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Best Execution Guidelines for Brokering Participants

(updated and approved by the Market Governance Board on 16 December 2025)

Preamble

Brokering Participants are expected to uphold these Best Execution Guidelines as guided by the Securities Regulations Code and PDEx Rules. These guidelines were developed collaboratively through a consensus-based process with Brokering Participants and reflect their shared commitment to investor protection, transparency, and the highest standards of order execution practices for clients.

These guidelines aim to articulate Best Execution standards and ensure that Brokering Participants act in the best interests of their client. Brokers must exercise reasonable diligence to identify the best available market and execute trades at the most favorable prices, based on prevailing market conditions. This includes considering factors such as price, cost, speed, likelihood of execution and settlement, as well as the size and nature of the order.[1]

Thus, these guidelines are structured around six key areas, each addressing a critical aspect of the ***Principle of Best Execution***: **[1]** Client Information and Communication, **[2]** Price, **[3]** Promptness of Execution, **[4]** Likelihood of Execution and Settlement, **[5]** Transaction Costs, and **[6]** Control System.

1. Client Information and Communication

Standard 1.1: Brokering Participants must ensure that all clients, whether new or existing, are fully informed of the firm's Best Execution policies and procedures. The information should be presented in a clear, straightforward manner, avoiding technical jargon to help clients understand.

Standard 1.2: Brokering Participants should establish clear communication channels to ensure transparency regarding their clients' orders and the execution process.

[1] For this purpose, trade sizes are classified into three categories: **Small Size**, which refers to trades with a volume of PHP 500 thousand or less; **Medium Size**, which applies to trades with a volume of above PHP 500 thousand but not more than 100 million; and **Large Size**, which includes trades with a volume exceeding PHP 100 million.

Standard 1.3: Brokering Participants must maintain accurate, complete and timely documentation of all communications and activities related to the reception, execution, and confirmation of client orders, including those made by telephone, SMS, or other acceptable modes of communication.

GUIDE QUESTIONS FOR THE BROKERS
❖ Did I clearly disclose the available market prices for the relevant securities to the client? ❖ Did I inform the client of alternative securities when counterpart credit limits were unavailable? ❖ Does our firm have a robust system in place to document and/or record all details related to the reception, execution, and confirmation of client orders? ❖ Are telephone, SMS and other modes of communication related to client orders properly documented?

2. Price

Standard 2.1: Brokering Participants must ensure that client orders are executed at the best possible price, considering the prevailing market conditions at the time of execution. This includes using the available Fixed Income Quote (FIQ) board ~~trading boards~~ and executing orders at the best bid or offer, regardless of the mode of trade execution, *e.g.* Voice Trade Report (VTR), Request for Quote (RFQ), Order Book.[2]

Standard 2.2: Brokering Participants must exercise due diligence by inquiring at least three quotes from different counterparties before executing a trade. For this purpose, due diligence is fulfilled if quotes are requested from at least three different counterparties per security. ~~regardless of whether quotes are received.~~ Compliance with this minimum-quote requirement shall be assessed together with other relevant areas of review, including Client Information and Communication, Promptness of Execution, Likelihood of Execution and Settlement, Transaction Costs, and the Participant's Control System. These additional factors must be considered collectively to ensure that the execution process reflects the Brokering Participant's overarching duty to obtain the most advantageous price reasonably available for the client.

[2] As part of its enforcement actions, the Market Regulatory Services Group, through the Compliance and Surveillance Unit, conducts daily monitoring of each Trading Participant's adherence to rate reasonability parameters. When a breach is detected, the assigned officer notifies the Trading Participant to confirm the trade and, if confirmed, to provide the reason for the breach. In addition, during the SRO Audit Examination, key areas outlined in the Guidelines are evaluated in accordance with the Audit Program. The resulting findings are then reported to the Market Compliance and Enforcement Committee and to the Securities and Exchange Commission, in accordance with the rules.

Standard 2.3: Brokering Participants must execute client orders at the best available bid or offer at the time of execution and ensure that the executed price conforms to the prevailing reasonability rates parameters for normal market conditions:

2.3.1. **For government securities, reasonable yields must be within ± 0.125% or 12.5 basis points (bps) in yield terms. (Approved on 21 October 2025)**

2.3.2. For corporate securities, the yield must be within ±1.0% or 100 bps in yield terms, provided that these rate reasonability parameters may be amended from time to time, taking into account relevant market conditions and evolving regulatory standards.

