

AMENDED IMPLEMENTING RULES AND REGULATIONS OF THE SECURITIES REGULATION CODE

SRC Rule 1 – Title of Rules

These Rules shall be referred to as the “Amended Implementing Rules and Regulations of the Securities Regulation Code” or Amended SRC Rules.

SRC Rule 2 – Interpretation of Rules

Any doubt in the interpretation of these Rules shall be resolved by the Commission in a manner which would establish a socially conscious free market that regulates itself, encourage the widest participation of ownership in an enterprise, enhance the democratization of wealth, promote the development of the capital market, protect investors, ensure full and timely disclosure of material information, and/or minimize, if not eliminate, insider trading and other fraudulent or manipulative devices and practices which create distortions in the free market.

SRC Rule 3 – Definition of Terms Used in the Rules and Regulations

1. As used in the rules and regulations adopted by the Commission under the Code, unless the context otherwise requires:
 - A. **Beneficial owner** or **beneficial ownership** means any person who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote, or to direct the voting of such security; and/or investment returns or power, which includes the power to dispose of, or to direct the disposition of such security; provided, however, that a person shall be deemed to have an indirect beneficial ownership interest in any security which is:
 - i. held by members of his immediate family sharing the same household;
 - ii. held by a partnership in which he is a general partner;
 - iii. held by a corporation of which he is a controlling shareholder; or
 - iv. subject to any contract, arrangement or understanding which gives him voting power or investment power with respect to such securities; provided however, that the following persons or institutions shall not be deemed to be beneficial owners of securities held by them for the benefit of third parties or in customer or fiduciary accounts in the ordinary course of business, so long as such shares were acquired by such persons or institutions without the purpose or effect of changing or influencing control of the issuer:
 - a. a broker dealer;
 - b. an investment house registered under the Investment Houses Law;
 - c. a bank authorized to operate as such by the Bangko Sentral ng Pilipinas;
 - d. an insurance company subject to the supervision of the Office of the Insurance Commission;
 - e. an investment company registered under the Investment Company Act;
 - f. a pension plan subject to regulation and supervision by the Bureau of Internal Revenue and/or the Office of the Insurance Commission or relevant authority; and
 - g. a group in which all of the members are persons specified above.

All securities of the same class beneficially owned by a person, regardless of the form such beneficial ownership takes, shall be aggregated in calculating the number of shares beneficially owned by such person.

A person shall be deemed to be the beneficial owner of a security if that person has the right to acquire beneficial ownership, within thirty (30) days, including, but not limited to, any right to acquire, through the exercise of any option, warrant or right; through the conversion of any security; pursuant to the power to revoke a trust, discretionary account or similar arrangement; or pursuant to automatic termination of a trust, discretionary account or similar arrangement.

- B. Bill of Exchange** is an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to order or to bearer.
- C. Code** means the Securities Regulation Code.
- D. Commission** means the Securities and Exchange Commission.
- E. Control** is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of the voting power of an enterprise unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists even when the parent owns one half or less of the voting power of an enterprise when there is:
- i. Power over more than one half of the voting rights by virtue of an agreement with other investors;
 - ii. Power to govern the financial and operating policies of the enterprise under a statute or an agreement;
 - iii. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
 - iv. Power to cast the majority of votes at meetings of the board of directors or equivalent governing body.
- F. Derivative** is a financial instrument whose value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or similar variable or underlying factor. It requires no initial or little net investment relative to other types of contracts that have similar responses to changes in market conditions. It is settled at a future date. This term shall include, but not limited to, the following:
1. **Options** are contracts that give the buyer the right, but not the obligation, to buy or sell an underlying security at a predetermined price, called the exercise or strike price, on or before a predetermined date, called the expiry date, which can only be extended by the Commission upon stockholders' approval.
 2. **Call options** are rights to buy.
 3. **Put options** are rights to sell.
 4. **Warrants** are rights to subscribe or purchase new shares or existing shares in a company on or before a predetermined date, called the expiry date, which can only be extended in accordance with the Commission rules and regulations and/or the Exchange rules. Warrants generally have a longer exercise period than options and are evidenced by warrant certificates.

- G.** An **investment contract** means a contract, transaction or scheme (collectively “contract”) whereby a person invests his money in a common enterprise and is led to expect profits primarily from the efforts of others.
1. An investment contract is presumed to exist whenever a person seeks to use the money or property of others on the promise of profits.
 2. A common enterprise is deemed created when two (2) or more investors “pool” their resources, creating a common enterprise, even if the promoter receives nothing more than a broker’s commission.
- H.** **Long term commercial paper** means an evidence of indebtedness of any person with a maturity of more than three hundred sixty-five (365) days. The term shall include, but not limited to, bonds and notes.
- I.** **Material Fact/Information** means any fact/information that could result in a change in the market price or value of any of the issuer’s securities, or would potentially affect the investment decision of an investor. See Rule 14 (1) for a non-exclusive enumeration of what constitutes material fact or information.
- J.** **Member of an Exchange** means any broker dealer who has the right, pursuant to Exchange rules, to trade on that Exchange.
- K.** **Non-proprietary share or certificate** is an evidence of interest or privilege over a certain property of a corporation in view of the amount paid by the holder for the said share/certificate. While the holder is entitled to the use of the property, he has no right over dividends or of the assets of the company upon liquidation thereof.
- L.** **Proprietary share or certificate** is an evidence of interest or participation or privilege in a corporation which not only entitles the holder to enjoy the use of a specific property but also to dividends or earnings of said company. Upon liquidation of the company, a holder of a proprietary share shall have proportionate ownership right over its assets.
- M.** **Public Company** means any corporation with a class of equity securities listed on an Exchange or with assets in excess of Fifty Million Pesos (P50,000,000.00) and having two hundred (200) or more holders, at least two hundred (200) of which are holding at least one hundred (100) shares of a class of its equity securities.
- N.** **Public Offering** means a random or indiscriminate offering of securities in general to anyone who will buy, whether solicited or unsolicited. Any solicitation or presentation of securities for sale through any of the following modes shall be presumed to be a public offering:
- i. Publication in any newspaper, magazine or printed reading material which is distributed within the Philippines or any part thereof ;
 - ii. Presentation in any public or commercial place;
 - iii. Advertisement or announcement in any radio or television, or in any online or e-mail system; or
 - iv. Distribution and/or making available flyers, brochures or any offering material in a public or commercial place, or mailing the same to prospective purchasers.
- O.** **Reporting company** means a corporation which has sold a class of its securities pursuant to a registration under Section 12 of the SRC, or a public company as defined under subparagraph (M) above.
- P.** **Rules and regulations** refers to all rules and regulations adopted by the Commission pursuant to the Code, including the forms for registration, reports and accompanying instructions thereto.
- Q.** **Section** refers to a section of the Code.

- R. Self-Regulatory Organization or SRO** means an organized Exchange, registered clearing agency or any organization or association registered as an SRO under Section 39 of the Code to enforce compliance with relevant provisions of the Code and rules and regulations adopted thereunder, and mandated to make and enforce its own rules, which have been approved by the Commission, by their members and/or participants. It is an organization that enforces fair, ethical and efficient practices in the securities and commodity futures industries, including securities and commodities exchanges.
- S. Short-term commercial paper** means an evidence of indebtedness of any person with a maturity of three hundred and sixty five (365) days or less.
- T. Transfer agent** means any person who engages on behalf of an issuer of securities, or itself as an issuer of securities, in:
- i. countersigning stock certificates upon issuance;
 - ii. monitoring the issuance of such securities with a view toward preventing unauthorized issuance, a function commonly performed by a person called a registrar;
 - iii. registering the transfer of such securities;
 - iv. exchanging or converting such securities; and/or
 - v. transferring record ownership of securities by bookkeeping entry without physical issuance of securities certificates.
2. Unless otherwise specifically stated, the terms used in the rules and regulations shall have the meaning defined in the Code.
3. A rule or regulation which defines a term without express reference to the Code or to the rules and regulations, or to a portion thereof, defines such term for all purposes as used in the Code and in the rules and regulations, unless the context specifically requires otherwise.

SRC Rule 3.6 – Definition of Clearing Agency

1. **Clearing agency** means any person that provides a facility to a Broker dealer, salesman, associated person of a Broker dealer or another clearing agency and whose facility performs any or all of the following activities:
- A. makes deliveries in connection with transactions in securities;
 - B. reduces the number of settlements of securities transactions or allocates securities settlement responsibilities; and
 - C. provides for the central handling of securities so that transfers, loans, pledges and similar transactions can be made by bookkeeping entry, or otherwise, to facilitate the settlement of securities transactions without physical delivery of securities certificates.
2. As used in this Rule, “facility” includes a clearing agency’s systems, processes or services and all the tangible or intangible properties necessary to operate such system, processes or services, whether within or without its specific physical location, for purposes of performing any or all activities set forth in paragraph 1 of this Rule.
3. A registered clearing agency may perform only the activity or activities that the Commission has previously approved.

SRC Rule 3.7 – Definition of Facility of an Exchange

Facility of an Exchange includes systems, processes or services, tangible or intangible property, whether or not in a specific physical location or in an Exchange, for the purpose of effecting transactions between buyers and sellers in a securities trading market, and conveying any information required by the participants to effect such transactions.

SRC Rule 4 – Securities and Exchange Commission

These Rules shall be implemented by the Commission as a collegial body composed of a Chairperson and four (4) Commissioners.

1. The Commission has five (5) principal departments, each to be headed by a director. Its core function of capital market regulation shall be performed by the Market Regulation Department, Corporation Finance Department, and Non-traditional Securities and Instruments Department. Its company registration and enforcement functions shall be performed by the Company Registration and Monitoring Department and Compliance and Enforcement Department, respectively.
 - A. The Market Regulation Department develops the registration criteria for all market participants and supervises them to ensure compliance with registration requirements and endorses infractions of the Code and rules and regulations to the Compliance and Enforcement Department.
 - B. The Corporation Finance Department registers securities before they are offered for sale or sold to the public and ensures that adequate information is available about the said securities. It also ensures that investors have access to all material disclosures regarding the said offering and the securities of public companies. The department also monitors compliance by issuers with the Code and rules and regulations adopted thereunder and endorses infractions thereof to the Compliance and Enforcement Department.
 - C. The Non-traditional Securities and Instruments Department registers and licenses non-traditional securities and instruments including, but not limited to, pre-need plans, commodity futures contracts, proprietary or non-proprietary membership certificates and other similar instruments. It monitors compliance with related rules and endorses infractions thereof to the Compliance and Enforcement Department.
 - D. The Company Registration and Monitoring Department registers domestic corporations, partnerships and associations, including representative offices and foreign corporations intending to do business in the Philippines. It also supervises and monitors such entities relative to their compliance with laws, rules and regulations administered by the Commission.
 - E. The Compliance and Enforcement Department ensures compliance by all market participants, issuers and individuals, and takes appropriate enforcement action against them for legal infraction of the Code and other relevant laws, rules and regulations implemented by the Commission.
2. The Commission shall have support services departments, namely Human Resource and Administrative Department, Economic Research and Information Department and Financial Management Department.
 - A. The Human Resource and Administrative Department is responsible for all activities relating to personnel and human resource management, including benefits, training and development. It also handles the central receiving, records management, general administrative and maintenance services of the Commission.

- B. The Economic Research and Information Department provides investment and economic research, analysis and advice to the Commission. It is also the lead technical support group of the Commission for software development, database management, hardware procurement, and establishment and maintenance of a communication network.
 - C. The Financial Management Department manages the internal finances of the Commission which includes budgeting, accounting and cash management.
3. The Commission shall have special offices, namely the Office of the General Counsel and the Office of the General Accountant.
- A. The Office of the General Counsel, headed by the General Counsel, shall serve as the lead legal adviser to the Commission. It also serves as legal liaison for the Commission with other government agencies, self-regulatory organizations and foreign government regulators and agencies. It oversees non-enforcement litigations and appeals to the Commission en banc. It likewise oversees the office of the Commission Secretary.
 - B. The Office of the General Accountant, headed by the General Accountant, advises the Commission and the private sector in the area of accounting standards and on issues of accounting treatment for public offerings and disclosures. It also coordinates with any board or council in the development of accounting standards for the Philippines and its capital market.
4. The Commission shall have Extension Offices in key cities, each to be headed by a Director. The Extension Offices shall perform company registration, supervision, monitoring and other delegated functions of the Commission within its geographical jurisdiction. The Directors shall execute the programs of the Commission in their respective geographical jurisdictions, subject to the supervision of the Commission.
5. The Commission shall hold regular meetings at least once a week on a day and time fixed by it. Special meetings may also be called as often as may be necessary by the Chairperson or upon the request of three (3) Commissioners. In such cases, the Commissioners shall be given notice of the meeting, and the presence of three (3) Commissioners shall constitute a quorum. In the absence of the Chairperson, the most senior Commissioner present shall act as the presiding officer of the meeting.
6. The Commission may, for purposes of efficiency, delegate any of its functions to an individual Commissioner, any department or office of the Commission or any staff member of the Commission except its review or appellate authority and its power to adopt, alter and supplement any rule or regulation.
7. The Commission, motu proprio or upon a petition filed by an interested party, may review any order, resolution, decision or action of any of its departments, offices, individual Commissioner, or staff member of the Commission.

The petition for review shall be filed with the Office of the General Counsel within fifteen (15) days from receipt of the order, resolution, decision or any document evidencing the action taken which is the subject of the review. The petition shall contain, among other things, its factual and legal basis and shall be signed by the petitioner or counsel.

SRC Rule 5.1(a) – Supervision Over Registered Corporations

As used in this Rule, the word “supervision” is interpreted to mean as follows:

- 1. The business operations of corporations which are grantees of secondary licenses or franchises by this Commission, such as but not limited to financing companies, investment companies, investment houses, pre-need companies, broker/dealers and exchanges, as well as public companies, shall be under the direct supervision of this Commission, i.e.:

- a. submission of reports (monthly, quarterly, operational, annual, etc.) required in the different laws governing the type of activity engaged in by these corporations; and
- b. compliance with provisions of the Corporation Code including those provisions requiring submission of documents to effect compliance.

Additionally, the Commission exercises regulatory authority over said companies except unregistered/unlisted public companies. For corporations with registered/listed issues, compliance with registration requirements and the conditions imposed by the Commission for their registration shall likewise be under its direct supervision.

2. For all other business operations of companies with certificates of registration with the Commission as corporations but not requiring a secondary license from the Commission, the extent of its supervision and monitoring shall be limited to their compliance with the Corporation Code, i.e.:
 - a. submission of financial statements;
 - b. submission of General Information Sheets (GIS);
 - c. compliance with provisions in their by-laws on:
 - i. number of directors
 - ii. qualifications, compensation of directors
 - iii. holding of meetings, etc.
 - d. declaration of dividends;
 - e. inspection of books; and
 - f. other provisions of the Code requiring submission of documents to effect compliance.
3. The business operations of corporations which are grantees of secondary licenses of franchises of other government agencies such as but not limited to banking and quasi-banking institutions, building and loan associations, trust companies and other financial intermediaries, insurance companies, public utilities, educational institutions, and other corporations governed by special laws, shall not be under the direct supervision of this Commission, but under the direct supervision of the concerned government agency granting such secondary license or franchise. The extent of the Commission's supervisory powers over such corporations shall be limited to those mentioned in Item No. 2 hereof, except if it is a reporting company under Sec. 17.2 of the Code.
4. Notwithstanding the foregoing, the Commission, as provided in Section 5 of the Code and the effective provision of PD 902-A, shall have the power to do any and all acts to carry out the effective implementation of the laws it is mandated to enforce, i.e., constitute a Management Committee; appoint receivers; issue Cease and Desist Orders to prevent fraud or injury to the public; and such other measures necessary to carry out its role as a regulator.
5. All complaints regarding the operations of a company shall be directed to its primary regulator. However, in cases where the Commission and another agency are both primary regulators, e.g. investment houses with quasi-banking function, any complaint can be lodged with either agency. Both regulators shall coordinate their action.

**SRC Rule 5.1(e) – Clarification of Commission Powers
to Take-Over an Exchange**

Procedures for implementing the Commission's power to suspend or take-over an Exchange are set forth in SRC Rule 40.5, Paragraph 1.

SRC Rule 6.2 – Rules of Conduct for Commissioners, Officers and Employees

1. The Commissioners, including the Chairperson, officers and employees of the Commission (hereinafter collectively referred to as officers or officer), in the execution of their duties owe their undivided loyalty to the Commission. They shall observe the highest standards of honesty, integrity and good faith in the performance of their duties.
 - A. Officers shall not pursue private activities in any manner which may conflict with their duties. They shall subordinate those activities which, although not in conflict with their duties, will require time and effort to the prejudice of their duties at the Commission.
 - B. Every officer who has discretionary authority shall be free from any conflicting interest or influence of such nature and importance which would make it difficult for him to provide his best efforts and loyalty to the Commission.
2. The interest of officers shall include the interest of his or her spouse, children under the age of eighteen (18) and trusts for the benefit of himself, his or her spouse or children.
3. Officers shall provide the Commission with complete information with respect to any actual or conflicting interest by completing SEC Form 6 and submitting such form to the Commission Secretary no later than thirty (30) days from the effective date of this Rule. New officers shall fill up this form and submit the same to the Commission Secretary thirty (30) days prior to the first day of their employment.
4. Even if not specifically required to be disclosed in SEC Form 6, officers shall report any other circumstances which, in their judgment, are regarded as being of possible concern to the Commission. It is to such officer's advantage, as well as the Commission's, that any unclear situation be reported in order that a policy judgment can be made. Questions of conflict will be referred to the Office of the General Counsel. If the Office of the General Counsel determines that such officer can not properly retain his outside interest or relationship while employed by the Commission, the Office of the General Counsel (after advising those to whom the officer reports to of the circumstances) shall require action to eliminate the conflict, such as the disposition by the officer of his conflicting interest or relationship, or the narrowing of responsibilities of the officer.
5. SEC Form 6 shall be kept current and accurate. Any change in the information contained therein shall be reported and filed with the Commission Secretary on SEC Form 6-A no later than ten (10) days from the date of such change.
6. Set forth below is a description of some types of activities which may give rise to a conflict of interest in violation of this Rule:
 - A. All officerships, directorships, trusteeships or partnership interests in any organization or association, whether registered with the Commission or not, except in charitable or civic organizations;
 - B. Meaningful interest in any security or investment in any corporation, partnership or association registered under the Code, except in sports club, social, charitable or civic organization;
 - C. The receipt of compensation, wages, bonuses, benefits or privileges with monetary value from any corporation, partnership, or association registered with the Commission or from any person or enterprise which, though not registered with the Commission, does business with the Commission as a supplier, contractor or the like;
 - D. During their term of office or employment with the Commission and for a period of one year after resignation, retirement or separation from such office or employment:

- i. accept employment as an officer, employee, consultant, counsel, broker, agent, trustee or nominee by any person or in any enterprise regulated by the Commission under the Code;
 - ii. engage in private practice of their profession where such practice conflicts or tends to conflict with their official function (e.g. when such practice is in connection with any matter before the office of the Commission where such officer works or used to work);
 - iii. recommend any person to any position in a private enterprise which has a regular or pending official transaction with the office where such officer works or used to work.
- E. Solicitation or acceptance of any gift, loan, or other benefit from any corporation, partnership or association registered, applying or contemplating registration with the Commission, including any person or firm, though not so registered, applying or contemplating registration and/or having current or prospective dealings with the Commission as a supplier or contractor or the like, if the acceptance would influence or would create the appearance of influencing him to act other than solely in the best interest of the Commission.
- i. Any gift having more than a nominal value, even if given on occasions of rejoicing or celebration such as birthdays, anniversaries or Christmas, shall not be permitted.
 - ii. Each officer should not borrow money from subordinates and from those entities which he directly regulates, except from financial institutions at prevailing market rates.
 - iii. No entertainment should be accepted by any officer of a kind or amount which would influence or would create the appearance of influencing him to act other than solely in the best interest of the Commission.

SRC Rule 7.2 – Periodic Review of Commission Structure

The Commission shall conduct, once every two (2) years, a review of its organization and structure to achieve the goals of the Code and more efficiently and effectively exercise its powers and functions thereunder, without prejudice to its power to conduct yearly merit reviews and provide increases in compensation based on productivity and efficiency.

SRC Rule 8.1 – Requirement to File Registration Statement (RS)

[formerly, SRC Rule 8]

1. Filing of Registration Statement and Effectivity of Offering

- A. No securities, except of a class exempt under Section 9 of the Code or unless sold in any transaction exempt under Section 10 thereof and the rules thereunder, shall be sold or distributed by any person or entity within the Philippines unless such securities are duly registered with the Commission on SEC Form 12-1 and the registration statement has been declared effective by the Commission. No information relating to an offering of securities shall be disseminated unless a registration statement has been filed with the Commission and the written communication proposed to be released contains the required information under SRC Rule 8.3, Paragraph 1.

- B. If the securities which are the subject of the RS are intended to be listed in an Exchange, a copy of the RS and all other pertinent documents including all amendments thereto shall be filed with that Exchange. Two (2) copies of the application for listing shall also be filed with the Commission.
- C. The sale of the securities subject of the RS shall be commenced within two (2) business days from the date of the effectivity of the RS and shall be continued until the end of the offering period or until the sale has been terminated by action of the issuer. The registrant may be granted exemption from this requirement upon sufficient justification that compliance therewith will defeat its offering objective.
- D. A written notification of completion or termination of the offering shall be filed with the Commission within three (3) business days from such completion or termination, indicating therein the number of securities sold.

2. Shelf Registration

If the remaining registered but unsold securities shall be offered after the completion or termination mentioned under paragraph (1)(D) above, an updated RS shall be filed with the Commission prior to said offering or sale.

3. Prospectus Delivery Requirements

- A. A preliminary prospectus is submitted by a registrant to the Commission as part of a registration statement that is not yet rendered effective under the Securities Regulation Code. A final prospectus is submitted to the Commission as part of a registration statement that has been rendered effective or that has been recommended to be rendered effective under the Code.
- B. Securities required to be registered pursuant to Sections 8 and 12 of the Code shall not be offered for sale or sold unless a prospectus or any information material, which has been filed with the registration statement in the form and containing the information hereinafter described, is widely disseminated and sufficient copies thereof have been made available so that all who desire to have a copy may obtain one.
- C. In addition to the requirements of this Rule, a prospectus, including a preliminary prospectus, shall contain information as required by SRC Rule 12.1 and SEC Form 12-1 and shall be prepared in accordance with the requirements of SRC Rule 72.1. The information contained therein shall be worded in plain language which is understandable by an ordinary person.
- D. A preliminary prospectus, which has been filed with the registration statement required by Sections 8 and 12 of the Code, may be circulated to potential investors prior to the effectiveness of the registration statement if the following requirements have been met:
 - i. it meets all the requirements for a prospectus contained in paragraph B hereof above;
 - ii. it contains the following statement in bold face print, at least 12 point type prominently displayed:

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE THEREBY, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF

ANY KIND, AT ANY TIME PRIOR TO THE NOTICE OF ITS ACCEPTANCE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR BE CONSIDERED A SOLICITATION OF AN OFFER TO BUY.

- iii. it is the only selling document utilized in the pre-offering period, with the exception that the information contained in SRC Rule 8.3 may be disseminated in whole or in part to summarize the offering;
 - iv. its use is such that wide dissemination is assured;
 - v. sufficient copies are made available so that all who desire to have a copy may obtain one; and
 - vi. it contains a statement whether the security is being offered in connection with a distribution by the issuer or by a security holder, or both, and whether the issue represents new financing or refinancing, or both.
- E. A preliminary or final prospectus shall be presumed to have been widely disseminated if copies have been distributed initially and additional copies have been furnished promptly, upon request, to at least the following:
- i. each participant in the distribution (e.g., underwriters and brokers);
 - ii. the main and extension offices of the Commission;
 - iii. an Exchange, if the securities will be listed thereon;
 - iv. twenty (20) or more persons who are not qualified buyers under Section 10.1(l) of the Code.
- F. Notice of Availability of Prospectus and Preliminary Prospectus
- i. All participants in the distribution of an offering of securities to the public shall, when inquiries are made as to the offering, inform interested persons of the availability of preliminary prospectuses and final prospectuses and provide them with copies if requested.
 - ii. A notice shall be placed on the front of the subscription agreement distributed in connection with the offering informing interested persons that they are entitled to receive a copy of a preliminary and/or final prospectus if they so desire and how and where one can be obtained.
 - iii. Information required in paragraphs (i) and (ii) above concerning where the preliminary and final prospectuses may be obtained shall include at least the following: addresses of extension and main offices of the Commission, any Exchange wherein the securities may be listed, the issuer company, the telephone number and the address of the contact person. A statement shall also be made that preliminary and final prospectuses are available from all underwriters and brokers participating in the distribution.
- G. The use of selling documents other than the final prospectus during the offering period is prohibited, except that the information contained in SRC Rule 8.3 may be disseminated in whole or in part to summarize the offering.
- H. A preliminary or final prospectus shall not be used unless all information contained therein are up to date and accurately reflect the terms of the offering and the condition

of the company. Thus, until such time as appropriate amendments are made thereto and have been filed with the Commission under SRC Rule 14, the use of a preliminary or final prospectus and the right to sell and offer for sale may be suspended under Section 15 of the Code when any of the following events occurs:

- i. there is a material change in any information contained therein (including but not limited to, the occurrence of a material event which would be required to be reported on SEC Form 17-C);
- ii. the financial statements contained therein are over two hundred twenty five (225) days old.

I. Format of Prospectus

- i. The information required in the prospectus need not follow the order of the items or other requirements in Part I of SEC Form 12-1 with the exception of Items 1 and 2. However, the information shall be complete and shall not be presented in a manner that may mislead the reader thereof or render the required information incomprehensible.
- ii. All information included in the prospectus must be properly captioned or headed in order to reasonably indicate covered subject matter. The information shall be divided into reasonably short paragraphs or sections (with the exception of financial statements and tabular data).
- iii. Except as to information required in tabular form and financial statements, the information included in the prospectus shall not be expressed in condensed or summarized form. Reference may be made to information in other parts of the prospectus instead of repeating the same information in the prospectus.
- iv. Each prospectus used after the effective date of the registration statement shall be dated as of the effectivity of the prospectus. An amended or revised prospectus used thereafter shall bear the date of its issuance.
- v. All information that is required to be included in the prospectus shall be clearly understandable without the need to refer to SEC Form 12-1 or to the general rules and regulations. The goal of registration (disclosure for the benefit of investors) involves, among other things, the use of language that can be understood by the persons to whom it is addressed. Failure to use language that is clear and understandable to the investor may defeat the purpose of the prospectus.

SRC Rule 8.3 – Written Communication Not Deemed an Offer for Sale

1. A notice, circular, advertisement, letter, or other communication does not constitute an offer for sale in violation of Section 8 of the Code if it is published or transmitted to any person after a registration statement has been filed and contains any or all of the following information:
 - A. the name of the issuer of the security;
 - B. the full title of the security and the amount being offered;
 - C. a brief indication of the general type of business of the issuer;
 - D. the price of the security or, if the price is not known, the method of its determination or the probable price range as specified by the issuer or the managing underwriter;
 - E. in the case of a debt security with a fixed (non contingent) interest provision, the yield or, if the yield is not known, the probable yield range, as specified by the issuer or the managing underwriter;

- F. the name and address of the sender of the communication and the fact that he is participating, or expects to participate, in the distribution of the security;
 - G. the names of the underwriters;
 - H. the approximate date upon which the proposed sale to the public is anticipated to commence;
 - I. whether the security is being offered through rights issued to existing security holders, and, if so, the class of securities the holders of which will be entitled to subscribe, the subscription ratio, the actual or proposed record date, the date upon which the rights were issued or are expected to be issued, the actual or anticipated date upon which they will expire, and the approximate subscription price, or any of the foregoing;
 - J. with respect to any class of debt securities, any class of convertible debt securities or any class of preferred stock, the security rating or ratings assigned to the class of securities by any credit rating agency recognized or accredited by the Commission and the name of such rating agency/ies which assigned such rating/s.
2. Every communication used pursuant to this Rule shall contain the following:
- A. If a registration statement has not yet become effective, the following statement in bold face prominent type:

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, BUT HAS NOT YET BECOME EFFECTIVE. THESE SECURITIES MAY NOT BE SOLD NOR OFFERS TO BUY THE SAME BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS COMMUNICATION SHALL NOT CONSTITUTE AN OFFER TO SELL OR BE CONSIDERED A SOLICITATION OF AN OFFER TO BUY.
 - B. A statement whether the security is being offered in connection with a distribution by the issuer or by a security holder, or both, and whether the issue represents new financing or refinancing or both;
 - C. The name/s and addresses of a person/s from whom a written prospectus, which accordingly meets the requirements of Section 12 of the Code, may be obtained.

SRC Rule 9.2 – Exempt Securities

- 1. Any evidence of indebtedness issued by a financial institution itself that has been duly licensed by the Bangko Sentral ng Pilipinas to engage in banking/quasi-banking activity shall be exempt from registration under Section 8.1 of the Code; provided that the purchase and sale of such security shall not be considered exempt from the coverage of the provisions of the Code on antifraud, civil liability or others.
- 2. The registration requirements shall not likewise apply to any of the following:
 - A. Evidence of indebtedness issued to the Bangko Sentral ng Pilipinas (BSP) under its open market and/or rediscounting operations ;
 - B. Evidence of indebtedness issued to the following primary institutional lenders: banks, including their trust accounts wherein the bank-trustee is granted discretionary powers in the investment disposition of the trust funds, investment houses including their trust accounts wherein the investment house-trustee is granted discretionary powers in the investment disposition of the trust funds, trust companies, financing companies, investment companies, pre-need companies, non-stock savings and loan associations, building and loan associations, venture capital corporations, insurance companies, government financial institutions, pawnshops, pension and retirement funds approved by the BIR, educational assistance funds established by the national government, and other entities that may be classified as primary institutional lenders by the BSP, in consultation with the SEC; provided all such evidence of indebtedness shall only be negotiated or assigned to any of

the aforementioned primary institutional lenders or the Development Bank of the Philippines with respect to private development banks in relation with their rediscounting privileges; provided further that in case of non-banks without underwriting licenses, such negotiation or assignment shall be through banks or non-banks licensed to be an underwriter or a securities dealer; provided finally, that in no case shall said instrument be negotiated or assigned to non-qualified investors;

- C. Bills of exchange arising from a bona fide sale of goods and services which are distributed and/or traded by banks or investment houses duly licensed by SEC and BSP through an organized market properly conventioned and governed by rules approved by the appropriate regulatory body;
- D. Evidence of indebtedness e.g. short or long-term commercial papers, meeting the following conditions:
 - i. Issued to not more than nineteen (19) non-institutional lenders;
 - ii. Payable to a specific person;
 - iii. Neither negotiable nor assignable and shall be held on to maturity; and
 - iv. In an amount not exceeding Fifty Million Pesos (P50,000,000.00) or such higher amount as the Commission may prescribe by resolution.

SRC Rule 10.1 – Exempt Transactions

[formerly, SRC Rule 10-1]

1. Disclosure to Investors

Any person claiming exemption under Section 10.1 of the Code shall provide to any person to whom it offers for sale or sells securities in reliance on such exemption a written disclosure containing the following information:

- i. The provision of Section 10.1 of the Code under which exemption from registration is claimed;
- ii. Whether the Commission's confirmation that such offer or sale qualifies as an exempt transaction has been obtained; and
- iii. The following statement in **bold face**, prominent type:

THE SECURITIES BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

2. Exempt Transactions Not Requiring Notice

No notice of exemption or fee shall be required for any transaction covered by Section 10.1 of the Code except those covered by subparagraphs (k) and (l) or sale to not more than nineteen (19) persons and to qualified buyers, respectively.

3. Exempt Transactions Requiring Notice

- A. Notice of exemption on SEC Form 10-1 shall be required in an offering or distribution of securities under Section 10.1(k) and (l) of the Code.
- B. The issuer shall file with the Commission a notice of exemption from the registration requirements under Section 8 of the Code on SEC Form 10-1, including, as an exhibit

thereto, all pertinent information required to be furnished to the investors pursuant to this paragraph, within ten (10) days after the sale of the securities which are subject thereto. No filing fee shall be required for the said notice.

C. Private Placements under Section 10.1(k) of the Code

- i. A prima facie presumption of circumvention of Sections 8 and 12 of the Code shall arise when the number of non-qualified investors shall exceed nineteen (19) within one (1) year. The issuer shall be liable for penalty in accordance with the Scale of Fines of the Commission, without prejudice to other actions which may be taken against the issuer.
- ii. If the initial purchaser/s shall resell said securities to more than nineteen (19) non-qualified investors, Sections 8 and 12 of the SRC shall apply, notwithstanding the exemption of their issuances, unless such succeeding sale shall qualify as an exempt transaction.
- iii. Exemptive relief under Section 10.1(k) (Private Placement) shall be subject to the following terms and conditions:
 - a. The issuer claiming such relief shall not engage in any form of general solicitation or advertising in connection therewith;
 - b. Securities sold in any such transaction may only be sold to persons purchasing for their own account;
 - c. Sale may be made to no more than nineteen (19) "non-qualified" buyers. A corporation, partnership or other entity shall be counted as one buyer; provided, however, that if the entity is organized for the specific purpose of acquiring the securities offered and is not a qualified buyer under Section 10.1(l) of the Code, then each beneficial owner of equity securities in the entity shall count as a separate buyer under this Rule;
 - d. The issuer provides any person to whom they offer for sale or sell securities pursuant thereto with the following information:
 - 1) exact name of the issuer and its predecessor, if any;
 - 2) address of its principal executive office;
 - 3) place of incorporation;
 - 4) exact title and class of the security;
 - 5) par or issue value of the security;
 - 6) number of shares or total amount of securities outstanding as of the end of the issuer's most recent fiscal year;
 - 7) name and address of the transfer agent;
 - 8) nature of the issuer's business;
 - 9) nature of products or services offered;
 - 10) nature and extent of the issuer's facilities;
 - 11) name of the chief executive officers and members of the board of directors;
 - 12) issuer's most recent financial statements for each of the two preceding fiscal years or such shorter period as the issuer (including its predecessor) has been in existence;
 - 13) whether the person offering or selling the securities is affiliated, directly or indirectly, with the issuer;
 - 14) whether the offering is being made directly or indirectly on behalf of the issuer, or any director, officer or person who owns directly or indirectly more than ten percent (10%) of the outstanding shares of any equity security of the issuer and, if so, the name of such person; and
 - 15) information required under paragraph 1 of this Rule.

Provided, however, that where the issuer is a reporting company under Section 17 of the Code, a copy of its most recent annual report (SEC Form 17-A) may be used to provide any of the required information.

D. Offer or Sale of Securities to Qualified Buyers under Section 10.1(l) of the Code

If the initial qualified buyer/s shall resell their securities to more than nineteen (19) non-qualified buyers/investors, Sections 8 and 12 of the Code shall apply.

4. Application for Confirmation or Declaration of Exemption

- A. If a confirmation of exemption shall be obtained from the Commission, a duly accomplished SEC Form 10-1 shall be filed with the corresponding filing fee.
- B. In cases which involve distribution of securities by way of stock dividend, the Commission shall determine the sufficiency of the retained earnings of the issuer company prior to issuing a confirmation thereto.
- C. Where the consideration for the offered securities is other than actual cash, a request for confirmation of exemption from registration under Section 10 of the Code shall deem to include an application for approval of valuation required under Section 62 of the Corporation Code of the Philippines, or vice versa.

5. Exempt Commercial Paper Transactions

An issuer of commercial papers under an exempt transaction shall:

- A. File a Notice or Application for Confirmation of Exemption (SEC Form 10-1) prior to issuance thereof. Said application shall be accompanied by the prescribed filing fees and include a disclosure of the following financial ratios:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Acid Test Ratio} = \frac{\text{Cash, receivables and marketable securities}}{\text{Current Liabilities}}$$

$$\text{Net Profit Margin} = \frac{\text{Net income after income tax}}{\text{Net Sales or revenues}}$$

$$\text{Return on Equity} = \frac{\text{Net income after income tax}}{\text{Total Stockholders' Equity}}$$

$$\text{Interest Service Charge Ratio} = \frac{\text{Net income before interest expense}}{\text{Interest Expense}}$$

$$\text{Debt to equity ratio} = \frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$$

- B. Indicate in bold letters on the face of the instrument the words:

“NON-NEGOTIABLE/NON-ASSIGNABLE”

- C. That any issuer with outstanding long term commercial papers shall likewise file the prescribed disclosure statement and quarterly reports on such borrowings.

6. Other Requirements and Limitations

- A. Exemptive relief under Section 10.1(c) (Isolated Transaction) of the Code shall not be available to an issuer of securities which shall not be considered as an “owner” thereof.
- B. In connection with a transaction under Section 10.1(j) of the Code, any fee paid pursuant to the requirements of the Corporation Code may be applied in satisfaction of fees owed in relation to an application for confirmation of exemption.
- C. The Commission shall not be precluded from taking whatever action it may deem appropriate on any application for confirmation even if filed after the offer or sale of the securities without prejudice to the imposition of penalties when warranted by the situation.

7. Burden of Proof that Such Exemption is Available

- A. Unless confirmation of the availability of such exemption is applied for under paragraph 4 of this Rule, any person claiming an exemption under Section 10 has the burden, if challenged, to establish that the exemption is available. The Commission may challenge such exemption at any time.
 - B. A presumption that an exemption is not available may arise from the failure to file a notice as required by paragraph 3 of this Rule. Failure to file such notice shall also subject a person claiming an exemption under Section 10 to sanctions under the Code.
8. The sale or offer for sale of a security in any transaction exempt under Section 10 shall not be exempt from antifraud, civil liability or other provisions of the Code.
9. In view of the objective of full and fair disclosure under the Code, exemptive relief under Section 10 of the Code shall not be available to any issuer or other persons for any transaction or chain of transactions that, although in technical compliance with the Code and this Rule, shall be a part of a plan or scheme to evade the registration provisions of the Code. In such cases, registration under the Code shall be required.

SRC Rule 11 – Definition of Commodity Futures Contracts

- 1. **Commodity futures contract** means a contract providing for the making or taking delivery at a prescribed time in the future of a specific quantity and quality of a commodity or the cash value thereof, which is customarily offset prior to the delivery date, and includes standardized contracts having the indicia of commodities futures, commodity options and commodity leverage, or margin contracts.
- 2. **Commodity** means any goods, articles, services, rights and interests, including any group or index of any of the foregoing, in which commodity interests contracts are presently or in the future dealt in.
- 3. **Forward** means a contract between a buyer and a seller whereby the buyer is obligated to take delivery and the seller is obliged to deliver a fixed amount of an underlying commodity at a pre-determined price and date. Payment in full is due at the time of delivery.
- 4. Without prejudice to applicable Bangko Sentral ng Pilipinas rules and circulars, the public trading of commodities futures contracts and pertinent Commission rules shall remain suspended until further ordered otherwise by the Commission.

