

BSP Circular No. 898 and Transactions Executed on the PDEX Market by BSP Supervised Financial Institutions (BSFIs)

QUESTION 1 Is the “cooling-off” period applicable to secondary market transactions executed in the Philippine Dealing & Exchange Corp?

ANSWER Yes.

QUESTION 2 What is the coverage of the client’s right of “cooling off” with regard to secondary market transactions of fixed income securities executed through BSFI-Broker Participants or against BSFI-Dealer Participants?

ANSWER The “cooling off” period only applies to secondary market PURCHASES of fixed income securities

- i. by clients executed through a BSFI-Broker as the client’s agent OR
- ii. by Qualified Investor Buyers (QIBs) with a BSFI-Dealer as a principal counterparty.

It does not apply to situations where the client or the Qualified Investor is selling.

QUESTION 3 How is the right of “cooling off” exercised?

ANSWER The buyer (a client or a QIB) must settle the original purchase transaction. Cooling-off is not a basis for clients to “walk away” or renege on the original purchase transaction.

For clients of BSFI-Brokers: The “cooling off” is exercised by means of a “reversing” sell order to be placed through the BSFI-Broker for possible execution, at the market price available on the date of the reversing sale transaction.

For QIBs: The “cooling off” is exercised by means of a sale transaction with the BSFI-Dealer, at the market price available on the date of the reversing sale transaction. The BSFI-Dealer is obliged to buy back the fixed income securities in order to fulfill the “cooling off” right of the QIB. However, the BSFI-Dealer may purchase the securities at the prevailing market price on the date that the “reversal” sale is executed.

QUESTION 4 Should both the original and the reversing transactions be included in the market's statistics?

ANSWER Yes. They should be included in the statistics of the day on which the relevant transaction was made. Thus, the original transaction shall be included in the market statistics of the day on which the same was made and the reversing transaction shall be included in the market statistics of the day on which the reversing transaction was made.

QUESTION 5 For brokered transactions subject to "cooling off", is the BSFI-Dealer Unit of the same BSFI as the BSFI-Broker Unit obliged to act as a counterparty to the client in order to fill the BSFI-Broker Unit's "reversing" sell order for the client?

ANSWER NO. The BSFI-Dealer Unit of the BSFI is not obliged to become the counterparty of the BSFI-Broker's client. The BSFI-Broker unit just has to place the reversing sell order for execution at the available market price.

QUESTION 6 Are the "reversing" sale transactions supposed to be executed at the original purchase price of the fixed income security?

ANSWER NO. A BSFI-Broker may execute a "reversing" sell order for a client at the available market price on the execution date. Likewise, a BSFI-Dealer obliged to buy back the fixed income securities may do so at the prevailing market price on the date of "reversing" sale execution.

QUESTION 7 How are natural persons who are serviced by BSFI-Brokers and BSFI-Dealers protected?

ANSWER BSFI-Brokers and BSFI-Dealers transacting with natural persons are required to adequately disclose to and inform these clients of the risks of transacting in fixed income securities and the possibility of adverse price movements affecting a client's exit from its securities positions.

QUESTION 8 What is the starting point for the minimum "cooling off" period of two (2) days that a BSP Supervised Financial Institution (BSFI) must grant to its client?

ANSWER The starting point for the minimum cooling off period of two (2) days is the settlement date of the original purchase transaction for the fixed income securities.

QUESTION 9 For fixed income securities that are rarely quoted or priced in the market and which make the execution of the “reversing” sell order difficult, will the BSFI-Broker be liable for inability to execute the reversing sell order?

ANSWER The BSP expects the BSFI-Broker to exert best efforts to execute the reversing sell order. For guidance, the BSP expects these efforts to execute the reversing sale for at least one (1) week. If the BSFI-Broker is unsuccessful in filling the order, the BSFI-Broker must be able to prove exertion of best efforts with evidence, such as proof of attempts to execute the order (e.g. screenshots of open orders on the trading system).

QUESTION 10 Will the right of “cooling off” apply to clients that have entered into bond exchange transactions with the Bureau of the Treasury (BTr), through their BSFI-Broker or BSFI-Dealer?

ANSWER NO. There is no cooling off period for these transactions under the BSP Circular. Due to their nature, bond exchange transactions with the BTr must be fully settled and are irrevocable. As good practice, Brokers and Dealers should make their clients fully aware of this stipulation before a transaction.

←----- NOTHING FOLLOWS-----→



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