2.3.3. The Rate Reasonability is determined with reference to a base yield, which is established in the following order of priority:

A. For the first trade of the day:
- Last Done Yield (LDY) if the same security was traded the previous day
- PHPBVAL Reference Rates if there was no trade the previous day

B. For all subsequent trades of the same security within the same trading day:
- LDY from earlier trades that day

C. For newly auctioned securities:
- Coupon Rate Set at Auction (CRSA) for new treasury bonds issued at par
- Weighted Average Yield (WAY) from the auction for Reissued Treasury Bonds (new amounts)
- Weighted Average Yield (WAY) from the auction for Treasury Bills

2.3.4. For clarity, a declaration by the PDEx Market Controller (or Market Operations Head) of **"Abnormal Market Conditions"**[3] will negate the application of the above rate reasonability standards. This declaration will allow all Market Participants to find the appropriate price and price ranges to

[3] **Abnormal Market Conditions** shall refer to periods or events during which the normal functioning of financial markets is disrupted, thereby affecting the ability of participants to execute trades in a fair, orderly, and efficient manner. The following events or circumstances are to be considered indicative of such conditions:
1. Trading Halt, Delay or Suspension - Any temporary interruption in the trading of a given security under Rule 9.
2. Market-Wide Technical Disruptions - Failures or outages affecting PDEx trading infrastructure, including trading system, settlement system or communication networks that materially impair the ability of market participants to access markets or execute trades.
3. Force Majeure, Extraordinary Geopolitical, Economic, or Public Health Events - Events such as war, pandemics, natural disasters, or abrupt regulatory announcements that introduce significant uncertainty or risk aversion in the market, potentially impairing orderly trading conditions. **(Approved on 16 September 2025)**

re-establish equilibrium in the market. The PDEx Market Controller is tasked to also declare when "normal" market conditions have returned, and the reasonability standards can again be observed by Market Participants.

Standard 2.4: Brokering Participants must monitor trades in real-time during market hours to assess execution quality and ensure that all trades activities align with the client's best interests.

GUIDE QUESTIONS FOR THE BROKERS
❖ Did I check the FIQ board ~~all relevant trading boards~~ for the best bid or offer?
❖ Did I request at least three quotes from different sources / counterparties before executing the trade?
❖ Was the client's order executed at the best available bid or offer at that time?
❖ How closely does the executed price align with the prevailing market price?
❖ Did I use real-time monitoring to evaluate the quality of trade execution?

3. Promptness of Execution

Standard 3.1: Brokering Participants must strive to execute client orders promptly and time actual execution from the time an order is confirmed by the client.

Standard 3.2: Brokering Participants should use appropriate and automated systems to facilitate the prompt and efficient execution of orders and minimize the risk of delays or errors.

Standard 3.3: Brokering Participants must monitor and assess the average time between order placement and execution to ensure all orders are processed in a timely manner.

GUIDE QUESTIONS FOR THE BROKERS
❖ Did I use appropriate systems and technology to ensure timely order execution?
❖ Did I post the client's order within three (3) minutes from the time the order is confirmed?
❖ What is my average execution time from order placement to execution?

4. Likelihood of Execution and Settlement

Standard 4.1: Brokering Participants must ensure that client orders are likely to be executed and settled successfully by maintaining accurate counterparty limits and ensuring sufficient securities or cash are available at the time of settlement.

Standard 4.2: Brokering Participants must regularly update and verify counterparty limits to prevent delays in execution or issues with settlement.

Standard 4.3: Brokering Participants must have access to the required settlement and clearing systems to ensure smooth and timely settlement of client transactions.

Standard 4.4: Brokering Participants should aim to minimize order cancellations due to human error and market changes, ensuring that orders are executed as initially placed whenever possible.

GUIDE QUESTIONS FOR THE BROKERS
❖ Did our institution update counterparty limits for trading? ~~on the Auto Order Board~~?
❖ Did I verify counterparty limits at the beginning of the trading day?
❖ Do I ensure that sufficient securities or cash are available when the client's order is due for settlement?
❖ Does our institution have access to the appropriate settlement and clearing systems?
❖ How often do I need to cancel orders due to human error or market changes?

5. Transaction Costs

Standard 5.1: Brokering Participants must ensure full transparency regarding all transaction-related fees, providing clients with a clear breakdown of commissions, spreads, and any additional charges.

GUIDE QUESTIONS FOR THE BROKERS
❖ Did I unbundle transaction fees, clearly showing commissions, spreads, and other charges? ❖ What is the total transaction cost, including commissions, spreads, and other related fees?

6. Control System

Standard 6.1: Brokering Participants must conduct regular audits to assess the quality of trade execution and ensure compliance with Best Execution policies.

Standard 6.2: Brokers should establish robust oversight mechanisms to monitor adherence to regulatory standards and Best Execution requirements.

GUIDE QUESTIONS FOR THE BROKERS
❖ Is there a regular audit process in place to review execution quality and adherence to Best Execution policies? ❖ What oversight mechanisms does our Firm have to ensure compliance with regulatory Best Execution standards?