



**MONEY MARKET ASSOCIATION OF THE
PHILIPPINES**

**REPURCHASE AGREEMENT (REPO)
SELF-REGULATORY ORGANIZATION RULES AND
REGULATIONS AND TRADING CONVENTIONS
(September, 2020)**

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Part I – Self-Regulatory Organization Rules and Regulations

I. Product Description

A repurchase agreement (Repo) is a contract whereby the seller of securities agrees to buy them back at a specified future date and price usually on a short-term basis. The difference between the original price and the repurchase price implies the cost of the repo otherwise known as the repo rate. This transaction is generally used for securities financing. The repo is bilaterally negotiated and will be guided by the Global Master Repurchase Agreement, the principal master agreement for repos globally which follows true sale treatment on repo transactions. These features allow dealers to borrow securities, ensure title transfer and quote two-way prices on government bonds which effectively reflect the scarcity of the security. These will provide participants a platform to borrow scarce securities and hedge positions to effectively improve liquidity in the local currency bond markets and help the development of Capital Markets.

The repo market is pivotal to the efficient functioning of almost all financial markets. Some of the advantages of having a repo market in place are the following¹: (i) deepening liquidity in primary and secondary bond markets; (ii) facilitating price discovery and transparency of Bond Prices; (iii) improving investor appeal and broadening the investor base; and (iv) develop hedging tools which contribute to risk management.

For this SRO application, the securities to be used under the repurchase agreements will be limited to Philippine Peso denominated Philippine Government Securities.

II. Membership and Participation

A. Participants

The Repo market is intended to support the market-making activities of Government Securities Dealers in the Philippine market. As such, participation in the GS repo market will initially be limited to Banks and

¹ "Guide to the Repo Market in Asia," ASIFMA-ICMA, August 2015.

non-Bank Financial Institutions (NBFIs) who are GSEDs in the GS market.

To facilitate trades, voice brokers shall also be allowed as participants in the repo market in the manner outlined in II(c) below.

B. Qualification Requirements

1. Must be a bank or NBFI who is also a GSED in the GS market.
2. Must certify that the applicant institution has the appropriate systems, processes and controls to deal in the Repo product.
3. Must have in place at least one signed GMRA which binds the participant to handle settled repo transaction in the manner that is required in the Repo Conventions
4. Must provide a certification from the primary regulator that the institution is compliant with the capital adequacy requirements relevant to the institution.

C. Role of Voice Brokers

A voice broker shall provide bid-offer quotes only and shall not take any position in the Repo market. Any participant can deal through an authorized voice broker. .

D. Application Procedures

1. Any participant who wishes to be part of the Repo market should undertake and accomplish the required Repo Participation Application² together with the qualification requirements listed in Section II(b) above
2. Upon receipt of the relevant Participation Application, the SRO will evaluate and assess the application.
3. Approved participants will be duly notified and a copy of the approved participation application will be sent to the Bangko Sentral ng Pilipinas, Securities and Exchange Commission and the appointed operator of the trading platform.

² Annex A - Participation Application

III. Governance and Administration

A. Operation as a Self-Regulatory Organization (SRO)

The Repo market is a bilateral over-the-counter (OTC) market with counterparties authorized to participate as provided in Section II of this Rule. It shall operate as an organized market governed by a SEC-licensed Self-Regulatory Organization.

B. Governance of the REPO Market

The Money Market Association of the Philippines, as a licensed SRO by the Securities and Exchange Commission, shall act as the administrator of the Repo market under the organized market framework.

1. About MART

In the 60s, the Philippine economy exhibited considerable growth where production expanded at a steady pace and the investment climate was regarded as generally favorable. Based on these sound economic considerations came the birth of the money market in the Philippines. More investment alternatives were offered to the public with the introduction of various money market instruments. By the early 70s, the money market had grown in size and sophistication, making the dealers and brokers realize the necessity for a medium through which they could professionalize their trade. Thus, in 1971, they banded together and formed an association whose aim was to foster cooperation and understanding among its members as well as between them and the agencies they dealt with in their normal course of business.

The **Money Market Association of the Philippines**, or **MART** for short, has come a long way since its humble beginnings. To date, the association has a total of 64 member institutions consisting of banks and non-bank financial institutions that actively trade fixed income securities in the market. The administrative structure is securely in place with a network of 12 highly-specialized working committees. The depth of its established communication links has provided avenues for discussion of relevant and vital issues affecting the industry.

MART was officially organized on October 29, 1971. The association as it is today did not evolve without its own growing pains. Major upheavals and significant events distinguished these years, and through it all, the MART has emerged as the responsive and dynamic body it is today, steadfast in the pursuit of its goals, and gearing up for the challenges of the future.

The MART is a non-stock non-profit corporation organized to provide an institutional medium by and through which the membership can collectively assist and cooperate with one another, the National Government and its appropriate agencies and instrumentalities in the promotion, development, expansion and regulation of a free and open market for debt, debt-securities and debt-related instruments and products.

The mission and objectives of the MART were to (i) formulate, document and promote the use of standardized practices, procedures and documentation that enhance the liquidity in conformity with internationally accepted methods and practices; ; (ii) initiate reforms that would benefit the market in the long-term and create or assist in the creation of the products, instruments and infrastructure required for an efficient and competitive market; (iii) whenever practicable, promote the development of transparent and professional two-way markets; (iv) upgrade the technical and professional standards of its individual members through activities such as conferences, seminars and training programs; (v) maintain and propagate the highest moral and ethical standards for the benefit of the market; (vi) represent and protect the interests of its members and the market in forums, meetings and public discussions on matters concerning its coverage area; (vii) create a venue and guidelines by which members and other interested parties may resolve conflicts and misunderstanding in the course of doing business; and (viii) contribute to the upliftment of the conduct of business in general and to the well-being of the community.

2. Responsibilities of the MART SRO

1. To act as the rule-making body of the Repo Market which include among others the creation of the rules for trade reporting, market monitoring and orderly conduct. For this rule-making function,

MART shall organize a Market Governance Board and a Market Management Group whose functions and composition is outlined in Section V.

2. To organize a Market Compliance and Surveillance Department to ensure that the SRO Rules and Regulations and REPO Trading Conventions are adhered to.
3. To impose penalties and sanctions on participants who are found to be in violation of the rules and regulations of the SRO.
4. To serve as the first level arbiter to resolve disputes among participants in the Repo market.

C. Amendments to the Rules and Conventions

All provisions written in the REPO Rules and Conventions will be deemed effective until a revision has been approved by the SRO of the REPO market and confirmed by the Securities and Exchange Commission and/or the Bangko Sentral ng Pilipinas, as may be necessary. Revisions are required to undergo consultation of all interested parties. The procedures for changes or amendments to the SRO rules are outlined in Annex G.

D. Fees and Charges

In exercising its role as the SRO for the repo market, MART shall be incurring manpower and other expenses related to market oversight, compliance, and surveillance activities, among others.

However, MART has outsourced the compliance and surveillance role as well as the CTRS role to the Philippine Dealing and Exchange Corp. (PDEX). In exchange for taking over these roles, MART has agreed to allow PDEX to charge and bill participants transaction fees to compensate for the costs of providing such services. The fees to be charged are specified in Annex I.

IV. Dealing Platform and Trade Reporting

A. Dealing Platform

The Repo dealing platform is a recognized system by the SRO for trading the Repo in the OTC market. A dealing platform is required for a Repo participant to transact in the Repo market. At the minimum, the

dealing platform should have the capability to do the following as specified in the Repo Trading Conventions:

1. To request or give quotes among the Repo participants whether with a specific participant or anonymously
2. To capture the Repo trades done via direct deal which can either be done through a system call out or via telephone
3. To capture the Repo trades done through the voice brokers
4. To provide a secure data feed of transactions to the clearing and settlements infrastructure provider to allow DVP settlement of Repo trades for both the near and the forward legs.
5. To amend or enhance the dealing platform system in accordance to the requirements of the Repo market
6. To ensure availability of Business Contingency Plan to ensure continuity of its services to the Repo participants as a dealing platform provider

B. Central Trade Reporting System

The SRO shall appoint the Central Trade Reporting System (CTRS) for the Repo market. Responsibilities of the CTRS shall include, but not limited to, the following:

1. To act as the central repository for all mapped trades captured by the dealing platform
2. To capture and consolidate the following information from authorized participants which shall include, but not limited to, the following: deal date, settlement dates of the near and far legs, repo rate, notional amount, ISIN of the securities under repo, and time of mapping.
3. To be able to generate and provide a report containing the information as provided under Section IV.a.2 of this Rule to the regulators such as the SEC and BSP, and other participants as may be agreed upon with the SRO.

Update: As of Jan. 1, 2019, the CTRS role has been outsourced by MART to the Philippine Dealing and Exchange Corp. (PDEX). PDEX shall perform all the roles ascribed to the CTRS.

C. Super-User Access

Regulators namely the SEC, BSP, and the MART SRO shall be given a super-user access to oversee trading activity in the Repo market by

the service provider of the dealing platform. The super-user can download from a designated Secure File Transfer Protocol (SFTP) site hourly information on executed transactions which contain the following information:

1. Name of Counterparties
2. Security Description
3. Face Value
4. Price
5. Trade Date
6. Trade Time
7. Settlement Date
8. Maturity Date
9. Repo Tenor
10. Haircut
11. Repo Rate
12. Repo Amount
13. Maturity Value

These hourly reports will be consolidated on a daily and weekly basis.

D. Other Reports

Along with other outstanding derivatives positions, participating banks must include outstanding Repo trades in their monthly outstanding Repos report sent to the BSP³. The Repo section of the same reports shall be sent to the SEC. In case there are no transactions, banks will still be required to submit “NIL” reports.

v. Market Governance:

The governance structure of the MART SRO shall be as follows:

A. The Market Management Group:

MART shall organize a Market Management Group (MMG) reporting nominally into the MART Board of Directors. The MMG shall be staffed by full-time employees employed by MART or by the outsourced entity

³ Annex B - Sample Derivatives Report, as may be amended

chosen by MART to fulfill the market management function. While the MMG reports nominally to the MART Board of Directors, it is expected that the MMG will exercise its functions and discharge its duties independently of the MART Board. The MART Board shall not be directly involved in the running of the MMG and its subordinate departments.

The MMG shall be responsible for the following:

- i. The day-to-day oversight of the Repo market. In this role, the MMG is responsible for the performance of the trading platform to ensure that it is properly function during the prescribed trading period. Should any issues prevent the platform from functioning properly, the MMG shall coordinate with the provider to determine if the platform will be available in a timely manner so that a decision to invoke the Business Continuity Plan (BCP) can be made. Such a decision shall require the concurrence of the MART Operations Committee Head, the MART President, the Chairman of the MART SRO Committee, and the BAP Open Market Committee Chairman.
- ii. Development of a Business Continuity Plan (BCP) - In this role, the MMG is responsible for drafting a contingency plan together with the infrastructure providers for the following situations:
 1. The trading platform is fully or partially inoperative;
 2. The clearing and settlement platform is fully or partially inoperative;
 3. One or more participants are unable to connect to the trading and/or clearing and settlement platform
- iii. Act as a Secretariat for the Market Governance Board (MGB) described below.
- iv. Organize and manage the Market Compliance and Surveillance Department (MCSD) described below;
- v. Maintain regular dialogs with the regulators (BSP and SEC) to ensure that any regulatory changes or issues relevant to the Repo market are known and addressed;
- vi. Regulatory Reporting - to ensure that all reports required by the regulators are prepared and submitted on time.

