



SEC MEMORANDUM CIRCULAR NO. 11

Series of 2018

**SUBJECT: RULES ON THE ADMINISTRATION OF GOVERNMENT SECURITIES
BENCHMARKS**

PREAMBLE

WHEREAS, Section 2 of the Securities Regulation Code (SRC) declares that it is the policy of the State to promote the development of the capital market and protect the investors;

WHEREAS, Section 5 of the Securities Regulation Code (SRC) provides the Commission the power to formulate policies and recommendations on issues concerning securities market;

WHEREAS, the reference rates for the Philippine Peso-denominated government securities are being calculated regularly for use as benchmark rates for financial transactions and for market valuation purposes;

WHEREAS, there is a need to continue to deliberate on the calculation of credible GS reference rates to enhance transparency and pricing, in line with recent global benchmark reform initiatives and the IOSCO Principles for interest rate benchmark design;

WHEREAS, there is a need to promulgate these rules to govern the administration of the Philippine Peso-denominated government securities benchmarks to ensure that the objectives of the SRC are met;

WHEREAS, the SRC authorizes the Commission to issue rules and regulations to make effective the provisions of the SRC;

NOW, THEREFORE, the Commission hereby issues and promulgate the following rules governing the administration of the Philippine Peso-denominated government securities benchmarks.

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CHAPTER I. GENERAL PROVISIONS

Section 1. Title and Applicability – These rules shall be known as the “Rules on the Administration of Government Securities Benchmarks”. These rules shall apply to a legal person which intends to generate an index in relation to Government Securities (“GS”) and which, under these rules, shall obtain the license to perform GS Benchmark Administration.

Section 2. Definition of Terms – For purposes of these Rules, the following definition of terms shall apply unless the context otherwise requires:¹

- a. **Arm’s-length transaction** refers to a transaction between two parties that is concluded on terms that are not influenced by a conflict of interest (e.g., conflicts of interest that arise from a relationship such as a transaction between affiliates).
- b. **Audit trail** (in relation to the benchmark-setting process) refers to the documentation and retention of all relevant data, submissions, and other information, judgments (including the rationale for any exclusions of data), analyses and identities of contributors used in the benchmark-setting process for an appropriate period.
- c. **Benchmark Administration** refers to all stages and processes involved in the production and dissemination of a Benchmark, including:
 - i. Collecting, analyzing, and/or processing information or expressions of opinion for the purpose of the determination of a benchmark;
 - ii. Determining a benchmark through the application of a formula or another method of calculating the information or expressions of opinions provided for that purpose; and
 - iii. Dissemination to users, including any review, adjustment and modification to this process.
- d. **Benchmark Administrator** refers to a legal person that controls the creation and operation of the Benchmark Administration process, whether or not it owns

¹ Definition of terms must be read in conjunction with the Securities Regulation Code and other applicable laws and regulations.

the intellectual property relating to the Benchmark. In particular, it has responsibility for all stages of the Benchmark Administration process, including:

- i. The calculation of the Benchmark;
- ii. Determining and applying the Benchmark Methodology; and
- iii. Disseminating the Benchmark.

e. Benchmark, for purposes of this rule, refers to GS Benchmark which includes prices, estimates, rates, indices or values that are:

- i. Made available to users, whether free of charge or for a fee;
- ii. Calculated periodically, entirely or partially by the application of a formula or another method of calculation of, or an assessment of, the value of one or more underlying interests;
- iii. Used for reference for purposes that include one or more of the following:
 - determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments;
 - determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument; and/or
 - measuring the performance of a financial instrument.

f. Benchmark Publisher refers to a legal entity publishing the benchmark values, which includes making available such values to subscribers, on the internet or by any other means, whether free of charge or not.

g. Calculating Agent refers to a legal entity with delegated responsibility for determining a Benchmark through the application of a formula or other method of calculating the information or expressions of opinions provided for that purpose, in accordance with the methodology set out by the Administrator.

h. Commission refers to the Securities and Exchange Commission.

i. Contributor refers to a legal person contributing data inputs, and/or submissions to the benchmark determination process.

- j. Expert Judgment** refers to the exercise of discretion by an Administrator or Contributor with respect to the use of data in determining a Benchmark. Expert Judgment includes extrapolating values from prior or related transactions, adjusting values for factors that might influence the quality of data such as market events or impairment of a buyer or seller's credit quality, or weighting firm bids or offers greater than a particular concluded transaction.
- k. Front Office Function** refers to any department, division, group, or personnel of Contributor or any of its affiliates, whether or not identified as such, that performs, or personnel exercising direct supervisory authority over the performance of, any pricing (excluding price verification for risk management purposes), trading, sales, marketing, advertising, solicitation, structuring, brokering activities on behalf of a third party or for proprietary purposes.
- l. Interest** refers to the underlying interest the benchmark is trying to measure, and for purposes of this rule, the Philippine Peso-denominated Government Securities.
- m. Market Participants** refers to legal entities involved in the production, structuring, use or trading of financial contracts or financial instruments which form as the bases of the Benchmark, or which reference the Benchmark.
- n. Methodology** refers to written rules and procedures under which information is collected and the Benchmark is determined.
- o. National Authority** refers to a relevant governmental authority, which may not be a market or regulatory authority, but which has the responsibility for or a governmental interest in Benchmark policies.
- p. Organized Market**, as defined under Rule 3.1.14 of the SRC.
- q. Philippine Peso-denominated Government Securities ("GS")** are "treasury bills" and "treasury bonds" issued by the Philippine Government. Treasury Bills

are government securities which mature in less than a year. Treasury Bonds are government securities which mature beyond one year.

