.	Position transaction: <b>Successful</b>	1
2.	Change transaction status to 'Settled'	2
3.	Update both instructions to 'Settled'	

	Rules/constraints
1.	The outcome of all the checking rules must be positive
2.	The generated movements are assigned to the accounts concerned in order to check whether enough securities and cash are available. If such is the case the movements are acknowledged, finalizing the settlement of both instructions.

### 3.4.3 Scenario 2: Positioning of a DFOP/RFOP Instruction: Unsuccessful: Status set to 'failed'

#### 3.4.3.1 Actors

- DFOP and RFOP instructions
- Settlement sub-system



#### 3.4.3.2 Assumptions

- A DFOP and RFOP instruction are received and successfully validated and matched
- A settlement window for the market concerned is open

#### 3.4.3.3 Triggering event

- An DFOP/RFOP instruction with status 'ready for settlement', reached its settlement date and time
- A positive event occurred in the system triggering a transaction previously failed

#### 3.4.3.4 Outcome

- DFOP instruction status updated to 'failed'
- RFOP instruction status updated to 'failed'
- Notification of failed settlement to both participants concerned, communicating the instruction reference and the reason why positioning failed.

The system will reattempt to settle the transaction every time a relevant improvement occurs in the system.

#### 3.4.3.5 Description

	Description of action	R&C
1.	Position transaction: <b>Unsuccessful</b>	1
2.	Check transaction status <ul style="list-style-type: none"> <li>• If status : 'ready for settlement': continue step 3</li> <li>• Else continue step 7</li> </ul>	2
3.	Notify both participants.	3
4.	Update transaction status to 'recycled'	
5.	Update both instructions to 'Failed'	
6.	Forward transaction to 'intra-day recycling' process	
	Rules/constraints	
1.	Positioning of the transaction is unsuccessful because at least one of the following conditions is true: <ul style="list-style-type: none"> <li>• 'Seller account: security balance not sufficient'</li> <li>• 'Buyer account: cash balance not sufficient'</li> <li>• 'Seller account: blocked for [reason code for blocking] (not [blocked for closure])'</li> <li>• 'Buyer account: blocked for [reason code for blocking] (not [blocked for closure])'</li> </ul>	

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	<ul style="list-style-type: none"><li>• 'Security X: blocked for [reason code for blocking] (not [blocked for closure])'</li></ul>
2.	If the transaction fails to settle, a message will be sent to the participant and CSD to inform them about the settlement failure.
3.	<p>Failure notification specifications:</p> <ul style="list-style-type: none"><li>• 'External Reference' of the instruction concerned</li><li>• 'status' = 'failed'</li><li>• Date and time of the settling attempt</li><li>• Reason code:<ul style="list-style-type: none"><li>• 'Seller account: security balance not sufficient'</li><li>• 'Buyer account: cash balance not sufficient'</li><li>• 'Seller account: blocked for [reason code for blocking]'</li><li>• 'Buyer account: blocked for [reason code for blocking]'</li><li>• 'Security X: blocked for [reason code for blocking]'</li></ul></li></ul>

**3.4.4 Scenario 3: Positioning of a DFOP transaction: Unsuccessful: Status set to 'deleted'**

**3.4.4.1 Actors**

- DFOP and RFOP instructions
- Settlement sub-system

**3.4.4.2 Assumptions**

- A DFOP and RFOP instruction are received and successfully validated and matched
- A settlement window for the market concerned is open

**3.4.4.3 Triggering event**

- An DFOP/RFOP transaction with status 'ready for settlement', reached its settlement date and time
- A positive event occurred in the system triggering a transaction previously failed

**3.4.4.4 Outcome**

- DFOP instruction status updated to 'deleted'
- RFOP instruction status updated to 'deleted'
- Notification to both participants concerned, communicating the instruction reference and that the instructions are deleted from the settlement process together with the reason why they are deleted.

The system will not reattempt to settle deleted transactions.

#### 3.4.4.5 Description

	Description of action	R&C
1.	Position transaction: <b>Unsuccessful</b>	1
2.	Update transaction status to 'deleted'	
3.	Update both instructions to 'deleted'	
4.	Notify both participants.	2
<b>Rules/constraints</b>		
1.	Positioning of the transaction is unsuccessful because at least one of the following conditions is true: <ul style="list-style-type: none"> <li>'Seller account: 'blocked for closure''</li> <li>'Seller account: 'closed''</li> <li>'Buyer account: 'blocked for closure''</li> <li>'Buyer account: 'closed''</li> <li>'Security: 'blocked for closure''</li> <li>'Security: 'closed''</li> </ul>	
2.	Notification specifications: <ul style="list-style-type: none"> <li>'External Reference' of the instruction concerned</li> <li>'status' = 'deleted'</li> <li>Date and time of the settling attempt</li> <li>Reason code: <ul style="list-style-type: none"> <li>'Seller account: 'blocked for closure''</li> <li>'Seller account: 'closed''</li> <li>'Buyer account: 'blocked for closure''</li> <li>'Buyer account: 'closed''</li> <li>'Security: 'blocked for closure''</li> <li>'Security: 'closed''</li> </ul> </li> </ul>	

#### 3.5 DFOP Asset Management Model

I	Generated Movements				
	Movement Type	Account Number	Instrument ID	Balance Type	Sync
1.	Debit	Seller Deposit acc	Security X	Available	No
2.	Credit	Buyer Deposit acc	Security X	Available	No

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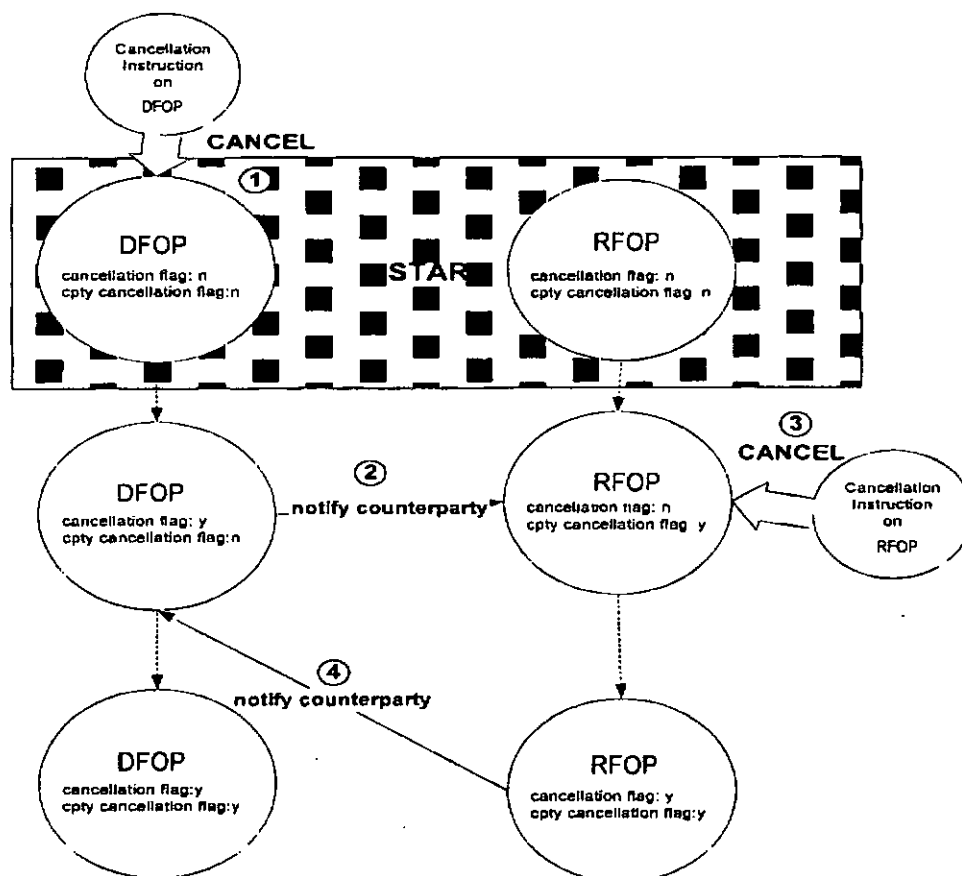
II	Checking Rules on Affected Accounts
1.	Seller's deposit accounts = 'available'
2.	Buyer's deposit accounts = 'available'.
3.	Security = 'active'
4.	Seller's securities available balance after positioning $\geq 0$
III	Embedded actions
1.	Not applicable