**SRC Rule 12.1 – Requirements for Filings Pursuant to the
Securities Regulation Code and the Corporation Code of the Philippines**
[formerly, SRC Rule 12]

1. This Rule sets forth the requirements applicable to the contents of an issuer's non-financial statement portions of the following:
 - A. Registration statements for the sale and/or distribution of securities pursuant to the provisions of Sections 8 and 12 of the Code and SRC Rule 8.1 thereunder. Registration Statements under Section 12 of the Code shall be filed on SEC Form 12-1;
 - B. Prospectuses to be used in connection with the public distribution of securities pursuant to Section 8 of the Code and SRC Rule 8.1 paragraph 3 thereunder;
 - C. Periodic and other reports required to be filed with the Commission under Section 17 of the Code as provided in SRC Rule 17 which shall be made on SEC Forms 17-Q, 17-A, 17-C, 17-EX or 17-L, as appropriate, unless exempt from the provisions thereof; and
 - D. Information Statement (SEC Form 20-IS) required under Section 20 of the Code and SRC Rule 20.
2. Reports filed on SEC Form 17-A and SEC Form 17-C shall be deemed to satisfy Section 141 and Section 26 of the Corporation Code of the Philippines, respectively; reports provided to security holders pursuant to SRC Rule 20 shall be deemed sufficient compliance with Section 75 of the Corporation Code of the Philippines.
3. In addition to the requirements of this Rule, the filing of forms with the Commission is governed by the provisions of SRC Rule 72.1 under title "General Rules and Regulations For Filing of SEC Forms With the Securities and Exchange Commission." The definitions contained in that Rule and SRC Rule 38, to the extent that they are not defined in "Annex B" shall assume the same meaning of similar terms as used herein.
4. Information required to be disclosed under this Rule is set forth in "Annex C" .
5. Definitions of terms used in the forms described in paragraph 1 of this Rule are set forth in "Annex B".
6. **Requirements for Registration of Commercial Papers**
 - A. This rule shall apply to commercial papers issued by corporations to the public, the offer or sale of which is required to be registered under the Code.
 - B. For purposes of this rule, a credit rating agency (CRA) means any corporation principally and regularly engaged in the business of performing credit evaluation of corporations and business projects or of debt issues with the intention of assessing the overall creditworthiness or of ascertaining the willingness and ability of the issuer to pay its financial obligations as they fall due, and which assessment is translated by credit ratings periodically and publicly announced.
 - C. The conditions for registration of commercial papers are the following:
 - i. Filing of a registration statement under SEC Form 12-1, in accordance with SRC Rules 8.1 and 12.1.
 - ii. The issuer shall enter into a firm commitment underwriting agreement for the commercial paper with a universal bank or an investment house or any other financial institution which is duly licensed under the Investment Houses Law;

provided that if the underwriter is part of a group composed of such institutions, they shall agree on a syndicate manager who shall act on behalf of and be responsible to the group and whose actions shall be binding thereto.

- iii. Except for issuance amounting to not more than twenty five percent (25%) of the issuer's networth or where there is an irrevocable committed credit line with a bank covering one hundred percent (100%) of the proposed issuance, a commercial paper issue shall be rated by a rating agency accredited by the Commission, in accordance with the following rules:

a. Confidentiality of information

All information received by a credit rating agency (CRA) from an issuer shall be kept confidential, except for those which:

- 1) Are publicly disclosed by the Ratee or Issuer itself prior to or subsequent to the receipt of such information by the CRA;
- 2) Have become generally known in the trade or by the public through no fault or negligence or fault of the CRA;
- 3) Have been lawfully disclosed to the CRA by a third party.

If any officer, director or staff of a CRA comes into possession of non-public material information about the issuer whose securities are being rated, he (and all other staff members, officers/directors) shall be disallowed to trade in that issuer's securities, or may not disclose such information nor withhold any rating recommendation on the relevant issuer until the reason for the rating is satisfied.

b. Monitoring of Issuers Whose Securities Have Been Rated

To ensure that a rating is accurate and with best objectivity, a CRA shall monitor on a continuing basis each issuer, if an issuer rating was given, or each issue, for an issue rating. The CRA shall raise or lower ratings to reflect significant changes in the creditworthiness of the issuer or in the credit quality of the issue.

c. Change, suspension or withdrawal of rating

- 1) A rating may be changed, suspended or withdrawn as a result of changes in, unavailability or non-submission of, information, misleading statements or actions of the issuer, or for other relevant or material circumstances which may be determined by the Commission.
- 2) A credit rating agency shall advise an issuer in advance of any proposed change in the rating; provided, however, that a credit rating agency may withdraw a rating without prior notice based on lack of information and/or receipt of material adverse information and/or if there is a compelling reason to make any change in rating for the information and protection of investors and/or based on other relevant or material circumstances as the Commission may determine.
- 3) The credit rating agency need not get the approval of the issuer to downgrade its rating on the issuer or an issue.
- 4) Issuers shall not suppress, curtail or otherwise prevent a rating change under pain of sanctions under the Code.

d. Rating criteria

Ratings shall be based on the following considerations:

- 1) nature and provisions of the debt obligation;
 - 2) likelihood of default by an issuer;
 - 3) protection afforded by, and relative position of, the obligation in the event of a bankruptcy, reorganization or other arrangement under the bankruptcy law, and other factors affecting creditors' rights;
 - 4) economic risk;
 - 5) industry risk;
 - 6) market position of the issuer;
 - 7) business diversification of the issuer;
 - 8) management and strategy;
 - 9) financial risks;
 - 10) capital structure/leverage;
 - 11) financial flexibility, and
 - 12) compliance with leading practices and principles on corporate governance.
- e. Application for accreditation

To apply for accreditation, a credit rating agency shall:

- 1) Be a stock corporation.
- 2) Have a minimum paid-up capital of at least Ten Million Pesos (P10,000,000.00).
- 3) Submit to the Commission the following:
 - i. list of shareholders and their corporate affiliations;
 - ii. list of other business activities, if any;
 - iii. copies of the company's Articles of Incorporation and By-Laws;
 - iv. a statement pertaining to ownership structure and possible conflict/s of interest;
 - v. names, professional qualification and independence of staff involved in the rating decision ("rating specialists");
 - vi. a written code of conduct which insures the independence of the rating specialists and the rating agency from the issuers it is rating;
 - vii. disclosure of affiliations, training, assistance or support it receives from international rating agencies, if any;
 - viii. rating scales, criteria, measurements, symbols and the like, which it has in use;
 - ix. operating procedures, rating policies, rating criteria and other rationale used in arriving at a rating;
 - x. copy of model written agreement with issuers; and
 - xi. Manual on Corporate Governance.
- 4) An applicant may request confidentiality of the foregoing information except its operating procedures, rating policies and rating criteria.
- 5) Within sixty (60) days from receipt of a written application for accreditation on the prescribed SEC Form, the SEC shall either approve registration outright or schedule a hearing to resolve issues which may result in such registration being denied based on concern/s that the Commission may deem important.
- 6) All applications for accreditation shall be accompanied by an initial filing fee of Fifty Thousand Pesos (P50,000.00) or such amount as the Commission may determine.
- 7) The accreditation thus granted shall continue to be effective until revoked by the Commission. However, an annual fee of Ten Thousand Pesos (P10,000.00) or such amount as the Commission may determine, shall be paid yearly at least forty five (45) days prior to the anniversary date of its accreditation. If such annual fee is not paid, the registration of such person shall be suspended until payment is made, provided that if the same is not paid prior to the thirtieth (30th) day after the required payment date, such

accreditation shall be automatically terminated and any issuer which has been rated by such rating agency shall be required to obtain a new credit rating within thirty (30) days after notification by such agency of such termination.

- 8) All accredited credit rating agencies shall ensure that the information set forth in their application form, and all documents appended thereto, are current, true and correct. Any change to such information shall be filed with the Commission no later than ten (10) business days from the occurrence of such change.
 - 9) Failure to provide an informed and objective assessment of an issuer's credit quality or any violation of the foregoing rules shall be a sufficient ground, after due notice and hearing, for the revocation or suspension of the accreditation of a rating agency.
 - 10) No person or entity shall under pain of sanctions under the Code hold itself out as an accredited credit rating agency or otherwise regulated in providing credit rating services unless it has been accredited by this Commission under this rule.
- D. The issuer shall comply with such other terms and conditions that the Commission may impose from time to time in the exercise of its mandate to protect the investors.
- E. The issuer shall comply with the conditions imposed for the registration of its commercial papers during the effectivity of the registration statement covering said securities. Non-compliance therewith shall be a sufficient ground, after notice and hearing, for the revocation or suspension of said registration.
- F. Term of Registration and Reissuance
- i. Registration of short term commercial papers shall be valid for one (1) year or any lesser period and may be renewed annually with respect to the unissued balance of the authorized amount upon showing that the issuer has strictly complied with the SRC and applicable rules, including this rule, and has paid all required fees; Provided, however, that any application for renewal of registration shall be filed at least forty five (45) days prior to the expiry date.
 - ii. Registration of long-term commercial papers shall be a closed-end process whereby the issued portion of the authorized amount may no longer be subject of reissuance to the public unless re-applied for registration in accordance with this Rule.
- G. Pre-termination
- i. Long-term commercial papers, except bonds, which have maturity period of five (5) years or more shall not be pre-terminated by the issuer or the lender within seven hundred thirty (730) days from issue date.
 - ii. Pre-termination shall include optional redemption, partial installments and amortization payments; however, installments and amortization payments may be allowed if so stipulated in the loan agreement.
- H. Default
- i. If an issuer of short-term commercial papers fails to pay in full any interest due thereon, or the principal upon demand at maturity date appearing thereon, said issuer shall, within the next business day after such failure, notify in writing its underwriter/selling agent and the Commission of such failure and the latter shall forthwith issue a formal Cease and Desist Order enjoining both the issuer

and the underwriter/selling agent from further offering for sale the subject commercial papers.

- ii. If an issuer of long-term commercial papers fails to pay in full any interest due thereon, or the principal upon demand at maturity date stated thereon, said issuer shall, within the next business day after such failure, notify in writing its underwriter/selling agent and the Commission of such failure. In the event that the failure occurs within the one-year effectivity of the permit, the Commission shall issue a formal Cease and Desist Order enjoining both the issuer and the underwriter/selling agent from further offering for sale the subject commercial papers.
- iii. In both cases, an issuer of commercial papers which is a publicly listed company shall, within the next business day after the aforementioned failure, inform in writing the Exchange of such failure.

I. Registration Fees

The filing fee shall be based on the total amount of commercial papers proposed to be issued and shall be subject to a diminishing fee in inverse proportion in accordance with the table presented in SEC Form 12-1.

J. Compliance with Quasi-Banking Requirements

Nothing in these rules shall be construed as an exemption from or a waiver of applicable BSP requirements governing the performance of quasi-banking functions of financial intermediaries duly authorized to engage in such activities. As such, all applications covering the registration of commercial papers that shall be issued for relending purposes shall be endorsed by the Commission to the BSP. Otherwise, only Commission approval shall be necessary.

7. Requirements for Registration of Derivatives

A. Warrants

i. Definitions

- a. "Warrant Certificate" – means the certificate representing the right to a Warrant, which may be detachable or not, duly issued by the Issuer to the Warrantholder.
- b. "Warrant Instrument" – means the written document or deed containing the terms and conditions of the issue and exercise of a Warrant, which terms and conditions shall include:
 - 1. the maximum underlying shares that can be purchased upon exercise;
 - 2. the exercise period;
 - 3. such other terms and conditions as the Commission may require.
- c. "Detachable Warrant" – means a Warrant that may be sold, transferred or assigned to any person by the Warrantholder separate from, and independent of, the corresponding Beneficiary Securities.
- d. "Nondetachable Warrant" – means a Warrant that may not be sold, transferred or assigned to any person by the Warrantholder separate from, and independent of, the Beneficiary Securities.

- e. "Beneficiary Securities" – means the shares of stock and other securities of the Issuer which form the basis of the entitlement in a Warrant.
 - f. "Underlying Shares" – means the unissued shares of a corporation which may be purchased by the Warrantholder upon the exercise of the right granted under the Warrant.
- ii. Registration
- a. Upon proper registration of its warrants under Sections 8 and 12 of the Code and SRC Rules 8.1 and 12.1, a corporation may offer and issue such securities to the public.
 - b. The registration of the Warrants shall include its underlying shares.
 - c. The issuer shall disclose in its registration statement the terms and conditions of the warrant plan including computational data relative thereto.
 - d. A person proposing to offer Warrants to the public shall file SEC Form 12-1 with the prescribed filing fee. Notwithstanding the Warrants having no issue value, the filing fee for the same shall be Fifty Thousand Pesos (P50,000.00) in addition to the fees which may be due on the underlying shares.
- iii. Form and Content and Other Requirements of Warrant Certificates
- a. All Warrants authorized for issuance by the Commission shall be evidenced by Warrant Certificates which shall be signed by the President (or such other officer as may be duly authorized by the Board of Directors) and the Corporate Secretary of the Issuer.
 - b. In case of Detachable Warrants, the Warrant Certificate shall state the following on its face: "The Warrant contained herein does not by itself represent any share of stock, but a right to purchase shares of stock of the Issuer under the terms and conditions herein contained".
 - c. In case of Non-detachable Warrants, the right granted under the Warrant shall be described in the stock transfer or instrument evidencing the Beneficial Securities. A Warrant Certificate or the stock certificate or instrument evidencing the Beneficial Securities where the non-detachable Warrant is described shall also state the following (whether on its face or on its reverse side):
 - 1) The warrant certificate number;
 - 2) The par or issue value, class and number of the corresponding underlying shares;
 - 3) The exercise price, or the formula for computing the same, or adjustments thereto;
 - 4) The exercise period and the expiry date of the Warrant;
 - 5) The procedure for the exercise;
 - 6) The summary of the provisions contained in the Warrant Instrument; and
 - 7) Exchange ratio or the number of underlying shares which may be purchased by each Warrantholder.

iv. Exercise Period

Warrantheolders may exercise the right granted under a Warrant within the period set by the company and disclosed in its registration statement. No extension of said period shall be allowed.

v. Exercise Price

- a. The Exercise Price shall be at a price fixed at the time of registration, or computed using the stated formula, and disclosed by the company in its registration statement.
- b. The Exercise Price shall be paid in full upon exercise, and shall not be less than the par value of the underlying shares or not less than Five Pesos (P5.00) per share, if the underlying shares are without par value.
- c. The Exercise Price shall be adjusted only if the Warrant Instrument provides for (i) the conditions under which adjustments in Exercise Price can be made and (ii) the formula under which the adjusted Exercise Price can be determined. The Exercise Price may be adjusted only in any of the following circumstances occurring after the issuance of the Warrant:
 - 1) a change in the par value of the underlying shares;
 - 2) a declaration of stock dividends;
 - 3) an offering of additional shares at a price different from the original exercise price;
 - 4) a merger, consolidation or quasi-reorganization;
 - 5) a disposition of a substantial portion of the assets of the corporation; and
 - 6) such other similar instances as may be approved by the Commission.

vi. Warrants Registry Book

Any corporation authorized to issue Warrants shall have a Warrants Registry Book maintained by the designated Warrants Registrar who shall be preferably the Stock and Transfer Agent of the Issuer. Upon the exercise of the right granted under a Warrant, a notation to this effect shall be duly recorded in the Warrants Registry Book, and the purchase of the Underlying Shares shall be recorded in the Stock and Transfer Book of the Issuer. Any sale, transfer, or assignment of a Warrant must be duly recorded in the Warrants Registry Book, including the names of the transferor and transferee, the number of Warrants transferred and the number of Underlying Shares covered by said transfer. Unless recorded in the Warrants Registry Book, the transfer of Warrants shall not be binding on the Issuer.

vii. Transferability of Warrants

All registered Warrants shall be transferable without need of approval from the Commission. In case of Non-detachable Warrants, they shall be transferred only together with the Beneficial Securities.

viii. Listing Requirements

Warrants authorized for issuance by the Commission may be listed in an exchange together with the Beneficiary Securities under existing rules for listing of securities, and under such other rules as the exchange may adopt and approved by the Commission; provided, however, that the Warrants shall

be automatically delisted upon the lapse of the Exercise Period. Warrants issued by listed companies are required to be listed.

B. Options

- i. No corporation shall grant or offer any Option to the public unless the same is registered in accordance with Sections 8 and 12 of the Code and SRC Rules 8.1 and 12.1, except when said security is exempt from registration under Sections 9 and 10 of the Code.
- ii. The registration of the Options shall include its underlying shares.
- iii. A person proposing to offer any Option to the public shall file SEC Form 12-1, with the prescribed filing fee based on the aggregate issue price of the Options and the underlying shares. Notwithstanding the Options having no issue value, the filing fee for the same shall be Fifty Thousand Pesos (P50,000.00) in addition to the fees which may be due on the underlying shares.
- iv. The issuer shall disclose in its registration statement the terms and conditions of the Option plan including computational data relative thereto. The Plan shall be submitted as exhibit to the registration statement.
- v. In considering registration of stock Options, the Commission shall be guided by the following:
 - a. Stocks granted to stockholders proportionately with their shareholdings may be allowed.
 - b. Stock Options may be granted to employees or officials who are not members of the board subject however to a review of the scheme by the board and subject to approval by the stockholders, pursuant to the policy of the government to widen corporate base and to distribute corporate profits wider and more equitably,
 - c. Stock Options granted to persons who are not stockholders may be granted only upon showing that the Board has been duly authorized to grant the same by its charter or by a resolution of the stockholders owning at least two-thirds (2/3) of all the outstanding capital stock, voting or non-voting, excluding treasury stock.
 - d. Stock Options granted to directors or managing groups and its officers must be approved in a meeting of stockholders owning at least two-thirds (2/3) of all the outstanding capital stock, voting or non-voting, excluding treasury stock. Certification by the Corporate Secretary as to the number of shares represented in said meeting and the number of votes cast for or against the grant of optional rights to the directors or managing groups and its officers shall be submitted.
 - e. Exercise of Options must be done within the period set by the company and disclosed in its registration statement.
- vi. Every corporation granting Options shall maintain an Option Registry Book where all Options granted including transfers shall be recorded with the entries showing the name of person to whom the Option is granted, the basis or authority for such grant, the date granted, the number of shares, the price per share, the exercise date, the total cost and official receipt number.
- vii. No underlying shares for stock Options shall come from the treasury shares of the issuer company.

C. Other Types of Derivatives

- i. All companies proposing to issue derivatives to the public, unless covered by the Rules on Futures Market, shall file a registration statement under SEC Form 12-1, in accordance with SRC Rules 8.1 and 12.1.
- ii. Such registration statement shall include financial statements prepared in accordance with the Generally Accepted Accounting Principles (GAAP) in the Philippines and the applicable International Accounting Standards on Financial Instruments.
- iii. It shall likewise include a description of the company's financial risk management objectives and policies, including its policies for hedging. Each major type of forecasted transaction shall be provided in its prospectus.

8. Additional registration requirements for Proprietary and Non-Proprietary Shares/Certificates

- A. The registrant shall clearly indicate in its Articles of Incorporation, By-Laws and prospectus the following:
 - i. A description of the nature and type of the shares/certificates, rights and privileges of the holders thereof particularly their right over the facilities of the Club;
 - ii. The certificates or shares shall be issued within sixty (60) days from the date of full payment of the same;
 - iii. The Club shall qualify the prospective club members before actual sale/transfer of the share/certificate is executed.
- B. The registrant shall clearly indicate in its prospectus an undertaking that, in the event the project or the underlying asset for which the securities are sold is for whatever reasons, not completed as disclosed, it shall refund the amount of the investment of the purchaser of the securities within ten (10) days from receipt of the written demand.
- C. The Club shall:
 - i. Not collect membership dues unless the project is fifty percent (50%) usable as indicated in the prospectus, unless the Club's by-laws provide a higher percentage of usability;
 - ii. Submit to the Commission a report under oath of any increase in fees and the rationale for said increase within thirty (30) days from Board approval;
 - iii. Notify club members of any increase in fees upon the Board's approval of the said increase; and
 - iv. Cause the posting of proper notices and other communications on the charging of fees on bulletin boards situated at conspicuous place/s at the site, for the benefit of secondary markets.
- D. The conditions under paragraph (C) shall be reflected in the company's prospectus.

- E. The following documents shall be submitted with the registration statement as exhibits thereof:
- i. Copy of Subscription Agreement containing the required undertaking under paragraph (B) above;
 - ii. Copy of a Credit Line Agreement with a reputable domestic bank. Such credit line shall be availed of in the event that an insufficiency of fund for the completion of the project shall occur. The terms of the credit line agreement shall be disclosed in the prospectus;
 - iii. Copy of a Custodianship/Escrow Agreement with a reputable bank covering the proceeds from the sale of said shares/certificates, providing among others, the withdrawal of the same only upon presentation of the company's work progress report; and
 - iv. Copy of the Environmental Compliance Certificate from the Department of Environment and Natural Resources covering the location of the project.

SRC Rule 12.2 – Incorporation by Reference

1. Except for information filed as an exhibit, which is subject to the provisions of paragraph 3 hereof, or which is required to be contained in a prospectus which is subject to paragraph 4 hereof, information may be incorporated by reference in answer, or partial answer, to any item of a registration statement filed pursuant to SRC Rule 8 or report filed pursuant to SRC Rule 17.1 subject to the following provisions:
 - A. Financial statements incorporated by reference shall satisfy the requirements of the form or report in which they are incorporated. Financial statements or other financial data required to be given in comparative form for two (2) or more fiscal years or periods shall not be incorporated by reference unless the material incorporated by reference includes the entire period for which the comparative data are given;
 - B. Information in any part of the registration statement or other reports may be incorporated by reference in answer, or partial answer, to any other item of the registration statement or other report; and
 - C. Copies of any information or financial statement incorporated into a registration statement or other report by reference, or copies of the pertinent pages of the document containing such information or statements, shall be filed as an exhibit to the statement or report.
2. A material incorporated by reference shall be clearly identified in the reference by page, paragraph, caption or otherwise. Where only certain pages of a document are incorporated by reference and filed as an exhibit, the document from which the material is taken shall be clearly identified in the reference. An express statement that the specified matter is incorporated by reference shall be made at the particular place in the statement or report where the information is required. A matter shall not be incorporated by reference in any case where such incorporation would render the statement or report incomplete, unclear or confusing.
3. Incorporation of Exhibits by Reference
 - A. Any document or part thereof filed with the Commission pursuant to the Code may be incorporated by reference as an exhibit to any statement or report filed with the Commission by the same or any other person. Any document or part thereof filed with an Exchange pursuant to the Code may be incorporated by reference as an exhibit to any statement or report filed with that Exchange by the same or any other person.

- B. If any modification has occurred in the text of any document incorporated by reference since the filing thereof, the registrant shall file with the reference a statement containing the text of any such modification and the date thereof.
4. Information shall not be incorporated by reference in a prospectus.

SEC Rule 12.5 (b) – Publication of Notice of Filing

1. The registrant shall prepare and file with its registration statement a notification of such filing which shall recite: that a registration statement for the sale of the subject security has been filed with the Commission; that the registration statement is open to inspection by interested parties during business hours at the Commission; and, that copies thereof shall be furnished everyone requesting the same for a reasonable cost. Said notice shall be signed by the Director of the Corporation Finance Department or any officer duly designated by the Commission. The issuer shall, upon or before filing, publish the notification, at its own expense, in two (2) newspapers of general circulation in the Philippines, once a week for two (2) consecutive weeks. The required format for this publication appears as “Annex A”.
2. As part of its registration statement, the registrant shall submit to the Commission an affidavit of publication with a copy of the notice that was published, or with a copy of the pro-forma notice to be published, containing an attestation that such publication has been or will be undertaken immediately.

SRC Rule 13 – Suspension or Revocation of Registration of Securities

(formerly, SRC Rule 13 - Obligation of Issuers Where Registration of Securities Has Been Suspended or Revoked During a Public Offering)

1. If during a public offering, the Commission, after due notice and hearing, revokes the effectivity of a registration statement under Section 13 of the Code, or suspends registration under Section 15 thereof:
 - A. The Commission shall publish a notice of the order of revocation or suspension in a newspaper of general circulation in the Philippines and/or post on the Commission’s website along with a statement that the offering in its current form has been cancelled and that the issuer, subject to such order, or any person acting on behalf of the issuer in the distribution of the subject securities and has in his possession any payment for the purchase of securities, pursuant to paragraph 3 hereof if applicable, has the duty to return any and all payments made by purchasers of the subject securities within ten (10) days of such publication, and simultaneously furnish the issuer a copy of this notice.
 - B. Upon receipt of a notice under paragraph 1(A) above, the issuer and all persons acting on its behalf in the distribution of the subject securities shall immediately terminate the offering and return any and all payments received from purchasers within ten (10) days after the notice is first published.
2. If the public offering is already terminated and the Commission, after due notice and hearing, revokes the effectivity of the registration statement under Section 13 of the Code, or suspends registration under Section 15 thereof, the Commission shall publish a notice of the order of revocation or suspension in a newspaper of general circulation in the Philippines and/or post on the Commission’s website.
3. If a registration statement which on its face is incomplete or inaccurate in any material respect and/or includes any untrue statement of a material fact and/or omits to state a material fact required to be stated therein or that is necessary to make the statements therein not

misleading, has not yet become effective, the issuer shall amend the same in accordance with SRC Rule 14. If the said registration statement has already become effective, such registration shall be suspended or revoked by the Commission in accordance with paragraph 1 of this Rule.

4. Voluntary Revocation

A. An Application for the Voluntary Revocation of Registration of Securities shall be effected by filing the following:

- i. Verified Petition for Revocation of Registration and Permit to Sell Securities to the Public;
- ii. Board Resolution approving said revocation, certified under oath by the Corporate Secretary and attested to by the President or one performing similar function;
- iii. List of Stockholders indicating their respective shareholdings as of the latest date;
- iv. Proposed Notice of Filing of Petition for Voluntary Revocation of Registration of its Securities, reciting the facts supporting the said petition and that the same is subject to the approval of the Commission; and
- v. Copy of Official Receipt representing payment of filing fee in the amount of Five Thousand Pesos (P5,000.00) or such amount as the Commission may determine.

B. The Commission may impose such other requirements or conditions as it may deem necessary. The same may include an Order to produce all the books and papers of the petitioner and to administer oaths to, and examine its officers or other persons connected therewith.

C. Procedures

- i. Upon presentation of the documents required for voluntary revocation of registration of securities, the Notice of Filing of Petition for Voluntary Revocation shall be immediately published by the Commission, at the expense of the petitioner, once in a newspaper of general circulation;
- ii. If after fifteen (15) business days from the aforesaid publication, the Commission finds that the petition together with all other papers and documents attached thereto, is on its face complete and that no party stands to suffer damage thereby, it shall prepare an Order revoking said Registration, without prejudice to the filing of claims for damages, by the affected persons or stockholders, with the regular courts of justice.
- iii. The Order of Revocation shall be published once, in a newspaper of general circulation, at the expense of the company and/or uploaded at the SEC Website.

5. The Order of Revocation shall not exempt the company from its reporting obligations under Section 17.2 of the Securities Regulation Code.

SRC Rule 14 – Amendments to the Registration Statement and Prospectus

1. For purposes of this Rule, material information shall include, but not limited to, the following:
 - A. Any event or transaction which increases or creates a risk on the investments or on the securities covered by the registration;
 - B. Increase/decrease in the volume of the securities being offered at an issue price higher/lower than the range set and disclosed in the registration statement and which results to a derogation of the rights of existing security holders, as may be determined by the Commission;
 - C. Major change in the primary business of the registrant;
 - D. Reorganization of the company;
 - E. Change in the work program or use of proceeds;
 - F. Loss, deterioration or substitution of the property underlying the securities;
 - G. Significant or ten percent (10%) or more change in the financial condition or results of operation of the registrant unless a report to that effect is filed with the Commission and furnished the prospective purchaser;
 - H. Classification, de-classification or re-classification of securities which results to derogation of rights of existing security holders, as may be determined by the Commission.

2. If a registration statement or a prospectus on file with the Commission under the Code becomes incomplete or inaccurate in any material respect or if the issuer wants to change any material information therein, the issuer shall:
 - A. file an amendment to the registration statement with the Commission explaining all proposed changes which shall be reviewed by the Commission in accordance with Section 14 of the Code;
 - B. where the registration statement has been declared effective by the Commission, publish a notice of the proposed amendment/s, including the reasons therefor, in two (2) newspapers of general circulation in the Philippines stating that the offering in its current form has been cancelled;
 - C. if the changes shall result to a derogation of rights of existing security holders or purchasers of subject securities who have paid a portion of the selling price thereof, the issuer shall include in the above-mentioned publication an offer to rescind all transactions that have been completed for sale to date, without making any deduction pursuant to paragraph (D) below and wait for thirty (30) days for purchasers to respond to the rescission offer before initiation of the amended offering; and
 - D. where the conditions under paragraph (C) are present, purchasers may, within thirty (30) days from the date of such notification, renounce their purchase of securities. Whereupon the issuer, or any person acting on behalf of the issuer in connection with the distribution of said securities, shall, within ten (10) days from receipt of notification of such election, return the contributions paid by such purchasers without making any deduction. Purchasers who decide not to renounce their purchase of securities shall be subject to the terms of the amended offering.
 - E. In case of an increase in the volume or offering price of securities to a level higher than the range previously disclosed by the company, the amended registration statement or prospectus shall be accompanied by a filing fee based on the difference between the highest aggregate amount per old range and the total amount based on new volume or price. For amendments other than the offering price, the minimum filing fee for the amended registration statement or prospectus shall be Ten Thousand Pesos (P10,000.00) or such amount as the Commission may determine.

3. If after commencement of a public offering, the Commission becomes aware that the prospectus is on its face incomplete or inaccurate in any material respect, or there is a material omission therefrom, the Commission may require an issuer to comply with paragraph 2 above or suspend or revoke its registration under Section 13 or 15 of the Code and SRC Rule 13.
4. If, during a public offering, an information other than material information in the prospectus changes, the issuer shall file a report on SEC Form 17-C of the new information/changes with the Commission prior to making such changes in the registration statement, explaining all proposed changes thereto. Unless, within twenty (20) days from receipt of such changes, the Commission provides a written response to the issuer regarding such disclosure, the proposed changes shall be deemed to be part of the original disclosure.
5. Every amendment to a registration statement shall be signed by the persons specified in Section 12.4 of the Code or by any executive officer duly authorized by the Board of Directors. The final registration statement and the final prospectus shall, however, be signed by all required signatories under Section 12.4 of the Code.
6. There shall be filed with the Commission one (1) complete, unmarked copy of every amendment, including exhibits and other papers and documents filed as part of the amendment and one (1) additional copy, marked to indicate clearly and precisely, by underlining or in some other appropriate manner, the changes effected in the registration statement by the amendment. Four (4) copies of the final prospectus and final amended registration statement shall be duly signed by required signatories and filed with the Commission.
7. A copy of every amendment relating to a certified financial statement shall include the consent of the certifying accountant to the use of his certificate in connection with the amended financial statement in the registration statement or prospectus and to being named as having certified such financial statement.
8. The date on which amendments are actually received by the Commission shall be the date of filing thereof if all of the requirements of the Code, and rules adopted thereunder with respect to such filing, have been complied with.

SRC Rule 16 – Transition Rule for Pre-Need Plans

Rules and related Commission circulars governing pre-need plan companies and persons involved in the sale and distribution of pre-need plans adopted under the Securities Regulation Code shall continue in force and effect until said rules are amended, modified or replaced by new rules adopted under the Code.

SRC Rule 17.1 – Reportorial Requirements

(formerly, SRC Rule 17 - Requirements to File Annual, Quarterly, Current, Predecessor and Successor Reports)

1. Reporting and Public Companies

The reportorial provisions of this paragraph shall apply to reporting and public companies, as defined under SRC Rule 3. However, the obligation of a company, which has sold a class of its securities pursuant to a registration under Section 12 of the Code shall be suspended for any fiscal year if as of the first day of any such fiscal year, it has less than one hundred (100) holders of such class of securities and the Commission is duly notified of the same. Such suspension shall only be availed of after the year said registration becomes effective.

- A. Every issuer set forth in paragraph 1 hereof, shall file with the Commission:
- i. An annual report on SEC Form 17-A for the fiscal year in which the registration statement was rendered effective by the Commission, and for each fiscal year thereafter, within one hundred five (105) days after the end of the fiscal year.
 - ii. A quarterly report on SEC Form 17-Q, within forty five (45) days after the end of each of the first three quarters (3) of each fiscal year. The first quarterly report of the issuer shall be filed either within forty five (45) days after the effective date of the registration statement or on or before the date on which such report would have been required to be filed if the issuer had been required previously to file reports on SEC Form 17-Q, whichever is later.
 - iii. 1. a current report on SEC Form 17-C, as necessary, to make a full, fair and accurate disclosure to the public of every material fact or event that occurs, which would reasonably be expected to affect investors' decisions in relation to those securities. In the event a news report appears in the media involving an alleged material event, a current report shall be made within the period prescribed herein, in order to clarify said news item, which could create public speculation if not officially denied or clarified by the concerned company.
 2. The disclosure required by paragraph 1(A)(iii)(1) above shall be made by the issuer:
 - a. promptly to the public through the news media;
 - b. if the issuer is listed on an Exchange, to that Exchange within ten (10) minutes after occurrence of the event and prior to its release to the public through the news media, copy furnished the Commission;
 - c. to the Commission on SEC Form 17-C within five (5) days after occurrence of the event being reported, unless substantially similar information as that required by Form 17-C has been previously reported to the Commission by the registrant.
 3. An illustrative, non-all inclusive, list of events which shall be reported pursuant to this paragraph is contained in SEC Form 17-C. Merely because an event does not appear in that list does not mean that it does not have to be reported if, in fact, it is material.
 - iv. In addition to the above reports, issuers of registered commercial papers shall file the following in the form prescribed by the Commission until all the outstanding commercial papers have been paid:
 1. Monthly reports (M-101-40) on commercial paper total issuances/outstanding as at the end of each month, to be submitted within ten (10) business days following the end of the reference month;
 2. A list of issuances, outstanding balance and maturing commercial papers as at the end of each quarter, to form part of the required SEC Form 17-Q.

The obligation to file reports under this item shall not be suspended even when the number of holders of the issuer's commercial papers shall be reduced to less than one hundred (100).
- B. Any disclosure signed and filed with the Commission and the Exchange where the securities of the issuer are listed, or released in mass media, in the personal capacity of any director, executive officer or a substantial stockholder (as defined under SRC Rule 38.1) direct or indirect, of an issuer shall be considered as part of any report mentioned in

paragraph 1(A)(iii) hereof and deemed as an official filing of such company if it does not deny the subject information within two (2) days from the filing/release of the aforementioned disclosure. Any misleading statement, misrepresentation or omission of a material fact therein shall be the joint responsibility of the issuer and the reporting director, officer or substantial stockholder.

- C. An owner of more than five percent (5%) of the voting rights of a listed company or any related party thereof, who holds material information which may materially affect such company may be required by the Commission to disclose such information within the period prescribed under paragraph 1(A)(iii) of this Rule. Failure to provide the required information shall subject said stockholder to sanctions applicable to violations of this Rule.
- D. Every issuer having securities registered with the Commission shall file an annual report on SEC Form 17-A for each of its predecessors which had securities registered with the Commission covering the last full fiscal year of the predecessor prior to the registrant's succession, unless such report has been filed by the predecessor. Such annual report shall contain the information that would be required if filed by the predecessor.
- E. In the event that a non-reporting issuer (in connection with succession by merger, consolidation, exchange of securities or acquisition of assets) issues equity securities to holders of equity securities issued by a reporting issuer, the non-reporting issuer shall assume the same obligation as the reporting issuer to file reports pursuant to Section 17 of the Code, and the non-reporting issuer shall file such reports on the same forms as the reporting issuer.
- F. **Notification of Inability to File On Time All or Any Required Portion of SEC FORM 17-A or 17-Q**
 - i. If all or any required portion of an annual report (SEC Form 17-A) or quarterly report (SEC Form 17-Q) required to be filed pursuant to Section 17 of the Code and SRC Rule 17.1 thereunder is not filed within the period prescribed for such report, the issuer shall, no later than the due date for such report, file with the Commission and, if applicable, with the Exchange where any class of its securities are listed, a SEC Form 17-L which shall contain a disclosure in reasonable detail of its inability to file the report timely and the reasons therefore. All information which are available on the date of the required filing shall be filed.
 - ii. With respect to any report or portion of any report described in paragraph (A) above which is not timely filed because the issuer is unable to do so without unreasonable effort or expense, such report shall be deemed to be filed on the prescribed due date for such report if:
 - 1. The issuer files SEC Form 17-L in compliance with paragraph (i) hereof and, when applicable, furnishes the exhibit required by paragraph (iii) hereof;
 - 2. The issuer represents in SEC Form 17-L that:
 - a. The reason(s) causing the inability to file timely could not be eliminated by the issuer without unreasonable effort or expense; and
 - b. Either the subject annual report on SEC Form 17-A, or portion thereof, will be filed no later than the fifteenth calendar day following the prescribed due date, or the subject quarterly report on SEC Form 17-Q, or portion thereof, will be filed no later than the fifth calendar day following the prescribed due date; and

3. The report/portion thereof is actually filed within the period specified by paragraph 1(A) hereof.
- iii. If paragraph (ii) above is applicable and the reason the subject report/portion thereof cannot be filed timely without unreasonable effort or expense relates to the inability of any person, other than the issuer, to furnish any required opinion, report or certification, SEC Form 17-L shall have attached as an exhibit a statement signed by such person stating the specific reasons why such person is unable to furnish the required opinion, report or certification on or before the date such report must be filed.
- iv. Notwithstanding paragraph (ii) above, a registration statement filed on SEC Form 12-1 pursuant to SRC Rule 8.1, the use of which is predicated on timely filed reports, shall not be declared effective until the subject report is actually filed pursuant to paragraph A hereof.
- v. If SEC Form 17-L filed pursuant to paragraph (ii) above relates only to a portion of a subject report, the issuer shall:
 1. File the balance of such report and indicate on the cover page thereof which disclosure items are omitted; and
 2. Include, on the upper right corner of the amendment to the report which includes the previously omitted information, the following statement:

"The following items were the subject of SEC FORM 17-L and are included herein: (List Item Numbers)"

2. Issuers of Exempt Securities

- A. Issuers of exempt commercial papers shall file the following
 - i. Monthly reports (M-2-3-01) within ten (10) days after the end of the month;
 - ii. Quarterly reports (Q-EPS for non-banks and Q-2-3-01 for banks) within forty-five (45) days after the end of the quarter, respectively.
- B. Issuers shall furnish BSP copies of said reports.
- C. Underwriters or issuers of commercial papers shall file an annual information statement (SEC Form 85-18-1) on commercial paper transactions on or before January 30 of each year. A fee of Ten Thousand Pesos (P10,000.00) shall be paid in connection therewith.

SRC Rule 18.1 – Reports to be Filed by 5% Beneficial Owners

(paragraphs 6, 7 & 8 deleted; disclosure requirements incorporated to SEC Form 23-A/B)

1. The provisions of this Rule shall apply to any person who directly or indirectly acquires the beneficial ownership of more than five percent (5%) or such lesser per centum as the Commission may prescribe, of any class of equity securities of a company that satisfies the requirements of Subsection 17.2 of the Code.
2. Any person who qualifies under paragraph 1 of this Rule shall, within five (5) business days after such acquisition, submit to the Issuer, the Exchange where the security is traded, and to the Commission a sworn statement containing the information required by SEC Form 18-A.
3. A. A person required to file a report on SEC Form 18-A may, in lieu thereof, file with the Commission, within forty five (45) days after the end of the year in which such person became so obligated, copies of a short form report on SEC Form 18-AS including all

exhibits, and send one copy of such report to the issuer of the security at its principal executive office and to each Exchange where the security is listed for trading; provided, that the percentage of the class of equity security beneficially owned as of the end of the calendar year is more than five percent (5%), and that:

- i. such person has acquired such securities in the ordinary course of business and not with the purpose nor with the effect of changing or influencing the control of the issuer, nor in connection with or as a participant in any transaction having such purpose or effect;
 - ii. such person is:
 - a. A broker or dealer registered under the Code;
 - b. A bank authorized to operate as such by the BSP;
 - c. An insurance company subject to the supervision of the Insurance Commission;
 - d. An investment house registered under the Investment Houses Law;
 - e. An investment company registered under the Investment Company Act;
 - f. A pension plan subject to regulation and supervision by the BIR and/or the Insurance Commission; or
 - g. A group where all of the members are persons specified above, and
 - iii. such person has promptly notified any other person on whose behalf it holds, on a discretionary basis, securities exceeding five percent (5%) of the class, of any acquisition or transaction on behalf of such other person which might be reportable by that person under Section 18.1(a) of the Code.
- B. Any person who has reported an acquisition of securities on SEC Form 18-AS but thereafter ceases to be a person specified in paragraph 3(A)(i) or 3(A)(ii) (a) through (g) of this Rule shall file within three (3) business days thereafter a sworn statement on SEC Form 18-A in the event such person is a beneficial owner at that time of more than five percent (5%) of the class of equity securities.
4. A person, in determining the amount of outstanding securities of a class of equity securities, may rely upon information set forth in the issuer's most recent quarterly or annual report, and any current report subsequent thereto unless he knows or has reason to believe that the information contained therein is inaccurate.
5. For purposes of Section 18 of the Code, "beneficial owner" shall have the same definition as set forth in SRC Rule 3, provided that:
- A. A person who, in the ordinary course of business, is a pledgee of securities under a written agreement shall not be deemed to be the beneficial owner of such pledged securities until the pledgee has taken all necessary steps which are required to declare a default and determines that the power to vote or to dispose or to direct the disposition of such pledged securities will be exercised;
 - B. A person engaged in the business of an investment house who acquires his securities through his participation in good faith in a firm commitment underwriting shall not be deemed to be the beneficial owner of such securities until the expiration of six (6) months after the date of such acquisition; and
 - C. When two (2) or more persons agree to act together for the purpose of acquiring, holding, voting or disposing of equity securities of an issuer, the group formed thereby

shall be deemed to have acquired beneficial ownership, for purposes of Section 18 of the Code, as of the date of such agreement, of all equity securities of that issuer beneficially owned by such persons.