- r. **Publish or Make Available*** refers to the act of a party such as an Administrator of providing a document or notice to Stakeholders, and/or the Commission. The means by which such notice is made shall be proportionate to the breadth and depth of Benchmark used by Stakeholders, as determined by the Administrator on a "best efforts" basis. Ordinarily, posting a document or notice on the Administrator's website will meet this definition. .
- s. **Stakeholder*** refers to subscribers and other persons or entities who own contracts or financial instruments that reference a benchmark.
- t. **Submission(s)*** refer to prices, estimates, values, rates, or other information that is provided by a Contributor to an Administrator for the purposes of determining a Benchmark. This excludes data sourced from Organized Market/s.
- u. **Subscriber*** refers to a person or entity that purchases Benchmark determination services from an Administrator.
- v. **Submitter*** a natural person employed by the contributor for the purpose of contributing inputs/submissions to the Benchmark Administrator.

The Commission shall, if necessary, issue further definition of terms to specify other technical elements of the terms laid down in this Chapter.

CHAPTER II. AUTHORIZATION, REGISTRATION AND SUPERVISION OF ADMINISTRATORS AND CONTRIBUTORS

Section 1. Registration/ Licensing of an Administrator

- A. A legal person located in the Philippines that intends to act as an Administrator may, by filing an application using SEC Form 1A-GS-BA with the Commission, apply for an Administrator license authorizing it to administer the GS Benchmark. The applicant shall file the application with the prescribed filing fee.
- B. The Commission may grant the Administrator license if the following conditions are satisfied:
 - (a) the applicant undertakes to comply with its obligations and with the requirements imposed upon an authorized Administrator;
 - (b) the applicant engages individuals who do not suffer any of the disqualifications enumerated in Section 2 of this Chapter;
 - (c) The applicant submits a fair procedure on the denial of access to the contributors or submitters; and
 - (d) The applicant submits the process by which the benchmark information will be made available and accessed by the stakeholders.
- C. The fees to be assessed and collected by the Administrator, if any, shall be subject to the approval by the Commission. The Commission may impose conditions, or additional conditions, on an Administrator license.
- D. The Commission may limit the number of registered Administrators if it deems it necessary or appropriate for the protection of investors and the public interest.
- E. A Central Trade Reporting System (CTRS) is not precluded to apply as an Administrator.

Section 2. Disqualifications of Individuals Involved with the Applicant

Registration/ licensing may be refused, or any registration granted thereunder may be revoked, suspended, or limitations placed thereon, by the Commission if, after due notice and hearing, the Commission determines that an individual that appears to be involved in the applicant and is directly responsible in the administration of the benchmark:

- A. Has been convicted, by a competent judicial or administrative body of an offense involving moral turpitude, fraud, embezzlement, counterfeiting, theft, estafa, misappropriation, forgery, bribery, false oath, or perjury, or of a violation of securities, commodities, banking, real estate or insurance laws;
- B. Is enjoined or restrained by a competent judicial or administrative body from engaging in securities, commodities, banking, real estate or insurance activities or from willfully violating laws governing such activities;
- C. Is subject to an order of a competent judicial or administrative body refusing, revoking or suspending any registration, license, or other permit under any law or rules and regulations administered by the Commission;
- D. Is subject to an order of a self-regulatory organization suspending or expelling him from membership or participation therein or from association with a member or participant thereof;
- E. Has been found by a competent judicial or administrative body to have willfully violated any provisions of securities, commodities, banking, real estate or insurance laws, or has willfully aided, abetted, counseled, commanded, induced or procured such violation; or
- F. Has been judicially declared insolvent.

Section 3. Supervision and Continuing Reporting Requirements

- A. Administrators shall formally reconfirm to the Commission in writing, at least annually, that all systems and procedures set forth in their approved applications are in place.
- B. In instances where material changes have to be made, Administrators shall seek in writing the approval of the Commission of such changes. . The Administrators shall furnish the Commission with the updated documentation of systems and/or procedures that have been changed.
- C. Administrators shall furnish the Commission with the results of periodic reviews conducted on the systems, procedures, and frameworks essential to the benchmark determination process.
- D. Administrators shall report to the Commission any disruption, business continuity activation, or any other event, that could affect the integrity of the benchmark determination process. The report shall include the steps taken, and/or to be taken to remedy the situation. The report must be submitted to the Commission within 5 days from the occurrence of such event.

