



# MEMO FOR TRADING PARTICIPANTS

The Philippine Stock Exchange, Inc.

\_\_\_\_ Trading Rules  
\_\_\_\_ Membership Rules  
\_\_\_\_ Listing Rules

\_\_\_\_ Computer Systems Update  
\_\_\_\_ Administrative Matters  
 Others: Revised PSE Short Selling Rules

**DATE** : 26 October 2007

**SUBJECT** : Revised PSE Rules on Short Selling

Please be advised that the Revised PSE Rules on Short Selling has been recently approved by the Securities and Exchange Commission. Attached is a copy of the said rules.

The list of Qualified Securities will be published on the date of effectivity of the PSE Short Selling Rules, which will be announced at the appropriate time.

For your information and guidance.

**MELCHOR C. GUERRERO**

*Vice President, Capital Markets Development Division*

Finance / Admin / Membership	Compliance & Surveillance Grp.	Listing & Disclosures Grp.	COO / Information Tech. Dept.	Business Dev't & Info. Group	CEO / Legal
Tel. No. 688-7560/7440/7460	Tel. No. 688-7559	Tel. No. 688-7501/7510	Tel. No. 688-7405/819-4400	Tel. No. 688-7590	Tel. No. 688-7400/819-4408

**PART 1 – RULES ON SHORT SELLING**

**A. General Provisions**

These Rules set out the requirements for the conduct of Short Selling in the Exchange.

**1.01 DEFINITION OF TERMS**

When used under these Rules, the following terms shall have the meaning indicated, unless the context provides otherwise:

- (a) **Commission.** The Securities and Exchange Commission.
- (b) **Director.** Any Director of a corporation or any person performing similar functions with respect to any organization, whether incorporated or not.
- (c) **Exchange.** The Philippine Stock Exchange, Inc.
- (d) **Net Long Position.** The value of securities owned by the client under the control of the Trading Participant.
- (e) **Officer.** A person given the title president, vice-president, secretary, treasurer, general manager, auditor, and officer with supervisory and managerial functions.
- (f) **Owning of Security.** A person is deemed to own a security if he or the person for whose benefit or on whose behalf the sale is made:
  - (i) has title to it through:
    - 1. a securities borrowing and lending agreement;
    - 2. a purchase, or has entered into an unconditional contract, binding on both parties thereto, to purchase it and has not yet received it;
    - 3. ownership of a security convertible into or exchangeable for it and the person has tendered such security for conversion or exchange;
  - (ii) an option to purchase or acquire it and the person has exercised such options; or
  - (iii) a right or warrant to subscribe to it and the person has exercised such rights or warrants.Provided, however, that a person shall be deemed to own securities only to the extent that he has a Net Long Position in such securities.
- (g) **Principal Stockholder.** A person who owns more than 10% of a company's common stocks as provided in Section 23 of the Securities Regulation Code.
- (h) **Qualified Security or Qualified Securities.** Listed securities that are eligible for Short Selling in accordance with the following standards: (1) market capitalization; and (2) tradability, and with the PSE Guidelines on Short Selling.
- (i) **Short Sale or Short Selling.** Any sale of a security that the seller does not own or any sale of a security that will be settled by the delivery of borrowed securities.
- (j) **SRC Rule-** Refers to any of the Rules embodied in The Implementing Rules and Regulations of the Securities Regulation Code and the Amendments thereto.
- (k) **Trading Participant-** A broker and/or dealer who is authorized to operate a trading right in the Exchange, pursuant to PSE Rules.

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- 1.02 Short Selling is allowed for Trading Participants' own accounts and its clients' accounts, subject to compliance with the requirements under these Rules.
- 1.03 Only Qualified Securities shall be allowed to be sold short in the Exchange. The Exchange shall publish the list of Qualified Securities, which shall be updated from time to time.
- 1.04 When a short selling transaction is to be settled by delivery of borrowed securities, the borrowing of such securities should comply with the PSE SBL Rules.
- 1.05 If any of the laws or rules referred to in these Rules are amended or revised, then these Rules shall be deemed amended to incorporate the relevant amendments or revisions on said laws or rules.

Furthermore, existing rules and regulations of the Exchange in conflict with or contrary to these Rules or any portion hereof are hereby repealed or modified accordingly.

**B. Trading**

- 2.01 The applicable rules of the Exchange shall apply to short sale transactions in the same manner as they apply to normal sale transactions.
- 2.02 Up Tick Rule. Pursuant to the provisions of SRC Rule 24.2-2 on "Short Sales", paragraph 3 on "Execution of Short Sale", no Trading Participant shall use the facility of the Exchange to effect a short sale of any security unless the transaction is:
  - (a) at a price higher than the last sale price; or
  - (b) at the price of the last sale if and only if that price is above the next preceding different sale on such day.
- 2.03 A short selling order cannot be a Good Till Canceled order as defined in the rules and regulations of the PSE.  
Short selling transactions are not allowed during the pre-open period.
- 2.04 A Trading Participant upon receiving an order to sell Qualified Securities, shall inquire from the client whether at the time of placing the order:
  - (a) such client owns the security offered for sale and can deliver on settlement date; or
  - (b) if such client is acting on behalf of another party, he/she knows that the principal owns the securities offered for sale.
- 2.05 A Short Selling Trading Participant shall take all reasonable steps to ensure that the client's disclosure pursuant to Rule 2.04 is accurate.
- 2.06 A Short Selling Trading Participant shall not place a Short Selling order in respect of Qualified Securities unless:
  - (a) where the order is for the Trading Participant's own account, there are reasonable grounds to believe that the Trading Participant has made; or
  - (b) where the order is in behalf of a client, the Trading Participant has made or has reasonable grounds to believe that the client has made arrangements to ensure that the Qualified Securities are available for delivery on the settlement date.
- 2.07 The Trading Participant upon receiving an order to sell short or when short selling for its own account, must indicate the term "short" on the selling order and throughout all the records pertinent to the sale. A Short

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Selling transaction must be indicated in the automated trading system of the Exchange at the time of the order entry, by entering the letter "S" in the S/L Flag field.