SRC Rule 19 – Tender Offers
[formerly, SRC Rule 19.1]

1. Definitions

- A. **Affiliate** means any person, controlling, controlled by, or under common control with the issuer.
- B. **Beneficial owner** shall have the same meaning as set forth in SRC Rule 3.
- C. **Bidder** means any person who makes a tender offer or on whose behalf a tender offer is made.
- D. **Commencement** means the date a tender offer is first published, sent or given to security holders.
- E. **Issuer** means any issuer subject to reporting obligations under Section 17.2 of the Code.
- F. **Issuer Tender Offer** means a publicly announced intention by an issuer to reacquire any of its own class of equity securities, or by an affiliate of such issuer to acquire such securities.
- G. **Security holders** mean holders of record and beneficial owners of securities that are the subject of a tender offer.
- H. **Target company** means any issuer of securities that are sought by a bidder pursuant to tender offer.
- I. **Tender offer** means a publicly announced intention by a person acting alone or in concert with other persons (hereinafter referred to as “person”) to acquire equity securities of a public company as defined in SRC Rule 3.
- J. **Tender offer materials** mean: (i) the bidder’s formal offer, including all the material terms and conditions of the tender offer and all amendments thereto; (ii) the related transmittal letter (whereby securities of the target company which are sought in the tender offer may be transmitted to the bidder or its depository) and all amendments thereto; and (iii) press releases, advertisements, letters and other documents published by the bidder or sent or given by the bidder to security holders which, directly or indirectly, solicit, invite or request tenders of the securities being sought in the tender offer.
- K. **Termination** means the date after which securities may not be tendered pursuant to the tender offer.

2. Mandatory tender offers

- A. Any person or group of persons acting in concert, who intends to acquire thirty five percent (35%)¹ or more of equity shares in a public company shall disclose such intention and contemporaneously make a tender offer for the percent sought to all holders of such class, subject to paragraph (9)(E) of this Rule.

In the event that the tender offer is oversubscribed, the aggregate amount of securities to be acquired at the close of such tender offer shall be proportionately distributed across both selling shareholder with whom the acquirer may have been in private negotiations and minority shareholders.

- B. Any person or group of persons acting in concert, who intends to acquire thirty five percent (35%)¹ or more of equity shares in a public company in one or more transactions within a period of twelve (12) months, shall be required to make a tender offer to all holders of such class for the number of shares so acquired within the said period.
- C. If any acquisition of even less than thirty five percent (35%) would result in ownership of over fifty one percent (51%) of the total outstanding equity securities of a public company, the acquirer shall be required to make a tender offer under this Rule for all the outstanding equity securities to all remaining stockholders of the said company at a price supported by a fairness opinion provided by an independent financial advisor or equivalent third party. The acquirer in such a tender offer shall be required to accept any and all securities thus tendered.
- D. In any transaction covered by this Rule, the sale of the shares pursuant to the private transaction shall not be completed prior to the closing and completion of the tender offer. Transactions with any of the seller/s of significant blocks of shares with whom the acquirers may have been in private negotiations shall close at the same time and upon the same terms as the tender offer made to the public under this Rule. For paragraph (2)(B), the last sale meeting the threshold shall not be consummated until the closing and completion of the tender offer.

3. Exempt from Mandatory Tender Offer Requirement

- A. The mandatory tender offer requirement shall not apply to the following:
 - i. any purchase of shares from the unissued capital stock provided that the acquisition will not result to a fifty percent (50%) or more ownership of shares by the purchaser;
 - ii. any purchase of shares from an increase in authorized capital stock;
 - iii. purchase in connection with foreclosure proceedings involving a duly constituted pledge or security arrangement where the acquisition is made by the debtor or creditor;
 - iv. purchases in connection with privatization undertaken by the government of the Philippines;
 - v. purchases in connection with corporate rehabilitation under court supervision;
 - vi. purchases through an open market at the prevailing market price;
 - vii. merger or consolidation.
- B. Purchasers of shares in the foregoing transactions shall, however, comply with the disclosure and other obligations under SRC Rule 18.1 and SRC Rule 23.

4. Tender Offer by an Issuer/Buy Back

¹ The thresholds of fifteen percent (15%) or more for a single acquisition or thirty percent (30%) for creeping acquisition as provided for in Section 19 of the Code are increased to thirty five percent (35%), pending the passage of the proposed amendments to the SRC.

- A. A reacquisition or repurchase by an issuer of its own securities shall only be made if such issuer has unrestricted retained earnings in its books to cover the amount of shares to be purchased, and the same is pursuant to any of the following purposes:
- i. to implement a stock option or stock purchase plan;
 - ii. to meet short-term obligations which can be settled by the re-issuance of the repurchased shares;
 - iii. to pay dissenting or withdrawing stockholders entitled to payment for their shares under the Corporation Code;
 - iv. such other legitimate corporate purpose/s.

In case of acquisition pursuant to subparagraph (i) or (ii) above, the same may be accounted for as "Investment in Marketable Securities", in accordance with International Accounting Standards.

- B Any issuer or any of its affiliates which intend to reacquire its own securities through active and widespread solicitation from the stockholders in general and in substantial amount of its shares, shall comply with disclosure and procedural requirements set forth under subparagraphs (C) and (D) below, and the preceding provisions of this Rule.
- C. If an issuer or an affiliate publishes, sends or disseminates its tender offer to security holders by means of a summary publication in the manner prescribed in this Rule, the summary publication shall disclose only the following information:
- i. The identity of the issuer or affiliate making the tender offer;
 - ii. The amount and class of securities being sought and the price being offered;
 - iii. The information required by paragraph 8 of this Rule;
 - iv. A statement of the purpose of the issuer tender offer; and
 - v. The appropriate instruction for security holders on how to obtain promptly, at the expense of the issuer or affiliate making the issuer tender offer, the information required by paragraph 7 of the Rule.
- D. Until the expiration of at least ten (10) business days after the date of termination of the issuer tender offer, neither the issuer nor any affiliate shall make any repurchase, otherwise than pursuant to the tender offer of:
- i. Any security which is the subject of the issuer tender offer, or any security of the same class and series, or any right to repurchase such securities; and
 - ii. In the case of an issuer tender offer which is an exchange offer, any security being offered pursuant to the exchange offer, or any security of the same class and series, or any right to repurchase any such security.
- E. This rule shall not apply to:
- i. Calls or redemption of any security in accordance with the terms and conditions of its governing instruments;
 - ii. Offers to repurchase securities evidenced by a certificate, order form or similar document which represents a fractional interest in a share of stock or similar security.

5. Any person making a tender offer shall make an announcement of his intention in a newspaper of general circulation, prior to the commencement of the offer; Provided, however, that such announcement shall not be made until the bidder has the resources to implement the offer in full. A copy of said notice shall be submitted to the Commission on the date of publication thereof.

6. Filing Requirements

- A. No bidder shall make a tender offer unless at least two (2) business days prior to the date of the commencement of the tender offer, such bidder:
 - i. Files with the Commission copies of SEC Form 19-1, including all exhibits thereto, with the prescribed filing fees; and
 - ii. Hand delivers a copy of such SEC Form 19-1, including all exhibits thereto to the target company at its principal executive office and to each Exchange where such class of the target company's securities are listed for trading.
- B. The bidder shall file with the Commission copies of any additional tender offer materials as exhibit to SEC Form 19-1 and, if a material change occurs in the information set forth in such SEC Form, copies of an amendment to such form. Copies of such additional tender offer materials and amendments shall be hand delivered to the target company and to any Exchange as required above.
- C. The bidder shall report the results of the tender offer by filing with the Commission, not later than ten (10) calendar days after the termination of the tender offer, copies of the final amendments to SEC Form 19-1.

7. Disclosure Requirements with Respect to Tender Offers

- A. The bidder shall publish, send or give to security holders in the manner prescribed under paragraph 9 of this Rule, a report containing the following information:
 - i. The identity of the bidder including his/its present principal occupation;
 - ii. The identity of the target company;
 - iii. The amount of class of securities being sought and the type and amount of consideration being offered therefor;
 - iv. The scheduled expiration date of the tender offer, whether the tender offer may be extended and, if so, the procedures for extension of the tender offer;
 - v. The exact dates when security holders who deposit their securities will have the right to withdraw their securities pursuant to this Rule and the manner in which shares will be accepted for payment and in which withdrawal may be effected;
 - vi. If the tender offer is for less than all of the securities of the class and the bidder is not obligated to purchase all securities tendered, the exact date of the period during which securities will be accepted on a pro rata basis under this Rule and the present intention or plan of the bidder with respect to the tender offer in the event of an oversubscription by security holders;
 - vii. The confirmation by the bidder's financial adviser or another appropriate third party that resources available to the bidder are sufficient to satisfy full acceptance of the offer; and
 - viii. The information included in SEC Form 19-1.
- B. If any material change occurs in the information previously disclosed to security holders, the bidder shall disclose promptly such change in the manner prescribed by this Rule.

8. Dissemination Requirements

- A. A bidder or an issuer shall disseminate the tender offer by complying fully with one of the following methods of dissemination:
- i. Long Form Publication. The bidder shall publish in two (2) newspapers of general circulation in the Philippines on the date of commencement of the tender offer and for two (2) consecutive days thereafter the information required by paragraph 7 (A) of this Rule; or
 - ii. Summary Publication. The bidder shall publish in two (2) newspapers of general circulation in the Philippines on the date of commencement of the tender offer and for two (2) consecutive days thereafter the information required by paragraph 7(A)(i) through (viii) of this Rule, including appropriate instructions for security holders on how to obtain promptly, at the expense of the bidder, the information included in SEC Form 19-1, and furnish promptly a copy of such form to any security holder who requests a copy of such information.
- B. If a material change occurs in the information published, sent or given to security holders, the bidder shall disseminate promptly disclosure of such change in a manner reasonably calculated to inform security holders of such change.

9. Period and Manner of Making Tender Offer

- A. The tender offer, unless withdrawn, shall remain open until the expiration of:
- i. At least twenty (20) business days from its commencement; provided, however, that an offer should generally be completed within sixty (60) days from the date the intention to acquire is publicly announced; or
 - ii. At least ten (10) business days from the date the notice of a change in the percentage of the class of securities being sought or in the consideration offered is first published, sent or given to security holders.
- B. Where a mandatory tender offer is required, the bidder is compelled to offer the highest price paid by him for such shares during the past six (6) months. Where the offer involves payment by transfer or allotment of securities, such securities must be valued on an equitable basis.
- C. In case of a tender offer other than by an issuer, a target company shall not engage in any of the following transactions during the course of a tender offer, or before the commencement thereof if its board has reason to believe that an offer might be imminent, except if such transaction is in pursuance of a contract entered into earlier, or with the approval of shareholders in a general meeting or, where special circumstances exist, Commission approval has been obtained:
- i. Issue any authorized but unissued shares;
 - ii. Issue or grant options in respect to any unissued shares;
 - iii. Create or issue, or permit the creation or issue of, any securities carrying rights of conversion into, or subscription for, shares;
 - iv. Sell, dispose of or acquire, or agree to acquire, any asset, the value of which amounts to five percent (5%) or more of the total value of assets prior to acquisition; or
 - v. Enter into contracts otherwise done in the ordinary course of business.

- D. The bidder in a tender offer shall permit securities tendered to be withdrawn:
 - i. At any time during the period such tender offer remains open; and
 - ii. If not yet accepted for payment, after the expiration of sixty (60) business days from the commencement of the tender offer.
- E. If the tender offer shall be for less than the total outstanding securities of a class but a greater number of securities is tendered pursuant thereto, the bidder shall be bound to take up and pay for the securities on a pro rata basis, disregarding fractions, according to the number of securities tendered by each security holder during the period such offer remains open.
- F. In the event the bidder in a tender offer shall increase the consideration offered after the tender offer has commenced, such bidder shall pay such increased consideration to all security holders whose tendered securities are accepted for payment by such bidder, whether or not the securities were tendered prior to the variation of the tender offer's terms.
- G. The bidder in a tender offer shall either pay the consideration offered, or return the tendered securities, not later than ten (10) business days after the termination or the withdrawal of the tender offer.
- H. No tender offer may be made unless:
 - i. The tender offer shall be open to all security holders of the class of securities subject to the tender offer; and
 - ii. The consideration paid to any security holder pursuant to the tender offer shall be the highest consideration paid to any other security holder during such tender offer.
- I. The bidder in a tender offer shall not extend the length of a tender offer without prior clearance from the Commission and without issuing a notice of such extension by press release or other public announcement, which notice shall include disclosure of the appropriate number of securities deposited to date and shall be issued no later than the scheduled original expiration date of the offer.

10. Transactions on the Basis of Material, Non-Public Information

If a person shall become aware of a potential tender offer before the tender offer has been publicly announced, such person shall not buy or sell, directly or indirectly, the securities of the target company until the tender offer shall have been publicly announced. Such buying or selling shall constitute insider trading under Section 27.4 of the Code.

11. Withdrawal/Lapse of Tender Offer

Except with the consent of the Commission, where an offer has been announced but has not become unconditional in all respects and has been withdrawn or lapsed, neither the bidder nor any person who acted in concert with it in the course of the offer may, within six (6) months from the date on which such offer has been withdrawn or lapsed, announce an offer for the target company nor acquire any securities of the target company which would require such person to make a mandatory tender offer under this Rule and Section 19.1 of the Code.

12. Prohibited practices

It shall be a fraudulent, deceptive or manipulative act or practice, in connection with any tender offer:

- A. to employ any device, scheme or artifice to defraud any person;
- B. to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or
- C. to engage in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person.

13. Violation

If there shall be violation of this Rule by pursuing a purchase of equity shares of a public company at threshold amounts without the required tender offer, the Commission, upon complaint, may nullify the said purchase and direct the holding of a tender offer. This shall be without prejudice to the imposition of other sanctions under the Code.

SRC Rule 20 – Disclosures to Stockholders Prior to Meeting

(formerly, SRC Rule 20 – The Proxy Rule)

1. Applicability of SRC Rule 20

For the purpose of holding any stockholders' meeting, the provisions of this Rule shall apply to any corporation enumerated in Section 17.2 that is subject to the reporting requirements of Section 17 of the Code and to any person who shall solicit votes for a stockholders' meeting of a particular corporation.

2. Definitions

- A. As used in this Rule and SEC Form 20-IS, the following terms shall have the following meaning:
 - i. **Employee Benefit Plan** means any purchase, savings, option, bonus, profit sharing, incentive, pension or similar plan primarily for employees, directors, trustees or officers.
 - ii. **Entity that exercises fiduciary powers** means any entity that holds securities in nominee name or otherwise on behalf of a beneficial owner.
 - iii. **Information statement** means the statement required by this Rule.
 - iv. **Proxy** includes every proxy, consent or authorization within the meaning of Section 20 of the Code.
 - v. **Record date** means the date on which the record holders of securities entitled to vote at the meeting in person or by written consent or authorization shall be determined.
- B. Solicitation
 - i. The terms solicit and solicitation shall include:
 - a. any request for a proxy or authorization;

- b. any request to execute or not to execute, or to revoke, a proxy or authorization; or
 - c. the furnishing of a form of proxy or other communication to security holders under a circumstance reasonably calculated to result in the procurement, withholding or revocation of a proxy.
- ii. The terms shall not apply to:
- a. the performance by any person of ministerial acts on behalf of a person soliciting a proxy; or
 - b. any solicitation made otherwise than on behalf of the registrant where the total number of persons solicited is not more than nineteen (19).

3. Obligations of a Registrant Proposing to Hold a Stockholders' Meeting

- A. In connection with an annual or other meetings of stockholders, the registrant shall transmit a written information statement and proxy form (in case of a proxy solicitation) containing the information specified under SEC Form 20-IS, and a management report under paragraph (4) of this Rule, if applicable, to every security holder of the class that is entitled to vote.
- B. The proxy form shall be prepared in accordance with paragraph (5) hereof.
- C. Filing Requirements
- i. Preliminary copies of the information statement and proxy form shall be filed with the Commission at least ten (10) business days prior to the date definitive copies of such material shall be first sent or given to security holders.

The registrant shall contact the Commission for any comment on the preliminary materials.
 - ii. At the time of filing the preliminary information material, the registrant shall pay the Commission the fee of Five Thousand Pesos (P5,000.00) or such other amount as the Commission may prescribe.
 - iii. Copies of the definitive information statement, proxy form and all other materials (if any), shall be filed with the Commission prior to the date such material/s shall be first sent or given to security holders. One (1) copy of such material shall at the same time be filed with, or mailed for filing to, any Exchange in which any class of securities of the registrant is listed for trading.
 - iv. The information statement, proxy form and the management report under paragraph (4) of this Rule, if applicable, shall be distributed to security holders at least fifteen (15) business days from the date of the stockholders' meeting.
- D. If the solicitation or distribution shall be made personally in whole or in part, copies of all written instructions or other materials which shall discuss or review, or comment upon the merits of, any matter to be acted upon and which shall be furnished by the persons making the actual solicitation for their use directly or indirectly in connection with the solicitation shall be filed with, or mailed for filing to, the Commission by the person on whose behalf the solicitation shall be made not later than the date any such material is first sent or given to such individuals.
- E. If any information statement or form of proxy or other materials (if applicable) filed pursuant to this Rule shall be amended or revised, copies of such amended or revised material shall be filed pursuant to this Rule and shall be marked to indicate clearly and precisely the changes effected therein.

4. Report to be Furnished to the Stockholders

- A. If the information statement shall relate to an annual (or special meeting in lieu of the annual) meeting of stockholders at which directors shall be elected, it shall be accompanied or preceded by a management report to such stockholders containing the following:
- i. Consolidated audited financial statements and interim unaudited financial statements (if applicable), as required by SRC Rule 68, as amended;
 - ii. Information concerning disagreements with accountants on accounting and financial disclosure required by Part III(B) of "Annex C";
 - iii. A management's discussion and analysis or plan of operation required by Part III(A) of "Annex C";
 - iv. A brief description of the general nature and scope of the business of the registrant and its subsidiaries;
 - v. Identity of each of the registrant's directors and executive officers including their principal occupation or employment, name and principal business of any organization by which such persons are employed;
 - vi. The market price of and dividends on the registrant's common shares required by Part II (A) of "Annex C";
 - vii. Discussion on compliance with leading practices on corporate governance as required by Part V of Annex "C"; and
 - viii. An undertaking in bold face prominent type to provide without charge to each person solicited, on the written request of any such person, a copy of the registrant's annual report on SEC Form 17-A and the name and address of the person to whom such a written request is to be directed. At the discretion of management, a charge may be made for exhibits, provided such charge is limited to reasonable expenses incurred by the registrant in furnishing such exhibits.
- B. Any information that is required to be disclosed in the information statement, which is also contained in the registrant's annual report, need not be provided in the said statement. Reference to the page of the annual report shall be made.
- C. In case of a special meeting where the registrant has already distributed to its stockholders its annual report on SEC Form 17-A for the fiscal year preceding its annual stockholders' meeting date, it shall no longer be required to comply with paragraph (A) above except with respect to the disclosure of updated financial and non-financial information.
- D. Copies of the management report for distribution to security holders shall be filed with the Commission prior to the date on which such report shall be first sent or given to security holders.
- E. The distribution of management report to security holders is deemed to satisfy Section 75 of the Corporation Code of the Philippines with respect to presenting a financial report of operations including financial statements to stockholders at their regular meeting.

5. Requirements as to Form of Proxy and Delivery of Information to Security Holders

- A. The form of proxy shall:

- i. indicate in bold-face type on whose behalf the solicitation is made;
 - ii. provide a specifically designated blank space for dating the proxy card;
 - iii. identify clearly and impartially each separate matter intended to be acted upon;
 - iv. be in writing, signed by the stockholder or his duly authorized representative; and
 - v. be filed with the Corporate Secretary before the scheduled meeting.
- B. Means shall be provided in the proxy form whereby the person solicited is afforded an opportunity to specify by boxes a choice between approval or disapproval of, or abstention with respect to, each separate matter referred to therein as intended to be acted upon, other than election to office. A proxy may confer discretionary authority with respect to matters as to which a choice is not specified by the security holder provided that the form of proxy states in bold-face type how it is intended to vote the shares represented by the proxy in each such case.
- C. A proxy form which provides for the election of directors shall set forth the names of persons nominated for election as directors. Such form of proxy shall clearly provide any of the following means for security holders to withhold authority to vote for each nominee:
- i. a box opposite the name of each nominee which may be marked to indicate that authority to vote for such nominee is withheld;
 - ii. an instruction in bold-face type which indicates that the security holder may withhold authority to vote for any nominee by lining through or otherwise striking out the name of the nominee; or
 - iii. designated blank spaces in which the shareholder may enter the names of nominees with respect to whom the shareholder chooses to withhold authority to vote.
- D. Any proxy form which is executed by the security holder in such manner as not to withhold authority to vote for the election of any nominee shall be deemed to grant such authority, provided that the proxy form so states in prominent bold-face type.
- E. A proxy may confer discretionary authority to vote with respect to any of the following:
- i. Matters that are to be presented at the meeting but which, at a reasonable time before the solicitation, are not known to the persons making the solicitation; provided, however, that a specific statement to that effect is made in the information statement or proxy form;
 - ii. Approval of the minutes of the prior meeting;
 - iii. The election of any person to any office for which a bona fide nominee is named in the information statement and such nominee is unable to serve or for good cause will not serve; or
 - iv. Matters incident to the conduct of the meeting.
- F. No proxy shall confer authority:
- i. to vote for any person to any office for which a bona fide nominee is not named in the information statement or in any material attached thereto;

- ii. to vote with respect to more than one meeting (and any adjournment thereof), unless a specific statement is made in the information statement and form of proxy that the proxy is valid for more than one meeting. Provided, however, that no proxy shall be valid and effective for a period longer than five (5) years from the date of the proxy; or
 - iii. to consent to or authorize any action other than the action proposed to be taken in the information statement or matters referred to above.
- G. The proxy form shall provide, subject to reasonable specified conditions, that the shares represented by the proxy will be voted and that, where the person solicited specifies by means of a ballot provided pursuant to this Rule a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the specifications so made.
- H. Prohibition of Certain Solicitations
- No person making a solicitation which is subject to this Rule shall solicit:
- i. any undated or post-dated proxy; or
 - ii. any proxy which provides that it shall be deemed to be dated as of any date subsequent to the date on which it is signed by the security holder.

6. Obligations of Registrant to Provide a List of, or Mail Meeting Material/s to Security Holders

- A. When a record or beneficial holder of securities of the class entitled to vote at the meeting makes a written request to be provided with a list of stockholders or to mail the meeting material, the registrant shall grant the request either by providing the list or mailing the materials to the requesting stockholder.
- B. If the registrant elects to mail the materials for the requesting stockholder, the registrant shall:
- i. advise the requesting stockholder promptly of the number of record holders and beneficial holders to whom the materials will be sent;
 - ii. advise the requesting stockholder of the estimated cost of mailing an information statement, form of proxy or other forms of communication to such holders; and
 - iii. mail the materials to the stockholders with reasonable promptness.

7. Providing Copies of Material for Certain Beneficial Owners

- A. If the registrant or the solicitor knows that securities of any class entitled to vote at a meeting with respect to which the SEC Form 20-IS being furnished are held of record by a broker, dealer, investment house, voting trustee, bank, association, or other entity that exercises fiduciary powers in nominee name or otherwise, the registrant or the solicitor shall by first class mail or other equally prompt means, inquire of such record holders at least twenty (20) business days prior to the record date of the meeting:
- i. whether other persons are the beneficial owners of such securities and if so, the number of copies of the information statement necessary to supply such material to such beneficial owners; and
 - ii. in the case of an annual (or special meeting in lieu of the annual) meeting at which directors are to be elected, the number of copies of the management

report to security holders necessary to supply such report to beneficial owners to whom such reports are to be distributed by such record holder.

- B. The registrant or the solicitor shall supply, in a timely manner, each record holder of whom the inquiries required by paragraph 7(A) of this Rule are made with copies of the information statement and/or the management report to security holders in such quantities, assembled in such form and at such place(s), as the record holder may reasonably request in order to send such material to each beneficial owner of securities who is to be furnished with such material by the record holder.
- C. Upon the request of any record holder that is supplied with the information statement and/or annual reports to security holders pursuant to paragraph 7(A) of this Rule, the registrant shall reimburse the record holder for its reasonable expenses for completing the mailing of such material to beneficial owners.

8. Special Provisions Applicable to Solicitation of Votes Other Than by the Registrant

- A. This paragraph applies to any solicitation by any person or group of persons other than by the registrant, with respect to any item/s to be taken up in an annual or special stockholders' meeting.
- B. Notwithstanding the provisions of paragraph 3 of this Rule, a solicitation subject to this Rule may be made without furnishing the security holders with a written information statement on SEC Form 20-IS, provided that:
 - i. The following information shall be set forth in the communication which shall be attached and distributed with the proxy form prepared in accordance with paragraph (5) of this Rule:
 - a. The name of the solicitor and person who shall shoulder the expenses, and the mode of solicitation;
 - b. In case of election of directors, the name/s of nominee/s including his business experience for the past five (5) years, involvement in legal proceedings, family relationship with any other nominee, incumbent director or officer, and his interest, direct or indirect, by security holdings or otherwise;
 - c. A discussion of the reason/s for the solicitation of votes against the proposed action/s by the registrant;
 - d. A brief description of any substantial interest, direct or indirect, by security holdings or otherwise, of each solicitor or participant to the solicitation, in any matter to be acted upon at the meeting and include with respect to each solicitor the following information, or a fair and accurate summary thereof:
 - 1. Name and business address of the solicitor;
 - 2. Present principal occupation or employment and the name, principal business and address of any corporation or other organization in which such employment is carried on;
 - 3. Amount of each class of securities of the registrant which the solicitor owns beneficially, directly or indirectly;
 - 4. Amount of each class of securities of the registrant which the solicitor owns of record but not beneficially;

5. All securities of the registrant purchased or sold by the solicitor within the past two years, the dates on which they were purchased or sold and the amount purchased or sold on each date;
 6. If the solicitor is, or was within the past year, a party to any contract, arrangement or understanding with any person with respect to any security of the registrant, including, but not limited to joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies. If so, name the parties to such contracts, arrangements or understandings and give the details thereof; and
 7. Amount of each class of securities of any parent or subsidiary of the registrant which the solicitor owns beneficially, directly or indirectly.
- e. If specially engaged employees, representatives or other persons have been or are to be employed to solicit security holders, the (1) material features of any contract or arrangement for such solicitation and the identity of the parties, (2) cost or anticipated cost thereof, and (3) approximate number of such employees or employees of any other person (naming such other person) who will solicit security holders; and
 - f. The total amount estimated to be spent and the total expenditures in furtherance of, or in connection with the solicitation of security holders.
- ii. All matters to be taken up in the meeting shall be considered and reflected in the proxy form and its attachments.
- C. Copies of the proxy form with its attachments shall be filed with the Commission at least fifteen (15) business days prior to the date such materials shall be distributed, sent or given to any security holder. The solicitor shall contact the Commission for any comment on the said materials before said distribution.
 - D. A filing fee of Two Thousand Pesos (P2,000.00) or such amount as the Commission may determine, for each proxy solicitation other than by the registrant, shall be paid to the Commission.

9. False or Misleading Statements

- a. No information subject to this Rule shall be made containing any statement which, at the time and in the light of the circumstances under which it is made, is false or misleading with respect to any material fact, or which omits to state any material fact necessary in order to make the statements therein not false or misleading or necessary to correct any statement in any earlier communication with respect to the solicitation of a proxy for the same meeting or subject matter which has become false or misleading.
- b. The fact that a statement or other material has been filed with or examined by the Commission shall not be deemed a finding by the Commission that such material is accurate or complete or not false or misleading, or that the Commission has passed upon the merits of or approved any statement contained therein or any matter to be acted upon by security holders. No representation contrary to the foregoing shall be made.

10. Obligation of Registrants in Communicating with Beneficial Owners

- a. If the registrant knows that securities of any class entitled to vote at a meeting with respect to which the registrant intends to solicit proxies, consents or authorizations are held of record by a broker, dealer, investment house, voting trustee, bank, association, or other entity that exercises fiduciary powers in nominee name or otherwise, the registrant shall by first class mail or other equally prompt means, inquire of such record holders at least twenty (20) business days prior to the record date of the meeting:
 - i. whether other persons are the beneficial owners of such securities and if so, the number of copies of the proxy and other soliciting material necessary to supply such material to such beneficial owners; and
 - ii. in the case of an annual (or special meeting in lieu of the annual) meeting at which directors are to be elected, the number of copies of the management report to security holders necessary to supply such report to beneficial owners to whom such reports are to be distributed by such record holder.
- b. The registrant shall supply, in a timely manner, each record holder of whom the inquiries required by this paragraph 10(a) are made with copies of the information statement, proxy form (if applicable), other proxy soliciting material, and/or the management report to security holders, in such quantities, assembled in such form and at such place(s), as the record holder may reasonably request in order to send such material to each beneficial owner of securities who is to be furnished with such material by the record holder.
- c. Upon the request of any record holder that is supplied with the said documents pursuant to this paragraph 10(b), the registrant shall reimburse the record holder for its reasonable expenses in completing the mailing of such material to beneficial owners.

11. Other Procedural Requirements

- a. Annual Meeting
 - i. Regular meeting of stockholders for the election of Directors and Officers of the corporation shall be held annually on the date fixed in the by-laws, or if not so fixed, on any date in April as determined by the Board of Directors. If the date of the annual meeting falls on a legal holiday, the annual meeting shall be held in the next succeeding business day which is not a legal holiday.
 - ii. The annual stockholders' meeting shall be held in the city or municipality where the principal office of the corporation is located, and if practicable in the principal office of the corporation. Metro Manila shall, for purposes of said meeting, be considered a city or municipality.
 - iii. Written notice, stating the date, time and place of the annual meeting shall be sent to all stockholders of record at least two (2) weeks prior to the scheduled annual stockholders' meeting, unless a different period is required by the by-laws. The distribution to stockholders of information statement (SEC Form 20-IS) within the prescribed period under this Rule shall be sufficient compliance with the notice requirement.
 - iv. If for any justifiable and valid reason, the annual stockholders' meeting has to be postponed, the corporation shall notify the Commission in writing of such postponement within ten (10) days from the date of such postponement.
 - v. No postponement of annual stockholders' meeting shall be allowed except for justifiable reasons to be stated in writing signed under oath by the President or Secretary of the corporation.

- vi. The Commission en-banc may, motu proprio, or upon the written request of any stockholder, direct the calling of an annual stockholders' meeting under its supervision, if the corporation fails or refuses to call said meeting for any justifiable reason.
 - vii. The Commission may send its representatives/observers to stockholders' meetings, under such terms and conditions it deems appropriate.
 - viii. Unless otherwise provided by the by-laws, the stock and transfer book shall be closed at least twenty (20) days before the scheduled date of the annual stockholders' meeting to enable the corporation to prepare a list of stockholders entitled to vote.
 - ix. A copy of the list of stockholders entitled to vote shall be made available at the company's principal office at least fifteen (15) days prior to the date of the annual stockholders' meeting and the corporation shall furnish a copy thereof to any stockholder who may request the same at the expense of said stockholder.
- b. Proxy
- i. The corporate by-laws shall be controlling in determining the proper procedure to be followed in the execution and acceptance of proxies, provided that the minimum required formalities prescribed under Section 58 of the Corporation Code and SRC Rule 20 shall be complied with.
 - ii. The notice of stockholders' meeting shall also set the date, time and place of the validation of proxies, which in no case shall be less than five (5) days prior to the annual stockholders' meeting to be held. The presence of any stockholder who may wish to be present in person or through counsel shall be allowed.
 - iii. Failure to affix documentary stamps shall not affect the validity of the proxy. The only adverse effect of such failure is that the same cannot be recorded as a public document and cannot be admitted or used as evidence in Court until the required documentary stamp is affixed and cancelled.
 - iv. Unless required by the corporate by-laws, a proxy need not be notarized.
 - v. If the name of the proxy is left in blank, the person to whom it is given or the issuer corporation receiving the proxy is at liberty to fill in any name he/it chooses.
 - vi. If a duly accomplished and executed proxy is undated, the postmark or, if not mailed, its actual date of presentation shall be considered.
 - vii. A proxy executed by a corporation shall be in the form of a board resolution duly certified by the Corporate Secretary or in a proxy form executed by a duly authorized corporate officer accompanied by a Corporate Secretary's certificate quoting the board resolution authorizing the said corporate officer to execute the said proxy.
 - viii. If the by-laws provide for a cut-off date for the submission of proxies the same should be strictly followed. In the absence of a provision in the by-laws fixing a deadline, proxies shall be submitted not later than ten (10) days prior to the date of the stockholders meeting.
 - ix. Where the corporation receives more than one (1) proxy from the same stockholder and they are all undated, the postmark dates shall be considered. If the proxies are mailed on the same date, the one bearing the latest time of day of postmark is counted. If the proxies are not mailed, then the time of their actual presentation is considered. That which is presented last will be recognized.

- x. Where a proxy is given to two (2) or more persons in the alternative in one instrument, the proxy designated as an alternate can only act as proxy in the event of non-attendance of the other designated person.
- xi. Where the same stockholder gives two (2) or more proxies, the latest one given is to be deemed to revoke all former proxies.
- xii. A proxy shall be valid only for the meeting for which it is intended.
- xiii. Executors, administrators, receivers and other legal representatives duly appointed by the court may attend and vote on behalf of the stockholders without a need of any written proxy.
- xiv. If the stockholder intends to designate several proxies, the number of shares of stock to be represented by each proxy shall be specifically indicated in the proxy form. If some of the proxy forms do not indicate the number of shares, the total shareholdings of the stockholder shall be tallied and the balance thereof, if any, shall be allotted to the holder of the proxy form without the number of shares. If all are in blank, the stocks shall be distributed equally among the proxies. The number of persons to be designated as proxies may be limited by the By-laws.
- xv. In case of shares of stock owned jointly by two (2) or more persons, the consent of all co-owners shall be necessary to appoint or revoke a proxy.
- xvi. For persons owning shares in an "and/or" capacity, any one of them may appoint and revoke a proxy.
- xvii. Proxies executed abroad shall be duly authenticated by the Philippine Embassy or Consular Office.
- xviii. No member of the Stock Exchange and no broker/dealer shall give any proxy, consent or authorization, in respect of any security carried for the account of a customer to a person other than the customer, without the express written authorization of such customer. The proxy executed by the broker shall be accompanied by a certification under oath stating that before the proxy was given to the broker, he had duly obtained the written consent of the persons in whose account the shares are held.
- xix. A proxy shall not be invalidated on the ground that the stockholder who executed the same has no signature card on file with the Corporate Secretary or Transfer Agent, unless it can be shown that he/she had refused to submit the signature card despite written demand to that effect duly received by the said stockholder at least ten (10) days before the annual stockholders' meeting and election.
- xx. There shall be a presumption of regularity in the execution of proxies and shall be accepted if they have the appearance of prima facie authenticity in the absence of a timely and valid challenge.
- xxi. In the validation of proxies, a special committee of inspectors shall be designated or appointed by the Board of Directors which shall be empowered to pass on the validity of proxies. Any dispute that may arise pertaining thereto, shall be resolved by the Securities and Exchange Commission upon formal complaint filed by the aggrieved party, or by the SEC officer supervising the proxy validation process.
- xxii. All issues relative to proxies including their validation shall be resolved prior to the canvassing of votes for purposes of determining a quorum.
- xxiii. All shares which are subject of a case where ownership is at issue, shall be set aside for purposes of proxy validation unless there is a court appointed representative who shall then vote on said shares.

- xxiv. Any violation of this Rule on Proxy shall be subject to the administrative sanctions provided for under Section 144 of the Corporation Code and Section 54 of the Securities Regulation Code, and shall render the proceedings null and void.

**SRC Rule 23 – Reports to be Filed by Directors,
Officers and Principal Stockholders**

1. Every person who is directly or indirectly the beneficial owner of ten percent (10%) or more of any class of any security of a company which satisfies the requirements of Subsection 17.2 of the Code, or who is a director or an officer of the issuer of such security, shall:
 - A. within ten (10) days after the effective date of the registration statement for that security, or within ten (10) days after he becomes such beneficial owner, director or officer, subsequent to the effective date of the registration statement, whichever is earlier, file a statement with the Commission, and with an Exchange if the security is listed on that Exchange, on Form 23-A indicating the amount of all securities of such issuer of which he is the beneficial owner.
 - B. within ten (10) days after the close of each calendar month thereafter, if there has been any change in such ownership during the month, file a statement with the Commission, and with an Exchange if the security is listed on that Exchange, on Form 23-B indicating his ownership at the close of the calendar month and such changes in his ownership as have occurred during that calendar month; and
 - C. notify the Commission if his direct or indirect beneficial ownership of securities falls below ten percent (10%), or if he ceases to be an officer or director of the issuer. After filing such notification, he shall no longer be required to file Form 23-B.
 - D. Newly appointed officer who has no beneficial ownership over the shares of the company shall notify the Commission of such fact within the above-stated reporting period, otherwise, the obligation to file SEC Form 23-A shall accrue against him.
2. In determining, whether a person is the beneficial owner, directly or indirectly, of more than ten percent (10%) of any class of any registered security, such class shall be deemed to consist of the amount of such class which has been issued, regardless of whether any part of such amount is held by or for the account of the issuer; except that for the purpose of determining the percentage of ownership of voting trust certificate or certificates of deposit for securities, the class of voting trust certificate or certificates of deposit shall be deemed to consist of the entire amount of voting trust certificates or certificates of deposit issuable in respect of the class of securities which may be deposited under the voting trust agreement or deposit agreement in question, whether or not all of such class has been so deposited.
3. A person filing a statement pursuant to this Rule otherwise than as the direct beneficial owner of any security shall specify the nature of his beneficial ownership in such security.
4. A partner who is required under this Rule to report in respect to any security owned by the partnership may include in his statement the entire amount of such security owned by the partnership and state that he has an interest in such security by reason of his membership in the partnership, without disclosing the extent of such interest; or such partner may file a statement only as to that amount of such security which represent his proportionate interest in the partnership, indicating that the statement covers only such interest.

SRC Rule 24.1(b)-1 – Manipulative Practices

1. It shall be unlawful for any person to make a bid or offer, or deal in securities, with the intention, or if that bid, offer or dealing, has the effect or is likely to have the effect, of creating a false or misleading appearance of active trading in any security or with respect to the market for, or the price of, any security.
2. It shall be unlawful for any Broker Dealer, associated person or salesman of a Broker Dealer (hereinafter collectively referred to as "registered person") to make a bid or offer for, or deal in securities, on account of any other person where the registered person intends to create, or the registered person is aware that the other person intends to create, or taking into account the circumstances of the order, the registered person reasonably suspects that a person has placed the order with the intention of creating, a false or misleading appearance of active trading in any security or with respect to the market for, or the price of, any security.
3. In considering whether an order violates Section 24 of the Code, a Broker Dealer shall consider:
 - i. Whether the order or execution of the order, would materially alter the market for, and/or the price of, the securities;
 - ii. The time the order is entered or any instructions concerning the time of entry of the order;
 - iii. Whether the person on whose behalf the order is placed, or another person who the Broker Dealer knows to be a related party of that person, may have an interest in creating a false or misleading appearance of active trading in any security or with respect to the market for, or the price of, any security;
 - iv. Whether the order is accompanied by settlement, delivery or security arrangements which are unusual;
 - v. Whether the order appears to be part of a series of orders, which when put together with the orders which appear to make up the series, the order or the series is unusual having regard to the matters referred to in this paragraph 3; and
 - vi. Whether there appears to be a legitimate commercial reason or basis in placing the order, unrelated to an intention to create a false or misleading appearance of active trading in or with respect to the market for, or price of, any security.