### **3.6 Cancellation**

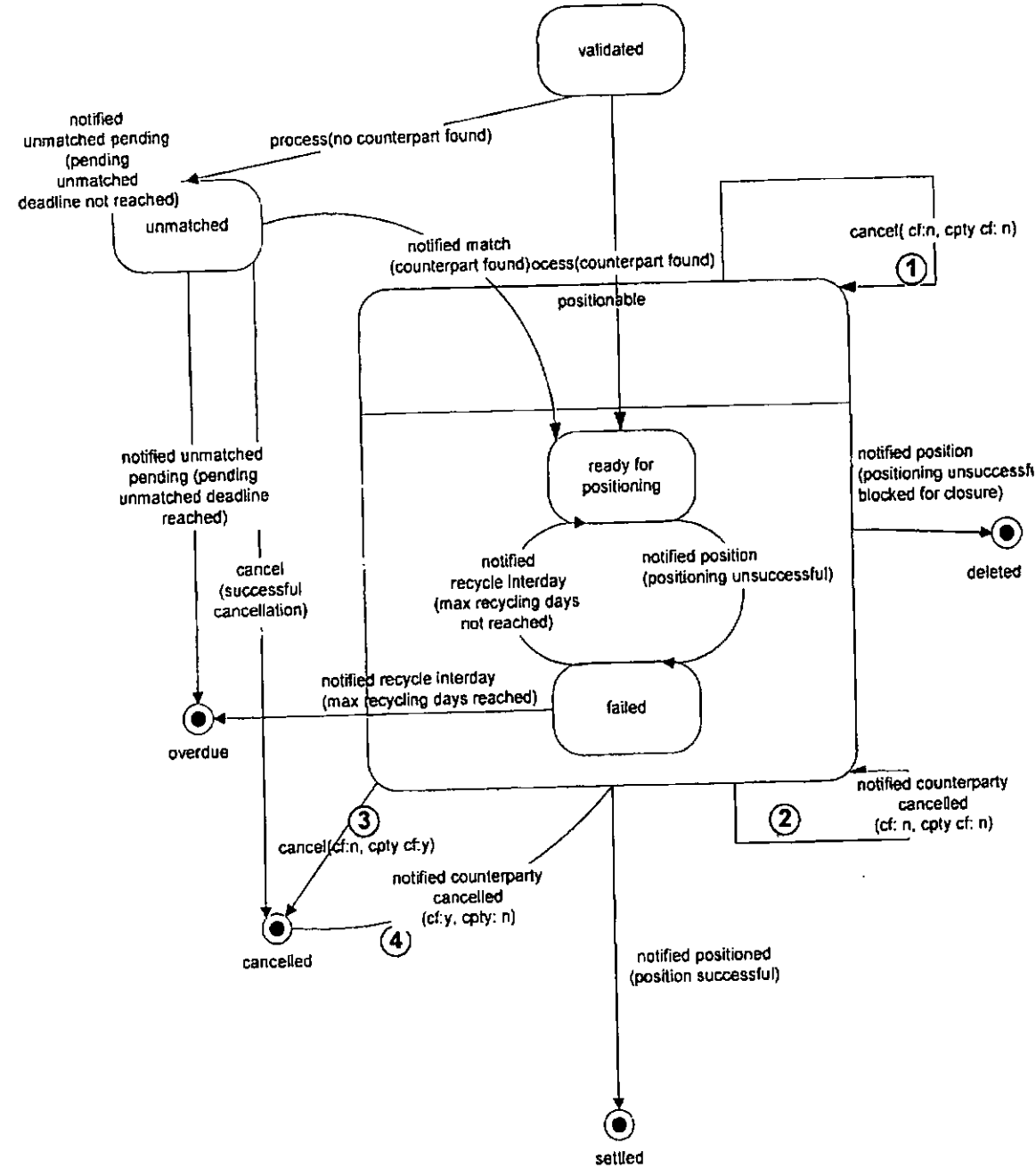
The mechanism for executing a cancellation on a DFOP/RFOP instruction depends on its state. Final states such as "settled", "cancelled" or "overdue" are not cancelable. The instruction can only be unilaterally cancelled from the moment it carries the status "unmatched". If a cancel instruction is executed on the instruction with status "unmatched", it will be updated to the status "cancelled" immediately.

Two-sided instructions, such as DFOP/RFOP instructions, in states "Ready for Positioning" or "Failed" will require a counterparty cancellation instruction (bilateral cancellation). In markets where matching is binding, meaning the participants are obliged to fulfill the trade, two-sided instructions will compel to bilateral cancellation, once they are matched.

**Bilateral cancellation of a DFOP/RFOP instruction can be covered by the following four scenarios:**



3.7 State Transition Diagram



## 4.0 Delivery (DVP) and Receipt versus Payment (RVP)

### 4.1 General Description

Delivery versus Payment (DvP) is value for value settlement of transactions. Securities delivery cannot take place without corresponding payment and vice versa.

It follows Model A: RTGS (Real Time Gross Settlement) where deliveries are settled against payment on a trade for trade basis with final and irrevocable securities transfer occurring simultaneously with funds transfer.

Settlement of an DVP/RVP instruction involves validation, matching and positioning of the trade. A trade is based on a message from a participant. Before a trade can exist in the system, it will have to be authenticated and validated. Validation error leads to immediate "rejection" of the message. If no problems occur the instruction will be created with the state "validated".

DVP/RVP instructions require matching. If the matching counterparty instruction is not yet present, the status is updated to "unmatched". The instruction will not remain indefinitely this status, after a specified number of days it becomes "overdue". In case the counterparty instruction is present, a transaction is created and linked to the matching instruction both with status "ready for positioning".

The transaction has its own lifecycle. It will retrieve the movements from the instruction and will take care of positioning. If the positioning result that the instruction receives from the transaction is successful, the status of the instructions is updated to "settled". If the first positioning attempt is not successful, the status is updated to "failed". It will remain in this status until it is notified of successful positioning. At the end of the day it will return to the "ready for positioning" state. This process will be repeated until the maximum number of recycling days is exceeded; at this point it becomes "overdue". From the state "ready for positioning" and "failed" the instruction status will be updated to "deleted" if an account or a member is blocked for closure.

