



PDEX SLT Program Rules

Part A GENERAL PROVISIONS

1. DEFINITION OF TERMS

As used in these Program Rules, the following terms shall have the definitions given herein:

BSP shall refer to the Bangko Sentral ng Pilipinas.

Collateral Management System shall refer to that system operated by PDTC, which has the functions set forth in these Program Rules.

Collateral Securities shall refer to those assets delivered by the Borrower to the Collateral Management System, in the form of securities, cash or bank guarantees, intended to secure SLTs transacted on the PDEX SL Trading Board.

Day shall refer to a calendar day unless the same is specifically defined as a business or trading day.

Equivalent Securities shall refer to securities with the same International Securities Identification Number (ISIN) and same tax treatment as the Lent Security, or as the same is consistent under the Commission's Securities Borrowing and Lending Rules.

Far Date shall refer to the future date on which the Borrower and Lender are required to perform acts to extinguish their repayment obligations under the terms of the SLT executed and these Program Rules. The Far Date may also be called the Maturity Date.

Lending Fee shall refer to that fee paid by the Borrower to the Lending Pool System based on the lending rate quoted on a per annum basis and computed based on the number of days the SLT remains outstanding, up to the maximum Tenor of the same, based on the type of Borrowing Right operated by the Borrower under these Program Rules.

Lending Pool System shall refer to that system operated by PDTC, which has the functions set forth in these Program Rules.

Lent Securities shall refer to those securities which, under the terms of an SLT executed on the PDEX SL Trading Board, are bound to be delivered by the Lender to the Borrower on the Near Date to consummate the transaction.

Loanable Securities shall refer to securities delivered to the SL Depository as available for lending under SLTs contemplated by these Program Rules.

Near Date shall refer to the date on which the Lender is required to deliver the Lent Securities to consummate the SLT.

PDEX or the Exchange shall refer to the Philippine Dealing & Exchange Corp., an Exchange duly registered by the Securities and Exchange Commission under the Securities Regulation Code.

PDEX Rules shall refer to the PDEX Inter-Dealer Rules for the Government Securities Market, as Amended and other PDEX rules that may be adopted in the future that shall be so provided to be subject to the coverage of these Program Rules, as they may be amended from time to time.

Program Rules shall refer to these Rules as administered by PDEX, as they may be amended from time to time.

SEC or Commission shall refer to the Securities and Exchange Commission

SLT shall refer to a securities lending transaction as the same is defined and described in these



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TCV shall refer to the Total Collateral Value of all Collateral Securities delivered to the Collateral Management System, which value shall be displayed to the Borrower on the PDEX SLT Trading Board on Trade Date.

Tenor shall refer to the period during which an SLT subsists, until the same is repaid or a Recall Notice is issued.

Trade Date shall refer to the day on which an SLT is executed or intended to be executed.

Trading Day shall refer to a day on which PDEX' Trading System is open for trading by its Trading Participants.

Trading Participant shall refer to an entity that is recognized by PDEX as such under its relevant Rules as a Trading Participant.

2. GENERAL PROVISIONS

SECTION 1. CONSTRUCTION

1. In these Rules, unless the context otherwise indicates -
 - a. A reference to any one gender shall include a reference to all other genders; and
 - b. The singular shall include the plural, and *vice versa*.
2. A reference to these Rules shall be a reference to those provisions as:
 - a. Enacted or amended from time to time;
 - b. Modified by relevant regulatory implementing rule, regulation, action, or decision.
3. Borrowers and Lenders, and their officers and employees, shall comply with these Rules as interpreted by PDEX. An act or omission shall include an act or omission caused directly or indirectly by such Borrowers and Lenders, and their personnel as enumerated herein.
4. Failure by PDEX to take action in response to a breach of a Rule shall not be considered a waiver of the Rules.

SECTION 2. RULES

1. These Rules, including any decision or determination made hereunder, shall be binding on:
 - a. PDEX, its officers, directors, employees;
 - b. Borrowers, and their officers, directors, employees;
 - c. Lenders and their officers, directors, employees.
2. Every Borrower and Lender is required to comply with these Rules, and any order of PDEX in relation thereto.
3. A Lending Agent shall ensure, by means of a written Lending Agency, that a client intending to lend Eligible Securities through the Lending Agency is aware of and shall be bound by these Rules, including any decisions or determination made under the terms of these Rules.

SECTION 3. NOTICES

1. Each Borrower and Lender shall designate a Corporate Information Officer or Authorized Representative and their alternate(s), who shall act as their principal channel of communication.



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2. Each Borrower and Lender shall notify PDEX of a business address, postal address, fax number, and email address at which they shall accept the delivery of all notices issued by PDEX.
3. Any notice given by PDEX to a Borrower and Lender shall be in writing, and:
 - a. If delivered by hand during normal business hours at the Borrower's or Lender's business address referred to above, shall be deemed to have been received on the date of delivery, until the contrary is proved by the intended recipient; or
 - b. If posted by registered mail from an address in the Philippines to the Borrower or Lender at their postal address referred to above, shall be deemed to have been received no later than the seventh day after the date of posting, until the contrary is proved by the intended recipient; or
 - c. If transmitted by telefax or email or other electronic means, shall be deemed to have been received on the date of transmission.

Part B

GENERAL PRINCIPLES FOR THE CONDUCT OF BUSINESS BY SLT PARTICIPANTS

SECTION 1. GENERAL PROVISIONS

1. All Participants have a common interest in ensuring that the securities lending market operates in a sound and orderly market. Hence, it is essential that Participants adopt prudent practices, act at all times with integrity, and observe the highest standards of market conduct.
2. Participants shall act with due skill, care and diligence. To this end, personnel of Participants should be properly trained in the practices of securities borrowing and lending and be familiar with these Rules.
3. Market professionals should pay particular attention to ensuring fair treatment for and between clients who are not also market professionals where conflicts of interest cannot be avoided.
4. Participants in SLTs should at all times treat the names of parties to transactions as confidential to the parties involved.
5. Participants in the securities lending market must not in any circumstances enter into transactions or holding arrangements designed to limit the availability of a specific security or with the intention of creating a false or distorted market in the underlying securities. In this connection, market participants should comply with relevant regulatory provisions on market abuse.
6. Participants in the securities borrowing and lending market have a general responsibility to ensure that their activities do not cause market disruption through fails, or lead to reputational damage to the market.
7. Participants shall be informed of the identities of the other Participants in the Program prior to the former's participation in the Program, and as frequently as new Participants are admitted into the Program.

