

**PROPOSED AMENDMENTS TO THE PDEX RULES
FOR THE FIXED INCOME SECURITIES MARKET, AS AMENDED:
FAILED TRADE AND DELAYED SETTLEMENT**

PROPOSED AMENDMENTS TO : Rule 8.3 and Rule 8.4(17) Settlement Participants, PDEX Rules

Rationale for the Proposal : (a) In recognition of the delays encountered due to operational matters with consideration of maintaining the importance of settlement discipline, allow trades to be settled up to two business days immediately succeeding the original settlement date (S+2) with payment of fees per day of delay without being considered a Failed Trade.

(b) To provide for a consistent approach in the settlement of both Corporate Bonds and Government Securities in light of the NRoSS GS Settlement System's non-application of authorization cut-off.

ACTION : FOR SEC APPROVAL

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<i>CURRENT RULE</i>	<i>PROPOSED AMENDMENT</i>
<p><i>Rule 8.3 Definitions</i></p> <p>xxx</p> <p>20. <i>Face Value xxx</i></p> <p>21. <i>Failed Trades and Delayed Settlement</i> shall have the meaning given to it in Rule 8.4, par. 17(a)(i) and (ii).</p> <p>22. <i>Failed Trades Report</i> shall refer to a report or inquiry screen in the eDvP System made available to Settlement Participants in accordance with the Timeline giving details of the Failed Trades and Delayed Settlements of a Settlement Participant.</p> <p>xxx</p>	<p><i>Rule 8.3 Definitions</i></p> <p>xxx</p> <p>20. <i>Face Value xxx</i></p> <p>21. <i>Failed Trades and Delayed Settlement</i> shall have the meaning given to it in Rule 8.4, par. 17(a)(i) and (ii).</p> <p>22. <i>Failed Trades Report</i> shall refer to a report or inquiry screen in the eDvP System made available to Settlement Participants in accordance with the Timeline giving details of the Failed Trades and Delayed Settlements of a Settlement Participant.</p> <p>xxx</p> <p><i>30. Penalty Fees shall refer to those fees that will be applied to all trades that did not settle as defined in Rule 8.4.17 of the PDEX Rules,</i></p> <p>301. <i>PhilPaSS xxx</i></p> <p>xxx</p> <p>39 40. <i>Settlement Report xxx</i></p> <p><i>41. Surcharge Fees shall refer to those fees charged to Trading Participants for the use of</i></p>

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	<p><i>the “Delayed Settlement Window”, a time period of up to two (2) days post original settlement date to settle the trade and a facility to mitigate failed settlement.</i></p> <p>402. Suspense Account xxx</p> <p>xxx</p> <p><i>Notes:</i></p> <p><i>1. The numbering of the provisions shall be revised to reflect the correct sequential order.</i></p> <p><i>2. The ones in blue font are new provisions.</i></p>
<p>Rule 8.4 Settlement Participants</p> <p>1. Activation as Settlement Participants xxx</p> <p>16. Settlement and Post Settlement Xxx</p> <p>g. Monitoring Settlement Status xxx</p> <p>ii. Settlement Participants shall be solely responsible for monitoring the Settlement status of their Trades through the eDvP System. PDEX shall not be liable to any Settlement Participant for Failed Trades and Delayed Settlements whether such Settlement Participant utilized the eDvP System monitoring capability or not. (rev052810)</p> <p>xxx</p> <p>17. Management of Failed Trades and Delayed Settlements</p> <p>a. Definition</p> <p>i. There is deemed to be a Failed Trade if, at the final cut-off time specified in the Timeline, any or both Settlement Participants failed to authorize the</p>	<p>Rule 8.4 Settlement Participants</p> <p>1. Activation as Settlement Participants xxx</p> <p>16. Settlement and Post Settlement xxx</p> <p>g. Monitoring Settlement Status xxx</p> <p>ii. Settlement Participants shall be solely responsible for monitoring the Settlement status of their Trades through the eDvP System. PDEX shall not be liable to any Settlement Participant for Failed Trades and Delayed Settlements whether such Settlement Participant utilized the eDvP System monitoring capability or not. (rev052810)</p> <p>xxx</p> <p>17. Management of Failed Trades and Delayed Settlements</p> <p>a. Definition of Failed Trades</p> <p>i. There is deemed to be a Failed Trade if, at the final cut-off time specified in the Timeline, any or both Settlement Participants failed to authorize the Trade,</p>