#### 4.1.1 Field Specifications

Table 1: Syntax validation specifications of a DVP: external format Participant

Field name		Description	Format
External Reference	M	DVP: Reference assigned by participant to unambiguously identify the message. This reference is used for reporting towards the participant.	CHAR(40)
Instruction Type	M	The type of this instruction	Value = DVP
Priority code	M	Priority can only be assigned to DVP/RVP trades and only the seller can allocate this priority.	Value = High, Normal or Low

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Participant's code	M	Local code, member short-code of seller	CHAR(5)
Participant's account	M	Account number of the deposit account of the seller	CHAR(14)
Counterparty's code	M	Local code, member code of buyer	CHAR(5)
Security code type	M	The type of the security code (ISIN, or Local, etc)	CHAR(10)
Security code	M	Stock Code	CHAR(10)
Security quantity	M	Number of securities	NUMBER(32)
Currency code	M	Valid ISO currency code	CHAR(3)
Settlement Amount	M	Total amount of cash to be settled	NUMBER(32)
Settlement date	M	Contract settlement date	Date
Trade date	M	Date the trade was made	Date
Instruction description	O	This field may contain information only, no instructions are allowed; Free format	Char(100)

**Table 2: Syntax validation specifications of RVP: external format Participant**

Field name		Description	Format
External Reference	M	RVP: Reference assigned by participant to unambiguously identify the message. This reference is used for reporting towards the participant.	CHAR(40)
Instruction Type	M	The type of this instruction	Value = RVP
Priority code	M	Priority can only be assigned to DVP/RVP trades and only the seller can allocate this priority.	
Participant's code	M	Local code, member short-code of seller	CHAR(5)
Participant's account	M	Account number of the deposit account of the seller	CHAR(14)
Counterparty's code	M	Local code, member code of buyer	CHAR(5)
Security code type	M	The type of the security code (ISIN, or Local, etc)	CHAR(10)
Security code	M	Stock Code	CHAR(10)
Security quantity	M	Number of securities	NUMBER(32)



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Currency code	M	Valid ISO currency code	CHAR(3)
Settlement Amount	M	Total amount of cash to be settled	NUMBER(32)
Settlement date	M	Contract settlement date	Date
Trade date	M	Date the trade was made	Date
Instruction description	O	This field may contain information only, no instructions are allowed; Free Format	Char(100)

## **4.2 Matching of Settlement Instructions**

### **4.2.1 General description**

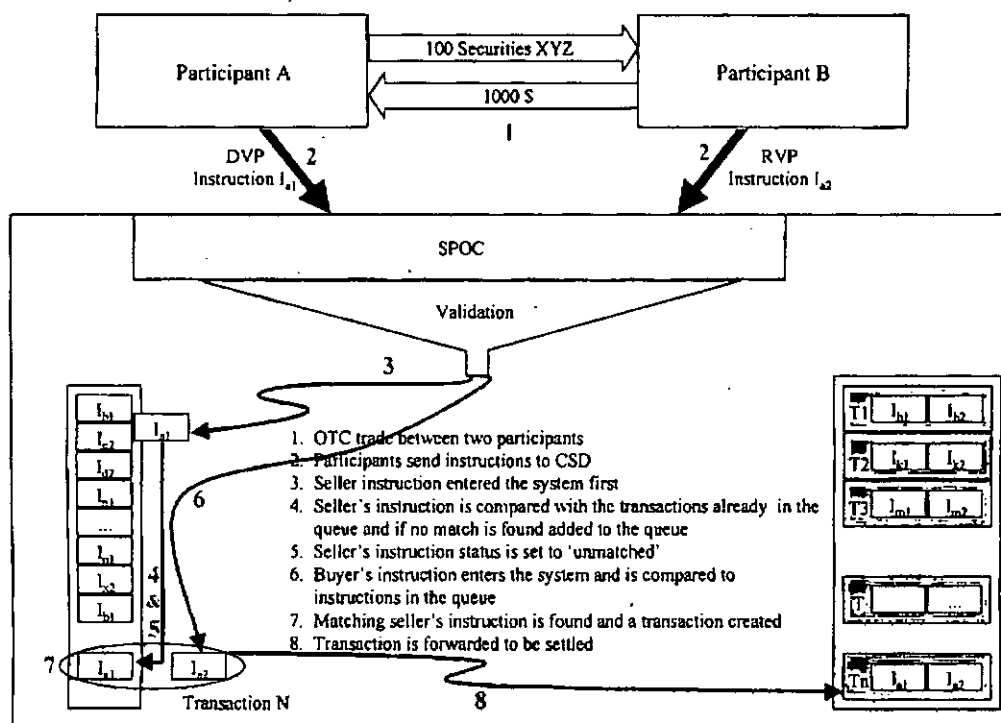
### **4.2.2 Matching Principles**

When two participants agree on the DVP/RVP securities transaction, both the seller and the buyer have to enter their part of the transaction into the CSD system. The seller enters his delivery instruction and the buyer enters his receipt instruction separately.

The matching process compares the trade details of the sell and buy instructions in order to identify and link the related instructions. Not all the fields of the instructions need to match, only the fields holding information important for both participants and defined by mutual agreement are matching fields, e.g. the settlement date, security code, security quantity, participant ID, comment, etc.

Matching is a real-time process and is initiated upon receipt of a successfully validated instruction. The validated instruction is forwarded towards the matching process where it is compared with instructions previously inputted in the system. If the corresponding instruction already entered the system, and matches with the incoming instruction, both instructions are linked and their status updated to 'Ready for positioning'. A transaction is created to enable the positioning. If no corresponding instruction is found, the incoming instruction is stored in the system, waiting for its counter-instruction to enter and the instruction status is set to 'unmatched'.

In the current implementation, matching process is binding. This means that a matched transaction can only be cancelled or modified on mutual agreement of both participants and when the cancel instructions of both participants are received.



#### 4.2.3 Matching Instructions

Not all instructions require matching in order to be settled, whether instructions need to be matched or not is dependent on the instruction type. In the current implementation, deliver-versus-payment (DVP) and receipt-versus-payment (RVP) instructions require matching.

Stock exchange trades are matched at the stock exchange and enter the CCH system as complete transactions making matching an obsolete process.

#### 4.2.4 Matching Error reporting

As described above, an instruction can enter the matching process without finding its counter instruction. In this case the status of the instruction is set to 'unmatched', enabling the participants to inquire on the instruction's progress at all times.

In the event of a mismatch in one of the compulsory matching fields, both instructions will end up in the matching queue separately. To avoid that those instructions stay unnoticed for too long, reports on unmatched instructions will be generated during the end-of-day reporting. The reports on unmatched instructions will be sent to both the sending party and the counterparty in that specific instruction. It is important that also the counterparty is notified about the unmatched instruction. It enables him to undertake the necessary actions in case he is the cause of the failed matching attempt.

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Participants will also be able to conduct their inquiries on-line, notice the remaining 'unmatched' status and undertake the necessary actions to correct their instructions immediately.

The system will not keep the unmatched instructions infinitely in the system. Instructions still unmatched 5 business days after settlement date, will be removed by updating the status to 'Overdue'. This action will be reported as such to the participant and the counterparty, communicating the removed instruction ID and the reason of the removal.

#### **4.3 Matching of DVP/RVP instructions**

##### **4.3.1 Scenario 1: Matching of DVP/RVP instructions: Successful**

###### **4.3.1.1 Actors**

Internal system: part of the settlement subsystem in CSD

###### **4.3.1.2 Assumptions**

- Successfully validated DVP/RVP instructions are forwarded for matching.
- The 'unmatched' counter-instruction already entered the system and was successfully validate.