B. The Market Governance Board (MGB)

MART shall organize the MGB for the repo market which will be composed of the following:

1. The MART President, as Chairman
2. The BAP Open Market Committee Chairman, as Vice-Chairman
3. The MART Fixed Income Committee Chairman
4. The MART Operations and Settlements Committee Chairman
5. The BAP OMC Interest Rate Sub-committee Chairman
6. The MART SRO Committee Chairman

The MGB shall be responsible for the following:

1. To promulgate the rules governing the conduct of trading activities in the Repo market which will be followed by all market participants.
2. To review the SRO rules for the repo market with the objective of ensuring that all the rules continue to be relevant and are responsive to changes in the regulatory environment and other market conditions;
3. To review and act on complaints/feedback received by MART from the market participants and/or regulators
4. To review and assess any proposals from market participants to amend or change the SRO rules;
5. To recommend any proposed rule changes to the MART Board of directors. As SRO, MART will be responsible for approving any rule changes which will then be sent to the SEC for approval.

At a minimum, the MGB shall meet on a quarterly basis. However, should MART feel that there are urgent matters to be discussed by the MGB, ad-hoc meetings can be called as needed.

C. The Market Compliance and Surveillance Department (MCSD)

The MCSD shall be composed of full-time employees who are employed directly by MART SRO or by the outsourcing entity chosen by MART to undertake this role. These employees shall not be associated with any of the participants in the repo market. Initially, MART will outsource the MMG and MCSD to the BAP through its Project Management Office (PMO). The names and qualifications of the BAP PMO personnel to undertake this task is in Appendix I.

Update: As of Jan. 1, 2019, the role of the MCSD has been outsourced by MART to the Philippine Dealing and Exchange Corp. (PDEX). All duties and responsibilities ascribed to the MCSD are now being undertaken by PDEX. All references to the MCSD in this document now refer to PDEX, as the outsource provider of the compliance and surveillance function for MART.

The MCSD shall put up Chinese walls around itself to ensure that all information is kept confidential.

1. The MCSD shall carry out the regulatory enforcement role of MART under the Securities Regulation Code (SRC) through:
 - a. Surveillance of trading on MART members;
 - b. Investigation of violations of these Rules by Trading Participants;
 - c. Investigation of Trading Participants and their personnel based on reports of unusual or irregular trading activities, and complaints filed by other Trading Participants for alleged irregularities as defined in SRC and these Rules;
 - d. All other tasks or regulatory activities that may be required by MART, mandated by the SRC, or assigned by the relevant regulatory agencies.
2. The MCSD shall have the power to:
 - a. Enforce compliance by each Trading Participant, and their respective personnel, with the SRC and these Rules;

- b. Conduct investigations at the instance of MART' other internal units or other external sources, based on affidavits, departmental findings, and other pertinent documents submitted to it or otherwise accessible to it if the information provided, as determined by the MCSD, raise a suspicion that violations of SRC and/or these Rules have been committed;
 - c. Recommend trading suspensions of Trading Participants pending investigation of any irregularities or violations of SRC or these Rules;
 - e. Recommend to the Market Disciplinary Committee (MDC) the institution of disciplinary proceedings and imposition of appropriate sanctions or penalties on violators.
3. The MCSD shall maintain records of all investigations or examinations conducted and provide copies to the SEC as required.
4. Information can only be shared by the MCSD with the MDC when the MCSD presents its investigation findings related to its recommendations to suspend trading participants or to impose sanctions or penalties on violators.

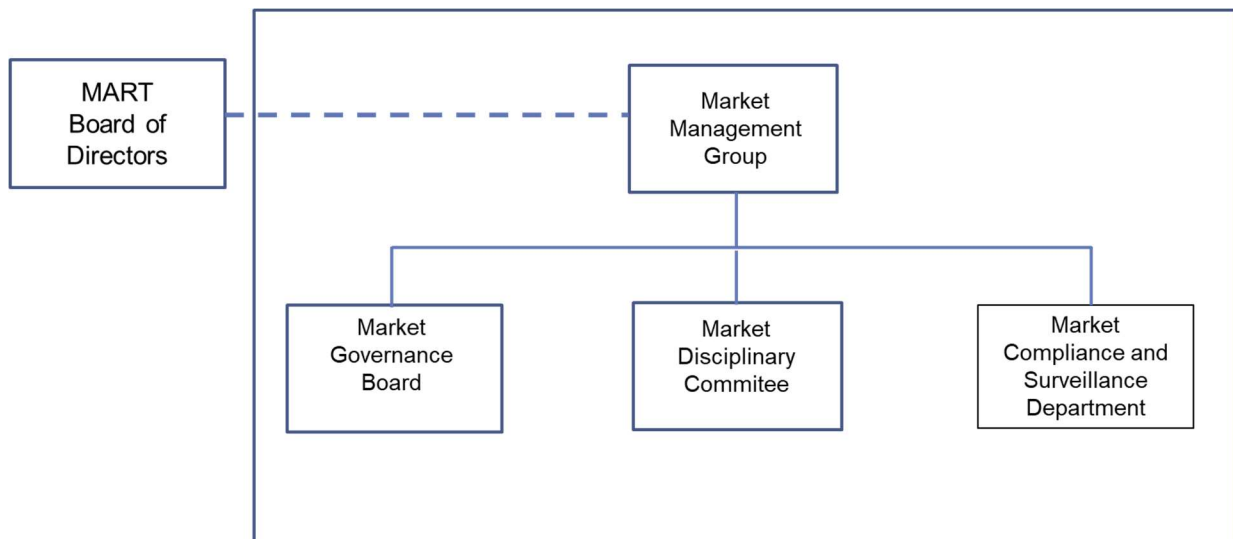
The roles, responsibilities, and procedures to be followed by the MCSD are outlined in Annex H.

D. The Market Disciplinary Committee (MDC) - The Market Discipline Committee shall be responsible for reviewing the violations reported by the MCSD and for imposing penalties and sanctions on erring members. The MDC shall be composed of the MART President, as Chairman, the BAP Open Market Committee Chairman (or his designate), as Vice Chairman, the chairman of the MART Committee on Self-Regulation, Ethics, and Standards, and the Chairman of the MART SRO Committee. In addition, MART shall identify and appoint 3 independent directors to the MDC. These independent directors shall be chosen on the basis of securities market experience, industry reputation, and perceived integrity, among other factors.

The roles, responsibilities, and procedures to be followed by the MDC are outlined in Annex H.

The MDC shall also act as the arbitration body in case of any disputes among participants. Any disputes shall be submitted to the MDC for resolution with both parties given the opportunity to present their written arguments. The MDC shall make a judgement on the dispute within 10 days. The MDC's judgement shall be reviewed and approved by the MART Board as the licensed SRO. Any unresolved issues shall be referred to the SEC for appropriate action and/or resolution. Anything not resolved under the GMRA e.g. matters arising for violation from the code of conduct

The non-erring party reports the other party in default to the SRO. (This does not include buy-in and compensation situations)



VI. Classification of Violations

There will be three levels of violations against the REPO Trading Conventions

1. Level I violations consist of the following:

- i. Non-mapping or delayed mapping of deals (more than 10 minutes)

- ii. Failure to Deliver Securities (under Section 26.1)
- iii. Failure to Deliver Margin (under Section 28.7)
- iv. Failure to deliver Coupon Payments (under Section 29.3)

Note: Violations ii-iv shall be considered violations only if a default is declared by the non-offending party.

In order to monitor the orderly settlement of Repo transactions, a daily failed settlements report shall be provided by the clearing and settlements systems provider to the MCSD. Such failed settlements report shall report settlement fails for both the near leg and the far leg of the Repo transaction. The MCSD shall take note of any Participant(s) who have repeated settlement fails and investigate the reasons for such. If warranted, the MCSD shall have the right to categorize the fails as Category 1 violations, in spite of the non-declaration of default by the non-offending party.

- 2. Level II violations occur should any offences under the Level I categories be repeated more than twice within a one (1) month period at the end of which tallies will be reset.
- 3. Level III violations are any, but not limited, to the following violations:
 - i. Attempts by a participant or participants to corner the supply of a particular security or securities with the intent to apply a short squeeze and profit from a drop in the repo rate.
 - ii. Other violations that may result in distortions market prices or rates.

VII. Penalties and Sanctions

- 1. Level I violation shall be subject to the following penalties:
 - i. 1st Violation: Warning
 - ii. 2nd Violation: Reprimand
 - iii. 3rd And subsequent violations - a penalty of FIVE THOUSAND PESOS (PHP5,000)
- 2. Level II violations shall be subject to the following penalties and sanctions:
 - i. 1st Violation:TEN THOUSAND PESOS(PHP10,000)
 - ii. 2nd Violation:TWENTY THOUSAND PESOS (PHP20,000). In addition thereto or in lieu thereof, MART shall have the right to suspend the Trading Participant and/or its authorized personnel.

- iii. 3rd and succeeding violations: THIRTY THOUSAND PESOS (PHP30,000). In addition thereto and in lieu thereof, MART shall have the right to suspend the Trading Participant and/or its authorized personnel.
3. Level III violations or any proven cases of market manipulation or collusion will have the following penalties which may be imposed singly or in combination:
- i. Reprimand and Penalty in the amount of FIFTY THOUSAND PESOS (PHP50,000)
 - ii. Denial of the right of the Trading participant and/or its authorized personnel to trade in the GS Repo market;
 - iii. Blacklist and bar of the authorized personnel involved in the violation from trading in the GS Repo market and/or being otherwise associated with or employed by any Trading Participant.
 - iv. Any additional penalties as may be imposed by the Securities and Exchange Commission and/or the Bangko Sentral ng Pilipinas for violation of the REPO Rules and Conventions, pertinent SRC rules and regulations or relevant BSP circulars, respectively.

A. Code of Ethics

All participants are expected to follow the requirements for Treasury Activities of BSP Supervised Institutions⁴ and the Code of Ethics Governing Financial Market Activities in the Philippines⁵.

⁴ Annex C-1 - BSP Circular No. 889, as may be amended

⁵ Annex C-2 - BSP Circular Letter No. CL-2010-013, as may be amended

Part II – Trading Guidelines

1. Definition of Terms

The following terms shall have the meaning indicated unless the context provides otherwise:

BAP refers to the Banker Association of the Philippines

BIR refers to the Bureau of Internal Revenue of the Republic of the Philippines

BTr refers to the Bureau of Treasury of the Republic of the Philippines

Buyer refers to the party in a repo transaction who buys securities at the Purchase Price on the Purchase Date and commits to sell back Equivalent Securities on the Repurchase date.

Commission refers to the Securities and Exchange Commission of the Republic of the Philippines

Confirmation refers to the written record delivered to the other party of the unique economic terms of a transaction (price, term, amount, etc.); any ad hoc terms (not already included in or different from those in the GMRA between parties); and settlement instructions (the accounts to which payment and deliveries should be made).

Eligible Party/Parties has meaning set forth in (Part III, 3).

Eligible Securities has meaning set forth in (Part III, 4)

Equivalent Securities has meaning set forth in (Part III, 5).

GMRA refers to the Global Master Repurchase Agreement, a model agreement for repo transactions published by the International Capital Market Association.