Failure to consider these factors shall raise a presumption that the transaction/s is/are manipulative.
4. Set forth below are examples of prohibited conduct.
 - i. Engaging in a series of transactions in securities that are reported publicly to give the impression of activity or price movement in a security (e.g. painting the tape);
 - ii. Buying and selling securities at the close of the market in an effort to alter the closing price of the security (marking the close);
 - iii. Engaging in transactions where both the buy and sell orders are entered at the same time with the same price and quantity by different but colluding parties (improper matched orders);
 - iv. Engaging in buying activity at increasingly higher prices and then selling securities in the market at the higher prices (hype and dump) or vice versa (i.e. selling activity at lower prices and then buying at such lower prices);
 - v. Engaging in transactions in which there is no genuine change in actual ownership of a security (wash sales) taking into consideration internal control systems adopted by the firms to prevent manipulative practices;

- vi. Taking advantage of a shortage of securities in the market by controlling the demand side and exploiting market congestion during such shortages in a way as to create artificial prices (squeezing the float);
 - vii. Disseminating false or misleading market information through media, including the internet, or any other means to move the price of a security in a direction that is favorable to a position held or a transaction; and
 - viii. Other types of prohibited conduct and/or manipulative practices which include, among others, the creation of temporary funds for the purpose of engaging in other manipulative practices.
5. Obligations imposed on registered persons under this rule apply in respect of all orders, irrespective of the trading system used and whether executed or not.

SRC Rule 24.1(d) – Manipulation of Security Prices; Devices and Practices

1. Advertisements and Communications with the Public

- A. All communications by Broker Dealers or associated persons or salesmen of Broker Dealers (hereinafter “registered persons”), with the public shall be based on principles of fair dealing and good faith and should provide a sound basis for evaluating the facts in regard to any particular security or securities or type of security, industry discussed, or service offered. No material fact or qualification shall be omitted if the omission, in the light of the context of the material presented, would cause the advertising or sales literature to be misleading.
- B. Exaggerated, unwarranted or misleading statements or claims are prohibited in all public communications of registered persons. In preparing such literature, it must be borne in mind by registered persons that inherent in investment are the risks of fluctuating prices and the uncertainty of dividends, rates of return and yield, and no registered person shall, directly or indirectly, publish, circulate or distribute any public communication that he knows, or had reason to know, contains any untrue statement of a material fact or is otherwise false or misleading
- C. Communications with the public shall not contain promises of specific results, exaggerated or unwarranted claims, or unwarranted superlatives, unfounded opinions for which there is no basis, or forecasts of future events which are unwarranted, or which are not clearly labeled as forecasts.
- D. In judging whether a communication or a particular element of a communication may be misleading, several factors should be considered, including but not limited to:
 - i. the overall context in which the statement/s is/are made. A statement made in one context may be misleading even though such a statement could be perfectly appropriate in another context. An essential test in this regard is the balance of treatment of risks and potential benefits;
 - ii. the audience to which the communication is directed. Different levels of explanation or detail may be necessary depending on the audience to which a communication is directed and the ability of the registered person given the nature of the media used, to restrict the audience appropriately. If the statements made in a communication would be applicable only to a limited audience, or if additional information might be necessary for other audiences, it should be kept in mind that it is not always possible to restrict the readership of a particular communication; and/or
 - iii. the clarity of the communication. A statement or disclosure made in an unclear manner can result in a failure to understand the statement, or in a serious misunderstanding. A complex or overly technical explanation may worse cause

even greater misunderstanding than too scant information. Likewise material disclosure relegated to legends or footnotes may not generally enhance the reader's understanding of the communication.

2. Publication of Transactions and Quotations

No Broker Dealer, or associated person or salesman of a Broker Dealer, shall publish or circulate, or cause to be published or circulated, any notice, circular, advertisement, newspaper article, investment service, or communication of any kind that purports to report any transaction as a purchase or sale of any security unless he believes that such transaction was a bona fide purchase or sale of such security; or that it purports to quote the bid price or asked price for any security, unless he believes that such quotation represents a bona fide bid for, or offer of, such security.

3. Payment to Influence Market Prices

No Broker Dealer shall, directly or indirectly, give, permit to be given, or offer to give, anything of value to any person for the purpose of influencing or rewarding the action of such person in connection with the publication or circulation in any newspaper, investment service, or similar publication, of any matter which has, or is intended to have, an effect upon the market price of any security, provided that this rule shall not be construed to apply to a matter which is clearly identifiable as paid advertising.

SRC Rule 24.2-2 Short Sales

[new provision]

1. Definition of Short Sale

The term "short sale" shall mean any sale of a security which the seller does not own or any sale which is consummated by the delivery of a security borrowed by, or for the account of the seller. A person shall be deemed to own a security if: (1) he or his agent has title to it; (2) he has purchased, or has entered into an unconditional contract, binding on both parties thereto, to purchase it and has not yet received it; (3) he owns a security convertible into or exchangeable for it and has tendered such security for conversion or exchange; (4) he has an option to purchase or acquire it and has exercised such option; or (5) he has rights or warrants to subscribe to it and has exercised such rights or warrants provided, however, that a person shall be deemed to own securities only to the extent he has a net long position in such securities.

2. Determination of Good Delivery

No broker or dealer shall accept a long sale order from a customer unless he has made a determination that the customer owns the security and will deliver in good deliverable form within three (3) business days of the execution of the order. The determination must include a notation on the order ticket at the time the order is taken which reflects the conversation with the customer as to the present location of the securities, whether they are in good deliverable form, and the customer's ability to make delivery.

3. Execution of Short Sale

No broker or dealer shall use any facility of a securities exchange to effect a short sale of any security unless (1) at a price higher than the last sale or (2) at the price of the sale if and only if that price is above the next preceding different sale price on such day.

4. Failure to Deliver

No person shall, directly or indirectly, by the use of any facility of a securities exchange, effect a short sale in a security registered or listed on any securities exchange, 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 by the Commission as prima facie evidence of the lack of intention on his part to make such delivery.

5. Mandatory Close-Out

A contract involving a short sale which has not resulted in a delivery by the Broker Dealer within the settlement period must be closed by the Broker Dealer by purchasing for cash or guaranteed delivery securities of like kind and quantity on the next business day after settlement date, unless such purchase cannot be effected within said period for justifiable reasons in which case, notification in writing shall be made with the Exchange and the Commission

6. Directors, Officers or Principal Stockholders

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.

7. Order for Short Sale

Upon receiving an order to sell short, the same should be indicated on the selling order and throughout all the records pertinent to the sale. Prior to acceptance of any short sale order, the broker or dealer shall arrange to borrow the securities to make delivery by settlement date.

8. Exempt Transaction

This rule notwithstanding, the Exchange may prohibit short selling in the Exchange indefinitely or for such period of time as it may deem necessary or advisable for the protection of investors, and the Commission may also prohibit short selling on any exchange as an emergency measure or whenever the same is necessary or appropriate in the public interest or for the protection of investors.

SRC Rule 24.2-3 – Prohibition on Guarantees against Loss

No Broker Dealer or salesman shall guarantee a customer against loss in any securities account of such customer carried by the Broker Dealer or in any securities transaction effected by the Broker Dealer with or for the customer.

SRC Rule 25.1 – Regulation of Options Trading

[formerly, SRC Rule 25.1 – Definition of Put, Call, Straddle and Option]

1. Except as provided in paragraph 3 of this rule, the terms **Put**, **Call** and **Option** have the same meanings as defined in SRC Rule 3.1(d).
2. Except as provided in paragraph 3 of this rule, **Straddle** involves the purchase of an equal number of put options and call options on the same underlying security at the same strike price and maturity date. Each option may be exercised separately, although the combination of options is usually bought and sold as a unit.
3. The terms put, call, straddle, option, or privilege shall not include any registered warrant, right or convertible security.

SRC Rule 26.3 – Fraudulent Transactions

[formerly, SRC Rules 26.3-1 and 26.3-2]

1. Use of Information Obtained in Fiduciary Capacity

A Broker Dealer, associated person or salesman of a Broker Dealer, a paying agent, transfer agent, trustee, or any other person acting in a similar fiduciary capacity, who has received information as to the ownership of securities, shall not make use of such information for the purpose of soliciting or making purchases, sales or exchanges of securities or, except as provided in SRC Rule 30.2, paragraph 9, provide such information to any person who does not need such information to fulfill his responsibilities under the Code.

2. Prohibited Representations

It shall be unlawful for any:

- A. Person to represent that he has been registered as a securities intermediary with the Commission unless such person is registered under the Code. Registration under the Corporation Code shall not be deemed to be registration under the Code;
- B. Broker Dealer to represent that the registration of the Broker Dealer under the Code, or the failure of the Commission to deny, suspend, or revoke such registration, indicates in any way that the Commission has passed upon or approved the financial standing, business, or conduct of such Broker Dealer, or the merits of any security or any transaction/s conducted thereby;
- C. Person to represent that a security is a particular type of security when such representation is inconsistent with a stated definition under the Code or rules or regulations adopted thereunder, or internationally accepted practice.
- D. Person to represent that a security to be sold, transferred, pledged, mortgaged, encumbered, used for delivery, or any other purpose to another entity or itself has been legally authorized by the recorded owner when such representation is not true and documented in writing at the time and date it was used.

SRC Rule 28.1 – Registration of Brokers and Dealers

[formerly SRC Rules 28.1-1, 2, 3, 4, 5]

1. Registration of Broker Dealer

- A. A person applying for registration as a Broker Dealer under Section 28 shall indicate in the application form for registration, or in an amendment thereto:
 - i. Whether he is an Exchange Trading Participant or a Non-Exchange Broker Dealer
 - ii. If an Exchange Trading Participant, whether it is a clearing trading participant or a non-clearing trading participant;
 - iii. If an Exchange Trading Participant, whether he shall engage in market making transactions;
 - iv. If a non-Exchange Broker Dealer, whether he is operating a seat for or is using the trading rights of an Exchange member Trading Participant;
 - v. For both non-Exchange member Broker Dealer and Exchange Trading Participant, whether they shall deal only with proprietary shares, equity securities, or fixed income/debt securities, or they are registered/licensed as government securities eligible dealers (GSED).

For purposes of this section and subsequent provisions that refer to this classification, the following terms are used interchangeably and shall have the same meaning: (1) "Exchange

member” with that of “Exchange Trading Participant;” and (2) “Non-Exchange Member” with that of “Non-Exchange Broker Dealer.”

- B. “Market making transactions” shall mean transactions in a particular security/ies:
- i. by a Broker Dealer which complies with the Commission and Exchange rules regarding its duty as a market maker;
 - ii. to ensure two way quotes, provide liquidity, and maintain a fair and orderly trading market therein.
- C. An applicant for registration as a Broker Dealer shall be solely engaged in the business of a Broker Dealer.
- D. Every application for registration as a Broker Dealer shall be filed on SEC Form 28-BD and be accompanied by the following papers or documents:
- i. A continuing authorization for the Commission’s duly authorized representative to verify the applicant’s bank accounts. The authorization shall be for all banks wherein accounts are maintained by the Broker Dealer and shall be continuous with registration by the Commission;
 - ii. Proof of compliance with paid up capital requirements pursuant to Paragraph 1 (E) (v) of this rule;
 - iii. Certified True Copy of valid work permit of foreigners who are employees or officers of the applicant corporation duly issued by the Department of Labor and Employment (DOLE) or any appropriate agency;
 - iv. Copies of identity cards/passports of the following:
 1. Individual applicants (salesman/ associated person);
 2. Officers;
 3. Directors; and
 4. Persons who control more than ten percent (10%) of a class of voting securities of corporate applicants.
 - v. Written supervision and control procedures, including procedures for establishing and maintaining a “Chinese Wall” pursuant to SRC 34.1, paragraph 2; taking into consideration the applicable requirements under the Anti-Money Laundering Act of 2001 (RA 9160, as amended) and the Code of Corporate Governance (SEC Memorandum Circular No. 2, Series of 2002);
 - vi. A schedule of minimum commission charges as required by SRC Rule 30.2, paragraph 5;
 - vii. Calculation of net capital requirements in accordance with paragraph (E) (ii) of this Rule and SRC Rule 49.1, paragraph 1 or any other financial ratio/measure which the Commission may in the future mandate;
 - viii. Certified True Copy of educational, professional/technical or other academic qualifications of Officers, Associated Persons and Salesmen;
 - ix. Latest audited financial statement;
 - x. Where applicant has been in existence for more than one year, certified copies of income tax returns for the two years preceding date of application;
 - xi. Organization chart, including branch offices;

- xii. If the applicant is a corporation, a certified copy of the following documents under oath, by the corporate secretary:
 - 1. With respect to a foreign corporation, certificate that the board of directors has authorized, in a resolution, the President and Secretary to sign an irrevocable consent to service of process upon the Commission as service to the corporation;
 - 2. Articles of Incorporation indicating that the purpose of the applicant is to engage in the business of a Broker Dealer;
 - 3. Board resolution attesting to particulars contained in the application.
- xiii. Business plan regarding proposed and/or current operations, including projected volume of business. Such plan should reflect applicant's ability and plans to engage in a profitable level of business; and
- xiv. A yearly schedule/timetable on the implementation of the training program for the staff, which specifies, among others, the description of the training program, date of implementation and name of participants.

E. Terms and Conditions for registration and subsequent renewal of license

(1) Applicable to Exchange Trading Participants

- i. Membership in good standing in an Exchange; *provided, however* that any applicant who is not a member of an Exchange may only be granted registration conditioned upon future membership in an Exchange;
- ii. Membership or participation in a Trust Fund accredited by the Commission under SRC Rule 36.4 5 (a);
- iii. Where the Broker Dealer is a participant in a registered clearing agency, fulfillment of its obligation to contribute to the guarantee fund;

(2) Applicable to both Exchange Trading Participants and Non-Exchange Broker Dealers

- iv. Net Capital in the amount of Five Million Pesos or five percent (5%) of aggregate indebtedness whichever is higher, calculated in accordance with SRC Rule 49.1, paragraph 1 for firms falling under paragraphs (v) (a) and (b) below; or the Net capital in the amount of Two Million Five Hundred Thousand (P2.5 Million) or two and one-half percent (2.5%) of his aggregate indebtedness whichever is higher for firms falling under paragraph (v) (c); provided, however, that the Commission may set a different requirement for those firms authorized to use the Risk-based capital adequacy model.

“Risk Based Capital Adequacy Requirement/Ratio shall refer to the minimum levels of capital that has to be maintained by firms which are licensed, or securing a Broker Dealer license, taking into consideration the firm size, complexity and business risk. Such risks that are considered in determining the capital requirement include, among others, Operational, Position, Counterparty, Large Exposure, Underwriting, and Margin Financing Risks.”

- v. a. Unimpaired paid up capital of One Hundred (100) million pesos for the following types of Broker Dealers:
 - (1) First time registrants who will be participating in a registered clearing agency upon the effectivity of the Code;
 - (2) Those acquiring the business of existing Broker Dealer firms pursuant to SRC Rule 28.1, paragraph 2 and will be participating in a registered clearing agency;

Provided, however, that the Commission may authorize a lower capitalization for applicants not participating in a registered clearing agency.

- b. Other existing Broker Dealer applicants not meeting the One Hundred Million (P100,000,000.00) capitalization and not seeking authorization to engage in market making transactions shall maintain a Ten Million Pesos (P10,000,000.00) unimpaired paid up capital and file the required surety bond in lieu of the 100 Million pesos as prescribed under SRC Rule 28.1 (5).
 - c. Unimpaired paid up capital of Two Million Five Hundred Thousand Pesos (P2,500,000.00) for applicants dealing purely in proprietary shares and who are not holding securities.
- vi. Registration of each branch office;
 - vii. At least one trained and registered salesman at each registered branch office. All salesmen of the applicant shall apply for registration as a salesman under SRC Rule 28.1, paragraph 4;
 - viii. At least one registered Associated Person. Any person with supervisory responsibility for the applicant shall apply for registration as an Associated Person under SRC Rule 28.1, paragraph 4;
 - ix. A sufficient number of back office staff at the main office of the applicant;
 - x. A computerized and effective recording and accounting system;
 - xi. Separate bank accounts for client funds;
 - xii. Separate bank account for firm funds;
 - xiii. Reporting, using SEC Form 28-BDA of changes in the information provided in the application form to the Commission in writing within seven (7) days of such changes;
 - xiv. Compliance with the provisions of the Code of Corporate Governance and Anti Money Laundering Act;
 - xv. Filing of reports required under the rules and regulations, including but not limited to the filing of the Manuals on Good Governance and Anti- Money Laundering; and
 - xvi. A certificate of Membership in good standing from a duly-accredited or recognized broker/dealer association; and
 - xvii. Such other requirements which the Commission may prescribe.
- F. Every registered broker dealer shall apply for issuance of an annual license in November of each year. Upon filing and payment of the required annual fee, the Commission will issue a new license which shall be effective for one (1) year *provided, however,* that the applicant is cleared by the Commission and/or the SRO of all derogatory reports and cases. The filing and payment of the required annual fee after the prescribed period will be treated as a new application and the applicant shall be charged the filing fee of a new registrant.
2. Registration of Successor to Broker Dealer
- A. In the event that a Broker Dealer succeeds to and continues the business of another Broker Dealer, the registration of the predecessor Broker Dealer shall be deemed to remain effective for a period of forty five (45) days from date of sale or succession as the registration of the successor if the successor within thirty (30) days after such succession,

(i) files an application for registration on SEC Form 28-BD and the Commission, within an equivalent period, approves such registration; and simultaneously (ii) publishes a notice of such application in any newspaper of general circulation expenses of which shall be borne by the successor broker.

B. The following are examples of the types of reorganizations that require the successor of a Broker Dealer to file a new application:

- i. An entity purchases or assumes substantially all of the assets and liabilities of a Broker Dealer, and, after so doing, the said entity decides to operate the business of the Broker Dealer;
- ii. If two or more registered Broker Dealers consolidate their firms and conduct their business through a new entity which assumes substantially all of the assets and liabilities of the predecessor broker dealer the new entity shall file a complete application on SEC Form 28-BD, while the predecessor firms shall each be required to file a Request for Withdrawal of Business and/or Cancellation of Registration as Broker Dealer under SRC Rule 28.1, paragraph 3.
- iii. An entity invests in the Broker Dealer, such investment resulting in a change in the management and/or ownership control of the Broker Dealer.

C. Notwithstanding paragraph 2 (A) of this Rule, the successor may file an amendment to the registration of the predecessor Broker Dealer on SEC Form 28-BDA instead of an original application for registration, within thirty (30) days after the succession in the following instances:

- i. A corporate reorganization or restructuring that does not result in a change in control of the Broker Dealer.
- ii. A succession resulting from a change in the form of business, such as from a partnership to a corporation.

3. Withdrawal of Business and/or Cancellation of Registration as Broker Dealer

A. The Request for Withdrawal of Business and/or Cancellation of Registration as a Broker Dealer shall be filed on SEC Form 28-BDW in accordance with the instructions contained therein.

B. A request to withdraw business and/or cancel registration filed by a Broker Dealer shall become effective on the sixtieth (60th) day after the filing thereof with the Commission unless another date has been determined by the Commission for its effectivity. If the request to cancel registration is filed with the Commission at any time subsequent to the date of issuance of a Commission order instituting proceedings pursuant to Section 29 of the Code to suspend or revoke the registration of such Broker Dealer, or if, prior to the effective date of the cancellation of registration, the Commission institutes such proceeding(s) to impose terms and conditions for its cancellation, the request to withdraw business and/or cancel registration as broker dealer shall not become effective except at such time and upon such terms and conditions as the Commission deems necessary or appropriate in the public interest or for the protection of investors.

C. Subsequent to filing of such Notice or Request to withdraw business and/or cancel registration, the Broker Dealer shall perform the following:

- i. The company will execute within five (5) days an affidavit under oath, undertaking to comply with the following conditions:
 1. The company will cease to solicit new business and that should the company remain inoperative for five (5) years, its Certificate of Incorporation will be revoked;
 2. The company will no longer execute orders from clients within five (5) days from actual cessation of operation;
 3. The terms and conditions of the Surety Bond shall remain effective until its expiration;
 4. There will be no disposal or transfer of clients' securities to successor broker without the knowledge or instruction from the client;

5. The company will continually inform the client of its corporate activities until the transfer to successor broker;
 6. The company will preserve for a period of not less than five (5) years from the date the Exchange and/or the Commission has approved its operation to cease, all records required to be maintained pursuant to the Books and Records Rule. The company shall inform the Exchange and the Commission of the names and residence addresses and contact numbers of at least two (2) person/s responsible for the safekeeping of all the records, reporting any change in the person/s responsible, if there is any. If money laundering, criminal or administrative cases have been filed in court or an investigation is being conducted wherein the customer is involved or impleaded as a party to the case or investigation, the file must be retained beyond the five (5) year period until it is confirmed that the case has been finally been resolved or terminated by the court;
 7. It shall be the responsibility of the Compliance Officer or Associated Person to oversee compliance with the requirements of the Commission and/or Exchange relative to the closure of its business;
- ii. Following the submission of SEC Form 28 BDW Notice of Withdrawal from Registration, the company is given a maximum of 45 days to effect the transfer of its clients' securities to the successor broker duly approved by the Exchange (in the case of Exchange Trading Participants) or the Commission (in the case of Non-Exchange Broker Dealer) or any broker chosen by the client. During such period the following requirements shall be complied with:
1. Submit to the Exchange (in the case of Exchange Trading Participants) or the Commission (in the case of Non-Exchange Broker Dealer) for its approval a draft letter informing the clients of the closure of business including the procedures that it will undertake to service the clients and the creditors;
 2. Issue latest statement of accounts to individual clients to give them the opportunity to validate their stock positions with the company including their payables;
 3. Submit to the Exchange (in the case of Exchange Trading Participants) or the Commission (in the case of Non-Exchange Broker Dealer) a summary of clients' account balances;
 4. Execute clients' instructions on how to effect transfer/ liquidate their securities and cash positions;
 5. Provide the Exchange (in the case of Exchange Trading Participants) or the Commission (in the case of Non-Exchange Broker Dealer) with a status report of clients' complaints with the corresponding action/s taken; and
 6. Submit to the Exchange (in the case of Exchange Trading Participants), copy furnished the Commission, or the Commission (in the case of Non-Exchange Broker Dealer) an undertaking to be accomplished by the persons responsible in the safekeeping of all the records of the company pursuant to AMLA and SRC's IRR.
- iii The Exchange (in the case of Exchange Trading Participants) or the Commission (in the case of Non-Exchange Broker Dealer), if it deems necessary, will conduct a post audit of the company to ensure compliance with the aforementioned requirements after the end of the forty five (45) day period.
- iv. After effecting the transfer of clients' securities to the successor broker duly approved by the Exchange (in the case of Exchange Trading Participants) or the Commission (in the case of Non-Exchange Broker Dealer) or any broker of their choice, the company is required to submit to the Commission the following documents:
1. A list, executed under oath, of all transfers of customer accounts from the time notice of cessation of business or withdrawal of registration has been communicated to the Commission or the Exchange;
 2. Certificate of Good Standing from the Commission;
 3. Clearance from the Exchange that the company has no outstanding liabilities to the Exchange;
 4. Clearance from the Exchange's Compliance and Surveillance Group that the company can settle or has settled all of its trading related liabilities and obligations prior to the date of effectivity of the termination of operation;
 5. Clearance from the registered clearing agency that all obligations have been settled, delivered and/or securities intact and in good control location;

6. Current original licenses of the Broker Dealer, salespersons and its associated person; and
 7. Filing of SEC Form 28 T for each of the company's associated person/s and salesperson/s.
- v. Notwithstanding, the filing of the notice of cessation of operation with the Commission, the liabilities and obligations of the company to third parties shall continue until full compliance with and submission of the abovementioned conditions/requirements. Furthermore, the primary license of the company will be cancelled/revoked should it remain non-operational for five years pursuant to Section 22 of the Corporation Code.
4. Registration of Salesmen and Associated Persons of Broker Dealers
- A. A person may not be employed as a salesman or associated person of a Broker Dealer unless registered as a salesman or associated person under this Rule. The Broker Dealer may be allowed to employ trainees for a one-time, non-extendible period of six (6) months provided however that:
- i. The trainees are supervised by a registered salesman;
 - ii. The trainees are not soliciting clients or dealing directly with clients;
 - iii. The trainees are not receiving any form of commission or salary from the Broker Dealer other than a reasonable allowance; and
 - iv. The Broker Dealer immediately informs the Commission in writing of the hiring of such trainees.

The Commission shall consider the attendant conditions to warrant the determination of compliance with the above requirements.

- B. For purposes of this Rule:
- i. **Salesman** shall refer to a natural person hired to buy and sell securities on a salary or commission basis properly endorsed to the Commission by the employing Broker Dealer. It shall also include any employee of an issuer company whose compensation is determined directly or indirectly on sales of the issuer's securities.
 - ii. **Associated person** shall mean any person employed full time by the Broker Dealer whose responsibilities include internal control supervision of other employees, agents, salesmen, officers, directors, clerks and stockholders of such Broker Dealer for compliance with the Code and rules and regulations adopted thereunder. He cannot perform other duties without Commission approval and subject to the condition that the broker dealer will maintain the appropriate Chinese Wall between the functions of an Associated Person and that of his other duties.
- C. Notice of discontinuation of employment of a salesman or associated person and the reasons therefore, shall be provided to the Commission by the employing Broker Dealer by filing SEC Form 28-T no later than thirty (30) days after the discontinuation of employment.
- D. Every application for registration as a salesman or associated person shall be filed on SEC Form 28-S, or SEC 28-AP, respectively, verified under oath by the Broker Dealer who is the employer of the salesman or associated person, be accompanied by the prescribed fee and the following papers and documents:
- i. If an applicant is a foreigner, certified true copy of valid work permit duly issued by the Department of Labor and Employment (DOLE) or any appropriate agency;
 - ii. Copies of identity cards/passports of applicant;
 - iii. Evidence, preferably a certified true copy, that such person has complied with applicable examination requirements and/or meets other educational, professional or technical qualifications; and

- iv. Written evidence that a Broker Dealer has agreed to employ such person contingent upon such person's registration as a salesman or associated person.
- E. Terms and conditions for applicants for registration:
- i. Only natural persons can apply and be employed by a Broker Dealer.
 - ii. Applicants for salesmen shall be at least eighteen (18) years of age and applicants for associated person shall be at least twenty one (21) years of age.
 - iii. Applicants for registration as a salesman must have no disciplinary history that would subject them to disqualification from registration under Section 29 of the Code.
 - iv. Applicants for registration as an associated person, must not have been censured or reprimanded by a professional (e.g. IBP, PRC, etc.), or regulatory body (e.g. SEC, BSP, IC, etc.) for negligence, incompetence or mismanagement, or dismissed or requested to resign from any position or office for negligence, incompetence or mismanagement, or be subject to any other disqualification under Section 29 of the Code.
 - v. Any applicant applying for registration as a salesman or associated person for the first time, must have taken and passed the applicable examination within the last three (3) years immediately preceding the date of his application.
 - vi. Any applicant applying for a license in the year subsequent to his original registration must have a minimum of three (3) years experience as a registered salesman or associated person or passed the applicable examination, within the last three (3) years immediately preceding the date of his application. Any applicant who has not been engaged as a salesman or associated person for a continuous period of at least three (3) years prior to the date of his application, shall not be allowed to renew his license until he has undergone training and a refresher course and passed the related examination; *provided, further*, that all applicants must be able to demonstrate an understanding of the Code and rules and regulations adopted thereunder, the particular Exchange and/or clearing agency rules that apply to the functions that they would perform, any obligations imposed by those provisions and rules, and the fiduciary obligations owed to clients and the general obligations owed to employers.
- F. The registration of a salesman or associated person shall cease when he is no longer employed by the Broker Dealer identified in his registration application.
- G. Duties of an Associated person. Taken in conjunction with SRC Rule 30.2 (6), an Associated person shall:
- i. Have a general knowledge of the operations of the Broker Dealer without necessarily engaging or actively participating in the day-to-day operations of the firm;
 - ii. Supervise and provide trainings as prescribed under SRC Rule 30.2 (7) to other employees, agents, salesmen, officers, directors, clerks and stockholders of the Broker Dealer for compliance with the Code and rules and regulations adopted thereunder;
 - iii. Oversee compliance with legislative and other regulatory requirements (such as notifying the Commission of material changes in information previously filed, maintaining registers, books of accounts and other records, compliance with rules, orders and laws relating to trading, issuing confirmation receipts, compliance with margin rules, net capital and other financial requirements);
 - iv. Ensure that all salesmen of the Broker Dealer are registered and that the Commission is notified when any salesman is no longer employed by the Broker Dealer;

- v. Develop procedures and monitor on a daily basis compliance with financial resource requirements; and
 - vi. Ensure that there is an audit trail which enables compliance with applicable laws, Exchange, clearing agency and other SRO rules.
- H. As a condition for continuing registration, registered salesmen and associated persons shall:
- i. Report any change in the information provided in the application form to the Commission in writing within seven (7) days of such changes, using SEC Form 28-AMD;
 - ii. Observe at all times the provisions of this Code, all rules and regulations adopted thereunder, and applicable Exchange, clearing agency and other SRO rules; and
 - iii. Demonstrate an on-going understanding of applicable regulatory requirements and Exchange, clearing agency, and other SRO rules.
- I. Every registered salesman or associated person who shall change his registration category during the year (i.e., salesman to associated person and vice versa) shall be assessed the appropriate fee for the issuance of a new license.
- J. Every registered salesman and associated person shall apply for issuance of annual license in November of each year. Upon filing and payment of the required annual fee, the Commission will issue a new license which shall be effective for one (1) year *provided, however*, that the applicant is cleared of all derogatory reports and cases by the Commission and/or any duly recognized professional or regulatory body or, in appropriate cases, the SRO,. The filing and payment of the required annual fee after the prescribed period will be treated as a new application and the applicant shall be charged the filing fee of a new registrant.

5. Broker Dealer Surety Bond and Self-Insurance Bond

The amount of surety bonds required to be filed pursuant to SRC Rule 28.1, paragraph 1 by Broker Dealers who have elected to defer compliance with the One Hundred Million (P100,000,000.00) unimpaired paid up capital requirements pursuant to that Rule is fixed at not less than Five Million Pesos (P5, 000,000.00) for Brokers and not less than One Million Pesos (P1, 000,000.00) for Dealers, or such other amount which the Commission may prescribe. Such bonds shall be conditioned upon the faithful compliance with the provisions of the Code and rules and regulations adopted thereunder by said Broker Dealer and by all salesmen and Associated Persons while acting for him. Such bond shall be executed by a surety company authorized to do business in the Philippines. In lieu of such bond, the Broker Dealer may file bonds of the Government of the Philippines. If a bond is filed, any person damaged by the failure of such Broker Dealer or of any salesman or Associated Person while acting for him, to comply with the provisions of this Code and rules and regulations adopted thereunder shall be entitled to sue the sureties under such bond and to recover the damages so suffered thereunder. If other securities are filed in lieu thereof, such person may subject such securities to the payment of such damage.

With the adoption of the risk based capital adequacy model as required under SRC Rule 28.1, paragraph 1 (E) (v) (d), the Commission may prescribe Broker Dealers to file the required surety bonds pursuant to SRC Rule 28.1-1 paragraph 1(e) (v) (b).

6. Any registered transfer agent existing prior to the effectivity of these Rules shall, within 45 days from effectivity of these Rules, comply with all the requirements provided under this Rule, which were not provided for in its original registration.

Nothing in this Rule shall be construed as precluding the Commission from requiring an applicant for registration or a registered Broker Dealer, Salesman, Associated Person to submit other requirements it may deem reasonably necessary to effectively regulate and supervise these persons and/or to protect the interest of the investing public.

SRC Rule 28.2– Compliance with Qualification Requirements of Self-Regulatory Organizations

No Broker Dealer shall effect any transaction in, or induce the purchase or sale of, any security unless the employee of such Broker Dealer who effects or is involved in effecting such transaction is registered or approved in accordance with the standards of training, experience, competence, and other qualification standards (including, but not limited to, submitting and maintaining all required forms, paying all required fees, and passing the required examinations) established by the rules of any Exchange or other Self Regulatory Organization where such Broker Dealer is a Member of or Participant in.

SRC Rule 29 – Protection of Customer Accounts Where Registration of a Broker Dealer is Suspended or Revoked

Where the Commission has suspended or revoked the registration of a Broker Dealer under Section 29 of the Code, the following procedure shall be observed:

1. Where such Broker Dealer is a Member of an Exchange (or an Exchange Trading Participant), the Exchange shall immediately arrange for another Member (or Exchange Trading Participant) to take over any outstanding contracts relating to securities and simultaneously notify the Commission in writing of such transfer and the affected customers that said contracts have been transferred.
2. Where such Broker Dealer is not a Member of an Exchange (or an Exchange Trading Participant), the Commission shall notify the affected customers, if any, of such suspension or revocation and require that they transfer their account to another Broker Dealer.

SRC Rule 30.1 – Monitoring of Affiliated Transactions by Broker Dealers

1. Every Broker Dealer shall request every stockholder, director, associated person, salesman and authorized clerk of the Broker Dealer (collectively referred to as “director”) to complete and submit to the Broker Dealer an executed copy of SEC Form 30.1 under oath (hereinafter referred to as the “questionnaire”) to ensure compliance with the conditions set forth in Section 30. 1 of the Code.
2. Based on information set forth in the questionnaire, every Broker Dealer shall provide the Commission with a list of securities that the Broker Dealer must report pursuant to Section 30.1 of the Code, and shall file an amendment thereto with the Commission, within twenty four (24) hours of any change thereto.
3. Every director shall ensure that his questionnaire is accurate and complete at all times and shall update and submit to the Broker Dealer any amendment thereto within twenty four (24) hours of such amendment so as to reflect any change/s thereto.
4. The failure of any director to comply with this rule shall be deemed a violation of the Code.

SRC Rule 30.2 - Transactions and Responsibilities of Brokers and Dealers

[formerly, SRC Rules 30.2-1, 2, 3, 4, 5, 6, 7, 8, and 9]

1. Ethical Standards Rule
 - A. Every Broker Dealer, associated person and salesman of a Broker Dealer (hereinafter referred to as a “registered person”), in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade.

B. In considering whether a registered person is conducting his business in an ethical and fair manner, the Commission, in addition to requirements imposed under other SRC rules, will be guided by the following principles and requirements which incorporate International Organization of Securities Commission standards.

- i. Honesty and fairness - In conducting his business activities, a registered person should act honestly, fairly and in the best interest of his client and for the integrity of the market.

Where a registered person advises or acts on behalf of a client, he shall ensure at all times that any representations or other communications made and information provided to the client are accurate and not misleading and do not violate SRC Rule 24.1 (d), paragraph 1.

- ii. Diligence - In conducting his business activities, a registered person should act with due skill, care and diligence, in the best interest of his clients and for the integrity of the market.

- a. A registered person shall take all reasonable steps to promptly execute client orders and in conformity with the instruction of the client.

- b. A registered person when acting for or with a client shall always execute client orders on the best available terms in compliance with SRC Rule 32.2 (a).

- c. A registered person shall ensure that transactions executed on behalf of clients are promptly and fairly allocated to the accounts of the clients on whose behalf the transactions were executed.

- d. When providing advice to a client, a registered person shall act diligently and ensure that his advice and recommendations in relation to clients are based on thorough analysis and take into account available alternatives.

- iii. Capabilities - A registered person should have and employ effectively the resources and procedures which are needed for the proper performance of his business activities.

- a. A registered person shall ensure at all times that any person he employs or appoints to conduct business for or with clients or other registered persons is qualified, including having relevant training or experience to act in the capacity so employed or appointed in compliance with SRC Rules 28.1, paragraph 4 and 28.2.

- b. A registered person shall ensure that at all times, pursuant to SRC Rule 30.2, paragraph 7, he has:

- (1) Adequate resources to diligently supervise and does diligently supervise his employees and all persons appointed by him to conduct business for or with clients or any other registered persons; and

- (2) Satisfactory internal control procedures and financial and operational capabilities which can be reasonably expected to protect his operations, his clients and other registered persons from financial loss arising from the theft, fraud and other dishonest acts, or professional misconduct or omissions of all company officers, employees and authorized representatives.

- iv. Information about clients
 - a. A registered person should seek from his clients, information about their financial situation, investment experience and investment objectives relative to the services to be provided pursuant to SRC Rule 52.1, paragraph 6 and other applicable laws.
 - b. A registered person shall take all reasonable steps to establish the true and full identity of each of his clients, their financial situation, investment experience, and investment objectives.
 - c. Having regard to information disclosed by a client and other circumstances relating to the client which the registered person is or should be aware of through the exercise of due diligence, the registered person shall ensure that such recommendation or solicitation for that client is reasonable and suitable in all circumstances pursuant to SRC Rule 30.2, paragraph 4.
 - d. A registered person providing services to any client, in relation to derivatives, including options and warrants, or any leveraged transaction, shall assure himself that the client understands the nature and risks of these instruments and has sufficient net worth to be able to assume the risks and bear the potential losses of trading in such instruments.
 - e. A registered person should be reasonably satisfied about the identity, address and contact details of the person ultimately responsible for originating the instruction in relation to a transaction, the person who stands to gain the commercial or economic benefit of the transaction and/or bears the commercial or economic risk; *provided, however*, that in relation to an investment company, or discretionary account, the person referred to above is the investment company or account, not those who hold a beneficial interest therein.
 - f. A registered person shall keep in the Philippines a record of the details referred to above and provide the Commission with access to those records upon request pursuant to Section 52 of the Code and SRC Rule 52.1, paragraph 1.
 - g. A registered person shall not do anything to effect a transaction unless he has first complied with the requirements of this rule, as required in SRC Rule 30.2, paragraph 4
- v. Information for clients - A registered person shall make adequate disclosure of material information in his dealings with his clients.
 - a. A registered person shall ensure that a written agreement which complies with SRC Rule 30.2, paragraph 3 is entered into with a client before any services are provided to that client.
 - b. A registered person shall provide clients with adequate information about his firm, including his business address, any relevant conditions or restrictions under which the registered person conducts his business, and the identity or status of employees and others acting on his behalf with whom the client may have contact.
 - c. After a registered person has effected a transaction for a client, he shall endeavor to confirm promptly with the client, in writing, the essential features of the transaction pursuant to SRC Rule 30.2.
 - d. A registered person shall comply with SRC Rule 52.1, paragraph 8, regarding customer account statements.

