

**PRESS STATEMENT  
February 13, 2013****Contact: Non Lerer**  
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When PDS Group learned of the Securities Clearing Corporation of the Philippines (SCCP) application some time back, PDS Group raised questions with the Securities and Exchange Commission (SEC) on paramount issues such as depository neutrality and investor protection, trust functions of a depository, the need for a regulatory framework, fair competition, viability of multiple depositories, government interest, and market efficiencies, among others. Much to our regret, calls for a multi-sectoral meeting were largely ignored and left unanswered even as the issues remained unaddressed.

Philippine Depository & Trust Corp. (PDTC) followed global best practices and was established to be investor-centric based on the model adopted by the Capital Markets Development Council. A central securities infrastructure that was equally responsible for investor protection as the Philippine Stock Exchange (PSE), the trading market and the self-regulatory organization, the PDTC depository was created by the community of market stakeholders from the public and private sectors, with the Department of Finance (DoF), the *Bangko Sentral ng Pilipinas* (BSP) and the SEC lending both wisdom and guidance to the creation of PDTC at that time. The historical underpinnings of its creation and this aggrupation of creators lie at the very core of the investor-centric model embodied in the PDTC. Unlike the PSE model which provides that the depository is a matter of issuer choice, the PDTC model puts the depository function squarely in service of investors and the market, as an infrastructure whose primordial and driving concern is investor protection. We find it difficult to comprehend an issuer-chosen depository as a market model, which would clearly put depositories in service of issuers rather than investors, despite the depository's role as a market infrastructure. A depository under this environment would have to entice issuers to its services creating a dynamic where depositories become conflicted in their loyalties between issuers and investors. In stark contrast, our current depository owes its greatest loyalty to investors and is hence better equipped to deliver investor protection in the secondary market.

Furthermore, as a depository, PDTC's role in a securities transaction is to deliver or receive securities after clearing and settlement on behalf of its selling or buying participants, respectively. In between securities transactions, however, it also plays the role of securities custodian in trust for the lodging beneficial owners of the securities in the secondary market. Thus, PDTC is regulated not only by the SEC, but also by the BSP, which requires it to maintain a trust license. SCCP's application appears to disregard the fiduciary component of a depository's role. To our knowledge, no application for a similar trust license has been filed with the BSP, and we have misgivings about how the role of an issuer-chosen depository can be reconciled with the depository's trust duties to the investing public.

Additionally, we note that no regulatory framework has yet been designed, heard, and published by the SEC to address the various legal and practical issues arising from multiple depositories. These issues include transition, movement of securities from one depository to another, investor protection, possible regulatory arbitrage, interconnectivities, redundancies, and conflict rules, to name but a few. More importantly, a policy framework and regulatory guideline on how two essentially different depository systems can co-exist and co-operate has not been established, especially where they are organized under different models, with one that is investor-centric and the other is issuer-centric. Sufficient regulation of competition should ensure that resulting competition should not only be fair and not ruinous, but also that it does not result in market disorder.

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We have come this far in creating a robust and diversified depository capability that could host multi-currency multiple asset classes - in fixed income and equities. The proposed depository for equities will usher in a market architecture of specialized depositories, where each depository would cater to a market specific to an asset class, thereby fragmenting the location of securities. This will create difficulties for investors to make their securities productive through collateralization and value substitution, which all depositories around the world are now moving towards.

The existing architecture already achieves productivity across asset classes, enabling conversion from a debt asset to an equity asset more quickly, and allowing cross-collateralization with one asset class collateralizing a transaction involving another asset class and efficient value substitution. We should also consider that bonds, particularly government securities, are a critical asset class that is particularly useful for collateralization purposes. As such, distancing bonds from the equities asset class by location only creates unnecessary inefficiencies for the market and investors.

We believe that there are situations where singularity is the optimal environment, especially where depth of liquidity and leverage management are objectives to be achieved. The singular location allows nimbleness in market management, facilitates velocity in markets, enables a market to achieve same day values, and enhances investors' earning capacity.

Compellingly, as markets around the world evolve towards integrating their depository structures into singularity, recognizing the market efficiency that results from this model, we now seem to be taking a step backward.

We call out to our regulatory community to remedy what we believe can be a grave regulatory misstep, by a serious review of our market philosophy, and a consultative deliberation on the operationalization of PSE's depository. The PDTC depository was envisioned and brought to life in the late 1990s as a CENTRAL market infrastructure that would bring about order, soundness in settlement, and investor protection. We stand by these fundamental market principles as the underpinning foundations of our creation and the basis of our strength as a market institution.

We take this mandate seriously and assure our communities of our commitment to continuity and integrity as this process unfolds.

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