MART refers to the Money Market Association of the Philippines

PD refers to the BTr's Primary Dealer program

Price Differential / Repo Interest, with respect to any repo transaction as of any date, the aggregate amount obtained by daily application of the Repo Rate for such transaction to the Purchase Price for such transaction (on the agreed upon day count convention), for the actual number of days during the period commencing on (and including) the Purchase Date for such transaction and ending on (but excluding) the date of calculation or, if earlier, the Repurchase Date.

Purchase Date, with respect to any repo transaction, the date on which Purchased Securities are to be sold by the Seller to the Buyer in relation to that transaction.

Purchase Price, on Purchase Date, the price at which Purchased Securities are sold or are to be sold by Seller to Buyer.

Repo Transaction / Transaction is a transaction subject of a Repurchase Agreement. For the purpose of these rules, Repurchase Transactions shall be limited to an exchange of eligible securities and cash proceeds in Philippine Pesos.

Repo Rate, with respect to any repo transaction, refers to the per annum percentage rate for calculation of the Price Differential agreed to by Buyer and Seller in relation to that repo transaction.

Repurchase Agreement has meaning set out in (Part III, 1.1)

Repurchase Date, with respect to any repo transaction, the date on which buyer is to sell equivalent securities to seller in relation to that transaction.

Repurchase Price, with respect to any repo transaction and as of any date, the sum of the Purchase Price and the Price Differential as of such date.

Seller / Repo Seller, The party to a repo who sells securities for cash in the form of the Purchase Price on the Purchase Date and commits to buy back equivalent securities on the repurchase date.

Trade Reporting Platform has meaning set out in (Part III, 10.2)

Trade Settlement Platform has meaning set out in (Part III, 10.3)

Transaction Date the date on which a repo is agreed

2. Product Description and Scope

- 3.1 Repurchase Agreement is a contract under which one party (the Seller) sells a security to another party (the Buyer) on a given date (the Purchase Date) for cash proceeds (the Repo Amount) with a commitment to repurchase Equivalent Securities at a future date (the Repurchase Date). The difference between the original purchase prices paid by the buyer at the purchase date and the price the buyer receives at the repurchase date is based on an agreed Repo Rate
- 3.2 A Reverse Repo is the opposite of a Repurchase Agreement. Effectively one party's Repo is another party's Reverse Repo.
- 3.3 Repurchase Agreements are true sale transactions which involve a full transfer of ownership of the underlying assets and are documented by Confirmations between counterparties and the Global Master Repurchase Agreement (GMRA).
- 3.4 These Guidelines are applicable to only the conduct of Philippine Peso Repo/Reverse Repo Transactions by Eligible Parties where payment is in cash proceeds of Philippine Pesos.

3. Eligible Securities

Counterparties in the GS Repo program can use, upon mutual agreement, any outstanding Treasury Bills and Treasury Bonds issued by the BTr, for and on behalf of the Republic of the Philippines in their GS Repo transactions.

Separately, the BTr shall issue a list of securities available in the BTr repo window which they will make available to appointed GSED market makers in support of their market making operations. The BTr shall, in general, select the securities on the basis of turnover ratio and outstanding amount. This list of securities made available in the BTr repo window shall be reviewed by

the BTr on a quarterly basis, at a minimum, and more frequently, should the need arise.

4. Tenor of repo transactions

Max tenor of the repo transactions will be capped to 90 days. This can be reassessed when the repo market develops, in order to suite market needs and demand.

5. Reserve requirement on deposit substitute

In the Philippines, repo transactions are considered as deposit substitutes as per BSP Circular No. 832. For universal and commercial banks, this is subject to 20% reserve requirement. However, in support of the GS Repo program, the BSP has agreed to impose no reserve requirements on repos to aid the development of this market.

6. Documentation

The Global Master Repurchase Agreement (GMRA) is a repo master agreement developed jointly by Securities Industry and Financial Markets Association (SIFMA) and the International Capital Market Association (ICMA) whose acceptance defines it as the market standard in non-dollar markets. It is a bilateral agreement that shall be the governing document for counterparties. As per the GMRA, a repo agreement is a true sale transaction.

According to the Legal Opinion updated as of March 2015 issued by SyCip Salazar Hernandez & Gatmaitan (SyCip Law), “The GMRA will be legal, valid, binding and enforceable under the laws of the Philippines and will take effect in accordance with its terms.”

7. Legal considerations

Repos under the GMRA will take effect as a transfer of absolute title in the Purchase Securities from the Seller to the Buyer, the securities in the repo agreement are not pledged, but sold to the buyer. According to the Legal Opinion updated as of March 2015 issued by SyCip Salazar Hernandez & Gatmaitan (SyCip Law), “Transactions entered into under the GMRA (whether a Repurchase Transaction or a Buy/Sell Back Transaction) will take effect as a transfer of absolute title in the Purchase Securities from

the Seller to the Buyer, and the Buyer will have only a contractual obligation to transfer Equivalent Securities on the Repurchase Date.” Although the legal title of the underlying security in a repo is transferred to the buyer, considering the fact that the Seller has obliged to repurchase the Security on Repurchase Date, the economic ownership and the market risk stays with the Seller.

8. Accounting considerations

Repos shall be accounted for in a manner consistent with the Banko Sentral ng Pilipinas Financial Reporting Package for Banks (BSP - FRP). See *Appendix B* for illustration.

9. Tax Considerations

13.1 Withholding Tax

Withholding tax is the tax withheld from income payments

13.2 Gross Receipts Tax (GRT)

GRT is a tax on the total gross revenues of a company.

13.3 Documentary Stamp Tax (DST)

Is a tax on documents, instruments, loan agreements and papers evidencing the acceptance, assignment, sale or transfer of an obligation, right or property incident thereto. Under Section 199 (Documents and Papers Not Subject to Stamp Tax) of the Philippine Tax Code, the repo shall be exempt from the documentary stamp tax. This is confirmed by BIR RMC No. 95-2017 dated November 10, 2017 exempting transactions under this GS Repo program from documentary stamp taxes.

10. General Requirements

10.1 The conduct of Repo Transactions should be in line with the principle of maintaining market professionalism and integrity in order for the Repo Market to operate in a sound and orderly manner

10.2 Eligible Parties should avoid any strategies that create or exacerbate settlement fails.

10.3 Eligible Parties must not enter into Transactions with the intention to limit the availability of Eligible Securities in order to create a false or distorted market in repo and the underlying securities.

10.4 Eligible Parties should ensure the following:

- a. Only competent and professional staff are authorized to undertake repo transactions;
- b. Adequate policies and controls are in place to ensure that all Transactions will be properly authorized;
- c. All relevant regulatory and legal requirements are complied with on a continuous basis;
- d. Perform in accordance to Circular Letter No. CL-2010-013, the Code of Ethics Governing Financial Market Activities in the Philippines *See Appendix C*
- e. All undertaken Transactions have adequate documentation;
- f. Adequate policies and controls are in place to support repo activities including repo tracking, securities valuation and management, risk management and record keeping;
- g. Identity of parties in repo transactions are always treated confidential.

11. Equivalent Securities

With respect to a Repo Transaction under these guidelines, securities are considered equivalent to other securities or, are Equivalent Securities if they are: (i.) of the same issuer, (ii.) part of the same issue, (iii.) of an identical type, nominal value and description, and (iv.) have the same International Security Identification Number (“ISIN”).

12. Rights of substitution

The parties to the transaction shall not be allowed to substitute some or all securities during the term of the repo for any transactions.

13. Business Days and Business Hours

13.1 Every day shall be a Trading Day except for Saturdays, Sundays, national holidays, and days when the BAP Open Market Committee Chairman has declared a trading halt due to a “force majeure” situation. The procedures for this determination are in Annex E, The BAP BCP Contingency Kit for the Interest Rate and FX Markets.

13.2 The official business hours shall be 9:00AM - 12:00NN and 2:00PM - 4:00PM on business days.

14. Transaction and Settlement Dates

14.1 All repo transactions must be dealt on a business day

14.2 Counterparties must ensure that the settlement dates for both the Purchase Date and the Repurchase Date of the Repo fall on business days.

14.3 In case of a fortuitous event, the following shall apply:

a. When the fortuitous event falls on the near leg value date of the Php Repo transaction, the near leg is adjusted to the next business day and the original far date is kept the same. As the original tenor is shortened, the total Price Differential will then be prorated accordingly.

b. When the fortuitous event falls on the far leg value date of the Php Repo transaction, the far leg is adjusted to the next business day and the original near date is kept the same. As the original tenor is lengthened, the total Price Differential will then be prorated accordingly.

c. In the case of a fortuitous event, the total Price Differential shall be pro-rated using the computation below:

$$\text{Total Price Differential} = \text{Original Repo Rate} * \text{New Number of Days}$$

18. Repo Trade Platforms

18.1 Trade Reporting Platform

The trade reporting platform shall capture all repo transactions and will provide a repository for all trades executed in the market. The Commission, BTR, BSP, BIR and other parties endorsed by the Commission and the BTr shall have access to trade reports and data available in the trade reporting platform

18.2 Trade Settlement Platform

The trade settlement platform shall manage the delivery of securities and cash exchanged during repo transactions. Settlement shall be on a Delivery Versus Payment (DVP) basis.

18.3 Straight Through Processing Between Trade Platforms

Trade information and settlement details must be entered and captured in the trade platforms; both the trade reporting and

trade settlement platforms. The provider of the trading platform shall establish connectivity with the provider of the settlement platform to allow straight-through-processing (STP) of Repo transactions up to the settlement leg.

19 Execution of the GMRA

Prior to execution of any Transaction between counterparties, the parties concerned shall execute a GMRA, and the parties shall be governed by the terms and conditions thereof

20 Standard Trading Mechanics

- 20.1 Done deals should be mapped in the Bloomberg Terminal.
- 20.2 Participating eligible parties are obligated to observe the proper market ethical standards in pricing, transacting and mapping Repo transactions. All transactions shall be subject to the availability of credit lines and the presence of a bilaterally-signed GMRA.
- 20.3 An Eligible party may call another Eligible party or a broker to request or give its bid/offer quotes. The quoted party is obliged to give a quote for the same security and tenor if requested, unless the quote is from a broker. Once a quote is received, the quoted party can give at the bid, take at the offer, or decline the quotes
- 20.4 The quoting party is the party making the quote. The quoting party is committed to deal at the quoted price unless changed or canceled prior to actual dealing
- 20.5 When requesting or providing a quote, the Security, Face Amount, and Tenor should be specified at the outset
- 20.6 If a price is dealt, the Yield to Maturity (YTM) will then be provided / agreed as basis for the Repo Principal or cash value of the underlying security
 - a. For the PHP Repo the minimum Face Amount to be included for mapping is PHP10,000,000.
 - b. Increments on lot size shall be multiples of PHP 1,000,000.
- 20.7 The Yield to Maturity (YTM) should be specified with the understanding that the Day-Count convention applied for the valuation of the security is 30E/360 ISMA non end of month.

