



BANGKO SENTRAL NG PILIPINAS

**OFFICE OF THE DEPUTY GOVERNOR
SUPERVISION AND EXAMINATION SECTOR**

MEMORANDUM NO. M – 2011 – 047

To : ALL BANKS

Subject : Segregation of Securities Brokering, Dealership and Underwriting Activities

Considering that a number of banks have been licensed to simultaneously engage in securities brokering, dealing and/or underwriting activities, BSP, as banking supervisor, must ensure that the performance by banks of such securities activities will not endanger the interests of the depositors and other creditors of the bank. Banks are therefore enjoined to observe proper segregation of these functions consistent with the following rules and regulations:

1. Section X101 of the Manual of Regulations for Banks (MORB) provides, among others, that:

“A UB may perform the functions of an IH either directly or indirectly through a subsidiary IH; in either case, the **underwriting** of equity securities and **securities dealing** shall be subject to pertinent laws and regulations of the Securities and Exchange Commission (SEC): *Provided*, That if the IH functions are performed directly by the UB, **such functions shall be undertaken by a separate and distinct department or other similar unit in the UB: *Provided, further***, That a UB cannot perform such functions both directly and indirectly through a subsidiary.” (Emphases added)

2. Considering that these authorized activities relate to securities, the provisions of the Securities Regulation Code (SRC) are also applicable. Pertinent to the segregation of functions, SRC Rule 34.1 provides, among others, that:

“1. Segregation of Broker and Dealer Function. Affiliations and Practices.

- A. A Member Broker of an Exchange (herein referred to as “Member Broker”) shall not effect any transaction on such Exchange for its own account, the account of an associated person, salesmen, or any other person associated with the Member Broker, including affiliated persons, or an account with respect to which an associated person

exercises investment discretion, unless it complies with the 'Customer First' Policy xxx."

"2. Segregation of Functions (Chinese Walls)

'Any Broker Dealer which assumes more than one function whether as dealer, adviser, or underwriter, or which engages in market making transactions, shall maintain proper segregation of those functions within the firm to prevent:

- 'i. the flow of information between the different parts of its organization which perform each function; and
- 'ii. any conflict of interest which may result."

All banks which are non-compliant with the above-quoted provisions of law and rules/regulations should undertake steps for immediate compliance. Failure to comply may be considered unsafe and unsound banking practice, subject to imposition of penalties under the law and existing rules/regulations.

For information and guidance.


NESTOR A. ESPENILLA, JR.
Deputy Governor

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