SECTION 2. PRELIMINARY ISSUES



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1. Borrowers and Lenders should ensure that there are no legal obstacles to their undertaking transactions under these Rules and that, where necessary, they have all relevant permissions from their regulatory authorities. They should become familiar with the rules, procedures, and conventions of each market in which they operate and should be aware that differences in market infrastructure can have significant implications for the business and its associated risks. Participants should ensure that they have established - and fully understand - their tax position in relation to securities lending transactions. Such transactions should be carried out in accordance with relevant market and tax regulations.
2. Borrowers and Lenders should be familiar with the settlement systems and functionalities that they use for the transfer of securities and the associated payments.
3. Lending Agents should ensure that they have appropriate prior authority from the beneficial owners of the securities, or from a party properly authorized by the beneficial owners, for the securities to be lent. Beneficial owners should understand the risks involved and the implications when securities are lent.
4. Borrowers and Lenders should ensure that they have adequate systems and controls for the business they intend to undertake. These should include the following:
 - a. Establishment, retention and periodic and regular updating of their documentation to ensure their adequacy to cover the types of transactions to be undertaken.
 - b. Maintenance of lists of personnel authorized to borrow or lend, as applicable, securities on its behalf and should make this list available to counterparties and to PDEX, upon request.
 - c. Employment of suitable internal controls designed to ensure that any securities loans have been properly authorized before securities are delivered against an obligation to lend.
 - d. Maintenance of clear and timely records, kept and made available to the management of any party involved in a SLT, including PDEX, showing *inter alia*, the value of securities borrowed/lent, collateral given/taken and, where appropriate, any fee income received. This information should be available in aggregate and by counterparty to enable accurate monitoring of credit risk.
 - e. Monitoring of their (or their client's, in cases of Lending Agents) exposure to counterparties on a real time basis. Appropriate exposure limits should be maintained for all counterparties and, whether part of a group limit or solo limit for the party concerned, should be reviewed on a regular basis.
 - f. Employment of a system to alert itself to possible settlement risks and take steps to ensure that daylight exposure is recognized and properly controlled. Mechanisms to ensure adequate protection should include controls on the replenishment of collateral
 - g. Procedures which should be undertaken before entering into a Master Agreement or Securities Lending Authorization Agreement with a new counterparty:
5. Lenders should disclose the capacity, whether principal or agent, in which they are acting. Where there is a Lending Agent acting on behalf of clients, the parties should agree to appropriate arrangements for the identity of the principals on whom the risk is taken to be established before joining the Program.
6. Borrowers and Lenders should ensure that they use PDEX-approved documentation, and have assured themselves of its effectiveness, and that they, or a competent person, have undertaken a thorough credit assessment of the counterparty in a manner consistent with



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these Program Rules. In case of Lending Agent, the Securities Lending Authorization Agreement shall reflect the assent of the customers of the Lending Agent to the Lending Agent's conduct of the credit assessment on the Borrower.

7. Prior to participation in the Program, Borrowers and Lenders should establish whether a participating counterparty is a member of any other relevant exchange as this may mean that they are subject to particular rules which could affect the way in which they deal with certain events during a securities loan.

SECTION 3. LENDING AGENTS

1. Before a Lending Agent may deal with a client who is not a sophisticated investor for the first time, the Lending Agent should confirm that the client is already aware of these Rules, or draw them to the client's attention. All parties should have a clear understanding of where the risks lie.
2. A Lending Agent should inform its customers intending to participate in this Program under these Rules that securities lending involves the transfer of title. They should also consider their clients' entitlements in relation to any benefits on Lent Securities.
3. A Lending Agent should include in its Securities Lending Authorization Agreement an agreement/acknowledgement of the client that the handling of Collateral Securities under the Program is an agreeable arrangement for safeguarding any collaterals in respect of the Lent Securities and shall likewise agree on the allocation of any earnings on such collaterals.
4. A Lending Agent acting as an agent for more than one client shall have a clear system for determining which principal's securities are on loan and a clear system for determining any allocation of collateral between particular clients and for defining their entitlements.
5. A Lending Agent must obtain the necessary prior written authority from a client that is the beneficial owner of the securities intended to form part of the Lending Pool, or from a party properly authorized by such client to undertake SLTs; this should cover the basis on which such SLTs may be carried out.
6. A Lending Agent should make regular reports to clients, providing them with a full explanation of the securities borrowing and lending activity carried out on their behalf.

Part C

SLT DESCRIPTION

SECTION 1. DEFINITION.

A Securities Lending Transaction (SLT) is a transaction under which a Lender lends a security (the "Lent Security") to a Borrower on a Trade Date and receives Equivalent Securities on or before Maturity Date. The SLT, while the same is outstanding, is secured by collateral in the form of "Collateral Securities" as defined in these Rules, delivered by the Borrower to a mutually agreed third party.

SECTION 2. ESSENTIAL FEATURES OF AN SLT

An SLT under the Program shall have the following essential features:

1. The Lender transfers title to the Lent Security to the Borrower on the Near Date and agrees



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to receive Equivalent Securities on or before Maturity Date.