###### **4.3.1.3 Triggering event**

A DVP/RVP instruction was successfully validated.

###### **4.3.1.4 Outcome**

- Two matched instructions
- A transaction with status 'awaiting positioning'

###### **4.3.1.5 Description**

	Description of action	R&C
1.	Search instruction table for an instruction with <ul style="list-style-type: none"><li>• status 'Unmatched' and</li><li>• corresponding matching fields</li></ul> Successful	1
2.	Update 'related reference' field of both instructions with the external reference of the matching instruction	2
3.	Update status of matching instructions to 'Ready for positioning'	
4.	Create transaction with status 'awaiting positioning'	

	Description of action	R&C
5.	Forward the transaction for further processing	
	<b>Rules/constraints</b>	
	<p>In order to obtain matching, following fields need to correspond on both instructions:</p> <ul style="list-style-type: none"> <li>• Settlement information fields: <ul style="list-style-type: none"> <li>• <i>Participant code</i>: has to match with the Counterparty code of the opposite instruction</li> <li>• <i>Counter-party code</i>: needs to match with the Participant code of the opposite instruction</li> <li>• <i>Instruction type</i>: e.g. a DVP instruction has to match with a RVP instruction.</li> <li>• <i>Security code</i></li> <li>• <i>Security quantity</i></li> <li>• <i>Settlement date</i></li> <li>• <i>Cash counter-value</i></li> <li>• <i>Currency</i></li> </ul> </li> <li>• Trade information fields: <ul style="list-style-type: none"> <li>• <i>Trade Date</i>: to determine the date on which there is change of ownership</li> </ul> </li> </ul>	
	<p>The internal format of a DVP instruction has an attribute 'related reference'. This field will be updated with the 'external reference' of the matching instruction when a matching counter instruction is found.</p>	

#### 4.3.2 Scenario 2: Matching of DVP/RVP instructions: Unsuccessful

##### 4.3.2.1 Actors

Internal system: part of the settlement subsystem in CSD

##### 4.3.2.2 Assumptions

Successfully validated DVP/RVP instructions are forwarded for matching.

##### 4.3.2.3 Triggering event

A DVP/RVP was successfully validated

#### 4.3.2.4 Outcome

A DVP/RVP with status 'Unmatched'

#### 4.3.2.5 Description

	Description of action	R&C
1.	Search instruction table for an instruction with <ul style="list-style-type: none"><li>• status 'Unmatched' and</li><li>• corresponding matching fields</li></ul> Unsuccessful	1
2.	Update status of matching instructions to 'Unmatched'	2

	Rules/constraints
1.	Matching will be unsuccessful because the counter-party's instruction is not yet available in the 'Waiting for matching' queue, or there are inadmissible differences in one or more matching fields of the participant's and the counter- party's instruction.
2.	If the instruction is still unmatched at the end of the day, both the participant and the counterpart specified in the instruction are notified on the unmatched status of the instruction concerned

#### 4.4 Positioning & Settlement of a DVP Transaction.

##### 4.4.1 General Description

Two corresponding DVP/RVP instructions, a deliver (DVP) and a receive (RVP) instruction are successfully validated and matched. A transaction is created and forwarded for positioning. The transaction must retrieve the necessary information to create the movements to be assigned to the accounts concerned.

A DVP transaction will generate four movements: debit the securities balance and credit the cash balance of the seller's account, credit the securities balance and debit the cash balance of the buyer's account.

The general asset model specifies the details of the movements and the checking rules to be applied. Only if all checking rules are satisfied, are the movements assigned to the accounts simultaneous, final and irrevocable. The transaction will not settle should one of the checking rules be violated. If such is the case the transaction will become subject of intra-day recycling, and the participants must be notified about the failed settlement attempt.

#### 4.4.2 Scenario 1: Successful Settlement of a DVP/RVP instruction

##### 4.4.2.1 Actors

- DVP and RVP instructions
- Settlement sub-system

##### 4.4.2.2 Assumptions

- A DVP and RVP instruction are received and successfully validated and matched
- A settlement window for the market concerned is open

##### 4.4.2.3 Triggering event

- An DVP/RVP instruction with status 'ready for settlement', reached its settlement date and time
- A positive event occurred in the system triggering a transaction previously failed

##### 4.4.2.4 Outcome

- DVP instruction status updated to 'settled'
- RVP instruction status updated to 'settled'

##### 4.4.2.5 Description

	Description of action	R&C
1.	Position transaction: <b>Successful</b>	1
2.	Change transaction status to 'Settled'	2
3.	Update both instructions to 'Settled'	

	Rules/constraints
1.	The outcome of all the checking rules must be positive
2.	The generated movements are assigned to the accounts concerned in order to check whether enough securities and cash are available. If such is the case the movements are acknowledged, finalizing the settlement of both instructions.

#### 4.4.3 Scenario 2: Positioning of an DVP/RVP instructions: Unsuccessful: Status set to 'failed'

##### 4.4.3.1 Actors

- DVP and RVP instructions
- Settlement sub-system

4.4.3.2 Assumptions

- A DVP and RVP instruction are received and successfully validated and matched
- A settlement window for the market concerned is open

4.4.3.3 Triggering event

- An DVP/RVP transaction with status 'ready for settlement', reached its settlement date and time
- A positive event occurred in the system triggering a transaction previously failed

4.4.3.4 Outcome

- DVP instruction status updated to 'failed'
- RVP instruction status updated to 'failed'
- Notification of failed settlement to both participants concerned, communicating the instruction reference and the reason why positioning failed.

The system will reattempt to settle the transaction every time a relevant improvement occurs in the system.

4.4.3.5 Description

	Description of action	R&C
1.	Position transaction: <b>Unsuccessful</b>	1
2.	Check transaction status <ul style="list-style-type: none"><li>• If status : 'ready for settlement': continue step 3</li><li>• Else continue step 7</li></ul>	2
3.	Notify both participants.	3
4.	Update transaction status to 'recycled'	
5.	Update both instructions to 'Failed'	
6.	Forward transaction to 'intra-day recycling' process	
	Rules/constraints	
1.	Positioning of the transaction is unsuccessful because at least one of the following conditions is true: <ul style="list-style-type: none"><li>• 'Seller account: security balance not sufficient'</li><li>• 'Buyer account: cash balance not sufficient'</li><li>• 'Seller account: blocked for [reason code for blocking] (not [blocked for closure])'</li><li>• 'Buyer account: blocked for [reason code for blocking] (not [blocked for closure])'</li></ul>	

	<ul style="list-style-type: none"><li>• 'Security X: blocked for [reason code for blocking] (not [blocked for closure])'</li></ul>
2.	If the transaction fails to settle, a message will be sent to the participant and CSD to inform them about the settlement failure.
3.	Failure notification specifications: <ul style="list-style-type: none"><li>• 'External Reference' of the instruction concerned</li><li>• 'status' = 'failed'</li><li>• Date and time of the settling attempt</li><li>• Reason code:<ul style="list-style-type: none"><li>• 'Seller account: security balance not sufficient'</li><li>• 'Buyer account: cash balance not sufficient'</li><li>• 'Seller account: blocked for [reason code for blocking]'</li><li>• 'Buyer account: blocked for [reason code for blocking]'</li><li>• 'Security X: blocked for [reason code for blocking]'</li></ul></li></ul>

#### 4.4.4 Scenario 3: Positioning of a DVP/RVP instruction: Unsuccessful: Status set to 'deleted'

##### 4.4.4.1 Actors

- DVP and RVP instructions
- Settlement sub-system

##### 4.4.4.2 Assumptions

- A DVP and RVP instruction are received and successfully validated and matched
- A settlement window for the market concerned is open

##### 4.4.4.3 Triggering event

- An DVP/RVP transaction with status 'ready for settlement', reached its settlement date and time
- A positive event occurred in the system triggering a transaction previously failed

##### 4.4.4.4 Outcome

- DVP instruction status updated to 'deleted'
- RVP instruction status updated to 'deleted'
- Notification to both participants concerned, communicating the instruction reference and that the instructions are deleted from the settlement process together with the reason why they are deleted.

