Securities and Exchange Commission
PHILIPPINES

SEC MEMORANDUM CIRCULAR NO. 11
Series of 2023

TO: **ALL CONCERNED**

SUBJECT: **AMENDMENTS ON THE 2015 IMPLEMENTING RULES AND REGULATIONS OF THE SECURITIES REGULATION CODE (THE "2015 SRC RULES") AND SEC MEMORANDUM CIRCULAR NO. 16, SERIES OF 2004 RELATIVE TO THE SETTLEMENT CYCLE FROM T+3 TO T+2**

On 8 August 2023, the Commission *En Banc* resolved to APPROVE the following proposed amendments to the 2015 Implementing Rules and Regulations of the Securities Regulation Code (the "2015 SRC Rules") and SEC Memorandum Circular (MC) No. 16, series of 2004[1], relative to the settlement cycle from T+3 to T+2.

I. Coverage

The subject amendments shall apply to transactions to be executed starting 24 August 2023.

II. 2015 SRC RULES

Section 1. SRC Rule 49.1.1.5.3 is hereby amended to read as follows:

"49.1.1.5.3. Computation of Net Liquid Capital (NLC)

In computing NLC, the Equity Eligible for Net Liquid Capital of a Broker Dealer is adjusted by the following, provided, however, that in determining net worth, all long and all short securities position shall be marked to their market value:

49.1.1.5.3.1. Adding unrealized profits (or deducting unrealized losses) in the accounts of the Broker Dealer.

49.1.1.5.3.2. Deducting fixed assets and assets which cannot be readily converted into cash [less any indebtedness excluded in accordance with SRC Rule 49.1.1.5.2.4 of the Definition of the term Aggregate Indebtedness] including, among other things:

[1] Adoption of the Risk Based Capital Adequacy Requirement/Ratio (RBCA) for Brokers Dealers

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49.1.1.5.3 .2.1. Real estate; furniture and fixtures; Exchange memberships/trading rights; prepaid rent, insurance and other expenses; goodwill, organization expenses;

49.1.1.5.3.2.2. All unsecured advances and loans; deficits in customers' and non-customers' unsecured and partly secured notes; deficits in special omnibus accounts or similar accounts carried on behalf of another Broker Dealer, after application of calls for margin, marks to the market or other required deposits that are outstanding **two (2)** business days or less; deficits in customers' and non-customers' unsecured and partly secured accounts after application of calls for margin, marks to the market or other required deposits that are outstanding **two (2)** business days or less, except deficits in cash accounts for which not more than one extension respecting a specified securities transaction has been requested and granted; the market value of stock loaned in excess of the value of any collateral received therefore; and any collateral deficiencies in secured demand notes in conformity with SRC Rule 49.1.2 above."

Section 2. SRC Rule 50 is hereby amended to read as follows:

"Rule 50 - Purchases and Sales in Cash Account

50.1. Purchases by a customer in a cash account shall be paid in full within **two (2)** business days after the trade date."

Section 3. SRC Rule 52 is hereby amended to read as follows:

"Rule 52.1.11. Monthly Aging of Customers Receivables

XXX
52.1.11.2. The aging schedule shall indicate the monetary and securities collateral values of the customers' receivable as of end of month, broken down as follows:

Classification
T+0 to **T+1**
T+2 to **T+12**
T+13 to T+30
T+31 up

52.1.11.3. Every Broker Dealer shall appropriate Allowance for Doubtful Accounts (ADA) using and in accordance with the following schedule:

Classification	Provision	Base
T+0 to **T+1**	0	Total Receivables (TR)
T+2 to **T+12**	2%	TR
T+13 to T+30	50%	TR less collateral (net of haircut)

T+31 up	100%	TR less collateral (net of haircut)

The ADA is computed by getting, for each doubtful account, an amount equivalent to the provision (see Table above) of the amount outstanding, net of collateral (net of haircut). Basis for the computation would be the individual accounts."