2. Despite the transfer of ownership over the Lent Security to the Borrower, the Lender shall continue to recognize the economic risks and rewards of the Lent Security and book the daily mark-to-market (MTM) valuation of the Lent Security and the accrued interest on the Lent Security in accordance herewith.
3. All Collateral Securities delivered to secure the SLT shall remain in the name of the Borrower who shall continue to recognize the economic risks and rewards of the Collateral Securities and book the daily mark-to-market (MTM) valuations of the Collateral Securities and the accrued interest on the Collateral Securities.
4. The standard value date for SLT Near Date settlements shall be “trade date plus zero” (T+0) or “value today”.
5. A Borrower may be matched to several Lenders in a single SLT, and the rights of the Lenders to the Collateral Securities of the Borrower in such case shall be collective and in proportion to their economic interest in all outstanding SLTs of the Borrower.

Part D

SLT TRADING AND SETTLEMENT MECHANICS

SECTION 1. PRE-TRADE PROCESSES (T-1)

At least one business day prior (T-1) to Trade date:

1. Lenders must transfer their Loanable Securities into the Lending Pool System.
2. All Loanable Securities shall be collated by the Lending Pool System for posting on the PDEX SLT Trading Board at the start of the following Trading Day (T+0).
3. Borrowers intending to transact SLTs shall transfer eligible and adequate Collateral Securities into the Collateral Management System at least one (1) day prior to the intended SLT.
4. The Collateral Management System shall calculate the Total Collateral Value (TCV) available for each Borrower by the end of the day for posting on the PDEX SLT Trading Board at the start of the following business day (T+0). Such TCV may only be viewed by the Borrower concerned.

SECTION 2. TRADING AND SETTLEMENT PROCESSES (T+0)

1. The PDEX SL Trading Board shall operate on Trading Days from 9:00 AM to 12:00 PM and 2:00 to 4:00 PM.
2. *Preliminary Postings on the SLT Board*
 - a. The Lending Pool System shall upload the list of Loanable Securities, which shall be posted on the PDEX SLT Trading Board on Trade Date.
 - b. The Collateral Management System shall upload the file containing the TCV for each Borrower which shall be posted on the PDEX SLT Trading Board on Trade date.
3. *Pre-Open Bidding Session*
 - a. The time for the Pre-Open Bidding Session shall be as prescribed by PDEX.
 - b. The PDEX SLT Trading Board shall publish the list of Loanable Securities with details of



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- the Series Name, Face Amount Available, Market Price (used for valuation) and the minimum acceptable Lending Rate per ISIN.
- c. Borrowers access the PDEX Pre-Open Board and submit their SLT Bids indicating the Face Amount and their bid for the Lending Rate for the ISIN.
 - d. No SLTs shall be executed during this period. All entries to the SLT Trading Board at this time shall be solely for purposes of fixing applicable Lending Rates for the Trading Day.
4. *Formation of Lending Rate and Awarding of Bids* - After the Pre-Open Bidding Session closes:
- a. The PDEX SLT Trading Board shall collate all entries during the Pre-Open Bidding Session and run a weighted average algorithm to determine the fixed Lending Rate for each ISIN.
 - b. The weighted average Lending Rate shall then be rounded to the nearest 1/200th of 1% to form the Daily Lending Rate. This means the daily Lending Rates shall move in ticks of 0.005% above the minimum SLT Lending Rate (e.g. a minimum Lending Rate of 0.250% shall move to 0.255%, 0.260%, 0.265%, 0.270%, 0.275% etc.).
 - c. Where no SLT Bid Rates are submitted for a particular ISIN, the minimum Lending Rate shall become the Lending Rate for that ISIN for the Trading Day.
 - d. Borrowers whose bids during the Pre-Open Session are equal to or greater than the Lending Rate formed in accordance herewith shall have their SLTs executed on the basis of the Lending Rate formed herein. Their SLTs shall be allocated as follows.
 - i. *Allocation Rule 1.* For each ISIN, Borrowers that submitted the highest SLT Bid Rates will be given priority for awarding of Bids. The SLT Trading Board shall allocate the available amount of Loanable Securities to the highest bidders (up to those that bid equal to the Lending Rate that was fixed).
 - ii. *Allocation Rule 2.* If Borrowers submit the same SLT Bid Rates, the Board shall allocate the amount to those Borrowers based on the time the Borrower entered its Bid (“time priority rule”).
 - e. Borrowers whose bids during the Pre-Open Bidding Session are less than the Lending Rate formed herein shall not be awarded SLTs but they may make SLT Requests during the Open Trading Session in accordance with these Rules.
 - f. The PDEX Trading Board shall display to the specific Borrower confirmations for SLT Bids Awarded or SLT Bids Rejected from the results of the Pre-Open Bidding Session.
5. *Open Trading Session*
- a. The PDEX Trading Board shall publish the list of Loanable Securities with details of the Series Name, Face Amount Available, Market Price (used for valuation) and the Lending Rate formed in accordance with this Rule.
 - b. All SLT requests shall be queued on the SLT Board for processing and execution in accordance herewith.
 - c. Borrowers shall have access to the PDEX SLT Trading Board and can make SLT Requests indicating the Security and Face Amount required.
 - d. The PDEX SLT Trading Board shall process any requests submitted and confirm or reject the same based on the adequacy of the TCV of the requesting Borrower.
 - e. The PDEX SLT Trading Board shall upload executed SLTs to the Lending Pool System for settlement based on schedules made known to all SLT Participants, which shall form part of these Program Rules.



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- f. The Collateral Management System shall “block” the appropriate amount of Collateral Securities covering the SLT in the account of the Borrower.
- g. The Lending Pool System shall transfer the Lent Security into the Borrower’s account in the SL Depository based on timelines made known to the SLT Participants.
- h. Displays of the SLT Trading Board during open trading sessions:
 - i. The PDEX Trading System shall display to the Borrower concerned its particular Trades Blotter.
 - ii. The PDEX Trading Board shall display SLT Time & Sales data to all SLT Participants.
- i. The PDEX SLT Trading Board shall transmit the information on the executed SLTs to the Lending Pool System for settlement in accordance with cut-off times prescribed by PDEX. Simultaneously therewith, the same information shall be transmitted to the Collateral Management System for appropriate actions on the Collateral Securities.