- e. A registered person shall disclose the financial condition of his business to a client upon request by providing a copy of the most recent report required to be filed with the Commission under SRC Rule 52.1, paragraph 5 (Audited Financial Statements) and SRC Rule 49.1 paragraph 1 (A) (iii) (Net Capital) and disclose any material changes which adversely affect the registered person's financial condition after the date of such filing.
- vi. Conflicts of Interest - A registered person should avoid conflicts of interest and when they cannot be avoided, should ensure that his clients are fairly treated and properly informed of such conflicts of interest.
 - a. Client priority - A registered person shall handle orders of clients fairly and in the order in which they are received in compliance with SRC Rule 34.1, paragraph 1.
 - (1) Orders of clients, or transactions to be undertaken on behalf of clients, shall have in all cases priority over orders for the account of the registered person, and otherwise comply with SRC Rule 34.1, paragraph 1 where the Broker is a Member of an Exchange;
 - (2) A registered person shall, where he has aggregated an order for a client with an order for another client, or with an order for his own account, give priority to satisfying orders of clients, in any subsequent allocation, if all orders can not be filled;
 - (3) A registered person shall not deal in any securities for himself or for any account in which he has an interest based upon advance knowledge he possesses of pending transactions for or with clients or any other non public information, the disclosure of which would be expected to affect the price of such securities and violate Section 27 of the Code (insider trading prohibition);
 - (4) A registered person who withdraws in whole or in part from providing any investment or related service shall ensure that affected clients are promptly notified of such action and that any business which remains outstanding is promptly completed or transferred to another registered person in accordance with SRC Rule 29 and any instruction of the affected clients.
 - b. Conflicts of interest - Where a registered person has a material interest in a transaction with or for a client, or a relationship which gives rise to an actual or potential conflict of interest in relation to such transaction, he shall neither advise, nor deal in relation to the transaction unless he has disclosed that material interest or conflict to the client and has taken all reasonable steps to ensure fair treatment of the client.
 - c. Client assets - A registered person shall, in the handling of client transactions and assets, act to ensure that client assets are accounted for properly and promptly and comply with SRC Rule 52.1, paragraph 10. Where the registered person, or a third party on behalf of the registered person, is in possession or control of client positions or assets, the registered person shall ensure that client positions or assets are adequately safeguarded.
- vii. Compliance - A registered person shall comply with all regulatory requirements applicable to the conduct of his business activities so as to promote the best interest of clients and the integrity of the market.
 - a. A registered person shall comply with the Code, rules and regulations adopted thereunder, and rules of any Exchange, clearing agency, or other SRO, of which he is a member of or participant in.
 - b. A registered person shall have a policy, which has been communicated to employees in writing, on whether employees are permitted to deal for their

own accounts in securities. If employees are permitted to deal, the conditions on which they may do so, including those imposed under SRC Rule 34.1, paragraph 1, shall be set out in writing and communicated to each employee.

- c. A registered person shall ensure that complaints from clients relating to his business are adequately addressed in compliance with SRC Rule 30.2, paragraph 6 (B) (vii) and sufficient records of such complaints are made in compliance with SRC Rule 52.1, paragraph 9.
 - d. A registered person shall at all times be responsible for the acts or omissions of his employees and agents in respect to the conduct of his business, pursuant to Section 51 of the Code.
 - e. All registered persons, as a condition of their registration, shall undertake in writing to uphold the Code, and rules and regulations adopted thereunder.
- C. This rule applies to all registered persons, although the Commission recognizes that certain requirements of the Code and rules adopted thereunder may not be within the control of an associated person. In considering the conduct of an associated person, the Commission will consider such person's level of responsibility within the Broker Dealer firm, and the level of control or knowledge he may have considering any failure by his firm or persons under his supervision to follow the Code.
- D. Where the Commission makes an inquiry under Section 53 of the Code, the Commission will refer to the requirements set forth in this Rule in considering whether any person is guilty of a violation of this Code and should remain registered.

2. Confirmation of Customer Orders

- A. A Broker Dealer shall report to its customers all transactions entered into for the customer's account, and to this end, shall send the customer a written confirmation of purchases and sales as promptly as possible on the day on which they are made. An employee or salesman of a Broker Dealer shall not be authorized to accept a confirmation for or on behalf of a customer.
- B. The Broker Dealer shall give its clients the option to choose whether confirmation of customer orders will be done by way of courier, facsimile transmission or electronic mail and such preference should be clearly stated in the Customer Account Information Form (CAIF). The confirmation shall be sent to the customer at the address indicated in the CAIF. Parties subscribing to facsimile transmission or electronic mail confirmation of customer orders are governed by the special procedure provided in the immediately succeeding paragraph.
- C. Broker Dealers shall send to their clients, during office hours and on the day of the transaction, their confirmations. Clients subscribing to such arrangements are required to attest to the accuracy of the information communicated by replying via facsimile transmission or electronic mail to the Broker Dealer, not later than 12:00 noon of the next business day. The Broker Dealer shall then keep a printout of such reply together with the file notifications and transaction data being confirmed.
- D. The confirmation required by paragraph 2A above shall contain at least the following information:
 - i. A statement as to whether the Broker Dealer is broking for a customer or another Broker Dealer or is dealing for himself pursuant to Section 34.1 (a) to (d) of the Code and SRC Rule 34.1, paragraph 1;
 - ii. That the Broker Dealer is controlled by, or controls, or is under common control with the issuer of such security if such be the fact;

- iii. Whether the transaction was solicited or unsolicited by the Broker Dealer or whether the transaction was executed pursuant to the exercise of discretionary power; and
 - iv. For facsimile transmission and electronic confirmations, the reminder that clients must confirm their orders, not later than 12 noon of the next business day.
- E. The Commission, when it deems necessary, may require a Broker Dealer to submit a report of his commission or remuneration on a particular transaction.

3. Client Agreement

- A. A Broker Dealer and its registered persons who deal directly with clients shall ensure that a written agreement (hereinafter "Client Agreement") is entered into with a client before any service is provided to that client.
- B. The Client Agreement shall be in a language understood by the client. The registered persons who deal directly with clients shall explain to the client the contents of the agreement.
- C. A Client Agreement shall contain, among others, the following information:
 - i. the full name and address of the client, as evidenced by a retained copy of the identity card, relevant sections of the passport, business registration certificate, corporation documents, or any other official document which uniquely identifies the client;
 - ii. the full name and registered address of the Broker Dealer;
 - iii. the Broker Dealer's registration status with the Commission;
 - iv. undertakings by the Broker Dealer and the client to notify the other in the event of any material change to the information provided in the agreement;
 - v. a description of the nature of services to be provided to or available to the client, such as securities cash account, securities margin account, discretionary account, portfolio management, investment advice, derivatives trading;
 - vi. a description of any remuneration (and the basis for payment) that is to be paid by the client to the Broker Dealer, such as commission, brokerage, and any other fees and charges;
 - vii. a statement indicating the circumstances under which the Broker Dealer will be acting as principal in relation to the client and that in all other circumstances the Broker Dealer will be acting as agent for the client;
 - viii. if the Broker Dealer is acting as a Dealer in relation to securities and is a member of an Exchange (or an Exchange Trading Participant), a statement explaining the application of Section 34 of the Code, and if the client specifically authorizes the Dealer to pledge the client's securities or subject such securities to liens of third parties;
 - ix. if margin or short selling facilities are to be provided to the client, details of margin requirements, interests charges, margin calls, and the circumstances under which a client's position may be closed without the client's consent; and
 - x. risk disclosure statement as set forth in Annex 30.2-A
- D. A registered person shall ensure that he complies with his obligations under this rule and the Client Agreement and that the Client Agreement does not operate to remove, exclude, or restrict any rights of a client or obligations of a Broker Dealer under the Code.

- E. A Broker Dealer shall not effect a transaction on behalf of a client unless before the transaction is effected, the client, or a person designated by the client, specifically authorizes the transaction, or the client has authorized in writing the Broker Dealer to effect transactions on behalf of the client without the client's specific authorization. If the Broker Dealer has obtained such an authorization, the Client Agreement shall specify that the account is a discretionary account.
- F. A copy of the required Client Agreement is set forth in Annex 30.2-B.

4. Suitability Rule

- A. In recommending to a customer the purchase, sale or exchange of any security, a Broker Dealer or an associated person or salesman of a Broker Dealer, shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts disclosed by such customer as to his other security holdings and as to his financial situation and needs.
- B. Except as provided in SRC Rule 52.1, paragraph 6, prior to the execution of a transaction recommended to a customer, a Broker Dealer shall execute a customer account information form which complies with SRC Rule 52.1, paragraph 6.

5. Commissions and Charges for Services Performed by a Broker Dealer

- A. Charges by a Broker Dealer for services performed, including:
 - i. miscellaneous services such as collection of monies due for principal, dividends or interest;
 - ii. exchange or transfer of securities; and
 - iii. appraisals, safekeeping or custody of securities, and other services, shall be reasonable.
- B. All Broker Dealers, in compliance with existing laws, shall file a schedule of their minimum commission rates with the Commission. No discounts and/or rebates shall be permitted from the minimum rates.

6. Supervision

- A. The management of every Broker Dealer shall establish and maintain an appropriate and effective compliance function within the firm which is independent of all operational and business functions. The compliance function shall be performed by an Associated Person who shall be registered with the Commission and required to report directly to the board of directors and the company President. The management shall ensure that the Associated Person/s performing the compliance function possesses sufficient training and experience in securities regulation matters and an understanding of the securities activities of the firm enabling them to effectively execute their duties.
- B. Associated Persons shall be responsible, in addition to the duties enumerated under SRC Rule 28.1 (4) (G) for maintaining a system to supervise the activities of all persons employed by the Broker Dealer who are directly or indirectly related to the conduct of its securities business. The supervisory system shall be reasonably designed to achieve compliance with the Code and rules and regulations adopted thereunder, with the rules of any self regulatory organization which the Broker Dealer is a member of or participant in, other applicable laws, including, but not limited to, the Anti-Money Laundering Act (RA 9160, as amended), and the Broker Dealer's own internal policies and procedures. A firm's supervisory system shall include at least the following:
 - i. establishment and maintenance of written supervisory procedures;
 - ii. designation of one or more Associated Persons with the authority and responsibility to carry out the supervision of each type of business in which it engages;

- iii. titles, registration status and locations of the required Associated Person/s and the responsibilities of each Associated Person as these relate to the types of business engaged in;
 - iv. written documentation to prove that all Associated Persons are qualified by virtue of experience or training to carry out their assigned supervisory responsibilities;
 - v. written documentation to prove that each person engaged in securities transactions, either collectively or individually, has participated no less than annually in an interview or meeting conducted by the Associated Person/s designated by the firm at which compliance matters relevant to the activities of these persons are discussed. There shall be prompt notification in writing to each such person of new or modified compliance obligations;
 - vi. establishment of an effective management and organizational structure which ensures that the operations of the business are conducted in a sound, efficient and effective manner; and
 - vii. establishment, maintenance and enforcement of policies and procedures to ensure the proper handling of complaints from clients and that appropriate remedial action is promptly taken. Where possible, complaints should be investigated by the Associated Person performing the compliance function who is not directly involved in the subject matter of the complaint. Where a complaint is not remedied promptly, the client shall be advised of any further steps which may be available to the client under the law.
- C. Although final responsibility for proper supervision shall rest with the Broker Dealer firm, diligence of a good father of the family is required from the Associated Person/s in the conduct of their compliance function.
- D. Associated Person/s shall promptly report to management all occurrences of material non-compliance by the firm or its staff with legal and regulatory requirements, as well as with the firm's own policies and procedures. Management shall then promptly notify the Commission and any self regulatory organization of which such Broker Dealer is a trading participant of such findings and action taken. For this purpose, the Associated Person must maintain a logbook of all material non-compliance reports with the appropriate notation of the action taken by management on the said occurrences. Such logbook must be duly registered with the Commission within fifteen (15) days from issuance of the Associated Person/s new/renewal license.
- E. Notwithstanding the requirement in the immediately preceding paragraph, all Associated Persons must prepare, sign and file with the Commission not later than fifteen (15) days after the end of each calendar quarter, a Compliance Report on the firm's compliance and /or non-compliance with the provisions of the Code and its implementing rules and regulations including, but not limited to, the following concerns:
- i. whether the firm complies with the requirements of the Code and the implementing rules;
 - ii. the significant findings of non-compliance; and
 - iii. information on the action taken by management to address the issue.

Said Report shall also include a summary of all occurrences of material non-compliance by the firm or its staff with legal and regulatory requirements and the actions taken by management on such violations.

7. Internal or Accredited Training Program

- A. Every Broker Dealer shall establish, implement and maintain a reasonably comprehensive system of training towards –

- i. ensuring the continuing improvement in critical areas of its principal activities and operations; and
 - ii. enhancing the technical knowledge of its employees to enable them to understand the operational and internal control policies and procedures of that Broker Dealer and all applicable legal and regulatory requirements.
- B. Such system of training shall be properly documented in a manual which shall:
 - i. set out details of the training programs that the Broker Dealer proposes to implement; and
 - ii. be regularly updated in line with the development in the securities industry.
- C. All Broker Dealers shall submit to the Commission at the time of renewal of their license a yearly schedule/timetable of the implementation of its training program. At a minimum, such report should contain the following information:
 - i. The implementation of the previous year's internal training program with details on seminar dates, number of participants, and other pertinent information; and
 - ii. Current year's seminar topics (with description), projected dates, target market, and planned speaker.
- D. The Broker Dealer may, at its option, substitute its internal training program submitted at the time of renewal of its license by enrolling in training programs sponsored by associations or organizations duly accredited or recognized by the Commission, provided, however, that proper approval is obtained from the Commission on such substitution. It is the responsibility of Broker Dealers, through its Associated Person, to provide periodic training to its officers and employees whether externally or internally, the occurrence of which shall not be dependent solely on the expectation that an external seminar will be sponsored at a later time.

8. Block Sale

- A. A Broker Dealer may engage in block sales on an Exchange, and an Exchange may execute block sales, provided that:
 - i. such transaction complies with Exchange rules, which have been approved by the Commission; and
 - ii. the Exchange notifies the Commission in writing, not later than one business day after the date such transaction has been executed, of the price and volume thereof or in such form and manner that the Commission may prescribe.
- B. A block sale shall mean a matched trade that does not go through the automated order matching system of an Exchange trading system but instead has been prearranged by and among the Broker Dealer's clients and is then entered as a done deal directly into the trading system.
- C. Other transactions such as but not limited to options, warrants or those emanating from a tender offer, rights offering, and conversion of a security with convertibility features, shall be allowed to be consummated within the Exchange trading system using the block sale facility of an Exchange, and in accordance with the relevant rules of the Exchange as approved by the Commission.

9. Submission of Names of Stockholders, Members, Participants, Clients and Related Information

Every Exchange, clearing agency, Broker Dealer, transfer agent, other self regulatory organization, and every other person required to register under the Code (hereinafter "registered person") shall immediately report to the Commission and any person deputized and/or duly authorized by the Commission pursuant to Section 5(h) of the Code, the names of their owners/stockholders, members, participants, and clients, and other related information in its or his possession, upon order of the Commission, or as required by the rules of a self regulatory organization in which he is a member or participant, in pursuance of an investigation, examination, official inquiry or as part of a surveillance procedures, and/or in compliance with other pertinent laws.

SRC Rule 31 – Commission Role in the Development of Securities Market Professionals

1. The Commission shall periodically meet with organizations and associations of securities market participants and private educational and research institutions to discuss new regulatory developments and related compliance issues.
2. The Commission, in coordination with such organizations, associations and institutions, shall help facilitate the organization of, and participate in, workshops on regulatory requirements.
3. The Commission shall encourage all securities market participants to participate in the continued development of the securities market through such organizations, associations and institutions.

SRC Rule 32.1 – Trading Limited to Listed Securities and Exchanges Registered under the Code

[formerly SRC Rule 32.1-1]

No Broker Dealer or any registered person shall effect any transaction in any security in an Exchange or any other trading market, unless such Exchange or any other trading market and the securities listed or allowed to be traded therein are registered under the Code or exempt from registration pursuant to Sections 9 and 10 thereof.

SRC Rule 32.2 (a) – Best Execution

In any transaction for or with a customer, a Broker Dealer shall use reasonable diligence to ascertain the best available price for the security and buy or sell at that price so that the resultant price to the customer is as favorable as possible under the prevailing market conditions.

SRC Rule 33.1 – Registration of Exchange

1. An application for registration as an Exchange shall be filed on SEC Form 33 and be accompanied by the statements and exhibits prescribed to be filed under Section 33 of the Code; *provided, however,* an Exchange may also apply for registration as a Self Regulatory Organization under Section 40 of the Code at the same time on SEC Form 33-SRO. An application on SEC Form 33-SRO shall also be accompanied by the statements and exhibits prescribed under Section 40 of the Code. . Any registered Exchange existing prior to the effectivity of these Rules shall, within 45 days from effectivity of these Rules, comply with all the requirements provided under this Rule, which were not provided for in its original registration.
2. An amendment to such application shall be made in duplicate on SEC Form 33-A, and each amendment shall be dated and numbered in the order of filing.

3. No later than seven (7) days after the discovery that any information in the statement, any exhibit, or any amendment was inaccurate when filed, an Exchange shall file with the Commission an amendment correcting such inaccuracy.
4. Whenever the number of changes to be reported in an amendment, or the number of amendments filed, are so great that the purpose or clarity of the disclosure will be promoted by the filing of a new complete statement and exhibits, an Exchange may, at its election, or shall, upon request of the Commission, file as an amendment a completely new statement together with all exhibits which are prescribed to be filed in connection with SEC Form 33.
5. Nothing in this Rule shall be construed as precluding the Commission from requiring an applicant for registration or a registered Exchange to submit other requirements it may deem reasonably necessary to effectively regulate and supervise the Exchange and/or to protect the interest of the investing public.

SRC Rule 33.2(c) – Ownership of an Exchange

1. An Exchange organized as a stock corporation may be owned and controlled by another juridical person (“Exchange Controller”), based on the following terms and conditions, to ensure that such ownership will not negatively impact the Exchange’s ability to effectively operate in the public interest.
 - A. The Exchange Controller shall become registered with the Commission as a Self Regulatory Organization under Section 40 of the Code and comply with its duties regarding rulemaking under this section and rules adopted thereunder; *provided, however*, that for purposes of Section 40 and SRC Rule 30.1, paragraph 1, the enforcement responsibilities of an SRO shall be delegated to the Exchange which is being controlled by the Exchange Controller or to another entity which the Commission may order.
 - B. The Board of an Exchange Controller shall include in its composition the president of the Exchange Controller, and unless the Commission otherwise agrees to a different governance structure based on findings that the Exchange Controller can operate the Exchange in the public interest and that the Exchange can effectively operate as an SRO, no less than fifty one (51%) percent of the remaining members of the Board shall be comprised of three (3) independent directors and persons who represent the interest of issuers, investors and other market participants who are not associated with any Broker Dealer, member or participant of the Exchange controlled by the Exchange Controller, for a period of two (2) years prior to his/her appointment. No officer or employee of a Broker Dealer, its subsidiaries or affiliates or related interests may become an independent director.
 - C. Unless the Commission prescribes otherwise, no person shall beneficially own or control, directly or indirectly, more than five percent (5%) of the voting rights of the Exchange Controller and no industry or business group shall beneficially own or control, directly or indirectly, more than twenty percent (20%) of the voting rights of the Exchange Controller; Provided that pursuant to paragraph 3 below, the Exchange Controller shall disclose the names of its beneficial owners, their business or industry affiliation, and share ownership to the Commission and, no less than once a month, update such disclosure.
 - D. An Exchange Controller shall obtain prior Commission approval regarding share ownership or any other investment in any clearing agency, other securities related business, or any other non-related business.
2. For purposes of Section 33.2 (c) of the Code, an industry or business group shall include the following sectors which are based on the Philippine Standard Industrial Classification Code:
 - A. Agriculture, Hunting, Forestry, Fishing, Mining and Quarrying
 - B. Manufacturing
 - C. Electricity, Gas, Water Supply, and Construction

- D. Wholesale and Retail Trade, Hotels and Restaurants
 - E. Transport, Storage and Communications
 - F. Banking and other Financial Institutions
 - G. Brokers and Dealers
 - H. Compulsory Social Security (Government)
 - I. Real Estate including leasing
 - J. Education, Health, Social Work and other community, social and personal services
3. To insure diversification of ownership of an Exchange or that of the Exchange Controller, –the Commission may consolidate different industry or business groups into one group or divide one group into several groups or redesignate the industry classification chosen by a business group; *provided, however* that where the shares of stock of the Exchange or Exchange Controller are not yet listed or traded in an exchange or any other trading market, prior to the sale of shares of an Exchange or Exchange Controller to any person, the Exchange or Exchange Controller shall disclose in writing to the Commission the proposed ownership to ensure compliance with ownership restrictions. No shares of an Exchange or Exchange Controller may be transferred without prior Commission approval.
 4. Where any ownership restrictions set forth in this rule are exceeded and/or violated, the Commission may order divestment of such excess ownership. Until such ownership is divested, a person violating this restriction shall be barred from exercising his voting rights thereunder.

SRC Rule 33.2(d) – Protection of Customer Accounts in Case of Business Failure of an Exchange Member (or Trading Participant)

1. When an Exchange Member Firm has filed or is the subject of a petition for insolvency, or when an Exchange determines that the Member Firm's financial condition has so deteriorated that it cannot readily meet the demands of its customers for the delivery of securities and or payment of sales proceeds, the Commission may issue *ex parte* an order compelling the insolvent or failed member firm [hereinafter Failed Member Firm and the Exchange to take the necessary action to protect customer accounts including, but not limited to, the preservation of the member firm's books and records. Said order shall remain in effect until lifted by the Commission *motu proprio* or upon petition of the Failed Member Firm.
2. The Commission, after proper investigation or verification, *motu proprio* or upon verified complaint by any party, order an Exchange to take over the operation of the Failed Member Firm for the purpose of settling the member firm's liabilities to its customers.
3. Where the Commission has ordered an Exchange to take over the operations of a failed member firm, an Exchange shall:
 - A. Suspend such Failed Member Firm's membership immediately arrange for another Member to take over the outstanding contracts relating to securities, and simultaneously notify the Commission of such suspension and take-over;
 - B. Promptly notify customers of the Failed Member that their accounts have been transferred to another Member and provide such customers with the opportunity to re-transfer their accounts to another Member of their choice;
 - C. Settle the Failed Member's (or Trading Participant's) liabilities to customers through the sale of the Member's trading rights and other trade-related assets as may be prescribed by the Commission; liquidation of paid up capital; and/or overseeing the payment of claims against the surety bond.

- D. Simultaneously inform the Accredited Trust Fund referred to in Sec. 36.5 of the Code, where such Failed Member (or Trading Participant) is a Member or Participant, of such takeover and inform the customers that they may also claim compensation for losses from the Trust Fund, subject to the validation of their claims by the Exchange and the Trust Fund;
- E. Where after such settlement and liquidation of the Failed Member Firm's trade-related assets, there are outstanding liabilities to customers of the Failed Member (or Trading Participant), refer the same to the Accredited Trust Fund and inform the customers of the further steps necessary for claiming compensation for unsatisfied losses; and
- F. The Accredited Trust Fund, based on its rules and regulations or upon order of the Commission, shall release payments to the Failed Member's (or Trading Participant's) customers even before the Exchange has finalized the settlement of the Failed Member Firm's liabilities, subject to the validation as provided in subsection D herein; Provided, however, that the Trust Fund shall be subrogated to the customers' rights to claim before the Exchange to the extent that it has paid the customers' claims before final settlement of the Failed Member's liabilities by the Exchange.

**SRC Rule 34.1 – Segregation and Limitation of Functions of
Members, Brokers and Dealers**
[formerly SRC Rules 34.1-2 and 34.1-3]

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 as prescribed below:
 - 1. The Member-Broker gives priority to the execution of customer orders over its orders at the same price according to the following rules:
 - a. When the Member Broker's Order is pre-existing (and has priority in terms of time) and thereupon the Member-Broker receives a customer's order and/or holds a wholly or partially unexecuted customer's Order, then the Member-Broker shall surrender priority and give precedence to his client's order;
 - b. When the Member-Broker holds an unexecuted customer's Order with priority (pre-existing order), then any Broker's Order that intends to improve the price shall do so by at least three (3) fluctuations better than the pre-existing highest bid or lowest offer from a customer.
 - 2. The Procedures for executing the above-referenced priority rule shall be programmed into the Exchange trading system so that full compliance can be achieved prior to the execution of any Member Broker's Order under this interpretation, in accordance with SRC Rule 34.1, paragraph 1 (B).
 - 3. Orders of stockholders, officers, directors, associated persons, and salesmen, or any other person associated with the Member-Broker, including affiliated persons, traded within the Member-Broker shall be treated as the proprietary account of the Member Broker's account, in which case, the "Customer First" Policy shall apply.
 - 4. The order ticket shall indicate that the order is for the account of the Member-Broker, associated person or other employee thereof, owner, officer or director of the Member-Broker
 - 5. The Member-Broker retains a copy of the order ticket with the date and time of its transmittal, which shall be time stamped thereon.

6. The Member-Broker dates and time stamps the order ticket to reflect the time that the order was received or made in compliance with SRC Rule 52.1, paragraph 7.
 7. The Member-Broker retains all order tickets in chronological order containing the date, time, price and other significant details of the order, in accordance with SRC Rule 52.1, paragraph 2.
 8. The Member-Broker may adopt an alternative method (e.g. tape recorded with timing instrument) in capturing the time stamping requirements prescribed by the aforementioned sub-section (5) and (6) and by SRC Rule 52.1, paragraph 7; provided that it conforms with the rules and procedures of the Exchange governing such alternative method; provided further, that such alternative method and relevant rules and procedures have been approved by the Commission.
 9. Procedures for monitoring Member Orders, as set forth in SRC Rule 34.1, paragraph 1 (G) and (H) shall be complied with.
- B. A dealer or proprietary account when traded through another Member-Broker (hereinafter referred to as "Executing Member Broker") shall be treated by the Executing Member Broker as another customer.
- C. Stockholders, officers, directors, associated persons, or any other person associated with the Member-Broker or affiliated persons other than a Salesman (hereinafter referred to as "Associated Persons" cannot trade outside the employing Member-Broker (hereinafter referred to as "Employing Member Broker") unless they obtain the permission of the Employing Member Broker and inform such Broker that they have opened such account with the Executing Member Broker, and provided further that the Executing Member Broker agrees to send duplicate account statements to the Associated Person's Executing Member Broker.
- If the account of the Associated Person of the Employing Member Broker is with a non-Member Broker, such Associated Person shall receive permission from that Non-Member Broker for access to that account by the Exchange and the Employing Member Broker.
- Salesmen are prohibited from transacting with Member-Brokers other than their employing Member Broker.
- D. Non-Exchange Broker Dealers shall likewise observe the "Customer First" Policy whenever applicable.
- E. For purposes of this Rule:
- i. Affiliated person of a Member Broker is any person who (a) controls, is controlled by, or is under common control with the Member Broker, (b) has officers, directors, or associated persons who are also officers, directors, or associated persons of the Member Broker, (c) directly or indirectly controls more than ten percent (10%) of the equity interest in the Member Broker, or (d) has more than ten percent (10%) of its equity interest owned by the Member Broker and/or associated persons of the Member Broker.
 - ii. A Member Broker effects a securities transaction when it performs any function in connection with the processing of that transaction, including, but not limited to, (a) transmission of an order for execution, (b) execution of the order, (c) clearance and settlement of transaction, and (d) arranging for the performance of any such function.
 - iii. Compensation in connection with effecting the transaction refers to compensation directly or indirectly received or calculated on a transaction-related basis for the performance of any function involved in effecting securities transactions.

- F. A Member Broker can have a subsidiary or affiliate which is a Member Dealer, and/or non Member Broker Dealer, and/or Investment House, provided that where there are interlocking directors or officers, such fact must be disclosed to the Commission and measures instituted to prevent conflict of interest.
- G. A Member Broker, and any other Broker or Investment House, with securities accounts of Member Brokers, and/or their associated persons, other employees, owners, directors and/or officers, including discretionary accounts on behalf thereof, for transactions executed in accordance with paragraph 1 (A) (ii) (h) of this rule, shall, when receiving and executing such transactions, identify such accounts as employee, owner, director, officer or Member broker accounts, or discretionary accounts on behalf thereof (along with the name of the related Member Broker), and require the firm's responsible Associated Person or, in the case of an Investment House a person responsible for compliance, to review such accounts on a daily basis.
- H. No Broker Dealer shall execute for its own account, or the account of its customers, listed securities issued by an affiliated company identified under Section 30.1 of the Code unless the conditions set forth in SRC Rule 30.1 are complied with.
- I. For purposes of paragraph 1 (4) (C) of this rule, affiliated company means a company in which any director, president, vice president, manager, treasurer, comptroller, secretary, any other officer of trust and responsibility, or other control person is also a stockholder, director, associated person, or salesman, or a clerk of any Broker Dealer, or a relative of any of the foregoing within the fourth degree of consanguinity or affinity.

2. Segregation of Functions (Chinese Walls)

- A. Any Broker Dealer which assumes more than one function whether as a 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.
- B. For purposes of this rule, information means matter:
 - i. of a specific nature which has not been made public;
 - ii. relating to one or more public companies or securities of a public company; and
 - iii. which, if it were made public, would likely affect the market price of the securities.
- C. A Broker Dealer shall at all times ensure that its trading functions and back-office settlement functions and physical setup are properly segregated and shall establish written procedures to ensure compliance with this rule.

SRC Rule 36.4– Rules and Regulations for Clearance and Settlement of Securities Transactions Involving Exchanges and Other Trading Markets

[formerly SRC Rules 36.4-1, 2, and 3]

1. **Registration of Transfer Agents**

- A. No person shall act as a transfer agent for a security which is listed or traded on an Exchange, over-the-counter, or any other trading market without being registered with the Commission in accordance with the provisions of this Rule. Any registered transfer agent existing prior to the effectivity of these Rules shall, within 45 days from effectivity of these Rules, comply with all the requirements provided under this Rule, which were not provided for in its original registration.

- B. To apply for registration under this Rule, a transfer agent shall:
- i. be a corporation;
 - ii. have unimpaired paid-up capital of at least *One Million Pesos* (P 1,000,000.00) or such amount as the Commission may determine;
 - iii. have an officer who is a certified public accountant; and
 - iv. submit an undertaking that it shall comply with the rules and regulations, orders, memorandum circulars and policies promulgated by the Commission, and of other rules, procedures, standards and policies set by other market participants and duly approved by the Commission, and its own internal rules and procedures.
- C. An application for registration as a transfer agent, or an amendment to any such application, shall be filed with the Commission on SEC Form 36-TA, in accordance with the instructions contained therein.
- D. If any of the information reported on SEC Form 36-TA becomes inaccurate, misleading, or incomplete or requires updating for any reason, such as changes in operating procedures and/or the list of directors and officers, the registrant shall file an amendment within seven (7) days after the date on which the information in the application became inaccurate, misleading, or incomplete.
- E. After reviewing an application for registration as a transfer agent, or an amendment thereto, the Commission shall, by order,
- i. grant registration or approve the amendment; or
 - ii. deny registration or the amendment, place limitations on the activities, functions or operations of, suspend or revoke registration, if the Commission finds, after notice and opportunity for hearing,
 - a. that such order is in the public interest;
 - b. that the registrant does not meet applicable qualifications;
 - c. that the application is incomplete, inaccurate or misleading; or
 - d. that the transfer agent has been found to:
 - (1) be insolvent or not in sound financial condition;
 - (2) have violated or have not complied with the applicable provisions of the Code or the rules and regulations adopted thereunder, or any order of the Commission;
 - (3) have engaged in, or be engaged in, or is about to engage in fraudulent transactions;
 - (4) be in any other way dishonest or not of good repute;
 - (5) have not conducted its business in accordance with law or be engaged in a business that is illegal or contrary to government rules and regulations;
 - (6) have an officer, member of the board of directors, or principal shareholder who is disqualified to be such an officer, director or principal shareholder;

- (7) have a backlog of share certificate transfers which indicates an inability of the registrant to fulfill its responsibilities as a transfer agent;
 - (8) have repeatedly or materially failed to comply with its procedures or those of a registered clearing agency; or
 - (9) have filed an application for registration or an amendment thereto which is incomplete or inaccurate in any material respect or which includes any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the application or amendment not misleading.
 - F. A transfer agent can not be the auditor of an issuer for whom it acts as transfer agent.
 - G. The procedures of a transfer agent are binding on and enforceable against issuers for which they act, registered securities holders and transferees who present securities for transfer. To minimize the issuance and movement of and to facilitate other dealings with those securities eligible to the operations of a registered clearing agency, a transfer agent and registered clearing agency shall jointly formulate and abide by written procedures addressing certificated and uncertificated securities issuance, transfers, cancellations, registration, confirmation and reconciliation of positions in securities, audit, replacement of lost securities, signature guarantees, delivery processes and turnaround times.
 - H. Every transfer agent registered pursuant to this Rule shall file the appropriate registration renewal form every May 1 to May 31 of each year, surrender its old license, and pay to the Commission the prescribed annual renewal fee.

If such fee is not paid or the registration renewal form is not filed as required, the registration of such transfer agent shall be suspended or terminated as the case may be.
 - I. Nothing in this Rule shall be construed as precluding the Commission from requiring an applicant for registration or a registered transfer agent to submit other requirements it may deem reasonably necessary to effectively regulate and supervise the transfer agent and/or to protect the interest of the investing public.
2. Reports from Transfer Agents
- A. Annual Report - Every registered transfer agent shall file with the Commission an annual report on SEC Form 36-AR in accordance with the instructions contained therein within 120 days after the end of its fiscal year. Reports filed on SEC Form 36-AR shall be deemed to satisfy Section 141 of the Corporation Code of the Philippines.
 - B. Exception Reports to the Commission - A transfer agent shall provide to the Commission within seven (7) days of the occurrence of any of the following events, a report detailing the reasons and circumstances for:
 - i. any delay in the turnaround or processing of an issue, transfer or replacement of a security;
 - ii. any discrepancy between its records and those of the registered clearing agency, if applicable;
 - iii. any loss of securities reported to it;
 - iv. actual termination of its function as a transfer agent for a particular security; and
 - v. withdrawal from business of a transfer agent.
 - C. Periodic Reporting to Issuer - At regular intervals within each and every year and upon request by the issuer, a transfer agent shall supply the issuer, for whom it acts in that capacity, with the list of holders of its securities, as shown by the register of holders of securities, and the changes to the register of transfers, showing the name and registered

address of, and the number or face value of the securities held by each such holder and supply any other statements, lists, entries, information and material concerning issues, transfers and cancellations of securities.

- D. Complaint Log - A record of all claims and complaints made to a transfer agent shall be kept by it at its principal office. The record shall contain:
- i. the name of the security holder and a description of the security;
 - ii. the date of the complaint or claim and a complete description thereof; and
 - iii. the steps taken by the transfer agent, the manner in which the complaint or claim is resolved and any subsequent action taken or to be taken by the holder or the transfer agent.

The record shall be open for inspection during normal business hours by the Commission and by any issuer with respect to securities issued by it.

- E. Other Reports - Every registered transfer agent shall submit a monthly report of the following to be filed on or before the 10th day of the succeeding month:
- i. Certification as to the number of shares registered under the name of PCD; and
 - ii. Reconciliation of PCD and Transfer Agent balances.

3. Records Retention by Transfer Agents

- A. In addition to the records required to be maintained pursuant to Section 74 of the Corporation Code of the Philippines, every transfer agent shall make and retain for a period of five (5) years the following books and records relating to its transfer agent activities:
- i. its rules and procedures;
 - ii. exception reports filed with the Commission pursuant to SRC Rule 36.4, paragraph 2 (B);
 - iii. complaint log as required to be maintained under SRC Rule 36.4, paragraph 2 (D);
 - iv. reports to the issuers for whom the firm acts as transfer agent as required under SRC Rule 36.4, paragraph (2) (C); and
 - v. annual report on SEC Form 36-AR.
- B. Every transfer agent shall make available any or all of its books and records upon request of an authorized representative of the Commission. Failure to do so shall result in an immediate suspension of the transfer agent's registration. Such suspension shall continue until such time as the books and records are made available to the Commission.

SRC Rule 36.5 (a) – Trust Funds for Broker Dealer Customers

[formerly SRC Rule 36.4(a)-1]

1. A trust fund established to compensate customers for the extraordinary losses or damage they may suffer due to the business failure or fraud or mismanagement of a Broker Dealer shall be registered as an Accredited Trust Fund under this Rule. For purposes of this Rule, the term “extraordinary losses and damages” refers only to actual damages.
2. An application for registration shall be filed on SEC Form 36-TF and contain the following supporting documents:
 - A. data on its organization, rules of procedure and membership/participation;

- B. copies of its rule; and
 - C. list of directors and officers and a list of their affiliations.
3. Business failure shall be established upon a determination by the Exchange, or the Commission, when the Exchange fails or does not exercise such timely determination, where the Broker Dealer is an Exchange member; or the Commission, or where the Broker Dealer is not an Exchange member, that the financial condition of the Broker Dealer has so deteriorated that the Broker Dealer can not readily meet the demands of its customers for the delivery of securities and/or the payment of sales proceeds; *provided, however*, that such determination shall not be dependent upon a judicial declaration of insolvency.
 4. As a condition of their registration, all Broker Dealers shall be a member of or participant in an Accredited Trust Fund.
 5. An Accredited Trust Fund shall establish a Customer Protection Fund (the "Fund"). All amounts received by the Accredited Trust Fund, except amounts set aside for operating expenses, shall be deposited into the Fund which shall serve as trustee in compliance with general rules of trust.
 6. The Commission shall not accredit a trust fund unless the trust fund has adopted rules governing:
 - A. The initial and the continuing required balance for the Fund;
 - B. Assessments to be imposed on members/participants and procedures for collecting such assessment;
 - C. Borrowing by the Fund;
 - D. Investment of Fund assets;
 - E. Procedures for paying customers for the extraordinary losses or damage they may suffer due to business failure or fraud or mismanagement of the Broker Dealer;
 - F. Role and duty of the trust fund as trustee; and
 - G. The composition of the trust fund's Board of Directors.
 7. All rules of the Accredited Trust Fund, including amendments thereto, shall be approved by the Commission prior to becoming effective.
 8. If the Commission or any Exchange is aware of facts which may lead one to believe that the financial condition of a Broker Dealer, including an Exchange Member, has so deteriorated and the Broker Dealer has difficulties meeting the demands of its customers for the delivery of securities and/or the payment of sales proceeds, it shall immediately notify the Accredited Trust Fund; *provided, however*, where such notification involves an Exchange member, the Exchange shall simultaneously notify the Commission.
 9. Every Exchange, or other SRO responsible for monitoring the financial condition of Members and/or Participant Broker Dealer shall file with the Accredited Trust Fund copies of financial reports submitted by such Broker Dealers.

**SRC Rule 38 – Requirements on Nomination and Election
of Independent Directors**

(formerly, SRC Rule 38.1 – Definition of "Independent Director")

1. This Rule shall apply to companies mentioned under Sec. 38 of the Code and to companies with secondary licenses that adopted in their Manuals on Corporate Governance the practice of nominating and electing independent director/s in their Boards. Said entities shall be referred to in this Rule as "covered companies".
2. As used in Section 38 of the Code, independent director means a person who, apart from his fees and shareholdings, is independent of management and free from any business or other

relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in any covered company and includes, among others, any person who:

- A. Is not a director or officer of the covered company or of its related companies or any of its substantial shareholders except when the same shall be an independent director of any of the foregoing;
 - B. Does not own more than two percent (2%) of the shares of the covered company and/or its related companies or any of its substantial shareholders;
 - C. Is not related to any director, officer or substantial shareholder of the covered company, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;
 - D. Is not acting as a nominee or representative of any director or substantial shareholder of the covered company, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;
 - E. Has not been employed in any executive capacity by the covered company, any of its related companies and/or by any of its substantial shareholders within the last five (5) years;
 - F. Is not retained, either personally or through his firm or any similar entity, as professional adviser, by that covered company, any of its related companies and/or any of its substantial shareholders, within the last five (5) years; or
 - G. Has not engaged and does not engage in any transaction with the covered company and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he is a partner and/or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial.
3. No person convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of this Code, committed within five (5) years prior to the date of his election, shall qualify as an independent director. This is without prejudice to other disqualifications which the covered company's Manual on Corporate Governance provides.
 4. Any controversy or issue arising from the selection, nomination or election of independent directors shall be resolved by the Commission by appointing independent directors from the list of nominees submitted by the stockholders.
 5. When used in relation to a company subject to the requirements of this Rule and Section 38 of the Code:
 - A. Related company means another company which is: (a) its holding company; (b) its subsidiary; or (c) a subsidiary of its holding company; and
 - B. Substantial shareholder means any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.
- 6. Qualifications and Disqualifications**
- A. An independent director shall have the following qualifications:
 - (i) He shall have at least one (1) share of stock of the corporation;

- (ii) He shall be at least a college graduate or he shall have been engaged or exposed to the business of the corporation for at least five (5) years*;
 - (iii) He shall possess integrity/probity*; and
 - (iv) He shall be assiduous*.
- B. No person enumerated under Section II (5) of the Code of Corporate Governance shall qualify as an independent director. He shall likewise be disqualified during his tenure under the following instances or causes:
- (i) He becomes an officer or employee of the corporation where he is such member of the board of directors/trustees, or becomes any of the persons enumerated under Section II (5) of the Code on Corporate Governance*;
 - (ii) His beneficial security ownership exceeds two percent (2%) of the outstanding capital stock of the company where he is such director*;
 - (iii) Fails, without any justifiable cause, to attend at least 50% of the total number of Board meetings during his incumbency*;
 - (iv) Such other disqualifications which the covered company's Manual on Corporate Governance provides.