Section 4. Notification on Certain Matters to the Commission

- A. The Administrator shall, as soon as practicable, notify the Commission in writing of the occurrence of any of the following circumstances:
- (a) Any adverse final judgment in a civil or criminal legal proceedings instituted against the Administrator, whether in the Philippines or elsewhere;
 - (b) Any disciplinary action taken against the Administrator by any regulatory authority other than the Commission, whether in the Philippines or elsewhere;
 - (c) Any change in the regulatory requirements being imposed on the Administrator by any regulatory authority other than the Commission, whether in the Philippines or elsewhere;
 - (d) Where the Administrator suspects that there has been manipulation or attempted manipulation of the benchmark.

For the purposes of this Rule, market manipulation shall comprise the following activities:

- i. transmitting false or misleading information or providing false or misleading inputs in relation to a benchmark where the person who made the transmission or provided the input knew or ought to know that it was false or misleading; and
 - ii. any other behavior which manipulates the calculation of a benchmark"
- B. The Administrator shall, in addition to the notification requirement in paragraph (A), submit to the Commission within ten (10) days after the occurrence of any circumstances in paragraph (A) (a), (b) or (d) above a detailed report on the circumstances, the actions taken, and further actions to be taken, if any.

Section 5. Withdrawal or Suspension of License

- A. The Commission may, after due notice and hearing, withdraw or suspend the authorization or registration of an Administrator where the Administrator:

- (a) expressly renounces the authorization or registration or has provided no benchmarks for 3 consecutive months;
- (b) has obtained the authorization or registration by making false statements or by any other irregular means;
- (c) no longer meets the conditions under which it was authorized or registered; or
- (d) has seriously or repeatedly infringed the provisions of this Rules.

B. Publishing details of suspensions or cancellations of licenses

- (a) The Commission shall publish a notice on the suspension, revocation or revision/change in a Benchmark license.

Following the submission of SEC Form 2W-GS-BA Notice of Withdrawal or receipt of written notice of suspension, the Administrator shall be given a maximum of forty five (45) business days to effect transfer of the functions of the withdrawing Administrator to the successor Administrator which is duly approved by the Commission.

CHAPTER III. GOVERNANCE

Section 1. Overall Responsibility of the Administrator and Oversight of Third Parties

A. Administrators shall be primarily responsible for all aspects of the Benchmark determination process.

(a) An Administrator shall establish written procedures and guidelines concerning its contributors and submitters. The said written procedures and guidelines shall provide for the following:

- i. Description of the information to be submitted by the contributor to the Administrator;
- ii. The policies and procedures concerning submissions; and
- iii. The contributor's responsibility of providing information about the benchmark including the process of reporting manipulation or attempts to manipulate the benchmark.

(b) Where the activities relating to the benchmark determination process are outsourced to third parties, the Administrator shall exercise appropriate oversight over such third parties. The Administrator shall formulate policies and procedures that:

- i. Clearly define and substantiate through appropriate written arrangements the roles and obligations of third parties who participate in the Benchmark determination process, as well as standards of service and expertise that the Administrator expects these third parties to deliver and render;
- ii. Allow the administrator through appropriate written contractual arrangements to access and examine the methodology used by the third parties in calculating the benchmark including the inputs, parameters and assumptions used;
- iii. Make available to stakeholders and the Commission the identity and role of third parties who participate in the benchmark determination process;

- iv. Take reasonable steps, including contingency plans, to avoid undue operational risk related to the participation of third parties in the Benchmark determination process.

The plan and details of such outsourcing shall be submitted and subject to approval of the Commission.

- (c) An Administrator shall not outsource functions, services or activities in the provision of a benchmark in such a way as to impair materially the Administrator's control over the provision of the benchmark or the ability of the Commission or relevant competent authority to supervise the benchmark.
 - (d) Where an Administrator outsources to a third party functions, services or activities in the provision of a benchmark, the Administrator shall remain fully responsible for discharging all of the Administrator's obligations under these Rules.
 - (e) The Administrator may terminate the outsourcing arrangements where necessary, subject to the Administrator's Business Continuity and Disaster Recovery Plan.
- B. All policies and procedures enumerated above, including executed contracts between the Administrator and third parties, must be made available to the Commission upon request.

Section 2. Conflicts of Interest and Control Framework

- A. Administrators shall disclose any existing or potential material conflicts of interest to their users and the Commission, including conflicts of interest arising from ownership or control of the Administrator.
- B. Administrators shall implement an appropriate control framework for the process of determining and distributing the Benchmark. The control framework shall be appropriately tailored to the materiality of the potential or identified existing conflicts of interest, the extent of the use of discretion in the benchmark setting process and

- iv. Take reasonable steps, including contingency plans, to avoid undue operational risk related to the participation of third parties in the Benchmark determination process.

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to the nature of Benchmark inputs and outputs. The control framework shall be documented and be made available to the Commission and other relevant stakeholders.