SECTION 3. SETTLEMENT PROCESSES AT NEAR DATE

1. For every SLT executed on PDEX and received by the Lending Pool System, the Lending Pool System shall run a random selection algorithm to select the Lender that will participate in the executed SLT.
2. Simultaneously with the selection of the Lenders, the Collateral Management System shall block an appropriate amount of the Borrower’s Collateral Securities to secure the SLT in the Borrower’s account.
3. The Lending Pool System shall transfer the Lent Securities into the Borrower’s account in the depository.

SECTION 4. HANDLING OF BENEFITS ACCRUING TO THE LENT SECURITIES PRIOR TO MATURITY

The Lending Pool Facility shall track corporate actions on all Lent Securities while pertinent SLTs remain outstanding on behalf of the Lenders, calculate and collect benefits due from the Borrowers. A Borrower must pay back to the Lending Pool System all benefits arising from corporate actions on Lent Securities, whether or not it still holds the same, while the SLT remains outstanding.

SECTION 5. HANDLING OF BENEFITS ACCRUING TO THE COLLATERAL SECURITIES PRIOR TO MATURITY

The Collateral Management System shall track corporate actions on Collateral Securities while pertinent during SLTs remain outstanding and collect benefits due from Issuers on behalf of the Borrowers.

SECTION 6. SETTLEMENT PROCESSES AT REPAYMENT OR MATURITY

1. A Borrower may repay any SLT at any time prior to the same being recalled for repayment through a Recall Notice issued by the Lending Pool System. The Borrower shall use the Lending Pool System and effect the necessary transfer of Lent Securities to the Lending Pool System, identifying which SLT it intends to repay. The relevant Collateral Securities shall be unblocked and the SLT shall be extinguished. However, these shall remain in the Collateral Management System and form part of the Borrower’s TCV until it instructs the removal of the same from the Collateral Management System and the same can be effected.
2. Where there has been no repayment, at least one (1) business day prior to Maturity Date (M-1), the Lending Pool System shall issue a Recall Notice notifying the Borrower of the maturity of the SLT and the requirement to return the Lent Security on the following



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business day. In such cases the SLT shall be extinguished on Maturity Date as follows:

- a. The Borrower shall deliver the Lent Securities to the Lending Pool System and instruct the further delivery of the Lent Security to the appropriate account and back to the Lending Pool System and pay the Lending Fee.
- b. The Collateral Management System shall remove the block on relevant Collateral Securities of the Borrower. However, these shall remain in the Collateral Management System and form part of the Borrower's TCV until it instructs the removal of the same from the Collateral Management System and the same can be effected.
- c. The Collateral Management System Operator shall pay benefits from reinvestment of cash held as collateral security, if any, to the Borrower.

SECTION 7. EFFECT OF BLOCK ON COLLATERAL SECURITIES

The action of the Collateral Management System to block any portion of the Collateral Securities shall have the effect of making the blocked portion unavailable to any person for disposition or other action.

Part E SLT PROGRAM PARTICIPANTS

1. BORROWERS

SECTION 1. GENERAL PROVISION

All Trading Participants of the Phil. Dealing & Exchange Corp. shall be entitled to operate a Borrowing Right under these Program Rules.

SECTION 2. QUALIFICATIONS FOR BORROWING RIGHTS

To qualify for a Borrowing Right under these Program Rules, the Trading Participant must:

1. Have a duly signed Participation Agreement signifying its consent to be bound by these Program Rules, and its understanding of the same.
2. Have a Collateral Account at the SL Depository to participate in the SLT Program.

SECTION 3. TYPES OF BORROWING RIGHTS

There shall be the following types of Borrowing Rights under these Rules:

1. *Operating Borrowing Right.* All PDEX Trading Participants automatically qualify for an Operating Borrowing Right and may borrow securities for repayment within seven (7) days from the Trade Date to prevent settlement failures that may arise out of its outright transactions on the PDEX Trading System.
2. *Market Maker Borrowing Right.* PDEX Trading Participants that have been qualified as Market Makers shall be eligible to operate a Market Maker Borrowing Right, under which it shall be allowed to engage in SLTs for tenors up to thirty (30) days.
3. *Strategic Borrowing Right.* PDEX Market Makers that have been granted an Expanded Derivatives License by the BSP shall be eligible to operate a Strategic Borrowing Right, under which it shall be allowed to engage in SLTs for tenors up to ninety (90) days.



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SECTION 4. BORROWER'S CONTINUING OBLIGATIONS.

A Borrower shall:

1. Maintain an account with the Collateral Management System for Collateral Securities deposited pursuant to this Program.
2. Have eligible and adequate Collateral Securities to cover its prospective SLT/s at least one (1) business day in advance of an intended SLT trade date.
3. Promptly deposit additional eligible and adequate Collateral Securities in the Collateral Management System upon receipt of notice ("Margin Call") therefrom.
4. Pay all manufactured dividends as calculated and collected by the Lending Pool System, arising from corporate actions on the Lent Security during the tenor of the SLT.
5. Pay the SLT Lending Fee to the Lending Pool System upon repayment of the SLT, or on Maturity Date, whichever comes first.
6. Return Equivalent Securities to the Lending Pool System on or before Maturity Date.
7. Inform the Lending Pool System and the Collateral Management System that an Event of Acceleration has occurred with respect to itself, and repay the SLT in accordance therewith.