7. Number of Independent Directors

- A. All companies are encouraged to have independent directors. However, issuers of registered securities and public companies are required to have at least two (2) independent directors or at least twenty percent (20%) of its board size, whichever is the lesser. Provided further that said companies may choose to have more independent directors in their boards than as above required.
- B. The Exchange/s are required to have at least three (3) independent directors. To effectively carry out the provisions of Section 33.2(g) of the Securities Regulation Code, the Exchange's independent director or a nominee for such director shall not solicit votes for himself.

8. Nomination and Election of Independent Director/s

The following rules shall be applicable to all covered companies:

- A. The Nomination Committee (the "Committee") shall have at least three (3) members, one of whom is an independent director. It shall promulgate the guidelines or criteria to govern the conduct of the nomination. The same shall be properly disclosed in the company's information or proxy statement or such other reports required to be submitted to the Commission.
- B. Nomination of independent director/s shall be conducted by the Committee prior to a stockholders' meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the would-be nominees.
- C. The Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for independent director/s.
- D. After the nomination, the Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for independent directors, as required

* Based on leading practices on corporate governance. Explanation shall be provided in case of non-compliance.

under Part IV(A) and (C) of Annex "C" of SRC Rule 12, which list, shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Statement, in accordance with SRC Rule 20, or in such other reports the company is required to submit to the Commission. The name of the person or group of persons who recommended the nomination of the independent director shall be identified in such report including any relationship with the nominee.

- E. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director/s. No other nominations shall be entertained after the Final List of Candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders'/memberships' meeting.
- F. Election of Independent Director/s
 - i. Except as those required under this Rule and subject to pertinent existing laws, rules and regulations of the Commission, the conduct of the election of independent director/s shall be made in accordance with the standard election procedures of the company or its by-laws.
 - ii. It shall be the responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent director/s. He shall ensure that an independent director/s are elected during the stockholders' meeting.
 - iii. Specific slot/s for independent directors shall not be filled-up by unqualified nominees.
 - iv. In case of failure of election for independent director/s, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.
 - v. The covered companies shall amend its by-laws in accordance with the foregoing requirements as soon as practicable.

9. Termination/Cessation of Independent Directorship

In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Committee otherwise, said vacancies shall be filled by the stockholders in a regular or special meeting called for that purpose. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.

SRC Rule 39.1 – Registration, Responsibilities and Oversight of Self-Regulatory Organizations

[formerly SRC Rules 39.1-1, 2 & 6]

- 1. Rules Governing a Self Regulatory Organization which is an Organized Exchange
 - A. All organized Exchanges shall be subject to these procedures and requirements set forth in this Rule.
 - B. For purposes of this Rule:
 - i. Organized Exchange or Exchange means a registered Exchange, whether or not registered as an SRO under the Code.
 - ii. Participant refers to any person who has been approved to use the SRO's services and facilities but is not a member therein.

- iii. Securities laws refers to the Code and rules, regulations and orders issued by the Commission.
- iv. SRO refers to a Self Regulatory Organization which is an organized Exchange.
- v. SRO rule refers to the constitution, articles of incorporation, by-laws and rules, or instruments corresponding to the foregoing and such policies, practices and interpretations of the SRO, other than those designated by the SRO as constituting a policy, practice or interpretation of an existing rule or establishing or concerning solely matters of SRO administration under SRC Rule 40.3, paragraph 3.

C. SRO Rulemaking

- i. Subject to Commission approval and pursuant to the procedures set forth in SRC Rule 40.3, an SRO's power to adopt and amend rules shall also include the power to repeal existing rules, implement such rules and provide interpretative guidance to aid in compliance.
- ii. An SRO shall adopt comprehensive rules governing its organization and governance, qualifications and rights of shareholders, listing of securities, trading of securities, settlement of contracts, qualification of members and other participants, ethical conduct of members and other participants, supervision and control of members, financial and operational responsibility of members, and discipline of members and other participants.

D. Power over listed companies

The SRO shall be solely responsible for processing and approving or rejecting applications for new listing of shares, suspension and de-listing of listed issues and imposition of sanctions on listed companies for violation of SRO rules; *provided, however*, that such powers shall be exercised pursuant to SRO rules.

E. Compliance and Surveillance

- i. An SRO shall establish an independent audit, compliance and surveillance office separate from the Exchange or within the Exchange, and in such form and substance that the Commission, by order, may prescribe. Such office shall not be subordinated or otherwise controlled in its activity by the Exchange Board or its review unit, and shall be responsible for carrying out the SRO's enforcement role pursuant to the securities law and for the disciplining of participants. Such office shall further submit to the Commission a copy of its findings within three (3) business days from completion or at the same time that said office provides a copy to the Board or a review unit, if said office is an entity separate from the Exchange, or to any person or unit outside of the office if said office is an integral unit within the Exchange, whichever is earlier. Nothing in this rule shall be understood to preclude the Commission from requiring said office to submit a status report or any other kind of report on any of the activities that it is performing.
- ii. The Compliance and Surveillance office, in order to protect the interest of investors and the public in general, arrest the further commission of violations of the securities law, prevent financial instability and damage to the capital market caused by delay, and/or risk manage Broker Dealer operations effectively, may summarily suspend or impose limitations upon the erring Broker Dealer without need of approval from the Exchange Board or its review unit. Provided, however, that the Exchange Board shall, within five (5) trading days from implementation of such order, convene to review, confirm, modify, or reverse the Compliance and Surveillance office's action. Failure by the Exchange Board or its review unit to resolve the summary order shall be deemed an automatic confirmation of the action taken by the Compliance and Surveillance office.
- iii. Absent reasonable justification or excuse, the SRO shall enforce compliance with provisions of the securities laws regulating brokers, dealers and trading on the SRO and SRO rules by its members. The SRO shall notify the Commission within

forty eight (48) hours of any instance wherein it fails to enforce compliance with the provisions of the securities laws and the implementing rules and regulations and the SRO rules, which it believes is justifiable, and within ten (10) days submit a complete report of such an instance.

- iv. An SRO shall enter into a Memorandum of Understanding with other SROs to clarify its oversight responsibilities over persons who are members of or participants in more than one SRO and coordinate with other SROs to ensure adequate oversight. Such plan shall be submitted to the Commission for approval under SRC Rule 39.1, paragraph 6.
- v. An SRO shall monitor market conditions and trading activity to detect violations of the securities law and SRO rules.
 - a. The SRO shall conduct market surveillance of all trading activity on the SRO pursuant to SRO rules setting forth surveillance procedures and guidelines.
 - b. The SRO shall monitor compliance by listed companies with continuing listing obligations; *provided, however*, primary oversight for compliance with full disclosure regulation under the securities law shall remain the responsibility of the Commission.
- vi. The Commission may, on its own initiative, monitor the market to ensure that the SRO is fulfilling its functions and to ensure further that each activity or potential problem area in the market is adequately covered and being reasonably addressed.

F. Periodic Examinations

- i. The SRO shall examine members to determine whether they are in compliance with the securities law and SRO rules governing, among other things, financial responsibility, dealings of members with the public, back office procedures, trading practices, and supervision and shall submit to the Commission for review and comment its examination calendar for the year on or before the 15th of January of every year, provided that any amendment to the calendar shall be promptly provided to the Commission. The submitted calendar shall include the manner of selection and prioritization used by the SRO in formulating it. The manner of selection and prioritization shall be based on the historical and potential risks that each member posed to the market. This calendar shall be treated as confidential information. Periodic examination of each member firm shall be conducted without prior notice to the member firm.
- i. The SRO shall file with the Commission monthly reports of its periodic examinations started and completed during the month, within ten (10) days after the end of each month, together with a summary of findings for audits completed. Periodic examinations of each member firm shall be made by the SRO pursuant to written procedures approved by the Commission. Where deficiencies are detected, the SRO shall either send a letter to the firm within three (3) business days of the completion of such examination directing that such deficiencies be corrected or, where such deficiencies evidence violations of the securities law, SRO rules and/or otherwise negatively reflect upon the firm's integrity or solvency, promptly notify the Commission through a brief written report and without delay initiate an investigation.
- ii. The Commission may, on its own initiative, conduct periodic or parallel examinations of members to validate the SRO's findings and conduct on-spot audit inspections of the relevant SRO department to check if it is fulfilling its duties and responsibilities as an SRO.

G. Investigations

- i. An SRO shall investigate suspected violations of the securities law and SRO rules based on complaints, examination/audit findings or unusual trading activities or

verified referrals from a member, other trading participant, SRO other than an Exchange, clearing agency, transfer agent, any registered person, or the Commission and take disciplinary action, where appropriate, pursuant to SRO rules.

- ii. The SRO shall be primarily responsible for conducting investigations which concern suspected violation of rules governing sales practices, financial and operational requirements, trading and floor related violations, and compliance procedures/supervision of members.
- iii. The SRO shall promptly notify the Commission of any investigation which involves suspected violations of the securities law involving persons not subject to the SRO's jurisdiction, concerning the disclosure obligations of listed companies under the securities law, and/or involving fraud or manipulation. The SRO shall cooperate with the Commission which shall have primary investigative authority over such suspected violations.
- iv. The Commission shall not be precluded from initiating its own investigation ahead of, parallel to or following an investigation conducted by an SRO. In such an event, the SRO shall coordinate, cooperate, and provide a copy to the Commission, upon notice or order, documents, pieces of evidence or other information related to the case that it may have earlier gathered or are available in its database and which it may readily procure. Unless specifically ordered by the Commission or by a competent court to cease, the SRO shall continue to conduct its own investigation pursuant to its mandate. In case of conflict between the findings of the Commission and the Exchange, the former's decision shall prevail. For purposes of initiating its own investigation, the Commission, through the Chairperson, may designate any department, other than the Compliance and Enforcement Department or form the task force for the purpose of taking the lead in such investigation.

H. Discipline of SRO Members and Participants

- i. An SRO shall discipline a member, including suspension or expulsion of a member, if such person has been found to have been engaged in a violation of SRO rules or provisions of the securities law, including, but not limited to, illegal sales practices, financial and operational requirements, trading and floor related violations, and/or violation of SRO listing rules.
- ii. In any disciplinary hearing by the SRO, other than a proceeding brought pursuant to paragraph (iii) below, the SRO shall bring specific charges, provide notice to the member or participant charged, afford such person charged with an opportunity to defend against the charges, and keep a written record of the proceeding. A determination to bring a disciplinary sanction shall be supported by a written statement of the offense, a summary of the evidence presented and a statement of the sanction imposed.
- iii. The SRO may summarily suspend a member or person associated with a member who has been expelled or suspended from another SRO, and/or suspend a member who the SRO finds to be in such financial or operating difficulty that the member cannot be permitted to do business as a member with safety to investors, creditors, other members, or the SRO; *provided, however* that the SRO immediately provides written notice to the Commission of the action taken. Any person aggrieved by a summary action pursuant to this paragraph shall be promptly afforded an opportunity for a hearing by the SRO in accordance with paragraph (ii) above. The Commission, by order, may stay a summary action *motu proprio* or upon application by any person aggrieved thereby if the Commission determines summarily or after notice and an opportunity for hearing (which may consist solely of the submission of affidavits or presentation of oral arguments) that a stay is consistent with the public interest and the protection of investors.
- iv. The SRO shall promptly notify the Commission in written reports of any disciplinary sanction imposed on any member or participant. Within thirty (30) days after receipt of such notice, any aggrieved person may appeal to the Commission from, or the

Commission *motu proprio* within such period, may institute review of, the decision of the SRO, at the conclusion of which, after due notice and opportunity for hearing which may consist solely of review of the record before the SRO, the Commission shall affirm, modify or set aside the sanction. In such proceeding, the Commission shall determine whether the aggrieved person has engaged or omitted to engage in the acts and practices as found by the SRO; whether such acts, and practices, or omission constitute willful violations of the securities law or SRO rules, whether such provisions were applied in a manner consistent with the purposes of the securities law; and whether, with due regard for the public interest and the protection of investors, the sanction is excessive or oppressive.

I. SRO Discipline by the Commission

The Commission may, if in its opinion such action is necessary or appropriate in the public interest or for the protection of investors, or otherwise in furtherance of the purposes of the securities law, after due notice and an opportunity for a hearing:

- i. Suspend for a period not to exceed twelve (12) months or revoke the registration of an SRO, or censure or impose limitations on the activities, functions and operations of the SRO as an SRO, if the Commission finds that the SRO has willfully violated or is unable to comply with any provision of the securities law or SRO rules, or without reasonable justification or excuse has failed to enforce compliance therewith by a member or participant;
- ii. Take over the activities of an SRO pursuant to SRC Rule 40.5;
- iii. Suspend for a period not exceeding twelve (12) months or to expel from the SRO any member who is subject to an order of the Commission under Section 29 of the Code or is found to have willfully violated any provision of the securities law, or effected, directly or indirectly, any transaction for any person who such member had reason to believe was violating, in respect of such transaction, any of such provisions;
- iv. Remove from office or censure any officer or director of the SRO if it finds that such officer or director has violated any provision of the securities law or the rules of such SRO, abused his authority or without reasonable justification or excuse, has failed to enforce compliance with any of such provisions; and/or
- v. Take other actions as provided by the Code.

J. SRO Reporting

An SRO shall submit the following reports to the Commission:

- i. Monthly reports on dockets of examinations and investigations being conducted, containing the docket number, name of SRO examiner/investigator, how audit/examination originated (investor complaint, examination, surveillance), name of the member or participant, including a listed company being audited/investigated, nature of the violations alleged, status, findings, sanctions imposed and other courses of action taken by the SRO relative thereto;
- ii. Monthly reports on capital adequacy requirements by members;
- iii. Quarterly reports on the result of the monitoring of trading of listed companies and investigations conducted with respect thereto;
- iv. Semi-annual report on the number of newly listed issues, delisted/suspended issues and reasons therefor, and the number, type and issuer of current listed issues;
- v. Semi-annual report containing information on the number of investor complaints received, investigated, nature of claim, status and manner of disposition; and

- vi. Such other information as may, from time to time, be required by the Commission from the SRO.

K.. SRO Relationship with Commission.

- i. In order to enhance investor protection and more effectively utilize existing resources, the Commission and the SRO shall work towards a more harmonious and cooperative relationship among their officers and personnel. Commission staff working in the area of Broker Dealer and market regulation and corporate disclosure shall meet with their SRO counterparts at least once a month to discuss issues and concerns relating to the operation of the SRO as an SRO. Minutes of such meetings shall be prepared and circulated to SRO management and Commissioners of the Commission. This monthly meeting may, at the discretion of the Commission and SRO, involve officials of the Commission and/or SRO, directors of the Commission and their SRO counterparts, or technical working groups from both sides.
- ii. The Commission and the SRO shall work closely and try to coordinate their media campaigns on the securities industry to generate positive public opinion and increase investor confidence.

2. Registration of Associations of Brokers and Dealers and Other Self Regulatory Organizations

- A. An application for registration as an Association of Securities Brokers and Dealer shall be filed on SEC Form 39-BD accompanied by copies of the statements and exhibits required to be filed thereunder under Section 40 of the Code and SEC Form 39-BD.
- B. Any other application for registration as a Self Regulatory Organization shall be filed on SEC Form 39 accompanied by the statements and exhibits required to be filed thereunder under Section 40 and SEC Form 39; *provided, however*, that an applicant for registration as an Exchange and SRO shall file Form 33-SRO and an applicant for registration as a Clearing Agency and SRO shall file SEC Form 42-SRO.
- C. Every Association of Securities Brokers and Dealers and other Self Regulatory Organizations (collectively referred to hereinafter as "SROs") shall promptly, after the discovery of any inaccuracy in the registration statement or in any amendment or supplement thereto, file with the Commission an amendment on SEC Form 39-A correcting such inaccuracy.
- D. Promptly after the close of each fiscal year, every registered SRO shall file with the Commission an annual return on SEC Form 39-AR including a copy of its balance sheet as of the close of its fiscal year and its income and expense statement for such year. The annual return shall be signed and attested, in the same manner as required in the case of the original registration statement.
- E. Amendments to the registration statement shall be filed, at least one copy of which shall be signed and attested, in the same manner as required in the case of an original registration statement. All amendments shall be dated and numbered in the order of filing. One amendment may include a number of changes.
- F. In addition to the formal filing of amendments and the annual return, every registered SRO shall send to the Commission copies of any notices, reports, circulars, loose leaf instructions, riders, new additions, lists, or other records of changes covered by amendments or supplements when, as, and if such records are made available to members and/or participants of the SRO.

3. Allocation of Regulatory Responsibilities Among Self Regulatory Organizations

- A. Any two (2) or more Self Regulatory Organizations (SROs) may file with the Commission a plan for allocating among SROs the responsibility to receive regulatory reports from persons

who are members of or participants in more than one SRO, to examine such persons for compliance, or to enforce compliance by such persons, with the Code and rules and regulations adopted thereunder, and the rules of such SRO, and to carry out other specified regulatory functions with respect to such persons.

- B. Any plan filed hereunder may contain provisions for the allocation among the parties of expenses reasonably incurred by the SRO having regulatory responsibility under the plan.
- C. After appropriate notice and opportunity for comment, the Commission may, by written notice, declare such a plan, or any part thereof, effective if it finds the plan, or any part thereof, necessary or appropriate in the public interest and for the protection of investors, to foster cooperation and coordination among SROs.
- D. Upon the effectivity of such a plan, or part thereof, any SRO which is a party to the plan shall be relieved of responsibility as to any person for whom another SRO is responsible under the plan, to the extent of the responsibility allocated.
- E. After the Commission has declared a plan or part thereof effective pursuant to paragraph (C) of this rule, or acted pursuant to paragraph (F) of this rule, an SRO relieved of responsibility may notify customers of, and persons doing business with, such member or participant of the limited nature of its responsibility for such member's or participant's acts, practices and course of business.
- F. In the event that a plan declared effective pursuant to paragraph (C) does not provide for all members or participants or does not allocate regulatory responsibilities, the Commission may, after notice and opportunity for hearing, designate one or more SROs responsible for specified regulatory responsibilities with respect to such members or participants.

SRC Rule 40.3 – Commission Review Procedures

[formerly SRC Rule 39.1-1]

1. An SRO shall submit to the Commission for prior approval any proposed rule or amendment thereto (hereinafter collectively referred to as "proposal"), together with a concise statement of the reason and effect of the proposal. If the Commission believes that such proposal is of "major significance", at least thirty (30) days before approving such proposal, the Commission shall direct the SRO to publish the text of the proposal and a statement of the reasons and effect in a newspaper of general circulation and/or by some other means to guarantee the public circulation thereof, and shall afford interested persons an opportunity to submit written data, views and arguments, provided that the comment period shall not exceed a period of twenty (20) days. The SRO shall file with the Commission a written summary of the comments received, along with responses thereto, no later than thirty (30) days after the end of the comment period. Where the comments cause the SRO proposal to be changed in a material manner, a new review period shall be triggered.
2. Except as provided in paragraph 3 below, within sixty (60) days after submission of the proposal or summary of comments required to be filed with the Commission pursuant to paragraph 1 above, the Commission shall, by order, approve the proposal, or institute proceedings to determine whether the proposal should be disapproved. If the Commission does not institute proceedings to disapprove the proposal within such period, the proposal may be declared effective by the SRO. If a proceeding is instituted, the Commission shall provide notice to the SRO of the proposed grounds for disapproval, and an opportunity for hearing, at the conclusion of which the Commission shall grant or deny approval of the proposal. The Commission shall approve a proposal where it finds that the proposal is consistent with the requirements of the securities law. If the proceeding is not concluded within ninety (90) days following its commencement, the proposal shall be made effective by the SRO.
3. Notwithstanding paragraph 2 above, a proposal may take effect within ten (10) business days after its submission to the Commission if designated by the SRO as constituting a policy, practice or interpretation of an existing rule, establishing or concerning solely matters of administration of the SRO (e.g. setting of dues, fees and charges) or such other matters as the Commission by rule or order, may prescribe, unless the Commission, within the ten (10) day period, provides written notice to the SRO of its determination to review such proposal for prior approval pursuant to paragraphs 1 and 2 above.

4. Notwithstanding any other provision of this section, in an emergency requiring action for the protection of investors, the maintenance of fair and orderly markets, or the safeguarding of securities and funds, the SRO may summarily put into effect a proposal; *provided, however*, that the proposal made effective shall be promptly submitted to the Commission pursuant to paragraph 1 above, which case, the Commission, may upon proper finding, affirm, amend, disallow or order the discontinuance of the SRO's proposal.

SRC Rule 40.4 – Commission Directions Regarding Rulemaking

[formerly SRC Rule 39.1-1]

1. The Commission may request in writing that the SRO effect on its own behalf specified changes in its rules and practices which are necessary or appropriate for the protection of investors, to ensure fair dealing in securities traded on the SRO, ensure fair administration of the SRO, conform and harmonize SRO rules to the requirements set forth in the securities law, or to otherwise further the purposes of the securities law on such matters as:
 - A. safeguards in respect of the financial responsibility of members and adequate provision against the evasion of financial responsibility through the use of corporate forms or special partnerships;
 - B. supervision of trading practices;
 - C. listing or delisting any security;
 - D. hours of trading;
 - E. manner, method and place of soliciting business;
 - F. fictitious accounts;
 - G. time and method of making settlements, payments and deliveries and of closing accounts;
 - H. transparency of securities transactions and prices;
 - I. fixing of reasonable rates of fees, interest, listing and other charges but not rates of commission;
 - J. minimum units of trading;
 - K. odd-lot purchases and sales;
 - L. minimum deposits on margin accounts; and
 - M. supervision, auditing and disciplining of members or participants.
2. If after making such request in writing to the SRO, and after due notice of the reasons and effects of the proposed changes and opportunity for a hearing, the Commission determines that the SRO has not made the changes so requested, the Commission may alter, abrogate, or supplement the SRO's rules, with such changes to be made effective immediately upon adoption by the Commission.

SRC Rule 40.5 – Commission Powers Over Exchanges, Clearing Agencies and Self Regulatory Organizations

1. Subject to paragraph 2 through 6 of this rule, the Commission may, when it is satisfied that it is in the interest of the investing public, or is appropriate to do so for the protection of investors, and after due notice and a hearing:
 - A. suspend registration of an Exchange, clearing agency and/or self regulatory organization (hereinafter collectively "Exchange") upon findings that such Exchange has willfully violated

or is unable to comply with any provision of this Code, or the rules and regulations hereunder, or its own rules, or has failed to enforce compliance therewith by a member of, person associated therewith, or a participant in such Exchange; or

- B. suspend any or all officers of said Exchange and appoint an independent administrator knowledgeable in capital market operations to take over the management of the Exchange, and/or suspend any and all member/s of the board of directors and appoint new director/s to serve during the suspension period, upon findings that such officer/s and/or director/s have willfully violated any provision of this Code, any other law administered by the Commission, the rules or regulations thereunder, or the rules of such Exchange, or abused his authority, or without reasonable justification or excuse has failed to enforce compliance with any of such provisions.
2. Upon discovery of any of the above-mentioned violations or failures, the Commission shall notify the Exchange, officer/s and/or director/s thereof and set a period of time in which such violation or failure shall be rectified, which period shall be no less than ten (10) days nor more than ninety (90) days.
 3. In the event that an Exchange fails to rectify such violation or failure within the stated period, which the Commission may extend only once based on its finding that such extension is in the public interest or for the protection of investors, the Commission, after due notice and a hearing, may undertake the necessary remedies to correct the same.
 4. For as long as an order suspending any officer/s and/or director/s is in effect under this rule, none of the functions to which the order relates shall be performed, by said suspended officer or director.
 5. Where an independent administrator is appointed under this rule, such administrator shall immediately prepare a workplan which shall be submitted to the Commission for approval and/or amendment, to address the underlying reason for the suspension. Such workplan shall include a timetable for compliance with this Code which shall not be later than the period of suspension.
 6. At the end of the suspension period, or upon expiration of the period set forth in the workplan approved by the Commission, the Commission may: (a) lift the suspension order and reinstate the Exchange's registration; (b) revoke such registration pursuant to this Code; (c) reinstate the Exchange's officer/s and/or board member/s; and/or (d) issue an order prohibiting officers and/or members of the board who have been suspended from serving in such capacity for a stated period.
 7. Immediately after the issuance of a decision to revoke registration, no new transactions shall be effected, except as necessary to protect investors.

SRC Rule 42 – Registration of Clearing Agencies

[formerly SRC Rule 40.5-1]

1. Registration

- A. An application for registration as a clearing agency or any amendment thereto shall be filed with the Commission on SEC Form 42-CA in accordance with the instructions contained therein along with the prescribed registration fee; *provided, however,* that an applicant for registration as clearing agency may also, at the same time, apply for registration as an SRO pursuant to SRC Rule 39.1, paragraph 3 on SEC Form 42-SRO; provided, further, that any registered clearing agency existing prior to the effectivity of these Rules shall, within 45 days from effectivity of these Rules, comply with all the requirements provided under this Rule, which were not provided for in its original registration.
- B. In addition to the prescribed registration fee prescribed above and for the privilege of doing business for the preceding calendar year or any part thereof, every Clearing Agency shall pay to the Commission, on or before the thirtieth (30th) day of the fourth (4th) month after the end of the fiscal year, a prescribed annual fee.
- C. After reviewing an application for registration as a clearing agency, or an amendment thereto, the Commission shall:

- i. grant registration or approve the amendment;
 - ii. require a change in the Articles of Incorporation, By-laws, contracts, rules or procedures (hereinafter "rules") to ensure their fair administration or to make them conform to the requirements of the Code and rules and regulations adopted thereunder;
 - iii. deny registration or the amendment if:
 - a. the clearing agency does not have the capacity and resources to enforce compliance with its rules as proposed or amended; or
 - b. the rules or any amendment thereto would be inconsistent with provisions of the Code, or rules and regulations adopted thereunder or with the development and operation of a prompt and accurate clearance and settlement system and the safeguarding of money and securities in its custody, within its control or for which it is responsible; or
 - c. the application for registration or an amendment thereto is incomplete, inaccurate or misleading; or
 - iv. exempt from registration due to the limited volume of transactions and based on findings that it is not practicable and necessary or appropriate in the public interest or for the protection of investors to require such registration.
- D. If any of the information reported on SEC Form 42-CA becomes inaccurate, misleading or incomplete or requires updating for any reason, including changes to rules and the list of directors and officers, the registrant shall correct the information by filing an amendment within seven (7) days after the date on which the information contained in the application became inaccurate, misleading or incomplete. Amendments to SEC Form 42-CA which update the registrant's list of directors, officers, partners or shareholders shall be deemed to satisfy Section 26 of the Corporation Code of the Philippines.
- E. On an annual basis, a registered clearing agency shall file with the Commission its audited balance sheet and statement of income and expenses, and all notes or schedules thereto within One hundred five (105) days from the end of its fiscal year. Financial statements filed pursuant to this subsection shall be deemed to satisfy Section 141 of the Corporation Code of the Philippines.
- F. Nothing in this Rule shall be construed as precluding the Commission from requiring an applicant for registration or a registered clearing agency to submit other requirements it may deem reasonably necessary to effectively regulate and supervise the clearing agency and/or to protect the interest of the investing public.
2. Reports from Clearing Agencies

If a registered clearing agency at any time becomes aware of any development relating to a participant that leads such clearing agency to believe that (1) such participant has breached, is in breach, or is about to breach the clearing agency's rules; or (2) the participant has experienced, is experiencing, or is about to experience material operational or financial difficulties, which breach or difficulties may adversely affect such participant, such registered clearing agency shall immediately notify the Commission and provide any documentation or evidence leading the clearing agency to such determination.

SRC Rule 48.1 – Margin
[formerly SRC Rule 48.1-1]

1. A Broker Dealer shall not extend credit to a customer in an amount that exceeds fifty percent (50%) of the current market value of the security at the time of the transaction. In no event shall new or additional credit be extended in to an account in which the equity is less than Fifty Thousand Pesos (P50,000.00).

2. The margin maintained in a margin account of a customer shall be no less than twenty five percent (25%) of the current market value of all securities "long" in the account and thirty percent (30%) of the current market value of securities "short" in the account.
3. When there is an insufficiency of margin, a call for additional margin shall be issued promptly by the Broker Dealer to the customer. A call for initial margin shall be satisfied within five (5) business days from the date the insufficiency is created. A call for maintenance margin shall be satisfied within twenty four (24) hours after the call is issued.
4. If a margin call is not met within the time prescribed in paragraph 3 above, the Broker Dealer shall liquidate securities sufficient to meet the margin call or eliminate the margin deficiency existing on the day such liquidation is required, whichever is less. The Broker Dealer shall liquidate the securities through the Exchange on which it is traded or in the best available public market. If the margin deficiency in the account is less than Ten Thousand Pesos (P10,000.00), no action need be taken by the Broker Dealer.
5. The required payment date for a call for initial margin may be extended by seven (7) days upon written application delivered by hand or facsimile transmission by the Broker Dealer to an Exchange, in the case of members of that Exchange, or to the Commission, in the case of non exchange members. In granting such an extension, the Exchange or Commission will take into consideration whether the Broker Dealer and the customer are acting in good faith and whether exceptional circumstances warrant such extension. Application for the extension must be received and acted upon before the expiration of the original payment period or the expiration of any previous extension.

SRC Rule 49.1-Restrictions on Borrowings by Members, Brokers, and Dealers

[formerly SRC Rules 49.1-1 and 49.1-2]

1. Net Capital Rule

- A.
 - i. Every Broker Dealer at all times shall have and maintain a net capital of Five Million Pesos (P5,000,000.00) or five percent (5%) of his aggregate indebtedness whichever is higher. However, a Broker Dealer who deals only with proprietary shares and who does not keep the shares under its custody shall have and maintain a net capital of P2.5 Million Pesos or two and one-half percent (2.5%) of his aggregate indebtedness, whichever is higher.
 - ii. Every Broker Dealer shall make a computation of net capital on a daily basis. Such computations, upon request of an Exchange if such Broker Dealer is a member, and/or the Commission shall immediately be provided in written form.
 - iii. Every broker dealer shall file with the Commission its certified monthly financial and operational report (FINOP) on or before the 15th of the following month. The FINOP shall be certified by the firm's Associated Person and President/Nominee Director and a copy submitted to the Broker Dealer's Audit Committee or in lieu thereof, its Board of Directors.
 - iv. Every Broker Dealer shall immediately cease doing business as a Broker Dealer, and shall notify an Exchange, if it is a member of that Exchange, and the Commission if it determines that its net capital falls below the minimum amounts required pursuant to this Rule.
 - v. The Commission or an Exchange, in the case of a member of an Exchange, may require Broker Dealers from time to time to submit reports which reflect their financial and operational condition, including net capital.
- B. No Broker Dealer shall permit its aggregate indebtedness to all other persons to exceed 2,000 percent of its net capital.
- C. Notwithstanding the requirement in paragraphs A & B above, every Broker Dealer shall notify the Commission in writing within twenty four (24) hours, the occurrence of any of the following events:

- i. The Broker Dealer's computation shows that its Aggregate Indebtedness is in excess of 1,700 percent of its adjusted net capital; and /or
- ii. The Broker Dealer's computation shows that its total adjusted net capital is less than one hundred twenty percent (120%) of the required minimum net capital.

The Broker Dealer shall also include in its notice to the Commission the measures it will adopt to comply with the net capital requirement of whichever is higher between Five Million Pesos (P5,000,000.00) or five percent (5%) of aggregate indebtedness (for Broker Dealer in securities) or Two Million Five Hundred Thousand Pesos (P2,500,000.00) and two and one-half percent (2.5%) of aggregated indebtedness (for broker dealer in proprietary shares having no custody of the shares), whichever is higher.

The Broker Dealer is given ten (10) calendar days within which to effect its proposal. Pending actual implementation, the Broker Dealer is required to notify the Commission on a daily basis of its Net Capital position.

D. The term **aggregate indebtedness** shall mean the total money liabilities of a Broker Dealer arising in connection with any transaction whatsoever, and includes, among other things, money borrowed, money payable against securities loaned and securities failed to receive, the market value of securities borrowed to the extent to which no equivalent value is paid or credited (other than the market value of margin securities borrowed from customers and margin securities borrowed from non-customers), customers' and non-customers' free credit balances, and credit balances in customers' and non-customers' accounts having short positions in securities, but excluding:

- i. Indebtedness adequately collateralized by securities which are carried long by the Broker Dealer and which have not been sold or by securities which collateralize a secured demand note in conformity with SRC Rule 49.1 paragraph 2;
- ii. Amounts payable against securities loaned, which securities are carried long by the Broker Dealer and which have not been sold or which securities collateralize a secured demand note in conformity with SRC Rule 49.1 paragraph 2;
- iii. Amounts payable against securities failed to receive which securities are carried long by the Broker Dealer and which have not been sold or which securities collateralize a secured demand note in conformity with SRC Rule 49.1 paragraph 2; or amounts payable against securities failed to receive for which the Broker Dealer also has a receivable related to securities of the same issue and quantity thereof which are either fails to deliver or securities borrowed by the Broker Dealer;
- iv. Fixed liabilities adequately secured by assets acquired for use in the ordinary course of the trade or business of a Broker Dealer but not other fixed liabilities secured by assets of the Broker Dealer shall be so excluded unless the sole recourse of the creditor for nonpayment of such liability is to such asset;
- v. Indebtedness subordinated to the claims of creditors pursuant to a satisfactory subordination agreement in conformity with SRC Rule 49.1 paragraph 2;
- vi. Liabilities which are effectively subordinated to the claims of creditors, but which are not subject to a satisfactory subordination agreement in conformity with SRC Rule 49.1 paragraph 2; by non-customers of the Broker Dealer prior to such subordination, except such subordinations by customers as have been approved by an Exchange in the case of a member of that Exchange and the Commission in the case of a firm that is not a member of an Exchange;
- vii. Credit balances in accounts of general partners;
- viii. Deferred tax liabilities; and
- ix. Eighty percent (80%) of amounts payable against securities loaned for which the Broker Dealer has receivables related to securities of the same class and issue and quantity that are securities borrowed by the Broker Dealer.

E. The term **net capital** shall mean the net worth of a Broker Dealer, adjusted by the following, provided, however, that in determining net worth, all long and all short securities position shall be marked to their market value:

- i. Adding unrealized profits (or deducting unrealized losses) in the accounts of the Broker Dealer.
- ii. Excluding liabilities of the Broker Dealer which are subordinated to the claims of creditors pursuant to a satisfactory subordination agreement in conformity with SRC Rule 49.1 paragraph 2 and in accordance with the following schedule:

<i>Period from execution date of Agreement</i>	<i>Allowable Deduction</i>
Within the first year	100%
Between the 1 st and 2 nd year	75%
Between the 2 nd and 3 rd year	50%
During the 3 rd year	25%
Beyond the 3 rd year	0%

- iii. Deducting, in the case of a Broker Dealer who is a sole proprietor, the excess of liabilities which have not been incurred in the course of business as a Broker Dealer over assets not used in the business.
- iv. Deducting Deposit for Futures Stock Subscription for which no application for increase in capital stock or request for exemption for registration has been filed with the Commission. For net capital purposes, the same shall be considered part of aggregate indebtedness unless there is evidence that such amount is a deposit but an irrevocable subscription or a subordinated loan agreement has been entered into with the subscriber.
- v. Deducting fixed assets and assets which cannot be readily converted into cash [less any indebtedness excluded in accordance with paragraph D (iv)] including, among other things:
 - a. Real estate; furniture and fixtures; Exchange memberships/trading rights; prepaid rent, insurance and other expenses; goodwill, organization expenses;
 - b. All unsecured advances and loans; deficits in customers' and non-customers' unsecured and partly secured notes; deficits in special omnibus accounts or similar accounts carried on behalf of another Broker Dealer, after application of calls for margin, marks to the market or other required deposits that are outstanding four (4) business days or less; deficits in customers' and non-customers' unsecured and partly secured accounts after application of calls for margin, marks to the market or other required deposits that are outstanding four (4) business days or less, except deficits in cash accounts for which not more than one extension respecting a specified securities transaction has been requested and granted; the market value of stock loaned in excess of the value of any collateral received therefor; and any collateral deficiencies in secured demand notes in conformity with SRC Rule 49.1 paragraph 2.

For the purpose of the above, a loan or any other form of receivables shall be considered "unsecured" unless the following conditions exist:

- (1) the receivable is secured by collateral which is otherwise unencumbered *provided, however*, that such receivable will be considered secured only to the extent of the market value of such collateral after application of such percentage deductions as may be prescribed by the Commission;
- (2) the collateral is in the possession or control of the Trading Member; and
- (3) the Trading Member has a legally enforceable written security agreement executed by the debtor in its favor under which the

Trading Member shall have the power to readily sell or otherwise convert the collateral into cash.

- c. Interest receivable, floor brokerage receivable, commissions receivable from other Broker Dealers, and management fees receivable from registered investment companies, all of which receivables are outstanding longer than thirty (30) days from the date they arose; dividends receivable outstanding longer than thirty (30) days from the payable date;
- d. Insurance claims which, after fifteen (15) business days from the date the loss giving rise to the claim is discovered, are not covered by an opinion of an outside counsel that the claim is valid and is covered by insurance policies presently in effect; insurance claims which after thirty (30) business days from the date the loss giving rise to the claim is discovered and which are accompanied by an opinion of outside counsel described above, have not been acknowledged in writing by the insurance carrier as due and payable; and insurance claims acknowledged in writing by the carrier as due and payable outstanding longer than twenty (20) business days from the date they are so acknowledged by the carrier;
- e. All other unsecured receivables; all assets doubtful of collection less any reserves established therefore; the amount by which the market value of securities failed to receive outstanding longer than thirty (30) days exceeds the contract value of such fails to receive;
- f. One percent (1%) of the market value of securities borrowed collateralized by an irrevocable letter of credit;
- g. Any receivable from an affiliate of the Broker Dealer (not otherwise deducted from net worth) and the market value of any collateral given to an affiliate (not otherwise deducted from net worth) to secure a liability over the amount of the liability of the Broker Dealer unless the books and records of the affiliate are made available for examination when requested by the Commission or the Exchange, where the Broker Dealer is a member for the Broker Dealer in order to demonstrate the validity of the receivable or payable. The provisions of this subsection shall not apply where the affiliate is a Broker Dealer;
- vi.
 - a. Deducting the market value of all short securities differences (which shall include securities positions reflected on the securities record which are not susceptible to either count or confirmation) unresolved after discovery.
 - b. Deducting the market value of any long securities differences, where such securities have been sold by the Broker Dealer before they are adequately resolved, less any reserves established therefore;
 - c. For an Exchange member, the Exchange, and in the case of a Broker Dealer that is not a member of an Exchange, the Commission may extend the periods in paragraph (v)(a) above for up to ten (10) business days if it finds that exceptional circumstances warrant an extension.
- vii.
 - a. Deducting for all securities or evidences of indebtedness [other than those described in paragraphs (vi) (b) and (c) below] in the proprietary or other accounts of the Broker Dealer, fifteen percent (15%) of the market value of the greater of the long or short positions and to the extent the market value of the lesser of the long or short positions exceeds twenty five percent (25%) of the market value of the greater of the long or short positions, the percentage deduction on such excess shall be fifteen percent (15%) of the market value of such excess. No deduction need be made in the case of:
 - (1) Securities that are convertible into or exchangeable for other securities within a period of ninety (90) days, subject to no conditions other than the payment of money, and the other securities into which such security is convertible or for which it is exchangeable, are short in the accounts of such Broker Dealer; or

- (2) A security that has been called for redemption and that is redeemable within ninety (90) days.
- b. Deducting, in the case of securities in the proprietary or other accounts of the Broker Dealer, which are not listed or traded on an Exchange, the following amounts:
- (1) In the case where there are regular quotations for the securities by three (3) or more independent dealers (exclusive of the computing Broker Dealer) and where each such quotation represents a bona fide offer to Brokers or dealers to both buy and sell in reasonable quantities at stated prices, the deduction shall be determined in accordance with paragraph (vii)(a) above;
 - (2) In the case where there are regular quotations for the securities by only one or two independent dealers (exclusive of the computing Broker Dealer) and where each such quotation represents a bona fide offer to Broker Dealers both to buy and sell in reasonable quantities, at stated prices, the deduction on both the long and short position shall be forty percent (40%);
 - (3) Where a Broker Dealer demonstrates that there is sufficient liquidity for any securities long or short in the proprietary or other accounts of the Broker Dealer which are subject to a deduction required by paragraph (b)(2) above, such deduction, upon a proper showing to an Exchange in the case of a member of that Exchange and to the Commission in the case of a firm that is not a member of an Exchange, may be appropriately decreased, but in no case shall such deduction be less than that prescribed in paragraph (a) above.
- c. Deducting for securities issued by the Republic of the Philippines or investment grade non convertible corporate debt securities having a fixed interest rate and fixed maturity date in the proprietary or other accounts of the Broker Dealer, the applicable percentage of the market value of the long or short positions, whichever is greater, in each of the categories specified below:
- less than 1 year to maturity - 2%
 - 1 year but less than 2 years to maturity – 3%
 - 2 years but less than 3 years to maturity – 5%
 - 3 years but less than 5 years to maturity – 6%
 - 5 years but less than ten years to maturity – 7%
- d. Deducting in the case of unit trusts and other investments in the proprietary or other accounts of the Broker Dealer forty percent (40%) of the market value of such investments.
- e. In the case of securities of a single class or series of an issuer (other than securities issued by the Republic of the Philippines) which are long or short in the proprietary or other accounts of a Broker Dealer, including securities that are collateral to secured demand notes in conformity with SRC Rule 49.1 paragraph 2; and that have a market value of more than ten percent (10%) of the net capital of a Broker Dealer before the application of haircuts required by this rule, there shall be an additional deduction from net worth and/or the collateral value for securities collateralizing a secured demand note in conformity with SRC Rule 49.1 paragraph 2; equal to fifty percent (50%) of the percentage deduction otherwise provided by haircut provisions of this rule on that portion of the securities position in excess of ten percent (10%) of the net capital of the Broker Dealer before the application of the haircuts.
- viii. Deducting one hundred percent (100%) of the carrying value in the case of securities or evidence of indebtedness, in the proprietary or other account of the Broker Dealer,

for which there is no ready market, as defined in paragraph (D)(v) of this rule, and securities, in the proprietary or other accounts of the Broker Dealer, which cannot be publicly offered or sold because of statutory, regulatory or contractual arrangements or other restrictions.