III. SEC MEMORANDUM CIRCULAR NO. 16 SERIES OF 2004 ADOPTION OF THE RISK BASED CAPITAL ADEQUACY REQUIREMENT/RATIO (RBCA) FOR BROKERS DEALERS

Section 4. Subsection III Computation of Net Liquid Capital (NLC), paragraph C is hereby amended to read as follows:

"XXX

C. Computation of Net Liquid Capital (NLC)

In computing NLC, the Equity Eligible for Net Liquid Capital of a Broker Dealer is adjusted by the following, provided, however, that in determining net worth, all long and all short securities position shall be marked to their market value:

i. XXX

ii. Deducting fixed assets and assets which cannot be readily converted into cash [less any indebtedness excluded in accordance with paragraph (iv) of the Definition of the term Aggregate Indebtedness] including, among other things:

a. XXX

b. All unsecured advances and loans; deficits in customers' and non-customers' unsecured and partly secured notes; deficits in special omnibus accounts or similar accounts carried on behalf of another Broker Dealer, after application of calls for margin, marks to the market or other required deposits that are outstanding **two (2)** business days or less; deficits in customers' and non-customers' unsecured and partly secured accounts after application of calls for margin, marks to the market or other required deposits that are outstanding **two (2)** business days or less, except deficits in cash accounts for. which not more than one extension respecting a specified securities transaction has been requested and granted; the market value of stock loaned in excess of the value of any collateral received therefore; and any collateral deficiencies in secured demand notes in conformity with SRC Rule 49.1 (G) above.

XXX"

Section 5. Schedule for Part 4 Schedule for Specific and General Provisioning for Overdue Accounts is hereby amended to read as follows:

"SCHEDULE FOR PART 4
SCHEDULE FOR SPECIFIC AND GENERAL PROVISIONING FOR OVERDUE ACCOUNTS

A. Customer accounts qualifying as Non-performing Accounts

Type of account	Criteria for classification of account as non-performing	Date for classification
1. Contra losses	When the account remains unpaid starting from **T + 3** or more from the date of contra transaction	**T+3**
2. Overdue purchase contracts	When the account remains unpaid starting from **T+13**	**T+13** or when the broker exercises its right of mandatory close out over the securities serving as collateral
3. Margin Accounts	When, upon making a margin call, the period to put up equity to meet the margin deficiency has expired	Upon expiration of period

B. Specific Provision

1. Specific provisions for bad and doubtful accounts shall be made for contra losses, overdue purchase contracts and margin accounts. For purposes of this section, these types of accounts are classified as Doubtful or Loss depending on the default period each respectively has. They are as follows:

Type of Accounts	Period when account is overdue	Classification
1. Contra losses	a. **T+3** to 30 calendar days b. over 30 calendar das	a. Doubtful b. Loss
2. Overdue purchase contracts	a. **T+13** to 30 calendar days b. over 30 calendar days	a. Doubtful b. Loss
3. Margin Accounts	When the Equity has fallen below the required minimum margin maintenance	Loss

	and the margin deficiency is more than P10,000.00	

XXX"

Section 6. Schedule B.2 Counterparty Risk Requirement Counterparty Risk Factors for Unsettled Agency Trades, SRC Rule 49 (H), Subsection VI is hereby amended to read as follows:

"SCHEDULE B.2
COUNTERPARTY RISK REQUIREMENT COUNTERPARTY RISK FACTORS FOR UNSETTLED AGENCY TRADES
SRC Rule 49 (H) Subsection VI