SECTION 5. INVOLUNTARY TERMINATION OF BORROWING RIGHT

1. The Trading Participant's Borrowing Right shall automatically terminate when the Trading Participant ceases to be such, whether such cessation is voluntary or involuntary.
 - a. A Trading Participant whose Expanded Derivatives License from the BSP shall have been suspended or terminated shall lose its Strategic Borrowing Right under these Rules.
 - b. If such Trading Participant is a Market Maker, it shall have the continued authority to operate its Market Maker Borrowing Right without need of other action.
 - c. Otherwise, it shall have the authority to operate an Operating Borrowing Right without need of other action.
 - d. The Strategic Borrowing Right may be restored upon presentation by the Trading Participant of satisfactory evidence of the BSP restoration of the Expanded Derivatives License.
2. If a Trading Participant is suspended by PDEX as such, such suspension shall likewise cause the automatic suspension of the relevant Borrowing Right, which shall be reinstated upon the lifting of the suspension in appropriate cases.
3. If a Trading Participant is terminated by PDEX, such termination shall cause the automatic termination of the Borrowing Right.
4. PDEX shall require the Borrowing Participant affected by a suspension or termination by PDEX to notify all its counterparties in any outstanding SLT and shall settle the same on an accelerated basis.
5. PDEX, in addition to the termination of the Borrowing Right, may impose such other sanctions as it deems appropriate under the circumstances, taking into consideration the gravity of the violation and extent of damage caused.

2. LENDERS

SECTION 1. QUALIFICATIONS OF LENDERS.



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To qualify as a Lender under these Program Rules, the prospective Lender must:

1. Have a duly signed Participation Agreement signifying its consent to be bound by these Program Rules, and its understanding of the same.
2. For Lending Agents, in addition thereto, it must:
 - a. Duly registered with the SEC as a Lending Agent
 - b. Have a depository account with PDTC
 - c. Have the technological capability to link to PDTC system
 - d. Be appropriately authorized by adequate and properly documented Securities Lending Authorization Agreements to engage in transactions under this Program for and on behalf of its clients, in conformity with applicable SEC requirements therefor; and
 - e. Be an accredited custodian of the BSP.

SECTION 2. TYPES OF LENDERS.

1. There shall be the following types of Lenders recognized under these Rules:
 - a. *Direct Lenders* - All Trading Participants shall be eligible to participate in this Program as Direct Lenders upon execution of the Participation Agreement, Provided, However, that such lending shall be limited to securities held by them in their proprietary accounts.
 - b. *Lending Agents* - institutions acting in behalf of its clients under and by virtue of appropriate constitutive documents evidencing its continuing ability to bind its clients under SLTs contemplated in this Program, may participate in this Program as Lending Agents upon qualification therefor under these Rules.
2. Where the term "Lender" is used, the same shall refer to both types of Lenders.

SECTION 3. QUALIFICATION OF LENDING AGENTS BY THE LENDING POOL SYSTEM

1. Lending Agents may participate in this Program on a showing that it has the applicable qualifications set forth in these Program Rules.
2. The Lending Pool System Operator shall qualify Lending Agents to participate in the Program on a showing that the applicant has all the qualifications and none of the disqualifications prescribed under these Rules.
3. The Lending Pool System Operator shall endorse all applications favorably acted upon for the information of PDEX, and administration of these Rules.

SECTION 4. NOTICE TO OTHER TRADING PARTICIPANTS.

In any application to be a Lender under this Program, PDEX shall notify all active Trading Participants of the fact of such application.

SECTION 5. VOLUNTARY WITHDRAWAL OF PARTICIPATION

1. A Lender may voluntarily withdraw its participation from the Program by submitting a request therefor within sixty (60) calendar days prior to intended effective date of termination.
2. PDEX shall by written notice to the other Trading Participants at least thirty (30) calendar days prior to the intended date of termination, give notice of the intention of the Lender to withdraw its participation from the Program.
3. After the lapse of the 30-day period of notice and prior to the intended date of termination,



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PDEX shall consider such request for withdrawal and may accept such request either unconditionally or on such conditions as it may deem fit, or may refuse to accept such request until it is satisfied that all outstanding obligations of such Lender in terms of the Rules have been complied with. In the case of a Lending Agent, no such application for withdrawal may be accepted by the Exchange without the favorable endorsement of the Lending Pool Facility.

4. In no case shall the voluntary termination applied for be granted unless and until the Lender can adequately show to PDEX that no new SLTs were entered into after the request for termination was filed with PDEX and that no SLT obligations remain outstanding.

SECTION 6. INVOLUNTARY LOSS OF RIGHT TO PARTICIPATE AS A LENDER

1. A Lender may lose the right to participate in this Program under the following grounds:
 - a Violation of these Program Rules
 - b Violation of any of the undertakings under these Program Rules, or when any of the warranties it is required to continually make ceases to be true
 - c Its underlying BSP custodian accreditation is terminated, in which case, the involuntary Disaccreditation under this Section shall automatically take place.
2. The name of the Lender whose lending right is terminated and the date from which such termination shall take effect shall be published by PDEX by means of a notice to Trading Participants, at the cost of the terminated Lender.
3. PDEX shall require the affected Lender to notify all its counterparties in any outstanding SLT and shall settle the same on an accelerated basis.
4. PDEX, in addition to the termination of the accreditation, may impose such other sanctions as it deems appropriate under the circumstances, taking into consideration the gravity of the violation and extent of damage caused.

SECTION 7. LENDER'S CONTINUING OBLIGATIONS.