- E. Adequately secured indebtedness shall be deemed to exist when the excess of the market value of the collateral over the amount of the indebtedness is sufficient to make the loan acceptable as a fully secured loan to banks regularly making secured loans to Broker Dealers.
- F. **Customer** shall mean any person from whom, or on whose behalf, a Broker Dealer received, acquired or holds funds or securities for the account of such person, but shall not include a general, special or limited partner or director or officer of the Broker Dealer, or any person to the extent that such person has a claim for property or funds which by contract, agreement or understanding, or by operation of law, is part of the capital of the Broker Dealer or is subordinated to the claims of creditors of the Broker Dealer. However, the term "customer" of a Broker Dealer shall include another Broker Dealer (the initiating Broker as defined in SRC Rule 34.1 wherein the latter maintains separately a Dealer account and a special omnibus account in behalf of his customer with the former.
- G. i. **Ready market** shall include a recognized established securities market in which exists independent bona fide offers to buy and sell so that a price reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined for a particular security almost instantaneously and where payment will be received in settlement of a sale at such price within a relatively short time.

For purposes of determining the market value of all securities used as collateral for a receivable or those held in the proprietary account or other accounts of a Broker Dealer, said securities shall be considered as having a ready market if the total holdings of the company (securities used as collateral and those held in proprietary account or other accounts taken together) can be disposed over the next One hundred twenty (120) calendar days or any such period which the Commission may later determine, taking into consideration the average daily trading volume of that type of security computed over the last One hundred eighty (180) calendar days or such representative period acceptable to the Commission, both reckoned from the day of net capital computation. A haircut of one hundred percent (100%) of the market value of the securities will be deducted from the excess which cannot be disposed within the hypothetical One hundred twenty (120) calendar day period.

- ii. **Ready market** shall also be deemed to exist where securities have been accepted as collateral for a loan by a bank and where the Broker Dealer demonstrates to an Exchange in the case of a member of that Exchange or the Commission in the case of a firm that is not a member of an Exchange that such securities adequately secure such loans.
- H. LIMITATIONS ON WITHDRAWAL OF EQUITY CAPITAL
- i. No equity capital of a Broker Dealer may be withdrawn by action of a stockholder or a partner or by redemption or repurchase of shares of stock or through the payment of dividends or any similar distribution, nor may any unsecured advance or loan be made to a stockholder, partner, sole proprietor, employee or affiliate, if after giving effect thereto and to any other such withdrawals, advances or loans and any payments under satisfactory subordination agreements in conformity with SRC Rule 49.1 paragraph 2 which are scheduled to occur within one hundred and eighty (180) days following such withdrawal, advance or loan if:
 - a. The Broker Dealer's net capital would be less than one hundred twenty percent (120%) of the minimum amount required by paragraph (A) of this rule; or,
 - b. The aggregate indebtedness of the Broker Dealer exceeds one thousand five hundred percent (1500%) of its net capital.

- ii. For purposes of paragraph (H)(i) above, the term **equity capital** includes capital contributions by partners, par or stated value of capital stock, paid-in capital in excess of par, retained earnings or other capital accounts.
- iii. Paragraph (H)(i) above shall not preclude a Broker Dealer from making required tax payments or preclude the payment to partners of reasonable compensation, and such payments shall not be included in the calculation of withdrawals, advances, or loans for purposes of paragraph (H)(i) above.
- iv. For the purpose of paragraph (H)(i) above, any transaction between a Broker Dealer and a stockholder, partner, sole proprietor, employee or affiliate that results in a diminution of the Broker Dealer's net capital shall be deemed to be an advance or loan of net capital.

I. The format for the net capital computation is set forth in "Annex 49.1-1-A"

2. Satisfactory Subordination Agreements

- A. i. This rule sets forth minimum and non-exclusive requirements for satisfactory subordination agreements (hereinafter "subordination agreement"). The Exchange, Commission, or Broker Dealer may require or include such other provisions as may be deemed necessary to the extent that such provisions do not cause the subordination agreement to fail to meet the minimum requirements of this Rule.

The subordinated agreement shall be approved by the Exchange, if affecting an Exchange Member, or by the Commission, if affecting a non-Exchange Member. Said agreement shall take effect upon such approval.

- ii. For purposes of SRC Rule 49.1:
 - a. A subordination agreement may be either a subordinated loan agreement or a secured demand note agreement.
 - b. "**Subordinated loan agreement**" shall mean a notarized agreement evidencing or governing a subordinated borrowing of cash.
 - c. The "**Collateral Value**" of any securities pledged to secure a secured demand note shall mean the market value of such securities after reducing the market value of the securities by thirty percent (30%) except for securities issued by the Republic of the Philippines. In lieu of the thirty percent (30%) deduction, the Broker Dealer shall reduce the market value of securities issued by the Republic of the Philippines pledged to secure the secured demand note by the percentage deductions set forth in SRC Rule 49.1, paragraph 1(D)(vi)(c).
 - d. "**Payment Obligation**" shall mean the obligation of a Broker Dealer in respect of any subordination agreement (i) to repay cash loaned to the Broker Dealer pursuant to a subordinated loan agreement or, (ii) to return a secured demand note contributed to the Broker Dealer or reduce the unpaid principal amount thereof and to return cash or securities pledged as collateral to secure the secured demand note. "**Payment**" shall mean the performance by a Broker Dealer of a Payment Obligation.
 - e. (1) **Secured demand note agreement** shall mean a notarized agreement (including the related secured demand note) evidencing or governing the contribution of a secured demand note to a Broker Dealer and the pledge of securities and/or cash with the Broker Dealer as collateral to secure payment of such secured demand note. The secured demand note agreement may provide that neither the lender, his heirs, executors, administrators or assigns shall be personally liable on such note and that, in the event of default, the Broker Dealer shall look for

payment of such note solely to the collateral then pledged to secure the same.

- (2) The secured demand note shall be a promissory note executed by the lender and shall be payable on the demand of the Broker Dealer to which it is contributed; provided, however, that the making of such demand may be conditioned upon the occurrence of any of certain events which are acceptable to the Commission and to an Exchange in the case of a Broker Dealer which is a member of that Exchange.
- (3) If such note is not paid upon presentment and demand as provided for therein, the Broker Dealer shall have the right to liquidate all or any part of the securities then pledged as collateral to secure payment of the same and to apply the net proceeds of such liquidation, together with any cash then included in the collateral, in payment of such note. Subject to the prior rights of the Broker Dealer as pledgee, the lender, as defined herein, may retain ownership of the collateral and have the benefit of any increases and bear the risks of any decreases in the value of the collateral and may retain the right to vote securities contained within the collateral and any right to income therefrom or distributions thereon, except the Broker Dealer shall have the right to receive and hold as pledgee all dividends payable in securities and all partial and complete liquidating dividends.
- (4) Subject to the prior rights of the Broker Dealer as pledgee, the lender may have the right to direct the sale of any securities included in the collateral, to direct the purchase of securities with any cash included therein, to withdraw excess collateral or to substitute cash so other securities as collateral, provided that the net proceeds of any such sale and the cash so substituted and the securities so purchased or substituted are held by the Broker Dealer, as pledgee, and are included within the collateral to secure payment of the secured demand note, and provided further that no such transaction shall be permitted if, after: giving effect thereto, the sum of the amount of any cash, plus the Collateral Value of the securities, then pledged as collateral to secure the secured demand note would be less than the unpaid principal amount of the secured demand note.
- (5) Upon payment by the lender, as distinguished from a reduction by the lender which is provided for in "Annex 49.1-2A" paragraph 6(C) or reduction by the Broker Dealer as provided for in "Annex 49.1-2A" paragraph (b)(7) of this rule, of all or any part of the unpaid principal amount of the secured demand note, a Broker Dealer shall issue to the lender a subordinated loan agreement in the amount of such payment (or in the case of a Broker Dealer that is a partnership credit a capital account of the lender) or preferred or common stock(s) of the Broker Dealer in the amount of such payment, or any combination of the foregoing, as provided for in the secured demand note agreement.

- f. **"Lender"** shall mean the person who lends cash to a Broker Dealer pursuant to a subordinated loan agreement and the person who contributes a secured demand note to a Broker Dealer pursuant to a secured demand note agreement.

- B. Recourse to the Subordination Agreements is viewed as a temporary relief to address net capital requirements of Broker Dealers and is not intended to replace the permanent infusion of capital by stockholders. Thus, subordinated loans shall be for a period of one (1) year and is renewable annually but for a period not exceeding two (2) years or for such shorter period as the Commission deems appropriate, provided however, that a capital buildup plan shall be a requirement for the renewal of the subordinated loan. Advances or

Agreements that have been outstanding for more than three (3) years would require conversion to capital.

- C. In order to ensure financial viability of the Broker Dealer, the Exchange, for Exchange Broker Dealers, or the Commission, for non-Exchange Broker Dealers, may impose additional requirements to regulate the resort to financing by way of subordination agreements and may exercise discretion in the approval of such agreements.
- D. The Minimum requirements for Subordination Agreements and Miscellaneous Provisions and the sample format of the Subordinated Loan Agreement are set forth in Annex 49.1-2-A and Annex 49.1-2-B, respectively.

SRC Rule 49.2 – Customer Protection Reserves and Custody of Securities

[formerly SRC Rule 49.2-1]

1. Physical Possession or Control of Securities

- A. A Broker Dealer on a daily basis shall obtain and shall thereafter maintain the physical possession or control of all fully paid securities and excess margin securities carried by a Broker Dealer for the account of customers.
- B. A Broker Dealer shall not be deemed to be in violation of the provisions of paragraph 1(A) of this rule regarding physical possession or control of customers' securities if, solely as the result of normal business operations, temporary lags occur between the time when a security is required to be in the possession or control of the Broker Dealer and the time that it is placed in the firm's physical possession or under the firm's control; *provided*, the Broker Dealer takes timely steps in good faith to establish prompt physical possession or control. The burden of proof shall be on the Broker Dealer to establish that the failure to obtain physical possession or control of securities carried for the account of customers is merely temporary and solely the result of normal business operations including same day receipt and redelivery (turnaround), and to establish that the Broker Dealer has taken timely steps in good faith to place them in the Broker Dealer's physical possession or control.
- C. A Broker Dealer shall not be deemed to be in violation of the provisions of paragraph 1 (A) of this rule regarding physical possession or control of fully-paid or excess margin securities borrowed from any person, *provided*, that the Broker Dealer and the lender, at or before the time of the loan, enter into a written agreement that, at a minimum;
 - i. Sets forth in a separate schedule or schedules the basis of compensation for any loan and generally the rights and liabilities of the parties as to the borrowed securities;
 - ii. Provides that the lender will be given a schedule of the securities actually borrowed at the time of the borrowing of the securities;
 - iii. Specifies that the Broker Dealer shall:
 - a. provide to the lender, upon the execution of the agreement or by the close of the business day of the loan if the loan occurs subsequent to the execution of the agreement, collateral consisting exclusively of cash or Republic of the Philippines Treasury bills and Treasury notes or an irrevocable letter of credit issued by a bank which fully secures the loan of securities, and;
 - b. must mark the loan to the market not less than daily and, in the event the market value of all the outstanding securities loaned at the close of trading at the end of the business day exceeds 100 percent (100%) of the collateral then held by the lender, the borrowing Broker Dealer must provide additional collateral of the type described in paragraph (iii)(a) above to the lender by the close of the next business day as necessary to equal, together with the collateral then held by the lender, not less than one hundred percent (100%) of the market value of the securities loaned.

2. Control of Securities

Securities under the control of a Broker Dealer shall be deemed to be securities which:

- A. Are represented by one or more certificates in the custody or control of a clearing agency registered with the Commission in accordance with Section 42 of the Code the delivery of which certificates to the Broker Dealer does not require the payment of money or value, and if the books or records of the Broker Dealer identify the customers entitled to receive specified number or units of the securities so held for such customers collectively; or
- B. Are carried for the account of any customer by a Broker Dealer and are carried in a special omnibus account in the name of such Broker Dealer with another Broker Dealer, such securities being deemed to be under the control of such Broker Dealer to the extent that it has instructed such carrying Broker Dealer to maintain physical possession or control of them free of any charge, lien or claim of any kind in favor of such carrying Broker Dealer or any person claiming through such carrying Broker Dealer; or
- C. Are the subject of bona fide items of transfer; provided that securities shall be deemed not to be the subject of bona fide items of transfer if, within forty (40) days after they have been transmitted for transfer by the Broker Dealer to the issuer or its transfer agent, new certificates conforming to the instructions of the Broker Dealer have not been received by him, he has not received a written statement by the issuer or its transfer agent acknowledging the transfer instructions and the possession of the securities or he has not obtained a revalidation of a window ticket from a transfer agent with respect to the certificate delivered for transfer; or
- D. Are in the custody of a foreign depository, foreign clearing agency or foreign custodian bank which the Commission upon application from a Broker Dealer, an Exchange or upon its own motion, shall designate as a satisfactory control location for securities; or
- E. Are in the custody or control of a bank, the delivery of which securities to the Broker Dealer does not require the payment of money or value and the bank having acknowledged in writing that the securities in its custody or control are not subject to any right, charge, security interest, lien or claim of any kind in favor of a bank or any person claiming through the bank; or
- F.
 - i. Are held in or are in transit between offices of the Broker Dealer; or
 - ii. Are held by a corporate subsidiary if the Broker Dealer owns and exercises a majority of the voting rights of all of the voting securities of such subsidiary, assumes or guarantees all of the subsidiary's obligations and liabilities, operates the subsidiary as a branch office of the Broker Dealer, and assumes full responsibility for compliance by the subsidiary and all of its salesmen and other personnel with the provisions of the Code and rules and regulations adopted thereunder as well as for all of the other acts of the subsidiary and such persons; or
- G. Are in transit to or from Broker Dealers, banks, custodians, registered transfer agents and registered clearing agencies which are otherwise good control locations pursuant to the term of this Rule, *provided*, such items shall have been in transit from or to the Broker Dealer for a period of not more than five (5) business days from the day they are first put in transit, and *provided, further*, the books and records of the Broker Dealer clearly account for such items. An "in transit" account may be used for this purpose; or
- H. Are held in such other locations as the Commission shall upon application from a Broker Dealer or an Exchange to which a Broker Dealer is a member find and designate to be adequate for the protection of customer securities.

3. Requirement to Reduce Securities to Possession or Control

- A. Not later than the next business day, a Broker Dealer, as of the close of the preceding business day, shall determine from its books or records the quantity of fully paid securities

and excess margin securities in its possession or control and the quantity of fully paid securities and excess margin securities not in its possession or control. In making this daily determination inactive margin accounts (accounts having no activity by reason of purchase or sale of securities, receipt or delivery of cash or securities or similar type events) may be computed not less than once weekly. If such books or records indicate, as of the close of the business day, that the Broker Dealer has not obtained physical possession or control of all fully paid and excess margin securities as required by this paragraph and there are securities of the same issue and class in any of the following non-control locations:

- i. Securities subject to a lien securing monies borrowed by the Broker Dealer or securities loaned to another Broker Dealer, then the Broker Dealer shall, not later than the business day following the day on which such determination is made, issue instructions for the release of such securities from the lien or return such loaned securities and obtain physical possession or control of such securities within two (2) business days following the date of issuance of the instructions in the case of securities subject to lien securing borrowed monies and within five (5) business days following the date of issuance of instructions in the case of securities loaned; or,
 - ii. Securities included on his books or records as failed to receive more than thirty (30) days, then the Broker Dealer shall, not later than the business day following the day on which such determination is made, take prompt steps to obtain physical possession or control of securities so failed to receive through a buy-in procedure or otherwise; or,
 - iii. Securities receivable by the Broker Dealer as a stock dividend receivable, stock split, or similar distribution for more than forty five (45) days, then the Broker Dealer shall, not later than the business day following the day on which such determination is made, take prompt steps to obtain physical possession or control of securities so receivable through a buy-in procedure or otherwise.
- B. A Broker Dealer which is subject to the requirements of this rule with respect to physical possession or control of fully paid and excess margin securities shall prepare and maintain a current and detailed written description of the procedures which it utilizes to comply with the possession or control requirements set forth in this rule.
 - C. A Broker Dealer which is subject to this rule shall record information relating to physical possession and control of fully paid and excess margin securities on a quarterly basis and submit such record to an Exchange, in the case of a member of that Exchange, or to the Commission, in the case of a non-member, in accordance with the format set forth in "Annex 49.2-A."

4. Special Reserve Bank Account for the Exclusive Benefit of Customers

- A. Every Broker Dealer shall maintain with a bank/s at all times when deposits are required or hereinafter specified as "Special Reserve Bank Account for the Exclusive Benefit of Customers" (hereinafter referred to as the "Reserve Bank Account"), and it shall be separate from any other bank account of the Broker Dealer. Such Broker Dealer shall at all times maintain in the Reserve Bank Account, through deposits made therein, cash (by maintaining separate bank deposit account) and/or qualified securities (by opening a custody account) in amounts computed in accordance with the formula attached hereto as "Annex 49.2-B."

A Broker Dealer, in addition to or in lieu of maintaining a Reserve Bank Account, may, upon proper application with and approval by the Commission, deposit qualified securities with duly accredited or recognized entities exercising custodianship functions. For this purpose, the Commission may prescribe other conditions that shall govern deposits of cash and/or qualified securities outside the banking system and with affiliated companies.

- B. It shall be unlawful for any Broker Dealer to accept or use any of the amounts under items comprising Total Credits under the formula referred to in paragraph 4(A) above except for the specified purposes indicated under items comprising Total Debits under the formula, and, to the extent Total Credits exceed Total Debits, the net amount thereof shall be maintained in the Reserve Bank Account required by paragraph 4(A) above.

- C. i. Computations necessary to determine the amount required to be deposited pursuant to paragraph 4(A) above shall be made weekly, as of the close of the last business day of the week and the deposit so computed shall be made no later than one (1) hour after the opening of banking business on the second following business day; *provided, however*, a Broker Dealer which has aggregate indebtedness not exceeding eight hundred percent (800%) of net capital as defined in SRC Rule 49.1 and which carries aggregate customer funds as defined in paragraph 13(I) of this rule as computed at the last required computation pursuant to this rule, not exceeding Twenty Five Million Pesos (P25,000,000.00), may in the alternative make the computation monthly, as of the close of the last business day of the month, and in such event, shall deposit not less than one hundred five percent (105%) amount so computed no later than one (1) hour after the opening of banking business on the second following business day.
- ii. If a Broker Dealer, computing on a monthly basis, has, at the time of any required computation, aggregate indebtedness in excess of eight hundred percent (800%) of net capital, such Broker Dealer shall thereafter compute weekly as aforesaid until four successive weekly computations are made, none of which were made at a time when his aggregate indebtedness exceeded eight hundred percent (800%) of his net capital.
- iii. Computations in addition to the computations required in this paragraph (C) above, may be made as of the close of any other business day, and the deposits so computed shall be made no later than one (1) hour after the opening of banking business on the second following business day.
- iv. The Broker Dealer shall make and maintain a record of each such computation made pursuant to paragraph (C) above and submit such computation quarterly to an Exchange, in the case of a member of that Exchange, or to the Commission in the case of a non-member.

5. Notifications of Banks and Entities with custodianship arrangements

A Broker Dealer required to maintain the Reserve Bank Account prescribed by paragraph of this rule shall obtain and preserve in accordance with SRC Rule 52.1 paragraph 2 a written notification from each bank in which the firm has its Reserve Bank Account that the bank and/or entity with custodianship arrangements (custodian) was informed that all cash and/or qualified securities deposited therein are being held by the bank and/or custodian for the exclusive benefit of customers of the Broker Dealer in accordance with the rules and regulations of the Commission, and are being kept separate from any other accounts maintained by the Broker Dealer with the bank and/or custodian, and the Broker Dealer shall have a written contract with the bank and/or custodian which provides that the cash and/or qualified securities shall at no time be used directly or indirectly as security for a loan to the Broker Dealer by the bank and/or custodian and shall be subject to no right, charge, security interest, lien or claim of any kind in favor of the bank, and/or custodian, or any person claiming through the bank and/or custodian.

The Broker Dealer shall at all times file with the Commission and the Exchange a copy of the notifications duly received by the Bank and/or custodian.

6. Withdrawals from the Reserve Bank Account

A Broker Dealer may make withdrawals from the firm's Reserve Bank Account if and to the extent that at the time of the withdrawal the amount remaining in the Reserve Bank Account is not less than the amount then required by paragraph of this rule. A bank and/or custodian may presume that any request for withdrawal from a Reserve Bank Account is in conformity and compliance with this paragraph. On any business day on which a withdrawal is made, the Broker Dealer shall make a record of the computation on the basis of which the firm makes such withdrawal, and the Broker Dealer shall preserve such computation in accordance with SRC Rule 52.1, paragraph 2.

7. Buy-In of Short Security Differences

A Broker Dealer shall within ten (10) days after the date of the examination, count, verification and comparison of securities pursuant to SRC Rule 52.1, paragraph 10, preparation of the annual report of financial condition in accordance with SRC Rule 52.1, paragraph 5, or for any other purpose, buy-in all short security differences which are not resolved during the ten (10) day period. This requirement is without prejudice to the independent determination by the Commission or the Exchange of the Broker Dealer's liability pursuant to the other provisions of the Code and the Rules

8. Notification in the Event of Failure to Make a Required Deposit

If a Broker Dealer shall fail to make in its Reserve Bank Account a deposit, as required by this rule, the Broker Dealer shall by fax, telegram or other similar means, immediately notify the Commission and an Exchange, and shall promptly thereafter confirm such notification in writing, including the reasons for such failure.

9. Exemptions

- A. The provisions of this rule shall not be applicable to a Broker Dealer who carries no margin accounts, promptly transmits all customer funds and delivers all securities received in connection with its activities as a Broker Dealer and does not otherwise hold funds or securities for, or owe money or securities to, customers.
- B. Upon written application by a Broker Dealer, the Commission, may exempt such Broker Dealer from the provisions of this rule, either unconditionally or on specified terms and conditions, if the Commission or the Exchange finds that the Broker Dealer has established safeguards for the protection of funds and securities of customers comparable with those provided for by this rule and that it is not necessary in the public interest or for the protection of investors to subject the particular Broker Dealer to the provisions of this rule.

10. Delivery of Securities

Nothing stated in this rule shall be construed as affecting the absolute right of a customer of a Broker Dealer to receive in the course of normal business operations following demand made on the Broker Dealer, the physical delivery of certificates for:

- A. Fully paid securities to which he is entitled, and
- B. Margin securities upon full payment by such customer to the Broker Dealer of his indebtedness to the Broker Dealer and, subject to the right of the Broker Dealer to retain collateral for the firm's own protection beyond the requirements of SRC Rule 48.1, excess margin securities not reasonably required to collateralize such customer's indebtedness to the Broker Dealer.

11. Extensions of Time

If an appropriate committee of the Exchange is satisfied that a Broker Dealer which is a member of that Exchange is acting in good faith in making the application and that exceptional circumstances warrant such action, such committee, on application of the Broker Dealer, may extend any period specified in paragraphs 3(A)(i) and (iii), paragraph 7 and paragraph 11 of this rule, relating to the requirement that such Broker Dealer take action within a designated period of time to buy-in in a security, for one or more limited periods commensurate with the circumstances. Each such committee shall make and preserve for a period of not less than three (3) years a record of each such extension granted which shall contain a summary of the justification for the granting of the extension.

12. Definitions

For the purpose of this rule:

- A. **Customer** shall mean any person from whom or on whose behalf a Broker Dealer has

received or acquired or holds funds or securities for the account of that person. The term shall not include a Broker Dealer nor shall it include general partners or directors or principal officers of the Broker Dealer or any other person to the extent that the person has a claim for property or funds which by contract, agreement or understanding, or by operation of law, is part of the capital of the Broker Dealer or is subordinated to the claims of creditors of the Broker Dealer. The term "customer", however, shall include another Broker Dealer (the initiating Broker as defined in SRC Rule 34.1 hereof) wherein the latter maintains separately a Dealer account and a special omnibus account in behalf of his customer with the former.

- B. **Securities carried for the account of the customer** (also "customer securities") shall mean:
- i. Securities received by or on behalf of a Broker Dealer for the account of any customer and securities carried long by a Broker Dealer for the account of any customer; and
 - ii. Securities sold to, or bought for, a customer by a Broker Dealer.
- C. **Fully paid securities** shall include all securities carried for the account of a customer in a cash account or a margin account if they have been fully paid for; *provided, however*, that the term "fully paid securities" shall not apply to any securities which are purchased in transactions for which the customer has not made full payment.
- D. **Margin securities** shall mean those securities which have been purchased by a customer on the basis of credit extended by a Broker Dealer pursuant to the provisions of Section 48 of the Code and SRC Rule 48.1.
- E. **Excess margin securities** shall mean margin securities having a market value in excess of one hundred forty percent (140%) of the total of the debit balances in the customer's account/s encompassed by paragraph (D) above which the Broker Dealer identifies as not constituting margin securities.
- F. **Qualified security** shall mean a security issued by the Republic of the Philippines or a security in respect of which the principal and interest are guaranteed by the Government of the Philippines.
- G. **Free credit balances** shall mean liabilities of a Broker Dealer to customers which are subject to immediate cash payment to customers on demand, whether resulting from sales of securities, dividends, interest, deposits, or otherwise.
- H. **Other credit balances** shall mean cash liabilities of a Broker Dealer to customers other than free credit balances.
- I. **Funds carried for the account of any customer** (also "customer funds") shall mean all free credit and other credit balances carried for the account of the customer.
- J. **Principal officer** shall mean the president, executive vice president, treasurer, secretary or any other person performing a similar function with the Broker Dealer.
- K. **Household members and other persons related to principals** includes—husbands or wives, children, sons-in-law or daughters-in-law and any household relative to whose support a principal contributes directly or indirectly. For purpose of this paragraph, a principal shall be deemed to be a director, general partner or principal officer of the Broker Dealer.
- L. **Affiliated person** includes any person who directly or indirectly controls a Broker Dealer or any person who is directly or indirectly controlled by or under common control with the Broker Dealer. Ownership of ten percent (10%) or more of the common stock of the relevant entity will be deemed prima facie control of that entity for purposes of this paragraph.
- M. **Omnibus account** shall mean an account in which a Broker Dealer effects transactions for its customer through another Broker Dealer.

13. Information relating to Possession and Control Requirements and the Formula for Determination of Reserve Requirements of Broker Dealers under SRC Rule 49.2 are set forth as Annexes 49.2-A and 49.2-B, respectively.

SRC Rule 49.3 – Lending and Voting Customers Securities

[formerly SRC Rule 49.3-1]

A Broker Dealer which extends credit to a customer shall not without the written consent of the customer, lend the latter's securities to itself or to anyone else, or vote them as if they were its own.

SRC Rule 50 – Purchases and Sales in Cash Account

[formerly SRC Rule 50.1]

1. Purchases by a customer in a cash account shall be paid in full within three (3) business days after the trade date.
2. If full payment is not received within the required time period, the Broker Dealer shall cancel or otherwise liquidate the transaction, or the unsettled portion thereof, starting on the next business day but not beyond ten (10) business days following the last day for the customer to pay, unless such sale cannot be effected within said period for justifiable reasons in which case, notification in writing shall be made with the Exchange and the Commission.
3. If a transaction is cancelled or otherwise liquidated as a result of non-payment by the customer, prior to any subsequent purchase during the next ninety (90) days, the customer shall be required to deposit sufficient funds in the account to cover each purchase transaction prior to execution.
4. If the amount of money due from a customer in a cash account is less than Ten Thousand Pesos (P10,000.00) the Broker Dealer may choose not to take the action required by paragraph 2.
5. Exceptions to paragraphs 1, 2, and 3 include when the security purchased is unissued or where the purchase is made by the customer with the understanding that payment is to be made upon delivery.
6. Written application for an extension of the period of time required for payment under paragraph 1 may be made by the Broker Dealer to the Exchange in the case of a member of that Exchange or to the Commission, in the case of a non-member of the Exchange. Applications for the extension must be based upon exceptional circumstances and must be filed and acted upon before the expiration of the original payment period or the expiration of any subsequent extension.
7. If a Broker Dealer executes a sell order of a customer (other than an order to execute a sale of securities which the seller does not own) and if for any reason whatsoever the Broker Dealer has not obtained possession of the securities from the customer on the next business day after settlement date but not beyond ten (10) business days for the customer to deliver the securities, the Broker Dealer shall immediately thereafter close the transaction with the customer by purchasing securities of like kind and quantity, unless such purchase cannot be effected within said period for justifiable reasons in which case, notification in writing shall be made with the Exchange and the Commission
8. If the Broker Dealer is required to take the action required by paragraph 7, prior to any subsequent sale during the next ninety (90) days, the customer will be required to place the securities on deposit in the account prior to execution of the transaction.

**SRC Rule 52.1– Accounts and Records, Reports,
Examination of Exchanges, Members, and Others**

[formerly SRC Rules 52.1-1, 2, 3, 4, 5, 6, 7, 8, 9, 10, and a new provision on Aging of Receivables]

1. Books and Records Rule

- A. Every Broker Dealer shall make and keep current the following books and records relating to its business and shall be maintained in the principal office of the Broker Dealer:
- i. Blotters (or other records of original entry) containing an itemized daily record of all purchases and sales of securities, all receipts and deliveries of securities (including certificate numbers), all receipts and disbursements of cash and all other debits and credits. Such records shall show the account for which each such transaction was effected, the name and amount of securities, the unit and aggregate purchase or sale price (if any), the trade date, settlement date, and the name or other designation of the person from whom purchased or received or to whom sold or delivered.
 - ii. Ledgers reflecting all assets and liabilities, income and expense and capital accounts.
 - iii. Ledger accounts (or other records) itemizing separately as to each cash and margin account of every customer, Broker Dealer and partners thereof, all purchases, sales, receipts and deliveries of securities for such account and all other debits and credits to such account.
 - iv. Ledgers (or other records) reflecting the following:
 - a. Securities in transfer;
 - b. Dividends and interest received and paid, including receivable and payable balances by security;
 - c. Securities borrowed and securities loaned-shares and monies;
 - d. Monies borrowed and monies loaned (together with a record of the collateral therefor and any substitutions in such collateral);
 - e. Securities and monies failed to receive and failed to deliver;
 - f. All long and all short securities record differences arising from the examination, count, verification and comparison (by date of examination, count, verification and comparison showing for each security the number of long or short count differences); and
 - g. Repurchase and reverse repurchase agreements.
 - v. A securities record or ledger reflecting separately for each security as of the clearance dates all "long" or "short" positions (including securities in safekeeping and securities that are the subject of repurchase or reverse repurchase agreements) carried by such Broker Dealer for his account or for the account of his customers or partners or others and showing the location of all securities long and the offsetting position to all securities short, including long security count differences and short security count differences classified by the date of the physical count and verification in which they were discovered, and in all cases the name or designation of the account in which each position is carried.
 - vi. A memorandum of each brokerage order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. Such memorandum shall show the terms and conditions of the order or instructions and of any modification or cancellation thereof, the account for which entered, the time

of receipt and entry, the price at which executed and, to the extent feasible, the time of execution or cancellation. Orders entered pursuant to the exercise of discretionary power by such Broker Dealer, or any employee thereof, shall be so designated. The term "instruction" shall be deemed to include instructions between associated persons and employees of a Broker Dealer. The term "time of entry" shall be deemed to mean the time when such Broker Dealer transmits the order or instruction for execution so transmitted.

- vii. A memorandum of each purchase and sale for the account of such Broker Dealer showing the price and, to the extent feasible, the time of execution; and in addition, where such purchase or sale is with a customer other than a Broker Dealer, a memorandum of each order received, showing the time of receipt, the terms and conditions of the order, and the account in which it was entered; *provided, however*, with respect to purchases and sales on behalf of a Member Broker Dealer, its officers, directors, employees, including associated persons, and owner's thereof, including discretionary accounts on behalf thereof, the memorandum shall reflect requirements set forth in SRC Rule 34.1 paragraph 1.
- viii. Copies of confirmations of all purchases and sales of securities, including all repurchase and reverse repurchase agreements, and copies of notices of all other debits and credits for securities, cash and other items for the account of customers and partners of such Broker Dealer.
- ix. A record in respect of each cash or margin account with such Broker Dealer indicating (A) the name and address of the beneficial owner of such account, and (B) in the case of a margin account, the signature of such owner, *provided*, that, in the case of a joint account or an account of a corporation, such records are required only in respect of the person or persons authorized to transact business for such account.
- x. A record of all puts, calls, spreads, straddles and other options in which such Broker Dealer has any direct or indirect interest or which such Broker Dealer has granted, purchased or guaranteed, containing, at least, an identification of the security and the number of units involved.
- xi. A record of the proof of money balances of all ledger accounts in the form of trial balances, and a record of the computation of aggregate indebtedness and net capital, as of the trial balance date. Such trial balances and computations shall be computed daily, provided in writing upon the request of the Commission or any Exchange to which a Broker Dealer is a member, and prepared at least once a month.
- xii. A questionnaire or application for employment executed by each associated person and salesman of such Broker Dealer, which questionnaire or application shall be approved in writing by an authorized representative of such Broker Dealer and shall contain at least the following information with respect to such person:
 - a. His name, address, and the starting date of his employment or other association with the Broker Dealer;
 - b. His date of birth;
 - c. A complete, consecutive statement of all his business connections for at least the preceding ten (10) years, including whether the employment was part-time or full-time;
 - d. A record of any denial of registration, or termination for cause, and of any disciplinary action taken, or sanction imposed, upon him by any agency, or by any exchange or other SRO including any finding that he was a cause of any disciplinary action or had violated any law;
 - e. A record of any denial, suspension, expulsion or revocation of any registration of a Broker Dealer with which he was associated in any capacity when such action was taken;

- f. A record of any permanent or temporary injunction entered against him or any Broker Dealer with which he was associated in any capacity at the time such injunction was entered;
 - g. A record of any arrest or indictment for any felony, or any misdemeanor pertaining to securities, commodities, banking, insurance or real estate (including, but not limited to acting as or being associated with a Broker-Dealer, investment company, investment house, finance company, bank, or quasi-bank, fraud, false statements or omissions, wrongful taking of property or bribery, forgery, counterfeiting or extortion, and the disposition of the foregoing); and
 - h. A record of any other name or names by which he has been known or which he has used; *provided, however*, that if such salesman or associated person has been registered with the Commission, retention of a full, correct, and complete copy of any and all applications for such registration or approval shall be deemed to satisfy the requirements of this subparagraph.
- xiii. Logbook on Material Compliance and non-compliance of Broker firms and the Compliance Reports maintained and/or submitted by the Associated Person pursuant to SRC Rule. 30.26 paragraph (6).
- B. Every Broker Dealer shall immediately make available any or all of its books and records, furnish copies thereof, and prepare and submitted reports upon request of the Commission, an Exchange or any other self regulatory organization of which it is a member or a participant in. Failure to do so shall result in immediate suspension of the Broker Dealer's registration. Such suspension shall continue until such time as the books and records are made available to the requesting organization and the organization has satisfied itself that the books and records have not been modified or otherwise changed or altered during the period of suspension.
- C. The explanation for the Books and Records Rule is set forth in "Annex 52.1-A.

2. Records Retention Rule

- A. Every Broker Dealer shall preserve for a period of not less than five (5) years, the first two (2) years in an easily accessible place, all records required to be made pursuant to Paragraphs 1 (A) (i), (ii), (iii) and (iv) of SRC Rule 52.1 the Books and Records Rule.
- B. Every Broker Dealer shall preserve for a period of not less than three (3) years, the first two (2) years in an accessible place:
- i. All records required to be made pursuant to paragraphs (A) (v), (vi), (vii), (viii), (ix), (x), (xi), (xii) of the Books and Records Rule, SRC Rule 52.1, paragraph 1;
 - ii. All Check books, bank statements, cancelled checks and cash reconciliations;
 - iii. All bills receivable or payable (or copies thereof), paid or unpaid, relating to the business of such Broker Dealer as such;
 - iv. Originals of all communications received and copies of all communications sent by such Broker Dealer (including inter-office memoranda, e-mails and other communications) relating to his business as such;
 - v. All trial balances, computations of aggregate indebtedness and net capital (and working papers in connection therewith), financial statements, branch office reconciliations and internal audit working papers, relating to the business of such Broker Dealer;
 - vi. All guaranteed accounts and all powers of attorney and other evidence of the granting of any discretionary authority given in respect of any account, and copies of resolutions empowering an agent to act on behalf of a corporation.