Specifically, the control framework shall include, at the minimum, the following:

- (a) Framework for the Identification, Disclosure, Management, Mitigation or Avoidance of Conflicts of Interest.
- (b) Arrangements to promote the integrity of Benchmark determination, such as:
 - i. Arrangements to ensure the quality and integrity of benchmarks;
 - ii. Arrangements to promote the integrity of benchmark inputs, including adequate due diligence on input sources;
 - iii. Arrangements to ensure effective accountability and complaints mechanisms; and
 - iv. Framework providing robust infrastructure, policies and procedures for the management of risks (including operational risk).
- (c) An effective whistleblower mechanism to facilitate early awareness of any potential misconduct or irregularities that may arise.
- (d) Expertise
 - i. Ensuring that benchmark determinations are made by personnel who possess the relevant levels of expertise, with a process for periodic review of their competence; and
 - ii. Staff training, including ethics and conflicts of interest training, and continuity and succession planning for personnel.

This control framework shall be reviewed periodically and updated as the Administrator deems appropriate.

- C. In instances where a conflict of interest arises within an Administrator due to the latter's ownership structure, controlling interests or other activities conducted by any

entity owning or controlling the Administrator or by an entity that is owned or controlled by the Administrator or any of the Administrator's affiliates, that cannot be adequately mitigated, the Commission may require the Administrator to establish an independent oversight committee or body, which shall be composed of a balanced representation by stakeholders, including users and contributors.

- D. If such a conflict of interest cannot be adequately managed, the Commission may require the Administrator to either cease the activities or relationships that create the conflicts of interest or cease providing the benchmark.
- E. Where a Benchmark is also based on submissions, Administrators shall promote the integrity of inputs by:
 - (a) Ensuring as far as possible that contributors comprise an appropriately representative group of participants taking into consideration the underlying interest measured by the benchmark;
 - (b) Employing a system of appropriate measures so that, to the extent possible, contributors comply with the submission guidelines, as defined in the Contributor Code of Conduct and the Administrators' applicable quality and integrity standards for Submission;
 - (c) Specifying how frequently submissions shall be made and specifying that inputs or submissions shall be made for every benchmark determination; and
 - (d) Establishing and employing measures to effectively monitor and scrutinize inputs or submissions. This shall include pre-compilation or pre-publication monitoring to identify and avoid errors in inputs or Submissions, as well as ex-post analysis of trends and outliers.

Section 3. Internal Oversight

- A. Administrators shall establish an independent oversight body to review and provide challenge on all aspects of the Benchmark determination process. This shall include consideration of the features and intended, expected or known usage of the benchmark and the materiality of identified existing or potential conflicts of interest.

- B. Administrators shall create a separate committee, or other appropriate governance arrangements whose oversight function and composition shall be appropriate to provide effective scrutiny of the Administrator.
- C. Administrators shall develop and maintain robust procedures regarding its internal independent oversight body/ committee, which shall be documented and made available to the Commission. Such procedures shall provide the following:
- (a) Terms of reference of the oversight function;
 - (b) Criteria to select members of the internal independent oversight body, including eligibility requirements and minimum qualifications; and
 - (c) Organizational framework, including reporting lines; and Summary details of membership of any committee or arrangement charged with the oversight function, along with any declarations of conflicts of interest and processes for election, nomination or removal and replacement of committee members.
- D. At the minimum, the oversight function shall:
- (a) Have oversight of the benchmark design through:
 - i. Periodic review of the definition of the benchmark and its methodology;
 - ii. Taking measures to remain informed about issues and risks to the benchmark, as well as commissioning external reviews of the Benchmark;
 - iii. Overseeing any changes to the benchmark methodology, including assessing whether the methodology continues to appropriately measure the underlying interest, reviewing proposed and implemented changes to the methodology, and authorizing or requesting the Administrator to undertake a consultation with stakeholders where known or its subscribers on such changes; and
 - iv. Reviewing and approving procedures for termination of the benchmark, including guidelines that set out how the Administrator shall consult with stakeholders about such cessation.
 - (b) Have oversight of the integrity of the benchmark determination and control framework through:

- i. Overseeing the management and operation of the benchmark, including activities related to benchmark determination outsourced to a third party;
 - ii. Considering the results of internal and external audits and following up on the implementation of remedial actions highlighted in the results of these audits; and
 - iii. Overseeing any exercise of expert judgment by the Administrator and ensuring published methodologies have been followed.
- E. Where a Benchmark is also based on submissions, the oversight function shall provide suitable oversight and challenge of the submissions by:
 - (a) Overseeing and challenging the scrutiny and monitoring of inputs or Submissions by the Contributor. This may include regular discussions of inputs or Submission patterns, defining parameters against which inputs or submissions can be analyzed, or querying the role of the Administrator in challenging or sampling unusual inputs or submissions;
 - (b) Overseeing the Code of Conduct for Contributors;
 - (c) Establishing effective arrangements to address breaches of the Code of Conduct for Contributor and Submitters; and
 - (d) Establishing measures to detect potential anomalous or suspicious submissions activities, to report them, as well as any misconduct by contributor or submitters of which it becomes aware, to the Commission.

Section 4. Business Continuity and Disaster Recovery Plan

- A. An Administrator shall put in place a comprehensive Business Continuity and Disaster Recovery Plan (BCDR) to ensure that the possibility of disruptions to the benchmark determination process are minimized, and addressed adequately whenever they arise.
- B. An Administrator shall review the procedures and systems in its BCDR on a regular basis as specified in its BCDR.