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<p>Trade, or the Buyer did not have sufficient cash at that time to settle the Trade and/or the Seller did not have sufficient securities at the time to settle the Trade.</p> <p>ii. There is deemed to be a Delayed Settlement if, the trade was settled on the settlement date but was not authorized at the time specified in the Timeline, or was not settled at the specified Turnaround Trade cut-off time specified in the Timeline. "Turnaround Trade" shall be defined as a trade whose settlement is dependent on the settlement of another trade.</p> <p>iii. Trades shall be regarded as Failed Trades or Delayed Settlements in accordance with this Rule regardless of whether the eDvP System was fully operational if it can be shown that the Buyer did not have sufficient cash at the time to settle the Trade and/or the Seller did not have sufficient securities at the time to settle the Trade.</p>	<p>or the Buyer did not have sufficient cash at that time to settle the Trade and/or the Seller did not have sufficient securities at the time to settle the Trade.</p> <p>ii. There is deemed to be a Delayed Settlement if, the trade was settled on the settlement date but was not authorized at the time specified in the Timeline, or was not settled at the specified Turnaround Trade cut-off time specified in the Timeline. "Turnaround Trade" shall be defined as a trade whose settlement is dependent on the settlement of another trade.</p> <p>iii. Trades shall be regarded as Failed Trades or Delayed Settlements in accordance with this Rule regardless of whether the eDvP System was fully operational if it can be shown that the Buyer did not have sufficient cash at the time to settle the Trade and/or the Seller did not have sufficient securities at the time to settle the Trade.</p> <p>b. Use of the Delayed Settlement Window</p> <p>However, if a trade did not settle at the final cut-off time specified in the timeline on the settlement date but was settled on or before the final cut-off time specified in the timeline of up to two (2) business days immediately succeeding the original settlement date (S+2), such trade shall not be deemed as a Failed Trade provided that all the conditions below are present:</p> <p>i. All the details of the Trade are correct (among others, correct face amount, correct security, correct side (buy or sell), correct yield, correct PIC);</p> <p>ii. The Trade was authorized by at least one counter-party;</p> <p>iii. All the required documents to show settlement of said trades are submitted on or before the next business day after the day of settlement of said trades;</p>

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<p>b. Reporting of Failed Trades and Delayed Settlements (rev052810)</p> <p>In accordance with the eDvP Timeline, the eDvP System shall notify PDEX of all Trades that failed to settle.</p> <p>xxx</p>	<p>iv. The Trade was settled in the same settlement location in the manner as shall be prescribed; and</p> <p>v. Payment of the following applicable surcharge fee is made:</p> <ul style="list-style-type: none"> a. Surcharge fee of 0.5 bp based on the face value but not to exceed Php 5,000 for trades that settle on the immediately succeeding business day after original settlement date (S+1); or b. Surcharge fee of 1bp based on the face value but not to exceed Php 10,000 for trades that settle on two (2) business days immediately succeeding the original settlement date (S+2). c. In addition to the above surcharge fees, the aggrieved party in a transaction that settled at S+1 or S+2 shall have the option to charge the erring party a grievance fee, in the same amount of the applicable surcharge fee. <p>For clarity, trades that: (1) do not settle at all; or (2) settle beyond S+2 at the final cut-off time specified in the Timeline; or (3) settle up to S+2 but does not meet the conditions provided above shall be considered as Failed Trades and shall be subject to penalties provided under Rule 8.4.17(h).</p> <p>The Associated Person shall certify, in the Monthly Sworn Certification submitted to PDEX pursuant to Rule 3.3 item 1 that all the trades that have been duly settled of up to two (2) business days immediately succeeding the original settlement date (S+2) have complied with all the conditions provided in Rule 8.4.17(b)(i-v). The Monthly Sworn Certification shall also contain the details of the trades that have been settled up to S+2.</p> <p>b- c. Reporting of Failed Trades and Delayed Settlements (rev052810)</p> <p>In accordance with the eDvP Timeline, the eDvP System shall notify PDEX of all Trades that failed to settle.</p>