- vii. All written agreements (or copies thereof) entered into by such Broker Dealer relating to his business as such, including client agreements.
 - viii. Records which contain the following information in support of amounts included in the report prepared as of the audit date in annual audited financial statements required by SRC Rule 52.1, paragraph 5:
 - a. Money balance position, long or short, including description, quantity, price and valuation of each security, including contractual commitments in customer's accounts, in cash and fully secured accounts, partly secured accounts, unsecured accounts and in securities accounts payable to customers;
 - b. Money balance and position, long or short, including description, quantity, price and valuation of each security, including contractual commitments in non-customers' accounts, in cash and fully secured accounts, partly secured and unsecured accounts and in securities accounts payable to non-customers;
 - c. Position, long or short, including description, quantity, price and valuation of each security, including contractual commitments included in the Computation of Net Capital as commitments, securities owned, securities owned not readily marketable, and other investments owned not readily marketable;
 - d. Amount of secured demand note, description of collateral securing such secured demand note including quantity, price and valuation of each security and cash balance securing such secured demand note;
 - e. Number of shares, description of security, exercise price, cost and market value of put and call options including short out of the money having no market or exercise value, showing listed and unlisted put and call options separately;
 - f. Quantity, price, and valuation of each security underlying the haircut for undue concentration made in the Computation for Net Capital;
 - g. Description, quantity, price, and valuation of each security or contractual commitment, long or short, in each joint account in which the Broker Dealer has an interest, including each participant's interest and margin deposit;
 - h. Description, settlement date, contract amount, market price, and valuation for each aged failed to deliver requiring a charge in the Computation of Net Capital;
 - i. Detail of all items, not otherwise substantiated which are charged or credited in the Computation of Net Capital pursuant to the Net Capital Rule, such as cash margin deficiencies, deductions related to securities values and undue concentration, aged securities differences and insurance claims receivable; and
 - j. Details relating to information for possession or control requirements and computations for determination of reserve requirements under the Rule on Customer Protection-Reserves and Custody of Securities.
 - ix. A detailed description of the procedures which the Broker Dealer utilizes to comply with requirements set forth in "Annex E" **49.1-1-A**
- C. Every Broker Dealer shall preserve for a period of not less than five (5) years after the closing of any customer's account , the client agreement, account statement and any other records which relate to the terms and conditions with respect to the opening and maintenance of such account, including but not limited to customer identification, account files and business correspondence provided, that if money laundering, criminal or administrative cases have

been filed in court or an investigation is being conducted wherein the customer is involved or impleaded as a party to the case or investigation, the file must be retained beyond the five (5) year period until it is confirmed by final judgment that the case has been finally resolved or terminated by the court.

- D. Every Broker Dealer shall preserve during the life of the enterprise and of any successor enterprise all partnership articles or, in the case of a corporation, all articles of incorporation or charter, minute books and stock certificate books.
- E. Every Broker Dealer shall maintain and preserve in an easily accessible place all records required under paragraph (A) (xii) of the Books and Records Rule, SRC Rule 52.1, paragraph 1 until at least three (3) years after the associated person or salesman has terminated his employment and any other connection with the Broker Dealer.
- F. The records required to be maintained and preserved pursuant to this Rule may be immediately produced or reproduced on microfilm and be maintained and preserved for the required time in that form. If such microfilm substitution for hard copy is made by a Broker Dealer, it shall (a) at all times have available for the Commission or any Exchange of which it is a member for examination of its records, facilities for immediate, easily readable projection of the microfilm and for producing easily readable facsimile enlargements, (b) arrange the records and index and file the films in such a manner as to permit the immediate location of any particular record, (c) be ready at all times to provide and immediately provide, any facsimile enlargement which the Commission or that Exchange by their examiners or other representatives may request, and (d) store separately from the original one other copies of the microfilm for the time required.
- G. Every Broker Dealer who ceases operation shall preserve for a period of not less than five (5) years, from the date that the Exchange and/or Commission has approved its operation to cease, all records required to be maintained pursuant to the Books and Records Rule. The Broker Dealer shall inform the Exchange and the Commission of the names and addresses of at least two (2) person/s responsible in the safekeeping of all the records, reporting any change in the person/s responsible, if there is any. For this purpose, the Broker Dealer and the named records custodians shall execute and file with the Commission a notarized undertaking to this effect. If money laundering, criminal or administrative cases have been filed in court or an investigation is being conducted wherein the customer is involved or impleaded as a party to the case or investigation, the file must be retained beyond the five (5) year period until it is confirmed by final judgment that the case has been finally resolved or terminated by the court.
- H. If the records required to be maintained and preserved pursuant to the Books and Records Rule and Records Retention Rule are prepared or maintained by an outside service bureau, depository, bank or other recordkeeping service on behalf of the Broker Dealer required to maintain and preserve such records, such outside entity shall file with the Commission a written undertaking in a form acceptable to the Commission, signed by a duly authorized person, to the effect that such records are the property of the Broker Dealer required to maintain and preserve such records and will be surrendered promptly on request of the Broker Dealer and including the following provision:
- "With respect to any books and records maintained or preserved on behalf of [name of Broker Dealer], the undersigned hereby undertakes to permit examination of such books and records at any time or from time to time during business hours by representatives or designees of the Securities and Exchange Commission, and/or any Exchange to which the Broker Dealer is a member and to promptly furnish to the Commission and that Exchange or their designee true, correct, complete and current hard copy of any or all or any part of such books and records."
- Agreement with an outside entity shall not relieve such Broker Dealer from the responsibility to prepare and maintain records as specified in this rule or in the Books and Records Rule.
- I. Every Broker Dealer subject to this Rule shall furnish promptly to a representative of the Commission and any Exchange to which the Broker Dealer is a member legible, true and complete copies of those records of the Broker Dealer which are required to be preserved under this Rule which are requested by the Commission or that Exchange.

3. Keeping of Exchange Records

An Exchange shall keep complete and accurate records of all its proceedings, transactions and decisions and such records shall be made available for inspection by the Commission.

4. Reports of Exchange Members and Brokers or Dealers Trading Through Members

Every member of an Exchange and every Broker Dealer who transacts a business in securities through the medium of any such member shall, in the manner and form to be prescribed by the Commission, make such periodic, special or other reports as the Commission may by order require from time to time.

5. Annual Audited Financial Reports of Broker Dealers

- A. Every Broker Dealer shall file annually with the Commission and any Exchange to which it is a member at the close of its fiscal year an audited financial report by an Commission-accredited independent certified public accountant and a statement of management responsibility of said Broker Dealer.
- B. Unless the Broker Dealer notifies the Commission otherwise and receives written approval to change the date, December 31st of each year shall be considered the closing of the fiscal year, and the Annual Audited Financial Report is due within One Hundred Ten (110) days after the close of such fiscal year.
- C. The Annual Audited Financial Report shall contain a Statement of Financial Condition in the format outlined in SEC Form 37-AR, a Statement of Income, a Statement of Changes in Financial Condition or Statement of Cash Flows, a Statement of Changes in Stockholders' or Partners' or Sole Proprietor's Equity, a Statement of Changes in Liabilities Subordinated to Claims of General Creditors, a Computation of Net Capital under SRC Rule 49.1, paragraph 1, A Statement of Management's Responsibility; Information relating to the Possession or Control Requirements under "Annex 49.2-A" and a Computation for Determination of Reserve Requirements under "Annex 49.2-B", a Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit, the Results of Quarterly Securities Count Conducted pursuant to SRC Rule 52.1, paragraph 10 as of the date of the balance sheet statement in the Annual Audited Financial Report.
- D. All supporting papers pertaining to such report or statement shall be kept in the possession of the Broker Dealer for at least five (5) years and shall be made available for examination by the Commission and an Exchange, if the Broker Dealer is a member of that Exchange.
- E. For the purposes of this Rule, the term **market value** shall be understood to mean the last sale price of the security on the date of the report or statement; if no sale of the corresponding security is made on that date, it shall be understood to mean the bid price and, in the absence of any buyer, it shall be taken to mean the last sale price which is below the offer price on the date of the report or statement. For purposes of determining "market value" for a short position, where no sale of the corresponding security is made on that date, it shall be understood to mean the offer price and, in the absence of any seller, it shall be taken to mean the last sale price which is above the bid price on the date of the report or statement.
- F. For the purposes of this Rule, the term **material inadequacy** encompasses either a material weakness in internal control or a material inadequacy in the practices and procedures for safeguarding securities.

A material inadequacy that is expected to be reported includes any condition that has either contributed substantially to or, if appropriate corrective action is not taken, could reasonably be expected to cause any of the following:

- i. Inhibit a Broker Dealer from completing securities transactions or promptly discharging its responsibilities to customers or to other Broker Dealers or creditors;

- ii. Result in material financial loss;
- iii. Result in material misstatements of the Broker Dealer's financial statements;
- iv. Result in violations of the Commission's recordkeeping or financial responsibility rules to an extent that could reasonably be expected to result in the conditions described above.

If conditions believed to be material weaknesses are found to exist or have existed during the year, the report should disclose the nature of the weaknesses and the corrective action taken or proposed to be taken by the Broker Dealer. If management has implemented control procedures to correct the weaknesses, the auditor should not refer to this corrective action in his or her report unless the auditor is satisfied that the procedures are suitably designed to correct the weakness and are being applied as prescribed.

- G. The format for the Annual Audited Financial Reports (AAFR) for Broker Dealer is set forth in Annex 52.1-B.

6. Customer Account Information Rule

Every Broker Dealer shall maintain customer accounts as follows:

- A. For each account, the following information:
 - i. Customer's name, residence address (present and permanent) and residence telephone;
 - ii. Date and place of birth;
 - iii. Whether customer is an institutional customer;
 - iv. Nationality;
 - v. Signature of the salesman introducing the account and signature of the partner, officer or manager who accepts the account;
 - vi. If the customer is a corporation, partnership or other legal entity, the names of any person authorized to transact business on behalf of the entity;
 - vii. Specimen signatures; and
 - viii. Option whether confirmation of customer orders would be via courier, facsimile or electronically.
- B. For each account other than an institutional account, the Broker Dealer shall obtain, prior to the settlement of the initial transaction in the account, the following information to the extent it is applicable to the account:
 - i. Customer's tax identification number, Social Security System number or Government and Insurance System number;
 - ii. Occupation of customer and name, address and telephone number of employer;
 - iii. Whether the customer is employed by or otherwise associated with another Broker Dealer (e.g. officer, director, salesman, shareholder);
 - iv. Whether the customer is an officer or director of a company listed on an exchange;
 - v. The customer's investment objective and other related information concerning the customer's financial situation and needs;

- vi. If duplicate confirmations are required to be sent to another person, the identity of that person and his relationship to the customer;
 - vii. Source of fund(s); and
 - viii. All other information contained in the prescribed CAIF as set forth in Annex “.52.1-C.”
- C. For discretionary accounts, the Broker Dealer shall also:
- i. Obtain the signature of each person authorized to exercise discretion in the account;
 - ii. Record the date such discretion is granted.
- D. For corporate or institutional accounts, the Broker Dealer shall obtain, prior to the settlement of the initial transaction in the account, the following information to the extent it is applicable to the account:
- i. Articles of Incorporation/Partnership;
 - ii. Bylaws;
 - iii. Official address or principal business address;
 - iv. Secretary’s Certificate of board resolution authorizing the opening of the account with the Broker Dealer firm;
 - v. List of directors/partners;
 - vi. List of stockholders owning at least two percent (2%) of the capital stock;
 - vii. Contact numbers;
 - viii. Beneficial owners, if any;
 - ix. Verification of the authority and identification of the person purporting to act on behalf of the client;
 - x. Financial Information;
 - xi. Investment objective; and,
 - xii. All other information contained in the prescribed CAIF as set forth in Annex “**52.1-D.**”

For purposes of this Rule, the term **institutional account** shall mean the account of:

- i. A bank, insurance company, or registered investment company;
 - ii. Any other entity set forth in Section 10.1(l) of the Code as a qualified buyer; or
 - iii. Any other entity (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least ₱1,200,000,000; *provided, however*, that the Broker Dealer shall obtain from such entity a declaration, under oath, confirming ownership of such assets.
- E. If more than one party is named on the account, new account information shall be obtained for each party on the account.
- F. If the account is a trust account, a copy of the trust agreement shall be required. The agreement shall specify the types of transactions that the trustee is allowed to perform. These accounts can not be margin accounts unless specifically authorized by the trust agreement.

- G. A Broker Dealer is allowed to maintain a numbered account for a client who wishes to keep his or her name confidential. If numbered accounts are used, the firm is obliged to keep on file the name of the customer and a written statement signed by the customer showing that the customer owns the account.
- H. The Broker Dealer shall develop clear customer acceptance policies and procedures when conducting business relations or accommodating specific transactions and shall exercise due diligence in implementing its policies and procedures. Furthermore, it shall adopt adequate internal control measures for verifying and recording the true and full identify of their customers. It shall require customers to produce original documents of identity issued by an official authority, preferably bearing a photograph of the customer and where practicable, maintain file copies of documents of identity; otherwise, relevant details on the identity documents will be recorded.
- I. In the case of corporate clients, the Broker Dealer shall require a system of verifying their legal existence and organizational structure, as well as the authority and identification of all persons purporting to act on their behalf and shall exercise due diligence in implementing its policies and procedures. It shall endeavor to ensure, prior to establishing business relationships, that the corporate entity has not been or is not in the process of being dissolved, wound up, liquidated, or voided, or that its business or operations has not been or is not in the process of being, closed, shut down, phased out, or terminated. Dealings with shell companies and corporations, being legal entities which have no business substance in their own right but through which financial transactions may be conducted, should be undertaken with extreme caution.
- J. In addition to the requirements prescribed in the immediately preceding paragraphs, in the case of customers who are acting as trustee, nominee, agent or in any capacity for and on behalf of another, the Broker Dealer shall verify and record the true and full identity of the person(s) on whose behalf a transaction is being conducted. In case of doubt as to whether such persons are being used as dummies in circumvention of existing laws, the firm shall immediately make the necessary inquiries to verify the status of the business relationship between the parties.
- K. Anonymous accounts, accounts under fictitious names, and all other similar accounts shall be absolutely prohibited.
- L. Numbered accounts are allowed for trading purposes provided that the owner fills up the CAIF with his identity clearly indicated in the form.
- M. The Broker Dealer cannot create new accounts without a face-to-face meeting.
- N. Within One hundred eighty (180) days after the effectivity of these amendments, all existing CAIFs accomplished by clients shall be updated or amended to comply with the new requirements.
- O. It is the Broker Dealer's duty to know its clients well and, accordingly, it shall be primarily responsible in keeping current all material information contained in the CAIF.
- P. The Broker Dealer, its directors, officers, and associated persons, are required to report any suspicious client transaction to the Anti-Money Laundering Council (AMLC), pursuant to the provisions of the Anti-Money Laundering Act (RA 9160, as amended).

For purposes of this section, a **"suspicious client transaction"** shall mean any transaction which causes any ordinary person to have a feeling of apprehension or mistrust about the transaction considering (a) its unusual nature or circumstances, or (b) the person or group of persons with whom they are dealing, and based on the bringing together of all relevant factors including knowledge or the person's or persons' business or background (as well as behavioral factors).

7. Order Ticket Rule

- A. Every order received by a Broker Dealer or any other associated person or salesman of a Broker Dealer to buy or sell securities for customers shall be entered on an order form, which shall contain at the minimum, all the information required by this Rule. Each buying or selling order form shall be time stamped by the Broker Dealer or any other associated person or salesman of a Broker Dealer or any person acting on his behalf upon receipt of the customer's order and upon transmission to the trading floor, if necessary. Time recording of subsequent action on an order, whether for amendment, cancellation or actual matching thereof, shall be captured by the computerized trading system of the Exchange or by time stamping, for over-the-counter transaction. Any such information captured by the computerized trading system of the Exchange shall be printed and made available for legal and/or audit purposes.
- B. All the necessary time recordings shall be disclosed for the confirmation to the customer upon his request.
- C. All Broker Dealers, who deal for their own account either directly or where a Member Broker Dealer, through another Member Broker, or trade for a discretionary account, as well as their partners, floor traders, officials and employees, shall record all purchase and sale orders on the same order form used by such brokers for their customers, and such order forms shall also be time-stamped as required by paragraph (A) hereof, and comply with SRC Rule 34.1, paragraph 1.
- D. Every Broker Dealer, associated person and salesman of a Broker Dealer, executing an order for a transaction in securities shall enter on the order ticket whether the transaction will be matched through the Exchange trading system or transacted as a block sale in accordance with SRC Rule 30.2, paragraph 8, whether the firm is acting as agent or principal in connection with the transaction; *provided, however*, Member Brokers are required to comply with SRC Rule 34.1, paragraph 1 when placing orders for their own account.
- E. In addition to the information required in paragraphs 7 (A), (B), (C) of this Rule, the order ticket shall reflect the terms and conditions of the order or instructions, including a notation if the order is a short sale, and any subsequent modification or cancellation, the name of the customer for which the order was entered, the name of the salesman who took the order, the price at which it is executed, and whether the order was solicited or unsolicited.
 - i. For purposes of this rule, an order is solicited or unsolicited depending on who first mentioned the name of the security. If mentioned first by the customer, the order should be marked unsolicited (regardless of who initiated the phone call or other communication). If mentioned first by the salesman, the order should be marked solicited.
 - ii. The designation should be entered on real time on the order ticket and indicated on the confirmation.
- F. An order is solicited or unsolicited depending on who recommends the security. If the order is recommended by the salesman, the order ticket should be marked solicited. Otherwise, it should be marked unsolicited. The designation should be entered on real time on the order ticket and indicated on the confirmation.
- G. All purchase and sale orders for the same security and under the same terms and conditions, including those placed by the Broker Dealer for its own account or for discretionary accounts and those placed by partners, floor traders, officials and employees, shall be executed by the Broker Dealer in the order in which they were received; *provided, however*, Member Brokers shall comply with SRC Rule 34.1, paragraph 1 regarding priority of customer orders.
- H. All time stamping machines that are being used by Broker Dealers for the purposes of this Rule should be synchronized at all times in accordance with the official time of the Exchange and time stamping prints should always be clear.

- I. A Broker Dealer may seek exemption from the paper format requirements of this Rule and instead apply for an electronic format. Such application has to be approved by the Commission.

8. Customer Account Statements

- A. A Broker Dealer shall, with a frequency of not less than monthly, send a statement of account containing a description of any securities positions, money balances, or account activity to each customer whose account had a security position, money balance, or account activity during the period since the last such statement was sent to the customer. In exceptional cases and only upon written request made by the customer, the Broker Dealer may issue quarterly statements in lieu of monthly statements, such written request being kept in the firm's files for SEC's or the Exchange's audit/investigation purposes.
- B. A Broker Dealer may issue quarterly statements to customers whose accounts have not been traded for a period of at least one (1) year (inactive accounts). The Broker Dealer can only be excused from this obligation if, after at least three (3) attempts, the mails (with registry cards) are returned by the post office for failure to locate the customers' whereabouts. In such cases, the Broker Dealer is required to notify the Exchange of the nature of these accounts and keep in its files proof that these mails were indeed returned by the post office undelivered.
- C. Notwithstanding the issuance of quarterly statements of account, the Broker Dealer is still required to maintain closing balances of customers' positions every month end and these balances must always be reflected and easily identifiable in the company's books and records. Moreover, they should be available for inspection by the Exchange and/or the Commission at any time.
- D. Such statement shall disclose that free credit balances are not segregated and may be used in the operation of the Broker Dealer and that such funds are payable on demand of the customer.
- E.. For purposes of this Rule, the term **account activity** shall include, but not be limited to, purchases, sales, interest credits or debits, charges or credits, dividend payments, transfer activity, securities receipts or deliveries, and/or journal entries relating to securities or funds in the possession or control of the Broker Dealer.
- F. A Broker Dealer maintaining accounts of clients which have not been traded for three (3) years or more (dormant accounts) shall be required to surrender or turn over to the Commission these clients' cash and security positions for safekeeping. The Commission shall hold them for a period of ten (10) years or such other period as may be prescribed by laws in trust for future claimants and, after such period, shall be disposed of pursuant to escheat proceedings in favor of the Philippines government.

9. Customer Complaint Rule

- A. Every Broker Dealer shall keep and preserve in each of its offices either (i) a separate file of all complaints of customers received by that office and the action taken by the Broker Dealer, or (ii) a separate record of such complaints, properly indexed and referenced to the files containing the correspondence connected with such complaint.
- B. Every Broker Dealer shall keep in its main office either a duplicate copy of all written complaints of customers received by all offices of the Broker Dealer and the action taken in respect thereto or a separate record of such complaints properly indexed and referenced to the files containing the correspondence connected with such complaint.
- C. **Complaint** shall mean any written statement and/or a transcript/written summary of the oral/verbal statements of a customer or any person acting on behalf of a customer alleging a grievance involving the activities of those persons under the control of the Broker Dealer in connection with the solicitation or execution of any transaction, the disposition of securities or funds of that customer or any other aspect of the Broker Dealer's business.

10. Monthly Securities Counts by Brokers Dealers

- A. This rule shall apply to all Broker Dealers except those Broker Dealers who promptly transmits all funds and delivers all securities received in connection with its activities as a Broker Dealer, and who do not otherwise hold securities for itself or hold funds or securities for, or owe money or securities to, customers.
- B. Any Broker Dealer who is subject to the provisions of this rule shall at least once a month:
 - i. Physically examine and count all securities held;
 - ii. Account for all securities in transit, in transfer, pledged, loaned, borrowed, deposited, failed to receive, failed to deliver, subject to repurchase and reverse repurchase agreements, or otherwise subject to its control or direction but not in its physical possession by examination and comparison of the supporting detail records with the appropriate ledger control accounts;
 - iii. Verify all securities in transfer, in transit, pledged, loaned, borrowed, deposited, failed to receive, failed to deliver, subject to repurchase and reverse repurchase agreements, or otherwise subject to its control or direction but not in its physical possession, where such securities have been in that status for longer than thirty (30) days;
 - iv. Compare the results of the count and verification with its records; and
 - v. Record on its books and records all unresolved differences setting forth the security involved and date of comparison in a security count difference account no later than seven (7) business days after the date of each required quarterly security examination, count and verification in accordance with the requirements of paragraph 10 (C) of this rule; *provided, however*, that no examination, count, verification and comparison for the purpose of this rule shall be within two (2) months of or more than four (4) months following a prior examination, count, verification and comparison made hereunder.
- C. The examination, count, verification and comparison may be made either as of a date certain or on a cyclical basis covering the entire list of securities. In either case the recording shall be effected within seven (7) business days subsequent to the examination, count, verification and comparison of a particular security. In the event that an examination, count, verification and comparison is made on a cyclical basis, it shall not extend over more than one month.
- D. The examination, count, verification and comparison shall be made or supervised by persons whose regular duties do not require them to have direct responsibility for the proper care and protection of the securities or the making or preservation of the relevant records.
- E. The Commission and/or Exchange, if the Broker Dealer is a member of that Exchange, may, upon written request, exempt from the provisions of this rule, either unconditionally or on specified terms and conditions, any Broker Dealer who satisfies the Commission or that Exchange that it is not necessary in the public interest and for the protection of investors to subject that particular Broker Dealer to certain or all of the provisions of this rule because of the special nature of the Broker Dealer's business, the safeguards it has established for the protection of customers' funds and securities, or such other reasons as may be deemed appropriate.

11. Monthly Aging of Customers Receivable

- A. Every broker dealer shall file with the Commission its Monthly Aging Schedule of Customers Receivable on or before the 15th of the following month. The Aging Schedule, which shall be filed with the Financial and Operations Report (FINOP), shall be certified by the firm's Associated Person and President/Nominee Director and also submitted to the Broker Dealer's Audit Committee or in lieu thereof, its Board of Directors.

- B. Unless a different format is prescribed by the Commission, the Aging Schedule shall indicate the monetary and securities collateral values of the Customers Receivable as of month end broken down as follows:
- Current --Due in three (3) days
 - Less than thirty (30) days
 - More than thirty (30) up to three hundred sixty five (365) days or one year
 - More than three hundred sixty five (365) days or one year up to three (3) years
 - More than three (3) years
- C. Consistent with the requirements of SRC Rule 50, detailed explanation shall be provided by the Broker Dealer for those customer accounts which remain outstanding for more than three (3) days.
- D. Every Broker Dealer shall establish appropriate Allowances for Doubtful Accounts and the basis for such computation of the Allowance shall be properly disclosed in the Report. The Commission or the Exchange shall have the prerogative to determine the reasonableness of such receivable valuation standard taking into consideration generally accepted accounting principles and industry practices.

SRC Rule 55.1 – Settlement Offers

1. Any person who is notified that an investigation or proceeding has or will be instituted against him, or any party to a proceeding already instituted, may, at any time propose in writing to the Director of the Department of Compliance and Enforcement (CED) an offer of settlement (proposer).
2. An offer of settlement shall state that it is being made pursuant to Section 55 of the Code and SRC Rule 55.1 adopted thereunder, shall recite or incorporate as part of the offer the provisions of paragraphs 3 (D) and (E) of this Rule, shall be signed by the person making the offer, not by counsel, and shall be submitted to the Director of CED.
3. Consideration of Settlement Offers:
 - A. Offers of settlement shall be considered when time, the nature of the investigation or proceeding, and the public interest permit.
 - B. The Director of CED shall consult with the person he has assigned to the matter (enforcement officer) and request his view regarding the appropriateness of the offer of settlement. Such request for such enforcement officer's view on a settlement offer or other participation in a settlement conference constitutes a waiver by the proposer of any right to claim bias or prejudice by such enforcement officer based on the views expressed.
 - C. The Director of CED shall present the offer of settlement to the Commission with its recommendations; *Provided, however*, if the Department's recommendation is unfavorable, the offer shall not be presented to the Commission unless the proposer so requests in writing.
 - D. By submitting an offer of settlement, the proposer waives, subject to the acceptance of the offer:
 - i. all hearings pursuant to the statutory provisions under which the investigation or proceeding is to be or has been instituted;
 - ii. the filing of proposed findings of fact and conclusions of law;
 - iii. proceedings before, and an initial decision by, the appropriate office or division of the Commission so delegated;
 - iv. all post-hearing procedures; and
 - v. judicial review by any court.

- E. By submitting an offer of settlement, the proposer further waives:
 - i. Such provisions of law as may be construed to prevent any member of the Commission's staff from participating in the preparation of, or advising the Commission as to, any order, opinion, finding of fact, or conclusion of law to be entered pursuant to the order;
 - ii. Any right to claim bias or prejudice by the Commission based on the consideration of discussions concerning settlement or all or any part of the proceeding.
- F. If the Commission rejects the offer of settlement, the proposer shall be notified of the Commission's action and the offer of settlement shall be deemed withdrawn. The rejected offer shall not constitute part of the record in any proceeding against the proposer; *provided, however*, that rejection of an offer of settlement does not affect the continued validity of waivers pursuant to paragraph 3 (E) of this rule with respect to any discussions concerning the rejected offer of settlement.
- G. Final acceptance by the Commission of any offer of settlement will occur only upon the issuance of a summary of findings, and an order of the Commission and shall become effective only upon public disclosure thereof on the Commission's web page and/or in such other manner. Such disclosure may be made without a determination of guilt on the part of the proposer and shall include the name of the proposer, sections of the Code and rules and regulations adopted thereunder involved, and applicable conditions.

SRC Rule 66.3 – Confidential Treatment of Information Filed with the Commission

1. Any person required to file any application, report or document (hereinafter collectively referred to as the "report") with the Commission under Section 8 or 17 of the Code may remove any confidential information from such required report, provided that he files with the Commission such confidential information in a supplemental report prominently labeled "CONFIDENTIAL", together with a request for confidential treatment of the report and the specific grounds for the grant thereof and complies with this Rule; *provided, however*, that the Commission may require disclosure of such confidential information.
2. For purposes of this rule, **confidential information** shall include, but is not limited to, such matters as trade secrets, commercial or financial information that has been prepared by analysts within or outside a company for strategic purposes and similar information which raises concerns for business confidentiality.
3. The Commission shall maintain the confidentiality of the information contained in the supplemental report, pending a determination by the Corporation Finance Department in consultation with the Office of the General Counsel as to the validity of the request for confidential treatment.
4. Within seven (7) days from receipt of the special report, the Corporation Finance Department shall make a determination regarding the confidentiality of the information contained in the supplemental report.
5. If it is determined by the Corporation Finance Department that confidential treatment is not warranted with respect to all or part of the information in question, the person requesting confidential treatment of the information will be notified of this decision by telephone, followed up by written notification sent by mail. Such notice will also advise such person that he has the right, which shall be exercised no later than within ten (10) days of receipt of notification by telephone, to request that the Commission en Banc reconsider such determination.
6. A request for reconsideration shall be in writing and include additional factors for the Commission En Banc to consider.
7. The Commission En Banc may reconsider such determination only once and its administrative decision shall not be subject to judicial review.

8. If the Commission En Banc makes a determination that any or all of the information in the supplemental report is not entitled to confidential treatment, the person who submitted the request shall promptly make an amended filing with the Commission containing such information.

SRC Rule 68 – Special Accounting Rules

Rule 68 has already been amended in February 2003.

SRC Rule 72.1 – General Rules and Regulations for Filing of SEC Forms with the Securities and Exchange Commission

1. Applicable Rules and Forms

The form and content of filings with the Commission pursuant to the Code, and rules adopted thereunder, shall conform to the applicable rules and forms as in effect on the initial filing date thereof and to the provisions hereof.

2. Number of Copies; Binding; Signatures

- A. Except as provided in a particular form, three (3) copies of the complete filing, including exhibits and all other papers and documents filed as part thereof, shall be filed with the Commission. Each copy shall be bound, in one or more parts, without stiff covers. The binding shall be on the left side in such a manner as to leave the reading matter legible. At least one (1) copy of the filing shall be manually signed by the persons specified in the appropriate rule and/or related form. Unsigned copies shall be conformed. All three (3) copies (original and two (2) conformed) are for Commission use only, including one (1) copy for the public reference room.
- B. Each conformed copy shall be identical in content, page order, and pagination to the original filing including the main document, its table of contents, and any sections, exhibits, attachments, or other materials appurtenant thereto.
- C. Duplicated or facsimile versions of manual signatures of persons required to sign any document filed or submitted to the Commission under the Code shall be considered manual signatures for purposes of the Code and rules and regulations thereunder, provided that, the original manually signed document is retained by the filer for a period of five (5) years and upon request the filer furnishes the Commission or the staff the original manually signed document.

3. Requirements as to Paper, Printing, Language and Pagination

- A. All filings shall be filed using black ink on good quality, unglazed, white letter sized paper 8 1/2 x 11 inches in size, or on A-4 sized paper, insofar as practicable. To the extent that the reduction of larger documents would render them illegible, such documents may be filed on paper larger than 8 1/2 x 11 inches in size. All original and conformed pages shall be utilized on one side only, with the exception of a prospectus which may be two-sided.
- B. All filings, and, insofar as practicable, all papers and documents filed as part thereof shall be printed, lithographed, mimeographed or typewritten. However, the statement or any portion thereof may be prepared by any similar process which, in the opinion of the Commission, produces copies suitable for a permanent record. Irrespective of the process used, all copies of any such material shall be clear, easily readable and suitable for repeated photocopying; shall be submitted on paper not less in quality,

legibility, and durability to that produced by a standard copying machine in good working order; and shall not be submitted on carbon paper or on light-weight onion skin paper. Debits in credit categories and credits in debit categories shall be designated so as to be clearly distinguishable as such on photocopies.

- C. All filings shall be in the English language. If any exhibit or other paper or document filed as part of the registration statement is in a foreign language, it shall be accompanied by a summary, version or translation in the English language. All documents executed outside the Philippines must be authenticated by the Embassy, Consulate or Legation of the Philippines in the country where the document originated.
- D. The manually signed original (or in the case of duplicate originals, one duplicate original) of all filings, and all conformed copies, including registration statements, applications, statements, reports or other documents shall be numbered sequentially (in addition to any internal numbering which otherwise may be present) by handwritten, typed, printed or other legible form of notation from the first page through the last page of that document and any exhibit or attachment thereto. Further, the total number of pages contained in a numbered original and in each numbered and conformed copy shall be set forth on the first page of the document.
- E. The body of all printed statements and reports and all notes to financial statements and other tabular data included therein shall be in prominent type at least as large and as legible as 10-point type. However, to the extent necessary for convenient presentation, financial statements and other tabular data, including tabular data in notes, may be in at least as large and as legible as 8-point type. All such type shall be leaded at least 2 points.
- F. All original and conformed copies shall be submitted under cover of a standard cover page which shall identify the specific filing form type or form amendment or response to a show cause letter, the period ended date for any report or general information sheet or financial statement or other period based filing, the complete company name and principal business address and main telephone number, the fiscal year end date of the company, the SEC identification number, the SEC File Number if the filing is an amended, revised, supplementary or post-effective prospectus or an amendment to any type of registration or transaction filing, each type of Commission registration currently effective for the filing entity and such other information as may be required by the Commission from time to time on cover pages for all SEC filings or for any specific type of filing. From time to time the Commission will publish a list showing the SEC filing form types currently in effect so that applicants and registrants can comply with the requirement to indicate the specific form type on the standard cover page.

4. Information Unknown or Not Reasonably Available

Other than financial statements, information required need be given only insofar as it is known or reasonably available to the registrant. If any required information is unknown and not reasonably available to the registrant, either because obtaining such would involve unreasonable effort or expense, or because it rests peculiarly within the knowledge of another person not affiliated with the registrant, the information may be omitted, subject to the following conditions:

- A. The registrant shall give such information on the subject as it possesses or can acquire without unreasonable effort or expense, together with the sources thereof; or,
- B. The registrant shall include a statement either showing that unreasonable effort or expense would be involved or indicating the absence of any affiliation with the person within whose knowledge the information rests and stating the result of a request made to such person for the information.

5. Supplemental Information

The Commission or its staff may, where it is deemed appropriate, request supplemental information concerning the filing or any of the content thereof.

6. Place of Filing

All filings subject to the provisions of this Rule shall be filed with the Commission by personal delivery, or such other mode as the Commission may prescribe to facilitate submissions.

7. Preparation of Filings Generally

- A. All filings shall contain the numbers and captions of all items of the appropriate form, but the text of the items may be omitted provided the answers thereto are so prepared as to indicate to the reader the coverage of the items without the necessity of his referring to the text of the items or instructions thereto. However, where any item requires information to be given in tabular form, it shall be given in substantially the tabular form specified in the item. All instructions, whether appearing under the items of the form or elsewhere therein, are to be omitted. Unless expressly provided otherwise, if any item is inapplicable or the answer thereto is in the negative, an appropriate statement to that effect shall be made.
- B. The registrant may file such exhibits as it may desire in addition to those required by the appropriate form. Such exhibits shall be so marked as to indicate clearly the subject matters to which they refer.
- C. In any case where two or more indentures, contracts, franchises, or other documents required to be filed as exhibits are substantially identical in all material respects except as to the parties thereto, the dates of execution, or other details, the registrant need file a copy of only one of such documents, with a schedule identifying the other documents omitted and setting forth the material details in which such documents differ from the document of which a copy is filed. The Commission may at any time in its discretion require the filing of copies of any document so omitted.

8. Preparation of Registration Statement and Prospectus

- A. In addition to the provisions of paragraphs 1 through 7 hereof, the following provisions shall apply to the preparation and filing of registration statements:
 - i. A registration statement shall consist of the facing sheet of the applicable form cross reference sheet; a prospectus containing the information called for by Part I of such form; the information, list of exhibits, undertakings and signatures required to be set forth in Part II of such form; financial statements and schedules; exhibits; any other information or documents filed as part of the registration statement; and all documents or information incorporated by reference in the foregoing (whether or not required to be filed).
 - ii. All general instructions, instructions to items of the form, and instructions as to financial statements, exhibits, or prospectuses are to be omitted from the registration statement in all cases.
 - iii. The prospectus shall contain the information called for by all of items of Part I of the applicable form. A copy of the prospectus may be filed as a part of the registration statement in lieu of furnishing the information in item-and-answer form. Wherever a copy of the prospectus is filed in lieu of information in item-and-answer form, the text of the items of the form is to be omitted from the registration statement, as well as from the prospectus, except to the extent provided in the next paragraph.

- iv. Where any item of a form calls for information not required to be included in the prospectus, generally Part II of such form, the text of such items, including the numbers and captions thereof, together with the answers thereto shall be filed with the prospectus under cover of the facing sheet of the form as a part of the registration statement. However, the text of such items may be omitted provided the answers are so prepared as to indicate the coverage of the item without the necessity of reference to the text of the item. If any such item is inapplicable, or the answer thereto is in the negative, a statement to that effect shall be made. Any financial statements not required to be included in the prospectus shall also be filed as a part of the registration statement proper, unless incorporated by reference pursuant to SRC Rule 12.2
- B. Securities to be issued as a result of stock splits, stock dividends and anti-dilution provisions and interests to be issued pursuant to certain employee benefit plans.
- i. If a registration statement purports to register securities to be offered pursuant to terms which provide for a change in the amount of securities being offered or issued to prevent dilution resulting from stock splits, stock dividends or similar transactions, such registration statement shall, unless otherwise expressly provided, be deemed to cover the additional securities to be offered or issued in connection with any such provision.
 - ii. If prior to completion of the distribution of the securities covered by a registration statement, additional securities of the same class are issued or issuable as a result of a stock split or stock dividend, the registration statement shall, unless otherwise expressly provided therein, be deemed to cover such additional securities resulting from the split of, or the stock dividend on, the registered securities. If prior to completion of the distribution of the securities covered by a registration statement, all the securities of a class which includes the registered securities are combined by a reverse split into a lesser amount of securities of the same class, the amount of undistributed securities of such class deemed to be covered by the registration statement shall be proportionately reduced. If paragraph 6 (B) (i) of this rule is not applicable, the registration statement shall be amended prior to the offering of such additional or lesser amount of securities to reflect the change in the amount of securities registered.
 - iii. Where a registration statement relates to securities to be offered pursuant to an employee benefit plan, including interests in such plan that constitute separate securities required to be registered under the Code, such registration statement shall be deemed to register an indeterminate amount of such plan interests.

9. Additional Information

In addition to the information expressly required to be included in a registration statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made not misleading.

10. Amendments

All amendments shall be filed under cover of the form amended, marked with the letter "A" to designate the document as an amendment, e.g., "17-A/A-1", "17-A/A-2" and in compliance with pertinent requirements applicable to statements and reports. Amendments filed pursuant to this paragraph shall set forth the complete text of each item as amended. Amendments shall be numbered sequentially and be filed separately for each statement or report amended.

Amendments to a registration statement may be filed either before or after registration becomes effective pursuant to SRC Rule 14.

11. Disclaimer of Control

If the existence of control of the registrant is open to reasonable doubt in any instance, the registrant may disclaim the existence of such. In such case, however, the registrant shall state the material facts pertinent thereto.

12. Incorporation by Reference

Except as otherwise provided in SRC Rule 12.2 paragraph (2), information may be incorporated by reference in answer, or partial answer, to any item required in a filing governed by the provisions of this Rule.

13. Incomplete Reports

All reports shall comply with the full disclosure requirements of the Rules. Any report which shall be found to be materially incomplete shall be considered or deemed not filed.

SRC Rule 72.2 – Procedure for Filing Request for Exemptive Relief under Sec. 72.1 of the Code

[new provision]

1. Any person may seek relief from any provision of the Code and the rules adopted thereunder by filing a letter-request which shall state the following:
 - a. the specific rule or order, requirement or prohibition from which relief is being sought;
 - b. the legal basis or justification for the exemption; and
 - c. the name, address, and telephone number/s of the applicant.
2. The letter-request shall be filed with the appropriate Operating Department which has jurisdiction over the issue subject of the request. The applicant shall pay the corresponding filing fee in the amount of Five Thousand Pesos (P5,000) or such other amount as may be prescribed by the Commission.
3. The Operating Department shall review the letter-request. It may, if deemed necessary, conduct a hearing on such request. Thereafter, it shall make the appropriate recommendation to the Commission En Banc.
4. The Commission shall issue the Order either granting or denying the request. The same shall become final and executory upon due notice to the applicant. The Commission may also opt to publish the Order in the Commission's website or in any other manner it may deem expedient.

SRC Rule 76– Repealing Clause

[new provision]

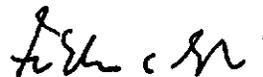
All rules and regulations, circulars, orders, memoranda, or any part thereof and the rules and regulations promulgated by persons required to be registered under the SRC or any part thereof, in conflict with or contrary to these Rules or any portion hereof, are hereby repealed or modified accordingly.

SRC Rule 78 - Effectivity

These Rules shall take effect fifteen (15) days after its publication in two (2) newspapers of general circulation.

December 30, 2003. Mandaluyong City, Philippines.


LILIA R. BAUTISTA
Chairperson


FE ELOISA C. GLORIA
Commissioner


JOSELIA J. POBLADOR
Commissioner


MA. JUANITA E. CUETO
Commissioner


JESUS ENRIQUE E. MARTINEZ
Commissioner