The system will not reattempt to settle deleted transactions.



4.4.4.5 Description

	Description of action	R&C
1.	Position transaction: <b>Unsuccessful</b>	1
2.	Update both instructions to 'deleted'	
3.	Notify both participants.	2

	Rules/constraints
1.	Positioning of the transaction is unsuccessful because at least one of the following conditions is true: <ul style="list-style-type: none"> <li>• 'Seller account: 'blocked for closure''</li> <li>• 'Seller account: 'closed''</li> <li>• 'Buyer account: 'blocked for closure''</li> <li>• 'Buyer account: 'closed''</li> <li>• 'Security: 'blocked for closure''</li> <li>• 'Security: 'closed''</li> </ul>
2.	Notification specifications: <ul style="list-style-type: none"> <li>• 'External Reference' of the instruction concerned</li> <li>• 'status' = 'deleted'</li> <li>• Date and time of the settling attempt</li> <li>• Reason code: <ul style="list-style-type: none"> <li>• 'Seller account: 'blocked for closure''</li> <li>• 'Seller account: 'closed''</li> <li>• 'Buyer account: 'blocked for closure''</li> <li>• 'Buyer account: 'closed''</li> <li>• 'Security: 'blocked for closure''</li> <li>• 'Security: 'closed''</li> </ul> </li> </ul>

4.5 DVP/RVP Asset Management Model

1	Generated Movements				
	Movement Type	Account Number	Instrument ID	Balance Type	Sync
1.	Debit	Seller Deposit acc	Security X	Available	No
2.	Credit	Buyer Deposit acc	Security X	Available	No

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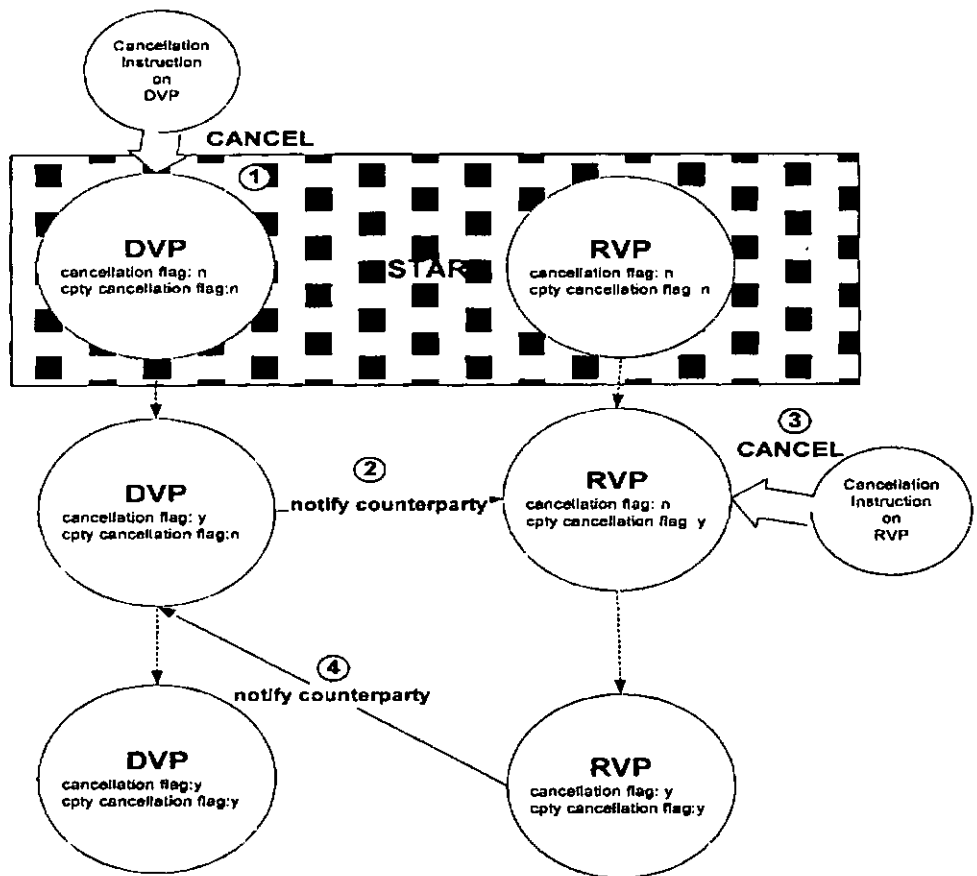
<b>I</b>	<b>Generated Movements</b>				
3.	Debit	Buyer Deposit acc	Cash	Available	No
4.	Credit	Seller Deposit acc	Cash	Available	No
<b>II</b>	<b>Checking Rules on Affected Accounts</b>				
1.	Seller's deposit accounts = 'available'				
2.	Buyer's deposit accounts = 'available'				
3.	Security = 'active'				
4.	Seller's securities available balance after positioning $\geq 0$				
5.	Buyer's cash available balance after positioning $\geq 0$				
<b>III</b>	<b>Embedded actions</b>				
1.	Not applicable				

#### 4.6 Cancellation

The mechanism for executing a cancellation on a DVP/RVP instruction depends on its state. Final states such as "settled", "cancelled" or "overdue" are not cancelable. The DVP/RVP instruction can only be cancelled from the moment it carries the status "unmatched". If a cancel instruction is executed on an instruction with status "unmatched", it will be updated to the status "cancelled" immediately.