- 20.8 The Repo Rate should be specified with the understanding that the Day-Count convention applied for calculation of repo interest is Actual/360.
- 20.9 Bid and Offer Repo Rates may be quoted up to a minimum of four (4) decimal places or 0.0001%.
- 20.10 The standard near leg value date/purchase date for Php Repo deals shall be the next Manila Business Day from Transaction Date (T+1) unless otherwise specified.
- 20.11 As a standard, the far leg value date/repurchase date shall follow standard repo tenors such as overnight (onite), month multiples (1m, 2m, etc.) and whichever tenors will be made benchmark tenors.
- 20.12 A quote made through an accredited dealing system is considered a firm dealing price unless changed or canceled. Similarly, a counter quote is considered a dealing price unless changed or canceled.
- 20.13 When a deal is done, the transaction should be mapped immediately (within 5 minutes of the done transaction) in the trade reporting platform.
- 20.14 In the event of name or limit constraints between two counterparties in a trade, no deal is done.
- 21 Dealing through Voice Brokers**
- 21.1 Deals done through the voice brokers between eligible parties should be mapped in the Bloomberg Terminal within 10 minutes of the conclusion of the trade.
- 21.2 Counterparties in the Repo Transaction shall immediately call the opposite party to confirm the deal through the Repo Trading Platforms.
- 21.3 Once the dealer has quoted a dealing price and has stated his requirements to a broker, the dealer is bound to deal on those terms with acceptable names and remains bound to deal for a reasonable period of time until the broker is informed otherwise. By the same token, the broker is expected to make clear whether its prices are firm, under reference or for indication only. The broker is also expected to confirm with dealer at reasonable intervals that their orders are still firm.
- 21.4 When Eligible Parties place orders with special conditions attached, brokers must accurately and precisely specify the said conditions to the potential counterparties.

21.5 In the event of name or limit constraints between two counterparties in a trade, no deal is done.

22 Trade Affirmation

- 22.1 On or before the purchase date of a Repo Transaction, parties involved shall affirm the transaction by contacting the other by telephone or e-mail in order to secure immediate verification of the key economic terms and settlement instructions of the transaction.
- 22.2 Affirmations shall be performed through recorded line and/or email. The Bloomberg ticket affirmed by counterparties is also a valid Affirmation.

23 Trade Confirmation

- 23.1 Each Repo transaction shall be covered by a confirmation notice that specifies the details of the Repo Transaction.
- 23.2 Long form confirmations shall be sent to each party's counterparty on Purchase Date. Counterparties shall return signed long form confirmations. Long form confirmations shall be signed by only authorized signers as per the board resolution between the counterparties.

24 Settlement Procedures

- 24.1 Each Repo Settlement Officer shall review and reconcile their trade and settlement data against their internal records and authorize the instructions for settlement.
- 24.2 Errors or trade data discrepancies spotted by a Repo Settlement Officer must immediately be reported to the Repo Trader as well as the counterparty Repo Settlement Officer for resolution.
- 24.3 Transaction errors spotted within a trading day and before authorization of both Repo Settlement Officers may be rectified by the dealer's requesting officers of the Trade Settlement Platform to effect a trade cancellation on their System and a subsequent entry of the Repo trade with correct details. The trade cancellation and correct trade entry shall be recognized by the Trade Settlement Platform, which shall then withhold the

- cancelled transaction from being forwarded to the settlement system.
- 24.4 Transaction errors spotted after the end of a trading day, but before the end of the pertinent settlement date may no longer be rectified by requesting a trade cancellation. Instead, rectifying these types of errors will require the entry of a reversal trade (i.e. a trade that reverses the payment flows of the erroneous trade) and a subsequent entry of the Repo trade with correct details. In this instance, all three trades (i.e. the erroneous trade, reversal trade and corrective trade) shall generate payment flows through the settlement system.
- 24.5 Transaction errors spotted after settlement instructions had already been authorized by both Repo Settlement Officers must be rectified in the same manner as above.
- 24.6 Repo Settlement Officers shall authorize each Repo settlement instruction on or before the Purchase Date of the Repo Transaction.
- 24.7 The Trade Settlement Platform shall electronically forward to the Delivery versus Payment System only trade and settlement instructions that have been authorized by the Repo Settlement Officers of both trade counterparties.
- 24.8 Trades that remain valid at the Trade Settlement Platform (i.e. not cancelled) but remain unauthorized for settlement by one Repo Settlement Officer may cause a settlement failure and be subject to arbitration by the aggrieved party.
- 24.9 Trades that remain valid at the Trade Settlement Platform but remain unauthorized for settlement by both Repo Settlement Officers may be subject to inquiry by regulatory authorities.

25 Settlements

25.1 Delivery versus Payment (DvP)

All trades shall be on the basis of Delivery versus Payment settlement to ensure that delivery of the securities occurs only when payment occurs.

25.2 Trade Settlement

Trades executed will be settled via DvP through the trade settlement platform. Under the DVP System:

- a. Settlement of Philippine Peso payments occur through the Philippine Payment and Settlement System (Philpass) operated by the BSP.
- b. Settlements of the eligible securities occur through the New Registry of Scripless Securities system (nRoSS) operated by the Bureau of Treasury.

25.3 Standard Settlement Period and Cutoffs

Standard settlement periods and cutoffs for repos will follow the conventions used for fixed income trading.

26 Failed Trades - Failure to Deliver Securities

26.1 GMRA Provisions - Failure to deliver securities as an Event of Default

As per the GMRA, parties may elect both cases as an event of default :(1) the failure of the Seller to deliver Purchased Securities to the Buyer on the applicable Purchase Date and (2) the failure of the Buyer to deliver Equivalent Securities to the Seller on the applicable Repurchase Date.

If parties elect when negotiating their GMRA that a failure to deliver securities as an Event of Default, it is not an automatic one. It is up to the aggrieved party to serve a notice in order to put the defaulting party into default and trigger the process of closing out and netting outstanding Repos with the defaulting party

The receipt of a default notice will trigger all transactions to be terminated (closed out) and their repurchase dates accelerated for immediate settlement. The net present value of the obligations owed to the defaulting party are then netted (set off) against the net present value of obligations owed by the defaulting party to leave a residual net amount.

26.2 GMRA Provisions - Remedies for Failure to deliver securities on Purchase Date

The contract remains in force but the buyer withholds cash from the seller. Only if and when delivery eventually takes place will the buyer pay the seller. But whether or not the seller ever

delivers the collateral, at the end of the repo, the seller will be obliged to pay to the buyer the repo interest for the *full* intended term of the transaction.

At any time while the failure continues, the buyer may terminate the failed transaction. If he does, the Seller will be obliged to pay whatever repo interest has accrued up to the date of termination.

26.3 GMRA Provisions - Remedies for Failure on Repurchase Date

As per the GMRA, in the event of a failure by a buyer to deliver Equivalent Securities back to the Seller on the Repurchase Date the seller may trigger a *mini close-out*. This is an informal term used to describe the termination of a failed transaction by the Seller under the terms of paragraph 10(h)(iii) of the GMRA 2000 or 10(i)(iii) of the GMRA 2011. Under this procedure, the Buyer will be obliged to pay to the Seller the difference between (1) the Default Market Value of the collateral due under the failed transaction (all other repos continue in force), as determined by the Seller and (2) the Repurchase Price due to the Buyer.

26.4 Buy-in

If a delivery is not made on the value date, the party affected by a fail can remedy the problem by arranging to buy-in the security from a third party.

When arranging a Buy-in, the party affected by a fail, on the value date of the fail shall give the failing party five Business Days' notice of his intention to do so (a pre-advice notice on the day of the fail and a buy-in notice two Business Days later). If the failing party does not remedy the fail within five Business Days from the pre-advice notice, despite notification by the aggrieved party, the affected party appoints an agent to buy in the security in the 'best available market for guaranteed delivery'. Any excess in the cost of the buy-in over the price agreed originally with the failing party is charged to the latter.

The Buy-In remedy, if not indicated in the GMRA between counterparties, should be included in the terms of agreement /

Confirmation between the counterparties for the specific PHP Repo Transaction.

26.5 Repo Rate Reset

When the Seller, under a Repo Transaction with a negative repo rate, fails to deliver the Purchased Securities on the purchase date and the Buyer chooses not to exercise default remedies (*see section 18*), the Repo Rate should automatically reset to the absolute value of the original negative Repo Rate (i.e. Negative Repo Rate “-1” is reset to Positive Rate “+1”). Only when the Seller delivers the securities subject to the Transaction shall the Repo Rate revert to the originally agreed upon Negative Repo Rate but only for the remaining term of the Transaction.

27 Counterparty Limits and Exposure

- 27.1 Eligible Parties must possess adequate infrastructures, policies and processes to be able to establish internal credit limits in line with their risk appetite and, monitor and manage credit exposures.
- 27.2 Market participants are responsible for internally assessing their risk appetite, as well as the exposure it is willing to take. In line with this, market participants should assign credit limits prior to trading.

28 Collateral Management

- 28.1 Margin Parameters - Prior to trading, counterparties negotiate and mutually agree on margin parameters. These shall be documented in the Buyer and Seller’s GMRA.
- 28.2 Cash Margin - The value of the securities must be maintained at levels agreed upon by parties involved in the transaction. Only cash margining will be adopted.
- 28.3 Valuation - Underlying securities to Repo Transactions are marked-to-market at least once daily based on the valuation method indicated in the GMRA between the buyer and the seller.
- 28.4 Margin Calls - Deadline for margin calls and margin delivery shall follow the agreed upon parameters in the Buyer and Seller’s GMRA. In the absence of such parameters, the following shall apply: Delivery period following a request for Margin Transfer

shall be as follows: If the request is made before 11:00 a.m. Manila time, delivery to be made on the same day, and if the request is made after 11:00 a.m. Manila time, delivery to be made on the next Business Day. Parties need to confirm the margin call amount prior to remittance

- 28.5 Returning Cash Margins - Cash margin held by one party (first party) shall not be automatically returned to the second party unless the second party specifically requests the return of previous margin when making a margin call on the first party.
- 28.6 Involvement of Senior Management - Senior management should have regular reports on margin monitoring and should always be involved during margin calls and dispute resolutions for margin calls
- 28.7 Failure to Deliver Margin - Failure to deliver margin is an Event of Default under the GMRA. It is not however an automatic Event of Default under the GMRA 2000 or Automatic Early Termination event under the GMRA 2011. The non-defaulting party is required to serve a default notice in order to trigger a default. If the non-defaulting party chooses not to serve a default notice, the defaulting party should endeavor to deliver margin at the earliest opportunity.

29 Coupon Payments

- 29.1 Entitlement - The Seller is entitled to receive all interest and other income on securities subject to Transactions to the same extent that it would have received actual income had it not entered in the Transaction. The equivalent compensatory income payment from the Buyer is due on the same day as the corresponding income payment by the issuer of the security
- 29.2 Tracking and Remittance - The Buyer is responsible for tracking the coupon payments of its security holdings as well as collecting expected payments. The Buyer shall notify the Seller of any coupon payments. And, the Repo Buyer shall remit to the Seller equivalent compensatory income payment on the same day as the corresponding income payment by the issuer of the Purchase Securities.
- 29.3 Failure to Deliver Coupon Payments - Failure to Coupon Payments is an Event of Default under the GMRA. It is not however an automatic Event of Default under the GMRA 2000 or

Automatic Early Termination event under the GMRA 2011. The non-defaulting party is required to serve a default notice in order to trigger a default. If the non-defaulting party chooses not to serve a default notice, the defaulting party should endeavor to deliver the equivalent compensatory income payment at the earliest opportunity.