Agency Transaction	Time period for application of Percentage	Credit Risk Factor
1. Sell Contract - covers possible risk of failing to receive the security on a sales contract	T to **T+1** of clients	0%
	From **T+2** to **T+12** of clients	8% of the mark to market value of the sell contract multiplied by the CW, for negative counterparty exposure (i.e., if the current market value exceeds the transaction value of the stock) 0% if it is a positive counterparty exposure (i.e. if the current market value is less than the transaction value of the stock)
	Beyond **T+12** of clients	The marked to market value of the contract multiplied by the CW for negative counterparty exposures (i.e., if the current market value exceeds the transaction value of the stock) 0% if it is a positive counterparty exposure (i.e. if the current market value is less than the transaction value of the stock)
2. Buy Contract - covers possible risk of failing to give cash payment on a buy order	T to **T+1** of clients	0%

	From **T+2** to **T+12** of clients	8% of the mark to market value of the buy contract multiplied by the CW, for negative counterparty exposure (i.e., if the transaction value exceeds the current market value of the stock) 0% if it is a positive counterparty exposure (i.e. if the transaction value is less than the current market value of the stock
	Beyond **T+12** of clients	The marked to market value of the contract multiplied by the CW for negative counterparty exposures (i.e., if the transaction value exceeds the current market value of the stock) 0% if it is a positive counterparty exposure (i.e. if the transaction value is less than the current market value of the stock)"

Section 7. Schedule B.3 Counterparty Risk Requirement Counterparty Risk Factors for Unsettled Principal Trades, SRC Rule 49 (H), Subsection VI is hereby amended to read as follows:

"SCHEDULE B.3
COUNTERPARTY RISK REQUIREMENT COUNTERPARTY RISK FACTORS FOR UNSETTLED PRINCIPAL TRADES
SRC Rule 49 (H) Subsection VI

Principal Transaction	Time period for application of Percentage	Credit Risk Factor
1. Sell Contract - covers possible risk of counterparty failing to deliver securities on a sell order	T to **T+1** of counterparties (i.e. Exchange/Clearing Agency or BD)	0%
	From **T+2** to **T+12** of clients	8% of the mark to market value of the sell contract multiplied by the CW, for negative counterparty exposure (i.e., if the transaction value exceeds the current market value of the stock) 0% if it is a positive counterparty exposure (i.e. if the transaction value is less than the current market value of the stock)
	Beyond **T+12** of counterparties	The marked to market value of the contract multiplied by the CW for negative counterparty exposures (i.e., if the transaction value exceeds the current

		market value of the stock) 0% if it is a positive counterparty exposure (i.e. if the transaction value is less than the current market value of the stock)
2. Buy Contract - covers possible risk of counterparty failing to deliver securities on a buy contract	T to **T+1** of counterparties	0%
	From **T+2** to **T+12** of counterparties	8% of the mark to market value of the buy contract multiplied by the CW, for negative counterparty exposure (i.e., if the current market value exceeds the transaction value of the stock) 0% if it is a positive counterparty exposure (i.e. if the current market value is less than the transaction value of the stock)
	Beyond **T+12** of counterparties	The marked to market value of the contract multiplied by the CW for negative counterparty exposures (i.e., if the current market value exceeds the transaction value of the stock) 0% if it is a positive counterparty exposure (i.e. if the current market value is less than the transaction value of the stock)"

Section 8. Schedule B.4 Counterparty Risk Factors for Debts/Loans, Contra Loss, And Other Debts Due, SRC Rule 49 (H), Subsection VI is hereby amended to read as follows:

"SCHEDULE B.4
COUNTERPARTY RISK REQUIREMENT
COUNTERPARTY RISK FACTORS FOR DEBTS/LOANS, CONTRA LOSS, AND OTHER DEBTS DUE
SRC Rule 49 (H) Subsection VI

Debt/Aging Period	Credit Risk Factor (of Counterparty Exposure)
Less than **1 day** (or T+0 to **T+1**)	Zero
2-12 days (or **T+2** to **T+12**)	8% of amount due
13-30 days	50% of amount due

Over 30 days	100% of amount due"

Section 9. Effectivity

This MC shall take effect immediately after its publication in two (2) newspapers of general circulation in the Philippines.

FOR THE COMMISSION:

EMILIO B. AQUINO
Chairperson