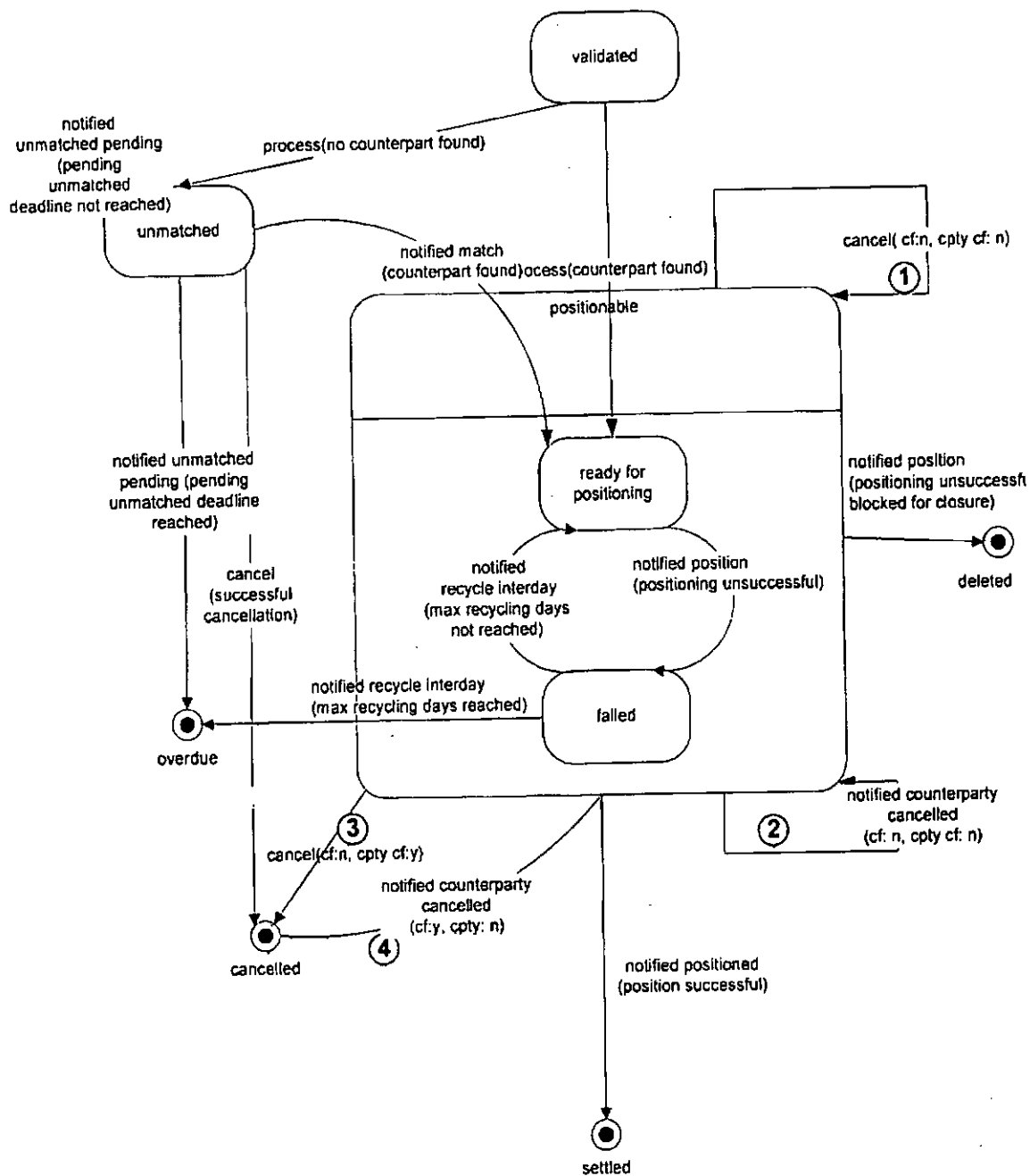
Two-sided instructions, such as DVP/RVP instructions, can require a counter-party cancellation instruction (bilateral cancellation). In markets where matching is binding, meaning the participants are obliged to fulfill the trade, two-sided instructions will compel to bilateral cancellation, once they are matched.

Bilateral cancellation of a DVP/RVP instruction can be covered by the following four scenarios:



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4.7 State Transition Diagram



## 5.0 SECURITY TRANSFER (SECTR)

### 5.1 General Description

A securities transfer will be a movement of securities between two accounts of one participant or between the accounts of a clearing member and its related non-clearing member. A SECTR is a single-sided instruction and therefore does not require matching. If the validation process was successful and, if applicable, the third level user approved the SECTR, the transaction will be created in order to generate the movements required. Again, the movements to be generated will concern securities only: debit of the securities balance of the source account and credit of the securities balance of the target account.

### 5.2 Security Transfer Scenarios

#### 5.2.1 Scenario 1: Successful Settlement of a SECTR Instructions

##### 5.2.1.1 Actors

- SECTR instruction
- Settlement sub-system

##### 5.2.1.2 Assumptions

- A SECTR instruction is received and successfully validated in the system
- A settlement window for the market concerned is open

##### 5.2.1.3 Triggering event

- A SECTR instruction with status 'ready for settlement', reached its settlement date and time
- A positive event occurred in the system triggering a transaction previously failed

##### 5.2.1.4 Outcome

- SECTR instruction status updated to 'settled'

##### 5.2.1.5 Description

	Description of action	R&C
1.	Position transaction: Successful	1
2.	Change instruction status to 'Settled'	2
	Rules/constraints	
1.	The outcome of all the checking rules must be positive	

	Rules/constraints
2.	The generated movements are assigned to the source account in order to check whether enough securities are available. If such is the case the movements are acknowledged, finalizing the settlement of the instruction.

## 5.2.2 Scenario 2: Positioning of a SECTR Instruction: Unsuccessful: Status set to 'failed'

### 5.2.2.1 Actors

- SECTR instruction
- Settlement sub-system

### 5.2.2.2 Assumptions

- A SECTR instruction is received and successfully validated in the system
- A settlement window for the market concerned is open

### 5.2.2.3 Triggering event

- A SECTR instruction with status 'ready for settlement', reached its settlement date and time
- A positive event occurred in the system triggering a transaction previously failed

### 5.2.2.4 Outcome

- SECTR instruction status updated to 'failed'
- Notification of failed settlement to participant concerned, communicating the instruction reference and the reason why positioning failed.

The system will reattempt to settle the transaction every time a relevant improvement occurs in the system.

### 5.2.2.5 Description

	Description of action	R&C
1.	Position transaction: <b>Unsuccessful</b>	1
2.	Check transaction status <ul style="list-style-type: none"> <li>• If status : 'ready for settlement': continue step 3</li> </ul>	2
3.	Notify participant	3
4.	Update transaction status to 'recycled'	

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5.	Update instruction to 'Failed'	
6.	Forward transaction to 'intra-day recycling' process	
	<b>Rules/constraints</b>	
1.	Positioning of the transaction is unsuccessful because at least one of the following conditions is true: <ul style="list-style-type: none"> <li>• 'Source account: security balance not sufficient'</li> <li>• 'Source account: blocked for [reason code for blocking] (not [blocked for closure])'</li> <li>• 'Security: blocked for [reason code for blocking] (not [blocked for closure])'</li> </ul>	
2.	If the transaction fails to settle, a message will be sent to the participant and CSD to inform them about the settlement failure.	
3.	Notification specifications: <ul style="list-style-type: none"> <li>• 'External Reference' of the instruction concerned</li> <li>• 'status' = 'failed'</li> <li>• Date and time of the settling attempt</li> <li>• Reason code: <ul style="list-style-type: none"> <li>• 'Source account: security balance not sufficient'</li> <li>• 'Source account: blocked for [reason code for blocking]</li> <li>• 'Security: blocked for [reason code for blocking]'</li> </ul> </li> </ul>	

**5.2.3 Scenario 3: Positioning of a SECTR Instruction: Unsuccessful: Status set to 'Deleted'**

**5.2.3.2 Actors**

- SECTR instruction
- Settlement sub-system

**5.2.3.3 Assumptions**

- A SECTR instruction is received and successfully validated in the system
- A settlement window for the market concerned is open

**5.2.3.4 Triggering event**

- A SECTR instruction with status 'ready for settlement', reached its settlement date and time
- A positive event occurred in the system triggering a transaction previously failed

### 5.2.3.5 Outcome

- SECTR instruction status updated to 'deleted'
- Notification to the participant concerned, communicating that the instruction is deleted from the settlement process and the reason causing the execution failure.

The system will not reattempt to settle a deleted transaction.