30 Tax payment

- 30.1 Withholding tax - As a withholding agent, the Seller will be responsible for remitting the 20% withholding tax due from the Buyer. Ideally, this is remitted to BIR within the same month of the repurchase date. The Buyer shall report the tax payable to BIR via Form 2306.
- 30.2 Gross Receipts Tax (GRT) - The 5% GRT is paid directly by the Buyer to BIR

Part III – Standard Operating Procedures for the Repurchase Agreements

1. Pre-Trade

1.1. Global Master Repurchase Agreement (GMRA) Prerequisite

Prior to engaging in any Repo Transaction, counterparties must ensure that they have a signed GMRA in place. See *Appendix A for example*

1.2. Identify counterparty to repo transaction and identify legal entity identifiers

Repo Transactions are initiated by Eligible Parties identifying Eligible counterparties either through brokers, Bloomberg, telephone or electronic messaging systems. It is essential, that each party to a transaction knows the precise legal identity of its counterparty.

1.3. Quotation and Dealing/Trading

Repo Transactions are bilaterally discussed and negotiated. Quotation and negotiation may be performed via telephone, broker, Bloomberg system or electronic messaging systems. Counterparties are responsible for agreeing to the terms and conditions of their transaction. It is expected that when an offer/bid is made by one party, the other party should either deal or counter with a bid/offer.

1.4. Negotiate and document operational protocols and terms of the repo agreement

Counterparties must ensure that operational protocols and terms of the repo agreement are clear and properly documented in both the GMRA and confirmations exchanged between counterparties.

2. Trade Execution

2.1. Counterparties input and match trade details on trade platforms.

Trade Details of Repo transaction must match in the Trade Platforms.

2.2. Trade Input

Initially, Bloomberg will act as the trade input / trade reporting platform. After counterparties agree on the repo trade details, the repo buyer shall input the transaction on the trading terminal.

2.3. Counterparties complete affirmation of trade details

Once the transaction has been entered by the repo buyer and sent to the repo seller, the repo seller shall examine the repo details. Once the details have been checked and validated, the repo seller shall confirm the trade electronically on the Bloomberg platform.

2.4. Counterparties complete confirmation of trade details

Parties to the Transaction shall ensure that a long form confirmation will be sent to their counterparty on Purchase Date. The return of the signed long form confirmation will be monitored by each parties' back office operations teams

3. Purchase Date

3.1. Confirm/Authorize settlement instructions before cutoff

On or before purchase date, the back office operations of Parties to the Transaction must confirm/authorize settlement instructions with the Trade Settlement Platform prior to cutoff.

The PDS Gateway Repo-STP is the system where settlement officers clear/authorize Repo Transactions. *See Appendix F for PDEX Terminal User Manual*

3.2. Valid trades are settled via DvP through the trade settlement platform

Valid trades will be settled via Delivery versus Payment by debiting and crediting the counterparties' enrolled cash settlement and security settlement accounts enrolled with trade settlement platform.

Valid trades are trades that meet the following prerequisites:

- a) Both parties authorize the settlement instructions for the Transaction prior to the cutoff on the purchase date
- b) The Seller has sufficient securities to be exchanged in their security settlement account

c) The Buyer has sufficient cash to be exchanged in their cash settlement account

3.3. Insufficient cash and securities in settlement accounts

Back-office operations should coordinate with involved parties and the dealer's senior management to make securities/cash available for delivery. If the securities/cash remain insufficient by cut-off time, the settlement will fail.

3.4. Failed Settlement

In the event confirmed trades are unable to settle for lack of cash or security, an amicable settlement of disputes arising from failed trades is encouraged.

The aggrieved party may trigger applicable remedies provided in *section 18 of Part III - Repo Program Guidelines & Trading Conventions*.

In the event that parties are unable to reach an amicable resolution of their disputes, they are to submit their dispute to the Arbitration Committee.

4. Margining and Initial Margin/Haircut

4.1. Valuation

Underlying securities to Repo Transactions are marked-to-market at least once daily based on the valuation method indicated in the GMRA between the buyer and the seller.

4.2. Margin Call

Parties need to confirm the margin call amount prior to remittance. Market participants must ensure involvement of senior management during any breach of margin thresholds and margin calls.

4.3. Returning Cash Margins

Cash margin held by one party are returned when the other party specifically requests the return of previous margin during a margin call on the first party. Cash margins shall be returned via funds

transfer request between counterparties on the Philippine Payment and Settlement System (Philpass) operated by the BSP.

4.4. Dispute Resolution

If there are any disagreements on the margin call, back-office operations of each party must escalate and involve senior management to coordinate and settle the disagreement. A dealer disputing a margin call shall detail the grounds on which they dispute the call.

4.5. Failure to Deliver Margin

Failure to deliver margin is an Event of Default under the GMRA. It is not however an automatic Event of Default under the GMRA 2000 or Automatic Early Termination event under the GMRA 2011.

The non-defaulting party is required to serve a default notice in order to trigger a default. If the non-defaulting party chooses not to serve a default notice, the defaulting party should endeavor to deliver margin at the earliest opportunity.

5. Coupon and other income payments on securities

5.1. Tracking and notification

The Repo Buyer's back office operations team is responsible for tracking the coupon payments of its security holdings as well as collecting expected payments. Its operations team shall notify the Repo Seller of any coupon payments.

5.2. Remittance

The Repo Buyer shall remit to the Seller equivalent compensatory income payment on the same day as the corresponding income payment by the issuer of the Purchase Securities. Coupon payments shall be remitted via funds transfer requests between counterparties on the Philippine Payment and Settlement System (Philpass) operated by the BSP.

5.3. Failure to Deliver Coupon Payments

Failure to Coupon Payments is an Event of Default under the GMRA. It is not however an automatic Event of Default under the

GMRA 2000 or Automatic Early Termination event under the GMRA 2011.

The non-defaulting party is required to serve a default notice in order to trigger a default. If the non-defaulting party chooses not to serve a default notice, the defaulting party should endeavor to deliver the equivalent compensatory income payment at the earliest opportunity.

6. Repurchase Date

6.1. Confirm/Authorize settlement instructions before cutoff

On Repurchase Date, the back office operations of Parties to the Transaction must confirm/authorize settlement instructions with the Trade Settlement Platform prior to cutoff.

6.2. Validate trade requirements

Valid trades will be settled via Delivery versus Payment by debiting and crediting the counterparties' enrolled cash settlement and security settlement accounts enrolled with trade settlement platform.

Valid trades are trades that meet the following prerequisites:

- a) Both parties authorize the settlement instructions for the Repo Transaction prior to the cutoff.
- b) The repo buyer has sufficient securities to be exchanged in their security settlement account
- c) The repo seller has sufficient cash to be exchanged in their cash settlement account

Trades that meet the prerequisites will be settled via delivery versus payment by debiting and crediting the counterparties' enrolled cash settlement and security settlement accounts enrolled with Trade Settlement Platform.

6.3. Insufficient cash and securities in settlement accounts

Back-office operations should coordinate with involved parties and senior management to make securities/cash available for delivery.

If the securities/cash remain insufficient by cut-off time, the settlement will fail.

6.4. Failed Settlement

In the event confirmed trades are unable to settle for lack of cash or security, an amicable settlement of disputes arising from failed trades is encouraged.

The aggrieved party may trigger applicable remedies provided in *section 18 of Part III - Repo Program Guidelines & Trading Conventions*.

In the event that parties are unable to reach an amicable resolution of their disputes, they are to submit their dispute to the MDC who is the de-facto arbitration committee of the MART SRO.

Part IV – Repurchase Agreements Best Practices

1. Best practice in initiating a repo transaction

1.1. Clear communication

When negotiating by telephone or electronic messaging system, parties should ensure that they understand fully the terms of a transaction and, where there is any uncertainty, insist on clarification from the other party. On the telephone, the key economic terms of a transaction should be listed by one of the parties at the end of the conversation. Post-trade checks should also be conducted using Confirmations and, where necessary, affirmation.

1.2. How to quote the price of a repo - Repo Rate

Transactions are quoted in terms of the *repo rate*, that is, the percentage per annum rate of return on the Purchase Price to be paid by the Buyer to the Seller on the Repurchase Date.

1.3. How to quote the purchase price - price of security

It is best practice for the parties to agree on spot yield to be used to value the securities on transaction date. Parties to a Transaction conventionally agree the Purchase Price of fixed-income securities to follow current market conventions of calculating cash proceeds which is done on after-tax basis of the securities' dirty price. The Purchase Price of a repurchase agreement also incorporates any initial margin or Haircut.

1.4. How to quote the purchase and repurchase dates

a. Purchase date

Parties are able to vary the period between the date on which a repo is agreed (transaction date or T) and the Purchase Date, when cash and securities are exchanged. The standard transaction date T+1 is the default.

b. Repurchase date

As a standard, settlement dates on repurchase date are to follow standard repo tenors such as overnight (onite), month multiples (1m, 2m, etc.) and whichever tenors will be made benchmark tenors.

1.5. Agreement on interest rates for late payments

Where parties decide to agree an interest rate to apply to late payments, it is best practice to do so before trading and to record the rate in Annex I of their GMRA. It is also best practice for parties to agree an interest rate on late payments that reflects only the need of the party suffering late payment for economic compensation. The interest rate on late payments should not be used to penalize the other party.

1.6. Using negative repo rates for the interest rate on cash margins

Parties need to be aware that a problem may arise if they agree to use the repo rate on a particular transaction as the interest rate on cash margins, as that rate may turn negative if the securities in that particular transaction goes on special. They should therefore consider this possibility and, if they believe it necessary, agree on an alternative interest rate. This should be recorded in Annex I of their GMRA or, if that is not practicable, in Confirmations.

2. Best practices in margining repo

2.1. Agreement on an Initial Margin / Haircut

It is best practice to record the initial margin or Haircut in writing. If agreed at the point of trade, an initial margin and Haircut should be recorded in the Confirmation and, where necessary, affirmed.

2.1.1 Initial margin

An initial margin can be defined as a percentage or a ratio. As a percentage, an initial margin is calculated as:

$$\left(\frac{\text{Market Value of Security}}{\text{Purchase Price}} \right) \times 100$$

2.1.2 Haircut

A Haircut is expressed as the percentage difference between the Market Value of a security and the Purchase Price of the repo. It is calculated as:

$$\left(\frac{\text{Market Value of Security} - \text{Purchase Price}}{\text{Market Value of Security}} \right) \times 100$$

2.2. Calculating a margin call

A margin call should be made when one party has a Net Exposure to the other (see section 4(c) of GMRA 2000 and 2011). A Net

Exposure arises when the aggregate exposure of one party to another exceeds the aggregate exposure of the second party to the first. The aggregate exposure of each party is equal to the sum of the exposures on each transaction still outstanding with the other party (Transaction Exposure - see section 2(w) of GMRA 2000 and 2(xx) of GMRA 2011) plus any income due from the other party but unpaid (i.e. manufactured payments and interest payments (plus Net Margin still held by the first party)).

2.2.1 Mark-to-market

Transaction Exposure for the purpose of margining is calculated by marking each transaction to market. The mark-to-market calculation depends on whether the transaction is subject to an initial margin or to a Haircut.