- 2.08 The obligations of Trading Participants under SRC Rule 24.2.2 on "Short Sales", paragraph 5 on "Mandatory Close-Out" shall also be applicable.

**C. Disclosure and Record Keeping**

- 3.01 A Trading Participant who engages in Short Selling activities is required to maintain ledgers, whether in manual or electronic form, to record the full and complete details of all Short Selling transactions whether for its own account or for the account of their clients. In addition, the Trading Participant must maintain a daily summary report of all its short selling activities (*Short Selling Form No.1*).
- 3.02 The ledgers must be kept up-to-date and must be made available anytime for inspection by the Commission or the Exchange upon request.
- 3.03 All Trading Participants are required to maintain such ledgers in accordance with the SRC Rule 52.1 (2) on Records Retention Rule.
- 3.04 The Exchange shall make available to the market after the close of each trading day, through the website, the name of securities and the number of shares sold short for each security.

**D. Prohibitions and Penalties**

- 4.01 No person shall, directly or indirectly, with the use of any facility of the Exchange, effect a short sale of a Qualified Security, where the seller does not intend to make delivery of the securities within the period specified in the contract. Failure on the part of the seller to make delivery on such date will be taken as *prima facie* evidence of the lack of intention on his part to make such delivery.
- 4.02 No director, officer or Principal Stockholder of a corporation shall make a short sale in securities of the corporation in which he is a director, officer or Principal Stockholder.
- 4.03 The Exchange may restrict or prohibit Short Selling indefinitely or for such period of time as it may deem necessary or advisable for the protection of investors and to maintain and ensure an orderly market, with due notice to the Commission.
- 4.04 The Exchange shall reserve the right at its discretion, as it may deem necessary in the public interest or advisable for the protection of investors, to perform any or all of the following:
- (a) to suspend the Short Selling of a particular Qualified Security, provided, that the participants are duly notified thereof;
  - (b) to remove a particular security from the list of Qualified Securities;
  - (c) to impose limits on the number of shares of a particular Qualified Security which may be sold short;
  - (d) to require a Short Selling Trading Participant to cease Short Selling whether temporarily or permanently and either generally or in relation to a particular Qualified Security, provided that the participants are duly notified thereof;
  - (e) to require a Short Selling Trading Participant to liquidate open sold short positions held on his or its own account or for the account of his or its clients either generally or in relation to a particular Qualified Security;
  - (f) to stipulate for the purpose of Rule 4.04(f) the manner by which a Trading Participant will liquidate open sold short positions; and

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- (g) to require a Trading Participant to disclose to the Exchange and the Commission the number of shares of a Qualified Security in which the Trading Participant holds an open sold short position, or the value of borrowed securities sold short, either on his or its own account or for the account of his or its clients.
- (h) to impose other limitations as may be required by the PSE for the maintenance of an orderly market.

4.05 Any Trading Participant who violated any of the provision of these Rules shall be penalized by a fine of not less than Twenty Thousand Pesos (P20,000.00) but not more than Fifty Thousand Pesos (P50,000.00) for each order or transaction; Provided, that where a Trading Participant has been found to have violated any provision of these Rules twice, his trading right may, at the discretion of the PSE, be suspended pursuant to PSE Rules.

Any and all violations of the Rules committed by a Trading Participant shall be immediately reported by the Exchange to the Commission within a reasonable time from the discovery thereof.

The imposition of the foregoing penalties shall not preclude the Commission and/or the appropriate governmental agencies from imposing other penalties under existing laws.

**Part 2 – GUIDELINES for TRADING PARTICIPANTS on SHORT SELLING**

**1. Qualified Securities**

- (a) Only securities included in the list of "Qualified Securities" as determined by the Exchange shall be eligible for Short Selling, in accordance with the following criteria:
  - (1) Market capitalization of at least Php 10 billion; and
  - (2) Tradability – traded 100%, excluding block sales, during the last 6 months prior to the date of approval of the list.
- (b) In cases where derivative products are issued on any listed securities, such securities shall be automatically considered Qualified Securities.
- (c) All constituent stocks of the PSEI which are the underlying index of an equity index product traded on the PSE are deemed Qualified Securities.

**2. Execution of a Short Sale**

All Short Sale transactions must be executed following the "UP TICK RULE" as follows:

No Trading Participant shall use the facility of the Exchange to effect a short sale of any security unless the transaction is:

- (a) at a price higher than the last sale price; or
- (b) at the price of the last sale if and only if that price is above the next preceding different sale on such day.

**3. Disclosure and Reporting.**

The Exchange shall make available, at the end of each trading day, the results of the daily Short Selling transactions through a report similar to the Daily Quotation Report.

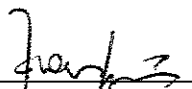



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