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<p>f. Handling of Failed Trades and Delayed Settlements</p> <p>The Settlement Participants shall handle the disposition of Failed Trades and Delayed Settlements subject to the PDEx Rules. PDEx shall have no responsibility over Failed Trades and Delayed Settlements. Cash Settlement Banks shall have no responsibility for Failed Trades and Delayed Settlements.</p>	<p>xxx</p> <p>f. g. Handling of Failed Trades and Delayed Settlements</p> <p>The Settlement Participants shall handle the disposition of Failed Trades and Delayed Settlements subject to the PDEx Rules. PDEx shall have no responsibility over Failed Trades and Delayed Settlements. Cash Settlement Banks shall have no responsibility for Failed Trades and Delayed Settlements.</p> <p><i>Notes:</i></p> <p><i>1. The numbering of the provisions shall be revised to reflect the correct sequential order.</i></p> <p><i>2. All references to Delayed Settlement shall be deleted.</i></p>
<p>g. Delayed Settlements shall carry the following penalties:</p> <ul style="list-style-type: none"> i. 3rd violation within a year without being considered a Habitual Offender - Warning ii. 4th and subsequent violations within a year without being considered a Habitual Offender- Reprimand iii. Habitual Offender - Php 1,000 per offense payable to the counterparty; “Habitual Offender” is defined as three (3) violations per quarter and/or two (2) violations per month <p>h. Failed Trades shall carry the following penalties:</p> <ul style="list-style-type: none"> i. 1st to 2nd violation within a year - Warning iii. 3rd and subsequent violations within a year - Reprimand and Php10,000 or 1bp based on the face value of the security 	<p>g. Delayed Settlements shall carry the following penalties:</p> <ul style="list-style-type: none"> i. 3rd violation within a year without being considered a Habitual Offender - Warning ii. 4th and subsequent violations within a year without being considered a Habitual Offender- Reprimand iii. Habitual Offender - Php 1,000 per offense payable to the counterparty; “Habitual Offender” is defined as three (3) violations per quarter and/or two (2) violations per month. <p>h. Failed Trades shall carry the following penalties:</p> <ul style="list-style-type: none"> i. 1st to 2nd Violation within a year - Warning; ii. 3rd and subsequent violations within a year - Reprimand and Php 10,000 or 1 bp based on the face value of the security involved, whichever is higher.

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<p>involved, whichever is higher. (rev052810)</p> <p align="center">- <i>nothing follows</i> -</p>	<p>(rev052810) and payment of the amount with the following computation, whichever is lower:</p> <p>3rd Offense - 1 bp or Php 10,000.00 4th Offense - 2 bp or Php 20,000.00 5th Offense - 3 bp or Php 30,000.00 6th Offense - 4 bp or Php 40,000.00 7th Offense - 5 bp or Php 50,000.00 nth Offense - (n-2) bp based on the face value of the security involved or Php[(n-2)*10,000]; <i>with n being the total number of violations committed in a year</i></p> <p>iii. Except for trades that were declared on settlement date to be incapable of being settled, there shall be, in addition to the above, payment of fees of up to 2 days for trades that do not settle or were settled beyond S+2 as provided in Rule 8.4.17(a)(i).</p> <p align="center">- <i>nothing follows</i> -</p>