1. All Lenders shall have the continuing obligations:
 - a. Maintain a depository account as a participant of the Lending Pool System
 - b. On a voluntary basis, enter Lending Rates on the SLT Trading Board during the Pre-Open Bidding Session to assist in the determination of the Lending Rate for the ISIN for a particular Trading Day
 - c. Deposit securities it wants to make available for SLTs at the Lending Pool at least one business day in advance of any intended SLT trade date
 - d. Cause the delivery of the Lent Securities to the Borrower upon receipt of a confirmation from the Lending Pool System that an SLT was executed relative thereto
2. In addition to the above, a Lending Agent shall have the following continuing obligations:
 - a The Lending Agent shall perform all the functions of a Lender, in representation of its clients. In addition thereto, the Lending Agent shall be responsible for delivering to clients whatever is due them under the Securities Lending Authorization Agreement or arrangement, which include at least the following obligations:
 - i. delivery to customers their share in the Lending Fee
 - ii. delivery to customers of transaction confirmations relative to SLTs transacted under this Program



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- iii. disclosure to customers of the identity of the Borrower as notified by the Lending Pool System in cases where there has been a default
- b. The Lending Agent undertakes and warrants that it has adequate and appropriate customer acceptance policies, in respect of the Lending Agency to be performed, in accord with applicable regulatory standards.
- c. The Lending Agent undertakes and warrants that it has the representation of its clients for every SLT executed by it.
- d. Lending Agents warrant and undertake the following on a continuing basis:
 - i. That it has done appropriate suitability tests on its clients before the same were allowed to enter into any Lending Agency arrangement that is subject to these Program Rules
 - ii. That it has the continuing authority to enter into SLTs by virtue of subsisting Lending Agency arrangements with its clients
 - iii. That it shall inform the Exchange when it has no Lending Agency arrangements subsisting immediately upon occurrence thereof. In such cases, the Lending Agent's Participation Agreement shall cease in force and effect.

3. THE LENDING POOL SYSTEM

SECTION 1. THE LENDING POOL SYSTEM.

The Phil. Depository & Trust Corp is hereby appointed as the Lending Pool System, with the duty and obligation to operate the Lending Pool System, with the functions as set forth herein.

SECTION 2. FUNCTIONS OF THE LENDING POOL SYSTEM

The Lending Pool System shall have the following functions:

1. Collate eligible securities for lending (Loanable Securities)
2. Transmit to the Exchange on a daily basis the List of Loanable Securities (with details such as the Series Name, Face Amount and Market Value) and corresponding Lending Fee for each Loanable Security on the PDEX SL Trading Board. Such list shall be posted by the Exchange for information of the SLT Participants as to the available Loanable Securities and the Fees.
3. Receive each done transaction on the Exchange's SL Trading Board from the Exchange and run a Lender Selection Process by a random algorithm to determine the Participating Lender/s for each SLT.
4. Deliver the Lent Securities to the account of the Borrower to perform the Near Date obligation of the Lender to the Borrower
5. Inform the Lender of each SLT where such Lender is selected by the random algorithm as the Lender, identifying the Lent Security, the face amount, and the applicable Lending Rate, without disclosing the identity of the Borrower
6. Inform the Lender and Borrower of the Lending Fee due on the SLT.
7. Track corporate actions on Lent Securities, calculate and collect the manufactured dividends from the Borrowers
8. Perform daily valuation of Lent Securities using standard methodologies made known to the Borrower and Lender and made part of these Rules



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9. Issue Recall Notices informing the Lender and Borrower of “loan recall” one day prior to maturity date of the SLT, except in cases where the Borrower has made already paid.
10. Receive the Lent Security from the Borrower on Maturity Date
11. Collect the applicable Lending Fee on the Maturity Date and distribute the same to participating lenders as appropriate under existing agreements
12. In Default cases, inform the Borrowers and PDEX of the occurrence of the same and disclose the identities of the parties to each other at such time.
13. Report to PDEX, at least on a weekly basis, on failed settlements, whether the same occur on Near Date or Maturity Date and regardless of acceleration of the Maturity Date.

4. THE COLLATERAL MANAGEMENT SYSTEM

SECTION 1. THE COLLATERAL MANAGEMENT SYSTEM

The Phil. Depository & Trust Corp. is hereby appointed as the operator of the Collateral Management System under these Program Rules, with the functions as set forth herein.

SECTION 2. FUNCTIONS OF THE COLLATERAL MANAGEMENT SYSTEM

The Collateral Management System shall have the following functions:

1. Receive and accept eligible Collateral Securities from Borrowers on behalf of Lenders, observing the requirements of these Program Rules and such other criteria as may be set by the PDS Risk Management System
2. Transmit to PDEX the Total Collateral Value for each Borrower
3. Upon receipt of information from PDEX regarding SLTs executed thereon, block the appropriate amount of Collateral Securities adequate to secure the SLT until the SLT is repaid on or before Maturity Date
4. Perform daily valuation of Collateral Securities using standard methodologies make known to the SLT Participants and forming part of these Program Rules
5. Determine the adequacy of the Total Collateral Value (after the “haircut”) against the Total Market Value of Lent Securities outstanding for each Borrower
6. Apply the appropriate “haircut” valuation for each type of eligible Collateral Security
7. Issue margin calls or effect margin releases as appropriate
8. Track corporate actions on all Collateral Securities, collect the benefits from the Issuers and distribute to the Borrowers accounts as instructed by the latter in the form of standing instructions or specific instructions, as the case may be
9. Receive the Lent Securities from the Borrower on repayment or Maturity Date and credit the Lender
10. Release the block on the Collateral Securities upon confirmation of the Lending Pool System of its receipt of the Equivalent Securities
11. Liquidate Collateral Securities blocked to secure a Defaulted SLT, and deliver the proceeds thereof in accordance with the Master Agreement.



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SECTION 3. COLLATERAL MANAGEMENT SYSTEM RESPONSIBILITIES.

The Collateral Management System must:

1. Develop and update the criteria for determining the eligibility of securities to be held as collateral, such as but not limited to market liquidity of security, price transparency for ease of valuation and other key factors
2. Make known to participating Borrowers the list of eligible Collateral Securities
3. Receive and safekeep Collateral Securities securing executed SLTs, including appropriate blocking thereof as may be warranted under these Program Rules and the Master Agreement
4. Reinvest cash collateral in the manner agreed upon between the Borrower and Lender and consistent with these Program Rules
5. Perform daily valuation of Collateral Securities using the valuation methodology made known to the SLT Participants and made part of these Program Rules.
6. Apply the appropriate “haircut” valuation for each type of Collateral Security
7. Determine the adequacy of the Total Collateral Value (after the “haircut”) against the Total Market Value of Lent Securities outstanding for each Borrower
8. Issue margin calls or effect margin releases for each Borrower and inform the Lending Pool System of any failure on the part of a Borrower to meet a margin call
9. Track corporate actions on all Collateral Securities, collect the benefits from the Issuers and distribute to the SLT Borrowers accounts as instructed by the latter in the form of standing instructions or specific instructions, as the case may be
10. Ensure that Collateral Securities are not released during the tenor of the SLT except in cases where warranted
11. Return Collateral Securities to the Borrower on extinguishment of the SLT in accordance with these Program Rules.

