PTI Newsletter

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In this February 2007 issue of the PTI Newsletter, we would like to inform you about the details and modifications of the Clearing and Settlement functions of the Post Trade Integration (PTI) system. There is no additional change in some functions.

Clearing & Settlement (CnS)

Gross Settlement

The Gross Settlement function is the clearing and settlement process generated to support transactions with high value (currently, at THB 50 million for the equity market) while clearing and settlement is processed transaction by transaction. However, the clearing and settlement of all transactions of the government bonds is processed only by the gross settlement method because the trading value is high. The clearing and settlement principle applied in this case is the DVP (Delivery versus Payment), which means that the payment must be done before securities are delivered. Members may choose to process the gross settlement transaction by indicating settlement date on the Post Trade system 's screen.

Modification – No change from the current system

Net Trading

Netting is the processing method to find clearing and settlement information on net total for each securities or each member. This netting method applies for securities trading on The Stock Exchange of Thailand and Bond Exchange.

Modification – No change from the current system

Netting 2 or Net Custodian

Netting 2 or Net Custodian processes transactions received from the trading system, combining them with allocation transactions, which have been confirmed. The PTI system enables its members to simulate a situation at the settlement time so they can know their positions and the extent to which there will be unwound transactions, if any, before the actual settlement time.

Modification – Add new function: “Netting Position Simulation”

Settlement and Payment

At settlement, the system processes the net total of both payment and securities for the last time, which is called “Final Netting”. Then the system automatically transfers securities from the primary depository account to clearing account by transferring from portfolio depository account to portfolio clearing account and from client ’s primary depository account to clearing client account of PTI members, which is called “Auto-Sweeping”. After that, the system deducts securities from the clearing account of the net sales amount. If members do not have enough securities to deliver, the system automatically borrows securities. If securities are enough to cover the amount sought, the system will process payment. If financial transactions are ready, the system will transfer securities to members with net buy amounts and automatically transfer them from clearing accounts back to depository accounts.

Modification – Add new function “Auto Sweeping” and change the borrowing system for settlement coverage by connecting it with Securities Borrowing and Lending (SBL) system.

Allocation

The allocation transaction is called “Clearing to Custodian” in the Securities Depository Center (SDC). There are several types of allocation in PTI ‘s system, as per the following:

: Swap (F ⟶ L)

: Swap (L ⟶ F, R ⟶ F)

: Convert (F ⟶ L)

: *Convert (L ⟶ F, R ⟶ F)* (additional to the SDC system)

: To Send Allocation

: To Receive Allocation

: Transfer

: NVDR and TTF Late Settlement

Modification – Add function “*Convert (L ⟶ F, R ⟶ F)*”

NVDR Adjustment

NVDR Adjustment is a new function for cases in which that NVDR trading is in default; members can directly correct the default through the PTI system without generating another trading transaction to do the crossing in the trading system. This transaction correction is allowed from 17:30 hours of the trading date to the second day after the trading day (T+2). The trading system unit, SET receives transaction correction report daily.

Modification – New function for directly correcting defaults on NVDR trading transactions, not through the trading system

Collateral Management

When defaults in securities clearing and settlement occur, the system will retain the collateral by dividing default types into default on securities or default on payment.

Modification – No change from the current system.

Cover Fail (Buy-in)

On the clearing and settlement date (T+3), the system verifies each member ‘s account balance, which shows default transactions after the settlement and checks transactions with negative balances. If there is a negative balance, the clearinghouse must find securities to deliver to the defaulter. Firstly, the clearinghouse will process SBL (Securities Lending and Borrowing) transactions or find securities from other members in the depository system. If cannot find securities to deliver, the clearinghouse will force the purchase of securities to deliver in case of default (Buy-in) one working day after the due date for clearing and settlement of equity and debt instruments. The penalty fee is charged to the defaulting member by calculating from the defaulting date until the date that securities are delivered.

Modification - Next day buy-in, same day settlement (no change)

SBL as Last Resort

When securities clearing and settlement defaults occur, the PTI system will generate and send a “Borrowing Application” to the Securities Borrowing and Lending (SBL) system. The SBL system will borrow securities from the actual lender while the clearinghouse will become the counter party as a lender to the defaulting party.

Modification - Create borrowing request and interface with the SBL system to lend securities