CHAPTER IV. QUALITY OF THE BENCHMARK

Section 1. Benchmark Design

- A. Benchmark design shall take into account the following:
- (a) Adequacy of the sample used to represent the Interest;
 - (b) Size and liquidity of the relevant market (for example whether there is sufficient trading to provide observable, transparent pricing);
 - (c) Relative size of the underlying market in relation to the volume of trading in the market that references the Benchmark;
 - (d) The distribution of trading among market participants; and
 - (e) Market dynamics (e.g., to ensure that the benchmark reflects changes in the assets underpinning the benchmark).

Section 2. Data Sufficiency

- A. The data used to construct the Benchmark should be sufficient and reliably represent the interest measured by the Benchmark and should:
- (a) Be based on prices, rates, indices, or values that have been formed by the competitive forces of supply and demand in order to provide confidence that the price discovery system is reliable; and
 - (b) Be anchored by observable transactions entered into arm's length between buyers and sellers in the market for the interest of the benchmark measures in order for it to function as a credible indicator of prices, rates, indices, or values.
- B. If transaction data is not sufficient or is not appropriate to represent accurately and reliably the market that the benchmark is intended to measure, input data, which is not transaction data may be used, including estimated prices, quotes, executable bids, or other values.

Section 3. Hierarchy of Data Inputs

- A. Administrators shall establish and publish clear guidelines regarding the hierarchy of data inputs and exercise of expert judgment used for the determination of benchmarks. In general, the hierarchy of data inputs shall include:
- (a) Where the benchmark is dependent upon submissions, the contributors' own concluded arms-length transactions in the underlying interest or related markets;
 - (b) Reported or observed concluded Arm's-length transactions in the underlying interest;
 - (c) Reported or observed concluded Arm's-length transactions in related markets;
 - (d) Firm (executable) bids and offers; and
 - (e) Other market information or expert judgments.

Section 4. Transparency of Benchmark Determinations

- A. The Administrator shall describe and publish with each benchmark determination, to the extent reasonable without delaying an Administrator publication deadline:
- (a) A concise explanation sufficient to facilitate a Stakeholder's ability to understand how the determination was developed, including, at a minimum, the size and liquidity of the market being assessed (meaning the number and volume of transactions submitted), the range and average volume and range and average of price, and indicative percentages of each type of market data that have been considered in Benchmark determination; including the terms referring to the pricing methodology e.g., transaction-based, spread-based or interpolated/extrapolated; and
 - (b) A concise explanation of the extent to which and the basis upon which expert judgment, if any, was used in establishing a benchmark determination.

Section 5. Periodic Review

- A. The Administrator shall submit a written report to the Commission on the result of a third party validation before use and if there are significant changes in the methodology.

- B. The Administrator shall periodically review the conditions in the underlying interest that the benchmark measures, at least annually, to determine whether the interest has undergone structural changes that might require changes to the design of the Methodology. The review shall also include an assessment of whether the interest has diminished or is non-functioning such that it can no longer function as the basis for a credible benchmark.

CHAPTER V. QUALITY OF THE METHODOLOGY

Section 1. Content of the Methodology

- A. The Administrator shall document and publish or make available the methodology used to make benchmark determinations. The Administrator shall provide the rationale for adopting a particular methodology. The published methodology should provide sufficient detail to allow stakeholders to understand how the benchmark is derived and to assess its representativeness, its relevance to particular stakeholders, and its appropriateness as a reference for financial instruments.

At a minimum, the methodology shall contain:

- (a) Definition of key terms;
- (b) All criteria and procedures used to develop the Benchmark, including input selection, the mix of inputs used to derive the Benchmark, the guidelines that control the exercise of Expert Judgment by the Administrator, priority given to certain data types, minimum data needed to determine a benchmark, and any models or extrapolation methods;
- (c) Procedures and practices designed to promote consistency in the exercise of expert judgment between benchmark determinations;
- (d) The procedures which govern Benchmark determination in periods of market stress or disruption, or periods where data sources may be absent (eg. Theoretical estimation models);
- (e) The procedures for dealing with error reports, including when a revision of benchmark would be applicable;
- (f) Information regarding the frequency for internal reviews and approvals of the methodology. Where applicable, the published methodologies shall also include information regarding the procedures and frequency for external review of the methodology;
- (g) The circumstances and procedures under which the Administrator will consult with stakeholders, as appropriate; and
- (h) The identification of potential limitations of a Benchmark, including its operation in illiquid or fragmented markets and the possible concentration of inputs.

- B. Where a benchmark is based on submissions, the Administrator shall clearly establish criteria for including and excluding contributors. These criteria shall be available to the SEC, and published or made available to stakeholders. Any provisions related to changes in composition, including notice periods should be made clear.