2.2.2 Where the security is subject to an initial margin

In the interval between a margin call being made by one party and margin being delivered by the other, the calculation of Net Exposure should assume that margin will be delivered.

$$\begin{aligned} \text{Transaction Exposure} \\ = \left(\text{Repurchase Price} \times \frac{\text{Initial Margin}}{100} \right) - \text{Market Value of Security} \end{aligned}$$

$$\text{Repurchase Price} = \text{Purchase Price} \left(1 + \frac{\text{repo rate} \times \text{day count}}{100 \times \text{annual basis}} \right)$$

The Repurchase Price should be calculated for the day on which margin is due to be delivered (the margin delivery date). In other words, the day count for the repo rate should be the number of days up to but excluding the margin delivery date.

$$\text{Market Value of Security} = \text{Nominal Value} \times \left(\frac{\text{Clean Price} + \frac{\text{Coupon} \times \text{Day Count}}{\text{Annual Basis}}}{100} \right)$$

The Market Value of underlying securities should include accrued interest up to but excluding the margin delivery date.

2.2.3 Where the security is subject to a haircut

Transaction Exposure

$$= \text{Repurchase Price} - \left[\text{Market Value of Security} \times \left(1 - \frac{\text{Haircut}}{100} \right) \right]$$

2.3. Calculating net exposure

The calculation of Net Exposure should include all transactions between two parties for which:

- the Purchase Date is today or earlier; and
- the Repurchase Date is today or later

The intention is that the inclusion of new or maturing transactions should be based on actual rather than assumed settlement. However, this practice requires parties to have the ability to confirm settlement before making or responding to a margin call.

Where firms cannot confirm settlement before making or responding to a margin call, the most prudent approach is to assume settlement on the Purchase Date but not on the Repurchase Date. In other words, transactions should be automatically included in the calculation of Net Exposure on both their Purchase Date and Repurchase Date. This asymmetry of treatment is justified by the fact that settlement failures on the Repurchase Date are more common than on Purchase Dates and maturing transactions have larger Transaction Exposures than new transactions.

Transactions which fail on their Purchase Date should be removed from the calculation of Net Exposure on next business day and not included until the failure has been remedied by the Seller or the transaction has been terminated by the Buyer.

Transactions which fail on their Repurchase Date should continue to be included in the calculation of Net Exposure until the failure has been remedied by the Buyer or the transaction has been terminated by the Seller, as the transaction will continue to have a Transaction Exposure.

It is currently not market practice to include transactions in the calculation of Net Exposure between their Transaction Date and Purchase Date. The rationale is that, if the Seller fails to deliver the security on the Purchase Date, provided the Buyer has not paid the

Purchase Price to the Seller, the Buyer will only have an interest rate risk, similar to the counterparty risk on a derivative, sometimes called a 'replacement cost', rather than the type of credit risk to which a counterparty is exposed once an exchange of cash and security has actually taken place (the risk of losing principal). Such a risk could be hedged with interest rate risk management instruments rather than the underlying security.

2.4. Pricing of securities for calculation of margins

Underlying securities must be valued at their dirty or gross prices (ie including accrued interest), rather than their clean or net prices. The number of days used in the calculation of accrued interest should be calculated from and including the last coupon payment date up to but excluding the date on which margin is due to be delivered (the margin delivery date).

Because the dirty or gross price of a fixed-income security is used to calculate its Market Value, the payment of a coupon will reduce the Market Value of that security and may trigger a margin call. It is best practice to monitor forthcoming coupon or dividend payments to ensure smooth management of large margin calls on or by counterparties.

2.5. Margin thresholds and minimum transfer amounts

Parties to repo transactions often agree a minimum Net Exposure below which they will not call a margin from each other. Once the Net Exposure equals or exceeds this threshold, a margin is called which is sufficient to eliminate the entire Net Exposure. For this reason, the threshold is often called a 'minimum transfer amount'.

Net Exposure below the margin threshold and minimum transfer amount is an unsecured credit exposure and should be subject to the credit limit for repo.

A party may prefer not to agree a minimum transfer amount with another party and thereby commit itself to potentially extending unsecured credit. Instead, it may decide on a confidential margin threshold and minimum transfer amount that it will observe internally, but will not make that amount known to the counterparty.

This will allow it to reduce or eliminate the margin threshold and minimum transfer amount in the event of concerns arising over the creditworthiness of the counterparty.

2.6. Interest payments on cash margin

Interest is due on cash margin, except where such margin is paid because of a failure by the Buyer to return certain securities on the Repurchase Date. Interest should be accrued on cash margin at a rate indexed to a reference rate agreed between the parties plus or minus an agreed spread.

Interest accruing on cash margin up to but excluding the day on which margin is due to be delivered (the margin delivery date) should be included in the calculation of Net Exposure.

3. Best practices in managing the life cycle of a repo

3.1 Issuance of termination notices to counterparties

It is best practice, if time allows, before serving termination notices, other than Default Notices or in the case of the termination of an open repo, to give advance notice to a counterparty, including their own repo desk, of the intention to serve a notice. However, repo desks should not try to delay or prevent the issuance of such notices.

It is best practice to prepare for termination events, including events of default and failures to deliver securities, by drafting templates of termination notices in advance of possible future need.

APPENDIX

A. Accounting Treatment

An example of the accounting treatment for both the Repo Buyer and Repo Seller

Reverse Repo	
<u>Start Leg</u>	
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	XXX
Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities	XXX
<u>Daily Interest</u>	
Accrued Interest Income from Financial Assets	XX
Interest Income	XX
Income Tax Expense	X
Other Taxes and Licenses Payable	X
<u>End Leg</u>	
Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities	XXX
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	XXX
Accrued Interest Income from Financial Assets	XX
Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities	X
Accrued Interest Income from Financial Assets	X
Other Taxes and Licenses Payable	X
Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities	X

Reverse Repo - Receipt of Cash Margin**Receipt of Cash Margin**

Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	XX	
Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities		XX

Monthly Interest

Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	XX	
Interest Income		XX

Return of Cash Margin

Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities	XX	
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions		XX

Reverse Repo - Payment of Cash Margin**Payment of Cash Margin**

Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities	XX	
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions		XX

Monthly Interest

Interest Income	XX	
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions		XX

Return of Cash Margin

Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	XX	
Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities		XX

Repo		
<u>Start Leg</u>		
Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities	XXX	
Bills Payable		XXX
<u>Daily Interest</u>		
Interest Expense	XX	
Accrued Interest Expense on Financial Liabilities		XX
<u>End Leg</u>		
Bills Payable	XXX	
Accrued Interest Expense on Financial Liabilities		XXX
Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities	XX	

Repo - Receipt of Cash Margin		
<u>Receipt of Cash Margin</u>		
Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities	XX	
Bills Payable		XX
<u>Monthly Interest</u>		
Interest Expense	XX	
Accrued Interest Expense on Financial Liabilities		XX
<u>Return of Cash Margin</u>		
Bills Payable	XX	
Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities		XX

Repo - Payment of Cash Margin		
<u>Receipt / Payment of Cash Margin</u>		
Bills Payable	XX	
Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities		XX
<u>Monthly Interest</u>		
Int paid-Repo-Cash Margin	XX	
Interest Expense		XX
<u>Return of Cash Margin</u>		
Due from BSP (if Peso) or Due from HO (if FCY) or Deposit Liabilities	XX	
Bills Payable		XX

Annexes

A. Participant Application Form

[Letterhead of Applicant]

[Date]

MONEY MARKET ASSOCIATION OF THE PHILIPPINES, INC.
Penthouse, PDCP Bank Centre, V. A. Rufino corner Leviste Sts.,
Salcedo Village, Makati City

Attention: Mr. Christopher Ma. Carmelo Y. Salazar
President

Gentlemen:

On behalf of [*Applicant U/K/Savings Bank ("Bank") or Non-Bank Financial Institution (NBFI), with GSED license, or Voice Broker*], we hereby submit our application to become a Participant as a duly licensed (*please check*) -

Bank

NBFI

Voice Broker

in the Government Securities Repurchase Agreement (**Repo**) Market operated by the Money Market Association of the Philippines, Inc. (**MART**) as the Self-Regulatory Organization (**SRO**) pursuant to Section 2 of the Repo SRO Rules and Regulations and Trading Conventions (**Repo Rules**).

In submitting this application, we hereby agree to and/or certify the following:

1. We agree to be bound by all the terms and conditions under the Repo Rules and adopt them as an integral part of this application.
2. We undertake to enter into a Global Master Repurchase Agreement (GMRA) with each of our counterparties and adhere to the terms of the GMRA prior to entering into any Repo transaction.
3. We agree to comply with all our obligations as a Participant as provided in the Repo Rules.
4. We attest to our authority to do, to execute, and to perform any and all acts necessary and/or to undertake these obligations on behalf of [*Applicant Bank/NBFI/Voice Broker*] pursuant to the Board resolution duly attested to in the attached duly notarized Secretary's Certificate.
5. As applicable, we likewise attest that we are compliant with the required minimum capital requirements set forth by the *Bangko Sentral ng Pilipinas*, and undertake to maintain our compliance with such requirement and to notify the SRO of any change in such status.
6. We authorize the service providers who operate the trading platform, the central trade repository, as well as the clearing and settlement platforms to provide information on our repo transactions to the SRO, to the SEC, the *Bangko Sentral ng Pilipinas*, the Bureau of Internal Revenue, and other relevant regulatory authorities
7. We hereby waive our privilege under R.A. 1405 re: Secrecy of Bank Deposits and we permit the SRO and the SEC to examine and conduct inquiry on [*Applicant Bank/NBFI/Voice Broker*]'s Repo-related transactions in the Repo market governed by the SRO, for the limited purpose of enabling the SRO and the SEC to review Repo-related transactions of [*Applicant Bank/NBFI/Voice Broker*].
8. In case of dispute or controversy, we agree to authorize the SRO, the and the SEC, or their duly authorized employees, to access records, including but not limited to, relevant trading and financial statements, communications, whether written or voice, and other relevant information that are directly related to the disputed transaction of [*Applicant Bank/NBFI/Voice Broker*] and necessary for the resolution of the dispute or controversy.

Please address all communications regarding this application to:

Contact Person: []
Title/Position: []
Address: []
Tel. No. / Fax No. []

Email Address: []

Very truly yours,

[Applicant Bank or NBF, with GSED license, or Voice Broker]

By:

[Printed Name and Signature of Authorized Signatory]

[Title/Position]

Approved:

Mr. Christopher Ma. Carmelo Y. Salazar
President
Money Market Association of the Philippines

Copy To:

**Securities and Exchange
Commission**

Attention:
Teresita J. Herbosa
Chairperson

Bangko Sentral ng Pilipinas

Attention:
Nestor A. Espenilla, Jr.
Governor

**Bankers Association of the
Philippines**

Attention:
Nestor V. Tan
President

Bureau of the Treasury

Attention:
Rosalia V. De Leon
Treasurer of the Philippines

Platform Provider: Bloomberg LLP

Attention:
Annie Tejano
Branch Manager

PDTC:

Attention:
Ma. Theresa B. Ravalo
President

B. Sample Derivatives Report Template

c. Code of Ethics Governing Financial Markets Activities in the Philippines

**Annex D:
Business Continuity Plan for the GS Repo Market**

Business Continuity Plan for the GS Repo Market

I. Introduction:

Trading of GS repos among accredited dealers is overseen by MART who are the Self-Regulatory Organization (SRO) approved by the Securities and Exchange Commission of the Philippines (“the SEC”) to oversee the GS Repo market. As SRO, MART have outsourced the provision and operation of the trading platform to Bloomberg, PLC using Bloomberg’s proprietary trading platform. MART have also appointed PDEX as the surveillance agent, the CTRS agent, and the publication agent for all GS repo transactions to leverage on PDEX role and infrastructure as the SRO for the Fixed Income Market.