5. PDS RISK MANAGEMENT

SECTION 1. ROLE AND RESPONSIBILITY

For purposes of this Program and in relation to the risk management requirements thereunder, PDEX and PDTC shall utilize their existing risk management systems and processes collectively referred to as “PDS Risk Management” with the functions set forth in this Program Rules and the Master Agreement.

Part F ELIGIBLE SECURITIES

SECTION 1. LOANABLE SECURITY TYPES.

Following are the types of securities acceptable into the Lending Pool System for lending under this Program:

1. *Fixed Income Instruments (Php-Denominated)* as follows:
 - a Securities issued by the Republic of the Philippines Bureau of the Treasury



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- b Securities issued by the Bangko Sentral ng Pilipinas (BSP)
 - c Securities issued by Municipal or Local Government Units of the Republic of the Philippines and listed in PDEX
 - d Private Corporate Debt Securities listed in PDEX
2. *Fixed Income Instruments (USD-Denominated)*
- a Securities issued by the Republic of the Philippines (RoP Debt)
 - b Private Corporate Debt Securities listed in PDEX.

SECTION 2. LOANABLE SECURITY FEATURES.

Following are the minimum features of the Loanable Securities under this Program:

1. Securities issued in electronic form (“scripless”) or physical securities that have been immobilized in a depository for electronic book-entry transfer, and
2. Securities that are free from liens and encumbrances
3. Securities that are not subject to early redemption within the tenor of the SLT

SECTION 3. COLLATERAL SECURITY TYPES.

Following are the general types of Collateral Securities acceptable as collateral to be delivered into the Collateral Management System under the Program:

1. *Fixed Income Instruments (PhP-Denominated)*
 - a Securities issued by the Republic of the Philippines Bureau of the Treasury
 - b Securities issued by the Bangko Sentral ng Pilipinas (BSP)
 - c Securities issued by Municipal or Local Government Units of the Republic of the Philippines and as listed in PDEX
 - d Private Corporate Debt Securities listed in PDEX
2. *Fixed Income Instruments (USD-Denominated)*
 - a Securities issued by the Republic of the Philippines (RoP Debt)
 - b Private Corporate Debt Securities listed in PDEX.
3. *Equity Instruments (PhP-Denominated)* - Equities listed as components of the Philippine Stock Exchange Composite Index (PHISIX)
4. *Cash*

SECTION 4. COLLATERAL SECURITY FEATURES.

1. A detailed list of Eligible Collateral Securities shall be published by the Collateral Management System Operator based on the general criteria of market liquidity and tradability of the security, price transparency of the security and resulting facility for market valuation.
2. Following are the features of the securities to be accepted as collateral securities into the Collateral Management System of the Program; *Provided, However,* That the adequacy of Collateral Securities shall be determined in accordance with the standards set forth in these Program Rules and the Master Agreement.
 - a. Securities issued in electronic form (“scripless”) or physical securities that have been immobilized in a depository for electronic book-entry transfer
 - b. Same credit risk as the Lent Securities



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- c. The tenor of the Collateral Securities may be longer than the tenor of the lent securities provided that the Collateral Securities has shown active trading for the past one year observation.
- d. Securities that are free from lien and encumbrances
- e. Securities that are not subject to early redemption
- f. Securities subject to daily MTM valuation based on the benchmark approved by the BSP and the Exchange and sourced from the Exchange.

Part G

ACCELERATIONS AND DEFAULTS - EVENTS AND CONSEQUENCES

1. ACCELERATION

SECTION 1. EVENTS OF ACCELERATION

The following events, if occurring prior to the issuance of a Recall Notice by the Lending Pool System shall give rise to the Lender's right to accelerate the obligation, and the day following the occurrence of such events shall consequently become the Maturity Date of the SLT, on which repayment shall be required to be made:

1. Failure of the Borrower to respond to a Margin Call in the time agreed
2. An act of insolvency shall have occurred with respect to the Borrower as defined in the Master Agreement
3. Any representation, warranty and/or undertaking of the Borrower under the Master Agreement and the Program becomes untrue
4. Failure of the Borrower to perform its other obligations under the SLT and not remedying such failure within the curing period prescribed
5. Any other event occurs that may prevent the Borrower from fulfilling its obligations under the SLT (e.g., loss of underlying PDEX or regulatory license/registration)
6. If the Borrower should default on its other SLTs executed under these Program Rules.

SECTION 2. CONSEQUENCES OF ACCELERATION

The occurrence of any of the Events of Acceleration shall entitle the Lending Pool System to transmit an Acceleration Notice to the Borrower, informing it that the Maturity Date shall fall on the Trading Day following the date of the Acceleration Notice. Settlement shall occur in accordance with the rules on Settlement at Maturity.

2. DEFAULT

SECTION 1. WHAT CONSTITUTES DEFAULT

Any failure by the Borrower to perform its repayment obligation on Maturity Date, whether the same is being repaid on an accelerated basis or not, shall constitute a Default on the SLT.

SECTION 2. CONSEQUENCES OF DEFAULT

1. Where the Borrower has defaulted, the Lending Pool System shall issue a Notice of Default declaring the Borrower in Default, and send the same to the Borrower and the Lender.