Section 2. Changes to the Methodology

- A. An Administrator shall publish or make available the rationale of any proposed material change in its methodology, and procedures for making such changes. These procedures should clearly define what constitutes a material change, and the method and timing for consulting or notifying subscribers (and other stakeholders where appropriate, taking into account the breadth and depth of the Benchmark's use) of changes.
- B. Those procedures should be consistent with the overriding objective that an Administrator must ensure the continued integrity of its benchmark determinations. When changes are proposed, the Administrator shall specify exactly what these changes entail and when they are intended to apply.
- C. The Administrator shall specify how changes to the Methodology will be scrutinized, by the oversight function.
- D. The Administrator shall develop stakeholder consultation procedures in relation to changes to the methodology that are deemed material by the oversight function, and that are appropriate and proportionate to the breadth and depth of the benchmark's use and the nature of the stakeholders. Procedures shall:
 - (a) Provide advance notice and a clear timeframe that gives stakeholders sufficient opportunity to analyze and comment on the impact of such proposed material changes, having regard to the Administrator's assessment of the overall circumstances; and
 - (b) Provide for stakeholders' summary comments, and the Administrator's summary response to those comments, to be made accessible to all stakeholders after any given consultation period, except where the commenter has requested confidentiality.

Section 3. Transition

- A. Administrators shall have clear written policies and procedures, to address the need for possible cessation of a benchmark. These policies and procedures should be

proportionate to the estimated breadth and depth of contracts and financial instruments that reference a benchmark and the economic and financial stability impact that might result from the cessation of the benchmark. The Administrator shall take into account the views of stakeholders and relevant regulatory and national authorities in determining what policies and procedures are appropriate for a particular benchmark. These policies and procedures shall be published or made available to all stakeholders.

B. Administrators' written policies and procedures to address the possibility of benchmark cessation could include:

- (a) Criteria to guide the selection of a credible, alternative benchmark;
- (b) Practicality of maintaining parallel benchmarks
- (c) Procedures that the Administrator would follow in the event that a suitable alternative cannot be identified;
- (d) In the case of a benchmark or a tenor of a benchmark that will be discontinued completely, the policy defining the period of time in which the benchmark will continue to be produced in order to permit existing contracts to migrate to an alternative benchmark, if necessary; and
- (e) The process by which the Administrator will engage stakeholders and relevant market and national authorities, as appropriate, in the process for selecting and moving towards an alternative benchmark, including the timeframe for any such action commensurate with the tenors of the financial instruments referencing the benchmarks and the adequacy of notice that will be provided to stakeholders.

Section 4. Contributor Code of Conduct

A. Where a benchmark is also based on submissions, the Administrator shall develop guidelines for Contributors ("Contributor Code of Conduct"), which shall be available to the Commission and published or made available to stakeholders.

B. The Administrator shall only use inputs or submissions from entities which adhere to the contributor code of conduct and the Administrator should appropriately monitor and record adherence of contributors. The Administrator shall require contributors to

confirm adherence to the Contributor Code of Conduct annually and whenever a change to the Contributor Code of Conduct has occurred.

C. The Administrator's oversight function shall be responsible for the continuing review and oversight of the Contributor Code of Conduct.

D. The Contributor Code of Conduct shall address:

- (a) The selection of inputs;
- (b) Who may submit data and information to the Administrator;
- (c) Quality control procedures to verify the identity of the contributor and any employee(s) of a contributor who report(s) data or information and the authorization of such person(s) to report market data on behalf of a Contributor;
- (d) Criteria applied to employees of a contributor who are permitted to submit data or information to an Administrator on behalf of a contributor ;
- (e) Policies to discourage the interim withdrawal of contributors from surveys or panels;
- (f) Policies that ensure contributors to submit all relevant data; and
- (g) The Contributors' internal systems and controls, which shall include:
 - i. Procedures for submitting inputs, including methodologies to determine the type of eligible inputs, in line with the Administrator's Methodologies;
 - ii. Procedures to detect and evaluate suspicious inputs or transactions, including intergroup transactions, and to ensure the Bona Fide nature of such inputs, where appropriate;
 - iii. Policies guiding and detailing the use of Expert Judgment, including documentation requirements;
 - iv. Record-keeping policies;
 - v. Pre-submission validation of inputs and procedures for multiple reviews by senior staff to check inputs;
 - vi. Training, including training with respect to any relevant regulation (covering benchmark regulation or any market abuse regime);
 - vii. Suspicious submission reporting;
 - viii. Roles and responsibilities of key personnel and accountability lines;
 - ix. Internal sign off procedures by management for submitting inputs;

- x. Whistleblowing policies; and
- xi. Conflicts of interest procedures and policies, including prohibitions on the submission of data from Front Office Functions unless the Administrator is satisfied that there are adequate internal oversight and verification procedures for Front Office Function submissions of data to an Administrator.

Section 5. Internal Controls over Data Collection

- A. When an Administrator collects data from any external source the Administrator shall ensure that there are appropriate internal controls over its data collection and transmission processes. These controls should address the process for selecting the source, collecting the data and protecting the integrity and confidentiality of the data. Where Administrators receive data from employees of the front office function, the Administrator should seek corroborating data from other sources.