In the unlikely event that the Bloomberg platform is disabled due to technical or other reasons and that prevent the use of the platform for the trading of GS Repo transactions, the following process shall be followed.

II. BCP Call Tree and Activation:

1. The BCP call tree shall be activated whenever there is a disruption in the Bloomberg platform which may result in the non-availability of the electronic platform. Activation of the call tree can be initiated by Bloomberg, MART, or PDEX upon the detection of any disruption. The disruption may occur before the start of trading hours at 9:00 a.m. or may also occur any time during the official trading hours of 9:00 a.m. to 4:00 p.m.

The Call Tree shall be composed of the following parties:

Bloomberg:

- a. Primary Contact:
Annie Tejano
Phone: (+632)87897030
Email:rosanna@bloomberg.net
- b. Secondary Contact
Sudipto Lahiry
Phone:(+65)64992608
Email:slahiry3@bloomberg.net

MART:

- a. Primary Contact:
Cesar Santos Jr.
Phone: (+632)88179155
Email:cesar.santos@bapcb.onmicrosoft.com

- b. Secondary Contact
Michael Delfino
Phone: (+632)88946834
Email:Michael.delfino@db.com

PDEx:

- a. Primary Contact:
Nino Nakpil
Phone: (+632)88845055
Email:nino.nakpil@pds.com.ph
 - b. Secondary Contact
Tess Ravallo
Phone: (+632)88844429
Email:tess.ravallo@pds.com.ph
2. Upon activation of the Call Tree, the MART, Bloomberg, and PDEx shall discuss the nature of the disruption. Bloomberg, as provider of the platform, shall advise on the nature of the disruption and the expected recovery time. If the expected recovery time is still within the official trading hours of 9:00 a.m. and 4:00 p.m., activation of the BCP steps outlined below shall be held in abeyance.

However, if Bloomberg advises that the system cannot be recovered before the market closes at 4:00 p.m., the BCP plan shall be activated. Activation of the BCP shall be advised to the SEC as well as to the market participants.

III. BCP Activation and Procedures:

1. Activation of the Call Tree shall be announced on the PDEx website as well as the Bloomberg terminals, if they are still operable. A broadcast email shall also be sent out by MART to the registered email addresses of the GS Repo trading participants and their registered Associated Persons. The SEC shall be notified of the activation of the BCP via phone and/or email.
2. If the Bloomberg terminals are inoperative, GS repo trading shall be conducted by market participants over the phone, chat, or other electronic or non-electronic means. Whenever possible, such trading should be done on recorded lines and shall be conducted during the official trading hours prescribed by MART.
3. GS repo transactions shall be confirmed manually between the repo buyer and repo seller via phone or email prior to settlement to ensure that all transaction details are in order.

4. Once the GS repo transaction has been confirmed, the transaction shall be settled manually at NRoSS. The repo buyer shall input an RVP (receive-versus-payment) transaction while the repo seller shall input a DVP (deliver-versus-payment) transaction in NRoSS.
5. At the end of the trading day, all trading participants who traded GS repos during the trading session shall report their transactions to PDEX using the PDEX-prescribed Excel format. The transaction lists shall be sent via email to PDEX in the following formats before 4:30 p.m. of the trading day:
 - a. In a protected Excel worksheet AND
 - b. In a printed form of the Excel worksheet with the signature of the participant's Associated Person and scanned in PDF format.
6. PDEX shall collate the worksheets submitted by all trading participants and shall publish the trading statistics on the PDEX website in the regular format used for reporting GS repo transactions.

IV. Annual BCP Testing

1. The Business Continuity Plan shall be tested on an annual basis.
2. The BCP test shall involve the following activities:
 - a. Testing of the call tree to ensure all contact details of MART, PDEX, Bloomberg, the SEC, and all trading participants are valid and updated.
 - b. For MART, PDEX, and Bloomberg, actual phone calls on the registered phone number shall be conducted.
 - c. For TP's, a test email shall be sent to the registered email address of the TP's announcing the BCP test.
 - d. The test email sent to the TP's shall include instructions on the TP advising the TP's the steps that will be undertaken under the BCP scenario for the failure of the Bloomberg trading platform namely:
 - (i) Trading to be conducted over the phone, electronic messaging, or other alternative means;
 - (ii) Trade confirmation shall be conducted manually over the phone or via email;

- (iii) Settlement of trades shall be conducted in directly in NRoSS by entering DVP and RVP transactions
 - (iv) Transactions need to be reported to PDEX by 4:30 p.m. of the trading day
- e. TP's shall send a confirmation email to acknowledge receipt of the BCP test email and confirmation that they are aware and are able to execute steps (i) to (iv) in item (d) above.
3. Upon receipt of all confirmation emails from TP's, the BCP test shall be considered successfully concluded and documentation to reflect the annual BCP test shall be put on file by MART and PDEX.

Annex E:
BCP Contingency Kit for Force Majeure on the REPO Market

BUSINESS CONTINUITY PLAN (BCP) CONTINGENCY KIT FOR FORCE MAJEURE FOR THE INTEREST RATES AND FOREIGN EXCHANGE MARKETS

1. MARKET ASSESSMENT, DETERMINATION & DECISION

1. The BAP OMC Chairman is to be updated on the status of the systems providers as well as the current market conditions. This status update may be brought about by the BAP OMC Chairman's own initiative, advise from the FX Sub Committee Heads, Service Providers, Brokers, or MART/ACI. The said assessment and information will be communicated by the BAP OMC Chairman/ BAP President to the relevant parties for an official decision.

1.1 Market condition can be any of the following: Force majeure event i.e., Earthquake, Natural Calamity, Coup, Civil Disobedience or similar causes; substantial work disruption due to public disorder which may endanger the lives of the market participants or causing fear for their safety and security.

1.2 Primary imperative is to ensure the safety and well being of the market participants and public

1.3 Determine the Extent of the damage, isolated or system wide?

1.3.1 Each respective institutions' BCP action plan will be initiated. But the level of preparedness and capability will differ. Key will be the state of the GS or FX platforms and the markets' ability to interconnect i.e. power, telecoms, clearing and settlement systems etc.

1.4 Determine if a Trading Halt or Trading Delay will be called under the circumstances set forth.

1.4.1 Trading Halt or Trading Delay is a temporary interruption in the trading.

A Trading Halt is generally called during the trading session while a Trading Delay is called at the beginning of the trading session.

1.4.2 A Trading Suspension occurs when the interruption extends beyond the Trading Day.

1.4.3 Halts or delays or suspensions due to other instances where the law, regulations, conventions, or public interest mandate a halt or delay of suspension in trading.

1.5 The Trading Participant must cease and desist from quoting, trading, and concluding deals in securities and foreign exchange covered by a halt or delay or suspension.

1.6 In case of Mid-Trading Disruptions

1.6.1 **GOVERNMENT SECURITIES** - The following existing procedures in the PDST Guidelines apply in arriving at the closing prices for government securities trading in case of *force majeure* events that result to either a trading halt or mass disconnection:

1.6.1.1 If the event occurs prior to market open, existing procedures on the declaration of trading halts will apply.

D. General Master Agreement (GMRA)



GMRA (2011).pdf

*Annex G:
Procedures for Rule Changes*

Section 1: Procedures for Rule Changes:

Proposals for rule changes shall be generated by the MGB itself or by proposals submitted by members of the MART SRO to the MGB. Proposals meriting consideration, as determined by the MGB, shall be disseminated for public comment.

1. The comment period shall be twenty (20) days from the dissemination of the Proposal for comment. Any extensions shall be at the sole discretion of the Market Governance Board.
2. All comments shall be clearly marked, if the same are directly incorporated into the Proposal.
3. All comments shall clearly explain the reasons therefor.
4. Failure to submit comments within the period provided shall constitute a waiver of the benefits of this Rule.
5. Notwithstanding the period given herein, a longer period may be necessary to resolve issues arising from comments received, provided that the comment was received within the period given.
6. The Market Governance Board shall receive and consider all written comments within the comment period but shall be under no obligation to incorporate the same into the Proposed Rule should it deem the comment to be inappropriate, not in the best interests of the market in general and/or the MART, or for such other reasons that it deems just and equitable under the circumstances.

Section 2: Proposal Revision and Approval by the Market Governance Board

1. After the lapse of the comment period, the MGB shall revise the proposal as it sees fit based on the merits of the comments received.

2. The MGB will either:
 - a. Give its approval;
 - b. Require further revision; or
 - c. Withdraw the proposal, with notice to the MART Board of Directors.
3. Where further revision is required, the revision process shall be in accordance with the directions of the Market Oversight.
4. Upon approval of the Market Governance Board, the approved Proposal shall be submitted to MART Board of Directors for approval.
5. Once approved by the MART Board of Directors, the proposal shall be submitted to the Commission for its approval, with dissemination of the same for public information.

Section 3: SEC Approval

Trading Participants and other relevant parties shall be informed of the approval of the Proposal by the Commission, and be furnished copies of the affected rule, as amended or the new rule, as applicable.

Section 4: Withdrawal of Proposals

MART may withdraw any Proposal, even where there has already been dissemination of the same hereof provided the same has not been submitted to the Commission for its approval under paragraph 5 of this Rule.

1. In such cases, all parties notified of the Proposal shall be similarly notified of MART' action to abandon the ongoing rulemaking process.
2. A withdrawal may only be made upon approval of the Market Governance Board, with notice to the MART Board of Directors.

Section 5: Emergency Rules

The MGB, on its own or upon recommendation of an internal MART unit, may approve an emergency rule for immediate effect for the protection of investors, the maintenance of fair and orderly markets, or the safeguarding of securities and funds.

In such cases, the emergency rule shall be promptly filed with the Commission in accordance with SRC IRR 40.3.4.

Section 6: Adoption of Policies, Practices or Interpretations

With respect to policies, practices, interpretations of existing rules or the adoption of MART issuances concerning solely matters of administration, the same may be presented to the MGB by any unit of MART, without dissemination for comment. However, the MGB, before approving the same for adoption shall ensure that an adequate internal process is conducted that allows relevant feedback from all affected units of MART. Upon approval of the Market Governance Board, the same shall be submitted to the Commission for its action. The policy, practice, interpretation or other MART issuance may be given effect within ten (10) days from submission to the Commission.

Section 7: Notices

Dissemination and notices required under this Rule shall be as follows:

1. Dissemination by the Market Governance Board or any other notice emanating from MART may be effected via transmission through: (a) the FITW; or (b) posting on the MART website (www.MART.com.ph) with notice of the same through the FITW; or (c) electronic mail. For purposes hereof, dissemination shall be deemed to have been received on the day of transmission or posting, as the case may be, and the comment period shall be reckoned therefrom.

2. Notice other than from MART or the Market Governance Board shall be given in signed printed form, delivered by personal delivery. Presumptive receipt shall be deemed to have taken place within three (3) days from delivery.

Section 8: Records of Rulemaking Proceedings

The Market Oversight Board, MART SRO Committee and SRO Director shall keep and maintain a record of all rulemaking proceedings undertaken.