### 5.2.3.6 Description

	Description of action	R&C
1.	Position transaction: Unsuccessful	1
2.	Update SECTR instruction to 'deleted'	
3.	Notify participant.	2

	Rules/constraints
1.	<p>Positioning of the transaction is unsuccessful because at least one of the following conditions is true:</p> <ul style="list-style-type: none"> <li>• 'Source account: 'blocked for closure''</li> <li>• 'Source account: 'closed''</li> <li>• 'Target account: 'blocked for closure''</li> <li>• 'Target account: 'closed''</li> <li>• 'Security: 'blocked for closure''</li> <li>• 'Security: 'closed''</li> </ul>
2.	<p>Notification specifications:</p> <ul style="list-style-type: none"> <li>• 'External Reference' of the instruction concerned</li> <li>• 'status' = 'deleted'</li> <li>• Date and time of the settling attempt</li> <li>• Reason code: <ul style="list-style-type: none"> <li>• 'Source account: 'blocked for closure''</li> <li>• 'Source account: 'closed''</li> <li>• 'Target account: 'blocked for closure''</li> <li>• 'Target account: 'closed''</li> <li>• 'Security: 'blocked for closure''</li> <li>• 'Security: 'closed''</li> </ul> </li> </ul>



Item on Exhibit J-1	Rules	Procedure
Security Deposit (Lodgement)	3.2.1 Security Deposit/ Lodgment	6.1 Participant Initiated Security Deposit/Lodgment 6.2 Transfer Agent Initiated Security Deposit/Lodgment
Security Withdrawal (Upliftment)	3.2.4 Security Withdrawal/Upliftment	6.4 Security Withdrawal/Upliftment
Corporate Actions	3.2.3 Corporate Actions	10.0 Corporate Actions 10.1 Processing of Mandatory Corporate Actions 10.2 Processing of Mandatory Corporate Actions with Options 10.3 Processing of Voluntary Corporate Actions
Delivery Free of Payment and Receive Free of Payment	4. Settlement Service	9.0 Delivery Free of Payment (DFOP)/Receive Free of Payment (RFOP) 9.1 DFOP Instruction 9.2 RFOP Instruction 9.3 Matching of DFOP and RFOP Instructions 9.4 Settlement of DFOP and RFOP Instructions 9.5 Cancellation of DFOP or RFOP Transaction
Delivery versus Payment and Receive versus Payment	4. Settlement Service	8. Delivery versus Payment and Receive versus Payment (DVP/RVP) 8.1 Delivery versus Payment (DVP) Instruction 8.2 Receive versus Payment (RVP) Instruction 8.3 Matching of DVP and RVP Instructions 8.4 Cancellation of DVP or RVP Instructions 8.5 Settlement of DVP/RVP Transaction
Security Transfer	4. Settlement Service	7.0 Security Transfer (SECTRS)

## Exhibit M

### **Risk Management Manual and Internal Control Procedures**

The SCCP has put in place rules and mechanisms for management of risks such as (i) loss of securities due to theft, destruction, loss or mysterious disappearance while in the safekeeping of the SCCP Depository; (ii) lodgment of defective security ; (iii) system-related loss or loss arising from the interruption, disruption, malfunction or defect in the depository system; and (iv) operation-related loss or loss resulting from fraud, error or omission directly attributable to the depository; and (v) counterparty risk or risk arising from the failure of a participant to meet any obligation to deliver the security or cash element of a transaction.

Such mechanisms include the execution by depository participants of Credit Undertaking(s) to satisfy any and all losses caused by a participant's default in its obligations in the depository service, institution by depository participants of appropriate security measures to prevent access by unauthorized persons, establishment of a Disaster Recovery Program, and provision by SCCP of workstations for temporary use by a depository participant in case the latter's main and back-up systems become non-operational.

These rules are incorporated in the proposed SCCP Rules and Depository Operating Procedures, particularly, in Rule 5 of the SCCP Depository Rules and Section 12 of the SCCP Depository Operating Procedures.

## Exhibit N

### **Insurance Plan**

The Depository Team will recommend to the SCCP Board for the SCCP Depository to purchase a combined Crime Insurance Policy upon receipt of the license to operate a Depository and prior to commencement of operations. Such insurance plan will have the following elements with a combined limit of US\$2,000,000 to US\$2,500,000:

- Directors' & Officers' Liability
- Professional Indemnity
- Bankers Blanket Bond and Computer Crime

The coverage will be as follows:

1. Directors' & Officers' Liability:
  - insures Directors and Officers against actual or alleged negligent or wrongful acts committed in their personal capacities, including liabilities arising from employment practices; coverage includes Defense Costs (for defending against such allegations) and Damages awarded by a court.
2. Professional Indemnity:
  - insures the Company against actual or alleged wrongful professional act, i.e., the financial services declared and performed for compensation/fee.
3. Bankers Blanket Bond:
  - insures the Company against financial losses arising from dishonest/fraudulent acts by employees, computer crime and electronic fraud, forgery, counterfeit instruments and loss of money and securities.

## Exhibit P

### **Detailed Plan of Operation and Economic Justification for Operating a Depository**

#### ***Organizational Plan***

The depository function will be operated by a separate department under the SCCP, the SCCP Depository. It will be governed by the SCCP Board of Directors and will be reporting to the SCCP President and CEO through the SCCP COO.

#### ***Operational Plan***

The SCCP Depository will run its day-to-day operations using the Depository Module of the Central Clearing and Central Settlement System (CCCS), the system currently being used by the SCCP Clearing House.

SCCP leverages on the PSE's relationships with its technology suppliers for SCCP's IT infrastructure. Since SCCP Technology functions are outsourced to PSE, PSE handles the purchase, administration, management and maintenance of the infrastructure under its existing Cost Sharing and Reimbursement Agreement with SCCP. Both SCCP and PSE achieve economies of scale which cannot be achieved if SCCP maintains its own infrastructure.

#### ***Economic justification for operating a depository***

In most jurisdictions in Asia, the clearing and depository functions are under the umbrella of the exchange. In general, the integration of depository and clearing functions within stock exchanges has been aimed at minimizing risks, increasing efficiencies and being in line with trends towards integrating back office systems.

These reasons would also hold true for the Philippine stock market. In addition, having the depository under the control of the PSE provides more room for growth in terms of hastening the process for introducing new products and services to investors.

Further, SCCP's Central Clearing and Central Settlement (CCCS) System is scalable and has imbedded functionalities that can readily be deployed to perform depository functions. The capability of this particular technology investment of the SCCP is already at par with best practices. As this added functionality will require very minimal investment when turned on, the cost recovery objectives from the SCCP standpoint can be more flexible compared with a scenario where upgrades or enhancements will require a bigger spend from any depository. This should only redound to the benefit of market participants including investors whose friction costs can be reduced.

#### ***Risk Reduction and Operational Efficiency***

The business continuity and recovery plan that should exist in a depository environment must always be consistent with the continuity and recovery plans of the PSE and SCCP Clearing House, from trading to clearing and settlement processes. Under a set up where decisions on enhancing the depository function for stock trading are not in line with the direction of the trading and settlement functions, there can be a disconnect in terms of providing the best service for market participants. The back and forth transmission of data and procedures between the clearing and settlement house and the depository

adds unnecessarily a risk layer that could at any time be a point of failure, especially when the infrastructure upgrades or enhancements to the depository may not be as regular to cope with market needs.