CHAPTER VI. ACCOUNTABILITY

Section 1. Complaints Procedure

- A. The Administrator shall establish and publish or make available a written complaints procedure policy, by which stakeholders may submit complaints including concerning whether a specific benchmark determination is representative of the underlying interest it seeks to measure, applications of the methodology in relation to a specific benchmark determination(s) and other Administrator decisions in relation to a benchmark determination.
- B. The complaints procedure shall:
 - (a) Permit complaints to be submitted through a user-friendly complaints process such as an electronic submission process;
 - (b) Contain procedures for receiving and investigating a complaint made about the Administrator's benchmark determination process on a timely and fair basis by personnel who are independent of any personnel who may be or may have been involved in the subject of the complaint, advising the complainant and other relevant parties of the outcome of its investigation within a reasonable period and retaining all records concerning complaints;
 - (c) Contain a process for escalating complaints, as appropriate, to the Administrator's governance body; and
 - (d) Require all documents relating to a complaint, including those submitted by the complainant as well as the Administrator's own record, to be retained for a minimum of five years, subject to the Records Retention Rule.
- C. The Administrator shall notify in writing the Commission of any written complaints received from stakeholders and action taken thereon by the Administrator with respect thereto every 15th of the month. Duplicate copies of the complaints shall be attached to the report.

Section 2. Compliance

- A. The Administrator shall appoint an independent audit and compliance officer with appropriate experience and capability to periodically review and report on the Administrator's adherence to its stated criteria and with the principles. The frequency of audits shall be proportionate to the size and complexity of the Administrator's operations.
- B. Where appropriate to the level of existing or potential conflicts of interest identified by the Administrator, an Administrator shall appoint an independent external auditor with appropriate experience and capability to periodically review and report on the Administrator's adherence to its stated methodology. The frequency of audits shall be proportionate to the size and complexity of the Administrator's benchmark operations and the breadth and depth of benchmark use by Stakeholders.
- C. The Administrator shall file with the Commission reports of its periodic audit reviews, within ten (10) days from the completion of such review. The auditors' report shall include findings and recommendations of the auditors, if any, on the following:
 - (a) Compliance of the Administrator to its policies and procedures pertaining to its business of administering a benchmark;
 - (b) Internal controls of the Administrator; and
 - (c) Non-compliance of the Administrator of any provisions of these Rules and any other relevant rules and regulations.
- D. Where material revisions to the benchmark determination process are detected, the Administrator shall submit to the Commission for prior approval any proposed amendment to the benchmark arising from such findings, including the rationale for the revisions.
- E. Nothing herein shall preclude the Commission from requiring other information that it may deem consistent with public interest.

- F. The Commission may, on its own initiative, conduct periodic reviews on the Administrator's adherence to its stated criteria and principles to check if the Administrator is fulfilling its duties and responsibilities.

Section 3. Audit Trail

- A. Written records shall be retained by the Administrator for 5 years, subject to applicable national legal or regulatory requirements on:

- (a) All market data, submissions and any other data and information sources relied upon for benchmark determination;
- (b) The exercise of expert judgment made by the Administrator in reaching a benchmark determination;
- (c) Other changes in or deviations from standard procedures and methodologies, including those made during periods of market stress and disruption;
- (d) The identity of each person involved in producing a benchmark determination; and
- (e) Any queries and responses relating to data inputs.

If these records are held by a regulated market or exchange the Administrator may rely on these records for compliance with this principle, subject to appropriate written record sharing agreements.

- B. When a benchmark is also based on submission, contributors shall retain records for 5 years subject to applicable national legal or regulatory requirements on:

- (a) Procedures and methodologies governing the submission of inputs;
- (b) The identity of any person who submitted or otherwise generated any of the data or information provided to the Administrator;
- (c) Names and roles of individuals responsible for submission and submission oversight;
- (d) Relevant communications between submitting parties;
- (e) Any interaction with the Administrator;
- (f) Any queries received regarding data or information provided to the Administrator;

- (g) Declaration of any conflicts of interests and aggregate exposures to benchmark related instruments;
- (h) Exposures of individual traders/desks to benchmark related instruments in order to facilitate audits and investigations; and
- (i) Findings of external/internal audits, when available related to Benchmark Submission, remedial actions and progress in implementing them.

CHAPTER VII. MISCELLANEOUS AND OTHER PROVISIONS

Section 1. Reports to be filed by the Administrator

- A. An Administrator shall file to the Commission a copy of the following:
- (a) Annual report within 30 days after the end of its fiscal year;
 - (b) Audited Financial Statements;
 - (c) Quarterly Financial Statements within 45 days after the end of the quarter;
 - (d) Report on how the Administrator has discharged its responsibilities under these Rules during the year within 30 days after the end of its fiscal year; and
 - (e) Other reports and records as may be required by the Commission from time to time.

Section 2. Sanctions and Penalties for Non-Compliance

- A. If the Commission finds that there is a violation of any provision of this Rule or any applicable rules under the SRC, or that any person, in the application form or its supporting papers, as well as in the periodic reports required to be filed with the Commission has made any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or refuses to permit any lawful examination into its corporate affairs or perform acts done with an intention to influence the level at which a financial benchmark is generated, and making a false or misleading statement that could affect a benchmark shall subject a covered company or person to the administrative sanctions provided under Section 54 of the SRC. Further, the Commission shall, in its discretion impose additional sanctions provided by law aside from those established by existing regulations.