Section 9: Transitory Provisions on Rulemaking

While the Committees required to be formed under this Rule shall have not been formed, or have not been completely constituted, rules shall be adopted and amended in accordance with this Rule 16.12:

1. MART shall, through its Board, approve a rule for exposure to Trading Participants and to the public, in the same manner as delivery of Notices. Simultaneously herewith, the proposed rule shall be filed with the Commission for information.
2. The proposed rule shall undergo a comment period of at least twenty (20) days, which shall be indicated in the Notice, upon exposure as provided in the preceding sub-paragraph.
3. MART shall collate and consolidate all comments, and revise the proposed rule as appropriate, considering the comments received.
4. The revised proposed rule shall be re-submitted to the Commission for its approval with the consent of the MART Board. The filing with the Commission shall include the comments received, giving justifications for the revisions, or non-incorporation of comments, as applicable.

Annex H:
Roles, Responsibilities, and Procedures of the Market
Compliance and Surveillance Department (MCSD) and the
Market Disciplinary Committee (MDC)

1. The MCSD shall be responsible for the following:
 - a. The enforcement of the MART SRO rules for the Repo market.
 - b. The detection and investigation of attempts at market manipulation activities by participants
 - c. Recommending penalties, sanctions, suspension, and other disciplinary action on erring participants
 - d. Reporting all sanctioned violations to the MDC, the SEC and other relevant regulators
 - e. Ensuring that all information gathered in its role as the compliance and surveillance team of the MART SRO are kept strictly confidential and not shared with any other members of the MART SRO except with the MDC. For this purpose, a “Chinese Wall” shall be set up around the MCSD and the MDC. No information will be allowed to cross this wall under any circumstances.

Update: As of Jan. 1, 2019, the MCSD functions have been outsourced by MART to the Philippine Dealing and Exchange Corp. (PDEX). All reference to the MCSD shall now refer to PDEX, as provider of the compliance and surveillance services for MART.

2. The MDC shall be responsible for the following:
 - a. To receive reports from the MCSD on violations of the SRO rules by participants;
 - b. To review all penalties/sanctions and warning letters imposed by the MCSD on participants
 - c. To recommend changes in the rules related to the MCSD’s performance of its functions as well as in the level and nature of penalties imposed for violations of the SRO rules;
 - d. To approve or disapprove the MCSD’s recommendations on the imposition of sanctions/penalties on participants who were deemed to have attempted manipulation of the market.
 - e. To conduct hearings to discuss appeals by market participants who wish to contest the sanctions/penalties imposed by the MCSD and approved by the MDC related to attempted market manipulation activities.

3. Enforcement of MART SRO Rules:

The MCSD shall monitor compliance with the following SRO rules:

- a. Timely mapping of transactions into the trading platform – Participants are required to input transactions into the Bloomberg platform within 10 minutes of deal conclusion with the counterparty. To capture this, the MCSD shall do the following:

For brokered transactions:

- i. Obtain a report from the voice brokers which lists down all the brokered Repo transactions arranged chronologically;
- ii. Check the Repo transactions against the transaction log provided by Bloomberg and compare the deal entry time into Bloomberg against the broker's time stamp;
- iii. Identify and record any transactions which exceeded the 10 minute limit for deal entry.
- iv. On a monthly basis, collate all exceptions, apply the relevant penalties, and send notice letters to the erring participants.

For non-brokered transactions:

- i. Do spot checks of deals entered into the Bloomberg platform and compare the time of entry versus the time of entry into the participant's trade booking and risk management system. The time of entry into the participant's system can be captured using screen shots of the relevant screens or reports which show the date and time when the deal was entered.
 - ii. Identify and record any transactions which exceeded the 10 minute limit for deal entry.
 - iii. Identify and record any transactions which exceeded the 10 minute limit for deal entry.
 - iv. On a monthly basis, collate all exceptions, apply the relevant penalties, and send notice letters to the erring participants.
- b. Monitoring of Settlement Fails – Participants are required to settle their transactions at the agreed settlement dates. This is for both the near leg and the far leg of the Repo transaction. The SRO rules impose penalties only on those participants whom the non-erring party has called in default. However, the MCSD shall take a more proactive role by monitoring settlement fails as follows:
 - i. Obtain failed settlements report from the systems provider for the repo settlements.
 - ii. Identify frequent offenders (those with more than 5 settlement fails a week).
 - iii. Issue warning letters to frequent offenders.
 - iv. In cases where an event of default has been called by the non-erring participant, calculate the appropriate penalties and issue a penalty letter.

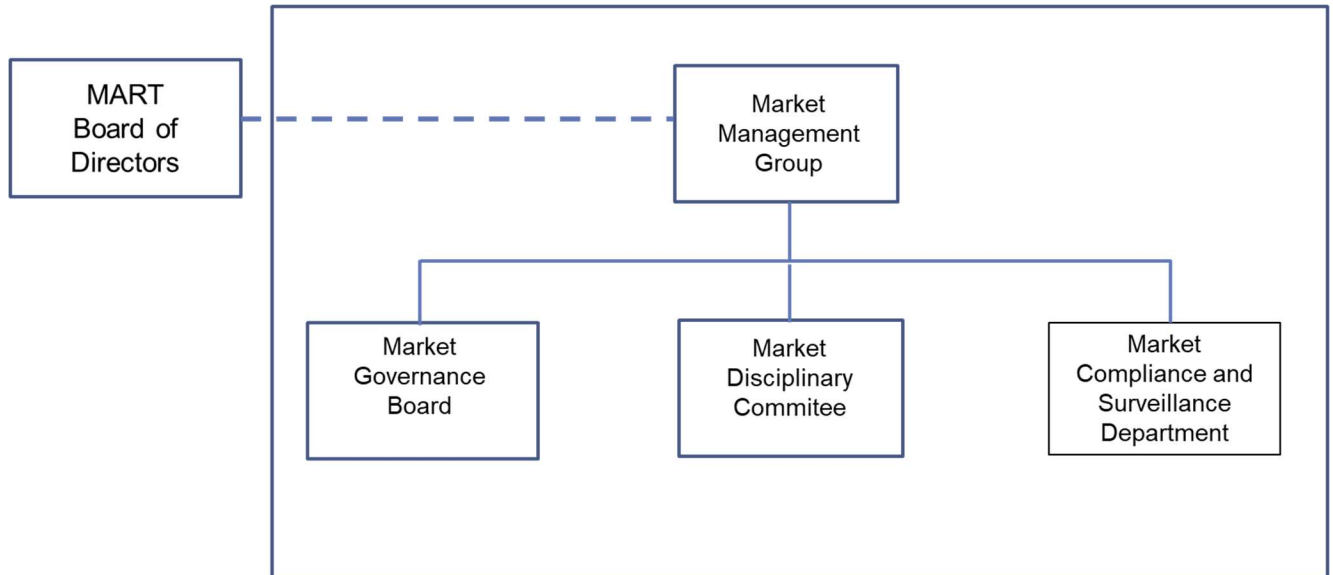
- v. Furnish a copy of the penalty letter to the SEC.
4. Conduct market surveillance activities to detect any undesirable market behavior.
 - i. The MCSD shall receive, on a daily basis, a complete list of transactions concluded on the Bloomberg trading platform. The transactions shall be chronologically arranged and will contain the names of the counterparties, the notional amounts, the ISIN of the securities involved, the settlement dates of the near and far legs, and the repo rate.
 - ii. The primary behavior that the MCSD will be looking out for in the Repo market is a market squeeze. A market squeeze is when a participant or group of participants attempt to accumulate large supply of a specific security with the intent of profiting from a decline in the repo rate for that particular security.
 - iii. The MCSD shall collate the daily transaction logs, sort these by the securities ISIN codes, and determine if there is any concentration of trades around a specific security or set of securities. Concentration levels shall be determined as a proportion of total outstanding securities for the particular ISIN(s) involved. A volume of more than 10% of outstanding issue for that particular ISIN shall be set as the trigger for further investigations and inquiries.
 - iv. Participants who have accumulated more than 10% of any given ISIN shall be asked to explain their activity. The primary acceptable explanation for such a high level of concentration will be that the participants have executed a General Purpose repo for the purpose of cash funding and that there was no intent to execute a short squeeze. Any other justification or rationale offered by the participant shall be considered and evaluated.
 - v. Upon conclusion of such investigation, the MCSD shall rule whether to close the investigation with no further action or to recommend sanctions/penalties against the erring participant. In either case, the MCSD shall forward a copy of the investigation results and its recommendations to the Market Disciplinary Committee for disposition.
5. Provide reports to the SEC and other relevant regulators on all sanctions/penalties and warning letters issued to participants as well as the results of any investigations conducted by the MCSD.
6. MCSD Actions and Recommendations:
 - a. The MCSD shall be issuing the following types of notice letters to erring participants with a copy to the Market Disciplinary Committee:

- i. A penalty notice letter advising the participant of its failure to comply with the SRO rules on timeliness of deal input
 - ii. A warning letter for repeated failures to settle Repo transactions
 - iii. A penalty notice letter for a participant's failure to deliver securities, margin, or coupon wherein the participant's counterparty has served notice of default
 - iv. A show cause letter advising the participant of the opening of an investigation into a suspected market manipulation activity
 - v. A penalty notice letter for a suspected market manipulation activity which has been reviewed and approved by the MDC.
- b. For items i-iii above, the MCSD shall serve notice directly to the participant without need for the Market Disciplinary Committee's approval.
- c. For item v, where the MCSD is recommending the imposition of sanctions/penalties for suspected market manipulation activity, the MCSD shall submit the recommendation to the Market Disciplinary Committee for disposition.

7. MDC Actions

- a. The MDC shall be advised by the MCSD of all penalty and warning letters issued.
- b. The MDC shall receive a copy of all the investigation reports prepared by the MCSD.
- c. In cases where the MCSD has recommended sanctions or penalties for suspected market manipulation activities, the MDC shall review the case for its merits.
- d. The MDC may choose to either withhold sanctions/penalties or to accept the MCSD's recommendations and impose the sanctions/penalties.
- e. In case sanctions/penalties are imposed, a penalty notice letter shall be issued to the erring participant. The erring participant will have 15 days to contest or dispute the sanctions/penalties.
- f. The MDC shall receive the erring participant's arguments in written form and shall conduct a hearing to discuss the arguments within 5 days of receipt of the written arguments.
- g. The MDC shall make a final ruling within 5 days of the conclusion of the hearing.
- h. Any decisions by the MDC shall be binding on all participants.

ANNEX I
The Market Management Group and the Market Compliance and Surveillance
Department



A. Organization

The Market Management Group shall be manned by the following professionals on an interim basis:

1. Cesar Santos, Jr.
2. Chona Reyes
3. Francis Avellana

As of Jan. 1, 2019, the MCSD functions have been outsourced to the Philippine Dealing and Exchange Corp. (PDEX).

B. Transaction Fees:

In exchange for performing the compliance and surveillance role, PDEX shall be charging participants an activity fee to be charged to each participant on a per-transaction basis.

- The transaction fee shall be 0.0025% per annum based on the Repo Amount and Tenor, equivalent to PHP 25.00 per PHP One Million Repo Amount per year or PHP 0.0694 per PHP One Million Repo Amount per day.
- The transaction fee shall be charged to both parties in the Repo Transaction, i.e. the Repo Buyer and the Repo Seller.
- The transaction fee shall only be charged for the near leg of each Repo Transaction

Participants shall be billed directly by PDEX on a monthly basis. Any fee disputes between PDEX and the participant(s) shall be raised directly by PDEX and/or the Participant directly to the Market Disciplinary Committee (MDC) who shall serve as the arbitration body for fee disputes.