PHILIFINTECH INNOVATION OFFICE

NOTICE

NOTICE OF THE OPENING OF APPLICATIONS FOR PARTICIPATION IN THE SEC STRATEGIC SANDBOX (STRATBOX) FOR THE ELECTRICITY DERIVATIVE MARKET (EDM)

The Securities and Exchange Commission (SEC) is pleased to announce that it will be opening applications for participation in the SEC Strategic Sandbox (StratBox) for the pilot implementation of an **Electricity Derivative Market (EDM)** platform, pursuant to SEC Memorandum Circular No. 09-2024 dated 25 April 2024, in coordination with the Department of Energy (DOE) and the Energy Regulatory Commission (ERC). The thematic sandbox is intended to provide a controlled and supervised environment for the testing of an EDM platform and related arrangements, in order to support evidence-based regulatory development in this emerging area.

Purpose and Objectives

The thematic StratBox for the Electricity Derivative Market is being opened for the following purposes:

- **Facilitation of Responsible Innovation -** To support responsible innovation in the development of financial products, services, and market infrastructure relating to electricity-linked derivative instruments.
- **Controlled Regulatory Testing -** To provide a controlled and supervised environment within which an eligible proponent may test and pilot an EDM platform, including its governance, operational, compliance, and risk management arrangements.
- **Regulatory Learning and Framework Development -** To enable the SEC to gather data, supervisory insights, and implementation experience that may inform the development of an appropriate regulatory framework for electricity-linked derivatives and related platform activity in the Philippines.
- **Investor Protection, Market Integrity, and Inter-Agency Coordination -** To ensure that innovation is pursued in a manner consistent with investor protection, sound risk management, market integrity, and appropriate coordination with the DOE and ERC.

Scope of the Thematic Sandbox

The thematic StratBox shall cover proposals for the establishment and pilot operation of an Electricity Derivative Market platform involving derivative instruments based on transparent and verifiable Wholesale Electricity Spot Market (WESM) price indices.

For the pilot phase, participation shall be limited to **Retail Electricity Suppliers**, without prejudice to any future regulatory determination on possible expansion to Distribution Utilities or other market participants.

For avoidance of doubt, the EDM shall operate strictly as a financial market and shall not influence or affect WESM operations, including dispatch schedules, price formation, or settlement outcomes. Trading activity under the sandbox shall likewise not distort WESM spot market outcomes or influence physical market behavior.

Minimum Conditions Applicable to the Thematic Sandbox

All proponents and participants shall be subject to the following minimum conditions:

1. **Consumer Protection -** Any financial losses incurred by participants in the EDM shall not be passed on to consumers without prior approval of the ERC.
2. **Non-Interference with WESM Operations -** The EDM must operate independently of physical electricity market operations and must not influence dispatch, price formation, or settlement outcomes in the WESM.
3. **No Assumption of Government Liability -** All financial risks arising from participation in the EDM shall be borne solely by the participants. The SEC, DOE, and ERC shall not assume any liability in connection with sandbox participation or EDM operations, including during the sandbox period.
4. **Regulatory Oversight -** All EDM activities under the thematic sandbox shall remain subject to SEC oversight, with appropriate coordination with the DOE and the ERC.
5. **WESM Price Benchmarks -** All derivative instruments proposed under the sandbox shall be based on transparent and verifiable WESM price indices.
6. **Transparency and Auditability -** The EDM platform shall maintain full transparency in pricing, contract terms, and trade reporting, supported by complete and reliable audit trails.
7. **Risk Controls -** The EDM platform shall implement appropriate safeguards, including margining, collateral arrangements, credit checks, and default procedures, together with such additional controls as may be required by the SEC during the sandbox period.
8. **Participant Eligibility -** Participation shall be limited to entities with demonstrated financial and technical capability appropriate to the nature of the proposed derivatives activity and the requirements of the thematic sandbox.
9. **Prior Regulatory Clearance -** Prior to sandbox implementation, the proponent shall formally submit its proposal to the DOE and the ERC for approval or clearance, as may be applicable.

Eligible Proponents

Applications may be submitted by entities proposing to establish, operate, or support an EDM platform or related market infrastructure within the scope of this thematic sandbox.

Applicants must, at a minimum, demonstrate:

a. a credible and well-defined business and operational model for the proposed EDM platform;
b. adequate governance, compliance, and internal control systems;
c. sufficient technological capability for pricing, trade capture, surveillance, reporting, and auditability;
d. appropriate legal documentation and participant onboarding arrangements;
e. robust risk management measures, including arrangements for collateral, credit, margin, and default management; and
f. readiness to comply with the minimum conditions and supervisory requirements applicable to this thematic sandbox.

Application Process

Interested applicants shall submit their applications using the SEC StratBox Application Form attached as an Annex to SEC Memorandum Circular No. 09-2024. Applications must be fully completed and supported by all required documents.

In addition to the foregoing, applicants are strongly encouraged to include supporting materials covering, as applicable:

a. the proposed structure and operation of the EDM platform;
b. the methodology for the relevant WESM price benchmark or index;
c. participant eligibility standards and onboarding procedures;
d. governance, compliance, and market conduct controls;
e. surveillance mechanisms and controls against manipulation or market abuse;
f. collateral, margining, credit, and default management arrangements;
g. audit trail, trade reporting, and recordkeeping mechanisms; and
h. evidence of submission to, or coordination with, the DOE and the ERC.

Submission and Inquiries

Completed applications and supporting documents shall be submitted electronically to the PhiliFintech Innovation Office through **fintech@sec.gov.ph**. Questions and inquiries regarding this thematic StratBox and the application process may likewise be directed to the same email address.

The SEC encourages all eligible and interested parties to participate in this thematic sandbox and to contribute to the responsible development of a sound, transparent, and well-supervised regulatory environment for electricity-linked derivatives activity in the Philippines.

Issued on 23 April 2026 in Makati City, Philippines.