### ***New products and services***

One of the products that have been in the pipeline for the equities market is having a market friendly securities borrowing and lending facility. Towards this end, the PSE aims at eventually introducing a multilateral lending facility that will allow more investors to participate in securities borrowing and lending. The framework that is seen to be most efficient in delivering this service is having the SCCP undertake the function of a central lending agent for SBL participants. Having the depository function under the SCCP will help hasten this process as the objectives of the Exchange and the depository can be aligned, including establishing commitments from operators of these functions to prioritize, if need be, the development of this particular SBL system.

Another enhancement or new service that could be fast-tracked is the project on having Name on Central Depository (NoCD) that will allow faster access to information on the beneficial owners of securities lodged at the depository. For regulators, requests pertinent to investigations can be better facilitated as data will now be readily available even at the depository level. Eventually, this feature will also benefit directly the investors as they can track close to real time the status of their shareholdings and share movements.

While these projects may proceed under the current depository set up, projects of this importance will need to be undertaken with urgency. As these are being pursued at the Exchange level as an added service to stock market investors, it is critical that uncertainties are minimized from a project management perspective. Having the depository directly managed by SCCP will ensure that resources and priorities are consistent towards pushing these projects forward.

The same fundamental element of having Exchange objectives aligned with the depository can also be argued to be a necessary requirement to introduce new products to the market. Having directional supervision over the pricing structure for depository services will help ensure that depository costs for new products do not curtail their trading activity.

**Exhibit R**

**Proposed Schedule of Fees and Charges**

The following fees shall be imposed by SCCP:

Fees Description	Rate
Lodgment Fee	Waived
Maintenance Fee	½ of 1 basis point (.00005) per annum
Transaction Fee	PHP 25 per side
Telecommunications Charge	Waived
Taxes	All fees are VAT inclusive

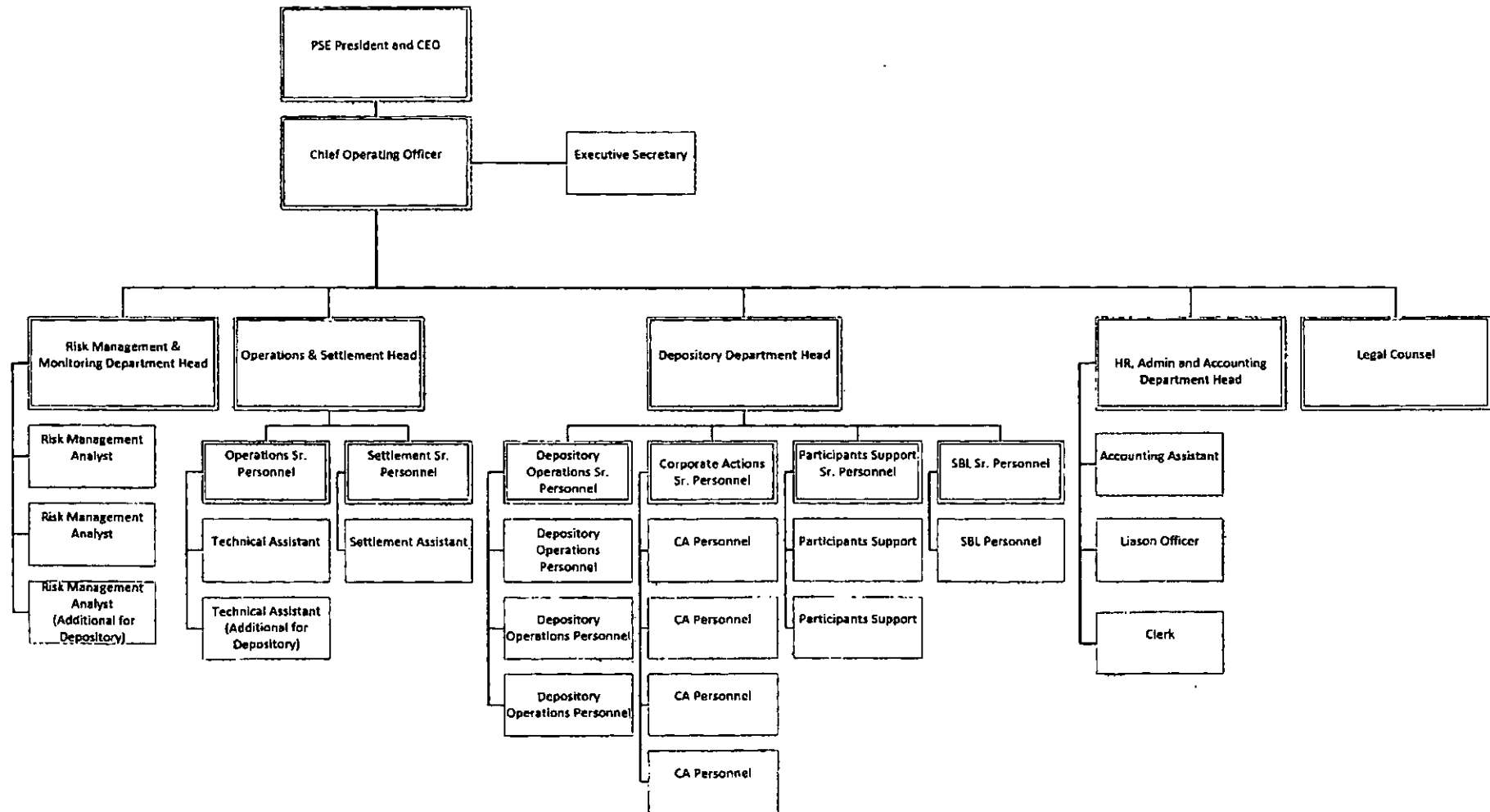
These fees shall be used as payment for the following:

1. Salaries and benefits of personnel running the Depository Service.
2. Subscription to additional ISP bandwidth from PSE in anticipation of the increase in usage of the CCCS system.
3. Technical support from PSE which is charged to the SCCP Depository. Technical support from PSE covers the management and maintenance of the CCCS software and servers including the disaster recovery site.

The SCCP Depository is able to offer depository services at a lower cost because it has no additional substantial investments in infrastructure. The current Central Clearing and Central Settlement System being used by the SCCP Clearing House has an existing depository module which can be accessed by and made available to the SCCP Depository.

**Exhibit S**

**Organizational and Functional Charts of the Depository unit  
in relation to the organizational set-up of SCCP**



**Exhibit V**

**Legal Proceedings**

To the best of SCCP's knowledge, there is no pending legal proceeding to which the SCCP or any of its directors or officers is a party, or to which any of its properties or assets are subject.





SECURITIES  
CLEARING CORPORATION  
OF THE PHILIPPINES

**UNDERTAKING**

I, **HANS B. SICAT**, of legal age, Filipino, and with office address at the 2<sup>nd</sup> Floor, Philippine Stock Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City, being the President and CEO of the Securities Clearing Corporation of the Philippines ("SCCP"), a corporation organized and existing under the laws of the Republic of the Philippines, do hereby undertake, on behalf of SCCP, to comply and enforce compliance by its participants with the provisions of the Securities Regulation Code and any amendment thereto, and the implementing rules or regulations made or to be made thereunder, and the depository rules.

IN WITNESS WHEREOF, I have hereunto set my hand this 26<sup>th</sup> day of June 2012 in Makati City.

*Hans B. Sicat*

**HANS B. SICAT**  
President and CEO

*N.H.*