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2. Upon issuance of a Notice of Default, the operator of the Collateral Management System shall, by virtue of a special power of attorney herein given and granted to the same, cause the liquidation of the Collateral Securities blocked to secure the SLT. Any proceeds from such liquidation shall be delivered to appropriate parties in accordance with the Master Agreement.
3. The Lender shall be entitled to a penalty fee of one percent (1%) above the highest offer rate for the securities quoted in the morning trade of the Exchange or the approved MTM benchmark rate on the date of default in the absence of an offer rate in the Exchange.

Part H COMPLIANCE REQUIREMENTS

SECTION 1. RECORDKEEPING AND REPORTING.

Borrowers and Lenders, including Lending Agents, shall keep and maintain proper records of their SLT Transactions, including:

1. SLT ledgers and other books of accounts
2. SLT Transaction Records for each SLT transaction

SECTION 2. TRANSACTION DETAILS REQUIRED TO BE RECORDED

For every SLT transacted on PDEX, the following details shall be recorded, whether in an appropriate SLT ledger or other Transaction Records:

1. Date of borrowing or lending, and date of return;
2. Name of Borrower and Lender;
3. Distinct identification code for the particular SLT transaction;
4. Description and quantity of the securities involved in an SLT transaction;
5. Form of collateral, value thereof and other pertinent information relating to the collateral;
6. Other remarkable details in respect of the SLT, such as prepayments, defaults, failures, etc.

SECTION 3. COMMENCEMENT OF INVESTIGATION

1. PDEX, through its Compliance and Surveillance Department (CSD) shall investigate SLT Participants and their personnel based on complaints, findings or unusual borrowing or lending activities.
2. Any matter referred to the CSD for investigation or examination should be in writing addressed to the CSD stating the reason or nature of the complaint or referral. The CSD shall not be obliged to entertain or give due course to anonymous complaints or referrals except in accordance with its procedures.

SECTION 4. PDEX POWERS DURING AN INVESTIGATION

PDEX shall have the power in any investigation to do any of the following acts:

1. Require the immediate production by a Borrower or Lender of accurate information about its business and transactions (including transactions that are not on PDEX) in a format, electronic or otherwise, specified by PDEX;
2. Require the immediate production by a Borrower or Lender of documents (which, for the purposes of these Rules, shall include anything in which information of any description is



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recorded) in the Borrower's or Lender's possession, custody, power or control;

3. Interview any employee or agent (or any employee of such agent) of a Borrower or Lender and require such person to answer questions and provide explanations and/or require answers and explanations from the Borrower or Lender, and record such answers and explanations in such format as is deemed appropriate and desirable;
4. Require the attendance, upon reasonable notice, of any employee or agent (or any employee of such agent) of a Borrower or Lender at a specified date, time and place, to answer questions, provide explanations and/or give evidence and require the Borrower or Lender to procure such attendance;
5. Require the provision of information relating to any person who is to be, is or has been an employee or agent (or any employee of such agent) of the Borrower or Lender or engaged in its business; and
6. Send any authorized representative to a Borrower's or Lender's offices at any time, for the purpose of inspections and investigations and to ensure compliance with these rules.

SECTION 5. DUTY AND RESPONSIBILITY OF BORROWER OR LENDER AND PERSONNEL ON INVESTIGATIONS

1. It shall be the duty and responsibility of the Borrower or Lender and their personnel to comply with the orders of the PDEX for the purpose of obtaining information about any matter which it considers may relate to these Rules or to the integrity of the PDEX' markets.
2. Borrowers or Lenders and their directors, officers, employees and their agents shall exhibit utmost professionalism in dealing with CSD or PDEX.
3. Every Borrower or Lender and personnel under investigation shall not unduly influence any member of the CSD, its staff, or PDEX.

SECTION 6. CONFIDENTIALITY OF INVESTIGATION AND INFORMATION GATHERED THROUGH INVESTIGATION

Unless required by law or the relevant authorities, the CSD shall not disclose to third persons any information, which CSD receives, gathers or otherwise acquires in the course of its investigation and resolution of the case.

Part I DISPUTE RESOLUTION

Any dispute arising out of a SLT shall be governed under the PDEX Rules for the Inter-Dealer Fixed Income Securities Market, as may be amended from time to time.

Part J VALUATION METHODOLOGIES

SECTION 1. SOURCES OF VALUATION METHODOLOGIES

The valuation methodology used in determining the valuation of Loanable Securities and Collateral Securities is derived from standard securities valuation methods used in the Philippine securities market as well as internal risk models developed by PDS for determining the



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appropriate valuation adjustment (termed a “haircut”) for each Lent and Collateral Security.

SECTION 2. VALUATION METHODOLOGY FORMS PART OF THESE PROGRAM RULES.

Such valuation methodology shall be made known to all SLT Participants, and is annexed to these Program Rules as Schedule V/M, and shall form part of these Program Rules.

SECTION 3. RECKONING POINTS FOR VALUATION

1. The Market Price and corresponding Market Value of each Loanable Security shall be determined at the start of each Trading Day (using the previous day’s approved valuation benchmark) and embedded in the matching rules of the SLT Trading Board.
2. The Collateral Prices and corresponding Collateral Value of each eligible collateral security previously deposited by prospective Borrowers shall also be determined at the start of each Trading Day. The total Collateral Value of Securities for each eligible Borrower will be inputted and used for the matching criteria in the SLT Trading Board.
3. PDS Risk Management shall calculate a haircut value for each eligible Collateral Security based on the volatility estimate of that Collateral Security.
4. The haircut value will be fixed for the entire Trading Day.
5. PDS Risk Management shall maintain and update the internal risk model and may publish the volatility studies for eligible collateral securities.

Part K

ACCOUNTING REQUIREMENTS UNDER THIS PROGRAM

SECTION 1. SLT ACCOUNTING ENTRIES.

Borrowers and Lenders shall conform to the accounting entries prescribed in Schedule A/R of these Program Rules.