Section 3. Separability Clause

If any portion or provision of this Rules is declared unconstitutional or invalid, the other portions or provisions hereof, which are not affected thereby shall continue in full force and effect.

Section 4. Transitory Provision

The existing calculating agent shall be allowed to perform its role as calculating agent until such time that a new calculating agent has been appointed by a registered Benchmark Administrator or the Commission in the absence of a Benchmark Administrator.

Section 5. Effectivity

These rules shall take effect fifteen (15) days after the date of last publication in two (2) newspapers of general circulation in the Philippines.

Pasay City, Metro Manila, 22 August 2018.


EMILIO B. AQUINO
Chairperson 

Registration as a Government Securities Benchmark Administrator:

Exhibit A. Board Resolution attesting to particulars in the application.

Exhibit B. Copies of identity cards/passports of directors and persons who control more than 10% of the applicant.

Exhibit C. Copy of the articles of incorporation with all amendments thereto, and of existing by-laws or instruments corresponding thereto, whatever the name, of the organization.

Exhibit D. Copy of Administrator's rules, policies and procedures² to be submitted to SEC for approval pursuant to procedures set forth in the Code and IRR. Administrator Rules should provide for the following items:

- (1) Organization and governance;
- (2) qualification and rights of shareholders;
- (3) qualification of contributors and submitters;
- (4) ethical conduct of contributors and submitters;
- (5) supervision of contributors and submitters;
- (6) operational responsibilities of contributors;
- (7) rights of subscribers;
- (7) a list of sanctions/fines for violative conduct of contributors and submitters.

² Refer to the requirements in the Rules for the Administration of Government Securities Benchmarks

(8) Identification and description of fair procedure for disciplining contributors and submitters and the penal and/or schedule of sanctions;

(9) Identification and description of procedures (and systems to be used, if any) to prevent and/or detect fraudulent and manipulative acts and practices.

Exhibit E. Copy of the articles of incorporation with all amendments thereto, and of existing by-laws or rules or instruments corresponding thereto, whatever the name, of each affiliate and subsidiary listed in answer to Item 7 of the Statement.

Exhibit F. Original signed copy of the applicant's audited balance sheet and statement of income and expenses, and all notes and schedules thereto as of the last fiscal year.

Exhibit G. A complete set of all forms pertaining to application for contributor and submitter to the Administrator.

Exhibit I. List and explanation of all dues, fees and charges for Benchmark Administration activities.

Exhibit J. The organizational chart of the Applicant, indicating filled and unfilled position and the identity of persons presently occupying the title or position. The Chart should be accompanied by the list of qualifications/requirements and Statement of Duties and Responsibilities for each position/item.

Exhibit K. List of present officers, members of all standing committees, or persons performing functions similar to any of the foregoing, whatever their title or technical status may be, of the Applicant, who presently hold or have their offices or positions during the previous year, including for each:

(1) Name;

(2) Title;

(3) Dates of commencement and termination of office or position;

(4) Length of time each has held the same position or office;

(5) Type of business in which each is primarily engaged.

Exhibit L. List of the present officers, directors, members of all standing committees or persons performing functions similar to any of the foregoing, whatever their title or technical status may be of each affiliate and subsidiary listed in answer to Item 7 of the Statement, including for each:

(1) Name;

(2) Title.

Exhibit M. List of the names of contributors and of current applications to become contributors.

Exhibit N. Complete set of all forms pertaining to copies of proposed contributor agreement/s. Contributor agreement/s should address issue on data ownership and consistency of providing data to the Administrator.

Exhibit O. Detailed plan of operation and justification for operating as GS Benchmark Administrator. This should include the target contributors and subscribers.

Exhibit P. Comprehensive Information Technology Plan, to include among others, list and brief description of the following: software and hardware to be primarily used by GS Benchmark Administrator and their location; back-up system or sub-system and their location; security system and procedures to be employed; procedures to check sufficiency of system's capacity and expansion program, if necessary; and, IT system maintenance schedule.

Exhibit Q. Business Continuity and Disaster Recovery Plan.

Exhibit R. Risk Management Manual and Internal Control Procedures.

Exhibit S. The following undertakings executed by the President of the applicant:

- (1) That the applicant will comply and enforce compliance by its contributors with the provisions of the SRC, its implementing rules and regulations and the rules of the Administrator, as well as with any terms and conditions imposed by the Commission in connection with registration of the applicant;
- (2) To subject the information technology, business continuity and disaster recovery, risk management systems to regular review and audit by independent firm at least once every three (3) years and such other frequency that the Commission may deem necessary. The results of said review and audit shall be submitted to the Commission;
- (3) Statement of Readiness and Undertaking to link the proposed system with other capital market participants within and outside of the Philippines.
- (4) That the organization will engage in active cooperation within and among, and electronic integration of the records of, all participants in the securities market to ensure transparency and facilitate exchange of information.

Exhibit T. Copies of any proposed Memorandum of Understanding with any other GS Benchmark Administrator clarifying oversight responsibilities over persons who are contributors in more than one GS Benchmark Administrator.

Exhibit W. Brief description as to any material pending legal proceeding affecting the applicant directly or to which any of its properties or assets, directors, or officers is part of the case.