



## **RULES ON EXCHANGE TRADED FUNDS**

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## **PART A General Provisions**

### **SECTION 1. Rationale**

The Philippine Stock Exchange, Inc.'s ("Exchange") Rules on Exchange Traded Funds ("Rules") are being made to govern the listing and trading of Exchange Traded Funds ("ETF") to facilitate more investment opportunities for investors. These Rules are consistent with the requirements under Section 8 (1) of the Rules and Regulations on Exchange-Traded Funds of the Securities and Exchange Commission (the "Commission", the rules shall hereinafter be referred to as the "SEC ETF Rules") that the shares of stock of an ETF shall be listed and traded in a registered Exchange.

### **SECTION 2. Applicability of the Rules of the Exchange**

These Rules shall be read in conjunction with the SEC ETF Rules, the Securities Regulation Code and its implementing rules and regulations, the Investment Company Act and other relevant laws, rules and regulations and shall form part of all rules of the Exchange. All rules of the Exchange not inconsistent with these Rules shall apply to ETFs.

A copy of the SEC ETF Rules is attached herewith as Annex A and is incorporated by reference to these Rules.

### **SECTION 3. Scope and Application**

Only companies duly registered with the Commission as ETFs may apply for ETF listing in the Exchange.

### **SECTION 4. ETF Participants**

- a. **ETF** – An Exchange Traded Fund is an open-end investment company that continuously issues and redeems its shares of stock in Creation Unit in exchange for delivery of a basket of securities representing an index whose performance the ETF endeavors to track; provided that, the terms and conditions relative to the issuance and redemption in Creation Unit shall be prescribed in its Registration Statement.

An ETF is established in accordance with the Investment Company Act of the Philippines and duly registered with the Commission.

- b. **Fund Manager** - In addition to the requirements for the appointment of a Fund Manager under Section 15 of the SEC ETF Rules, the Fund Manager must likewise have been in operation for at least two (2) years and have satisfactory experience in managing funds.

An ETF must seek approval of the majority of its outstanding capital stock for any change of the Fund Manager.

- c. **Authorized Participant** - An ETF shall appoint at least two (2) Authorized Participants, who are registered broker-dealers and active trading participants of the Exchange, who shall meet the following requirements:
- (i) Those enumerated in Subsections 16.2, 16.3 and 16.4 of the SEC ETF Rules;
  - (ii) A minimum paid-up capital requirement of at least One Hundred Million Pesos (Php100,000,000.00);
  - (iii) Such other qualifications that the Commission and the Exchange may impose or require from time to time.

An ETF shall ensure that it has at least two (2) Authorized Participants at all times.

- d. **Market Maker** - At least one (1) of the designated Authorized Participants of the ETF shall be designated as the ETF Market Maker.

The Market Maker shall be subject to the provisions on ETF Market Making Rules found in Part C of these Rules and any applicable rules and regulations that the Commission and/or the Exchange may issue from time to time.

- e. **Custodian** - An ETF's custodian must comply with the minimum requirements for the appointment of a Custodian under Section 17 of the SEC ETF Rules.
- f. **Transfer Agent** - In addition to the minimum requirements for the appointment of a Transfer Agent under Section 18 of the SEC ETF Rules, a Transfer Agent must have a paid-in capitalization of at least One Hundred Million Pesos (Php 100,000,000.00).
- g. **Auditor** - The ETF shall engage an independent auditing firm duly accredited by the Commission and acceptable to the Exchange to perform an independent audit of the ETF's financial records.
- h. **Index Provider** - The ETF must engage an independent Index Provider which is compliant with the requirements set forth in Section 14 of the SEC ETF Rules.

## **PART B Listing and Disclosure**

An ETF shall be listed on the Exchange's ETF Board, which is a separate board from the Exchange's existing boards. The initial listing requirements under the Listing Rules are applicable to ETFs, unless otherwise provided herein or inconsistent with these Rules.

For the avoidance of doubt, the following provisions of the Listing Rules shall not be applicable to listing of ETFs:

- a. Methods of Initial Listing;<sup>1</sup>
- b. Requirements for First Board Listing;<sup>2</sup>

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<sup>1</sup> Currently, Article III, Part C of the Listing Rules.

- c. Requirements for Second Board Listing;<sup>3</sup>
- d. Requirements for Small and Medium Enterprises Board Listing;<sup>4</sup>
- e. Amended Rules on Listing by Way of Introduction;<sup>5</sup>
- f. Listing of Debt Securities;<sup>6</sup>
- g. Rules on Additional Listing of Securities;<sup>7</sup> and
- h. Fees for initial and additional listing of equity securities,<sup>8</sup> substitutional listing,<sup>9</sup> and listing of debt securities.<sup>10</sup>

## SECTION 5. General Criteria for Admission to Listing

- a. **Minimum Authorized Capital Stock and Paid-up capital** - An ETF applying to list in the Exchange shall have a minimum authorized capital stock and a minimum paid-up capital of at least Two Hundred Fifty Million Pesos (Php 250,000,000.00).
- b. **Offering Requirement** - When the registration of the ETF's securities becomes effective and its listing application is approved by the Exchange, the ETF may, at its option, undertake an offering for its securities. Such offering will not be covered by the IPO Rules on Distribution of Shares under Article III, Part G of the Exchange's Listing Rules, including the provisions pertaining to the twenty percent (20%) mandatory allocation for Trading Participants and the ten percent (10%) mandatory allocation for Local Small Investors.

In the event that an ETF undertakes an offering for its securities, Article III, Part A, Sections 4, 5 and 13 of the Listing Rules shall be applicable.

- c. **Shelf listing** - The ETF may apply for listing the equivalent number of shares subject of the Registration Statement. The Exchange's approval of the listing of the ETF shares shall remain valid provided that the Registration and Licensing Order as well as the Permit to Sell Securities for Sale issued by the Commission covering the subject ETF shares are likewise valid and subsisting. The eligibility for trading of the ETF shares shall take effect only upon the Exchange's receipt of an official notice issued by an authorized officer of the ETF and confirmed in writing by the Custodian and Transfer Agent, that such number of ETF shares has been created and issued to or through the Authorized Participant.

Should there be ETF shares which shall remain unissued upon the lapse of the shelf registration period, the said ETF shares shall automatically be removed from the

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<sup>2</sup> Currently, Article III, Part D of the Listing Rules.

<sup>3</sup> Currently, Article III, Part E of the Listing Rules.

<sup>4</sup> Currently, Article III, Part F of the Listing Rules.

<sup>5</sup> Currently, Article III, Part H, as amended of the Listing Rules.

<sup>6</sup> Currently, Article IV of the Listing Rules.

<sup>7</sup> Currently, Article V of the Listing Rules.

<sup>8</sup> Currently, Article VI, Parts B and C of the Listing Rules.

<sup>9</sup> Currently, Article VI, Part D of the Listing Rules.

<sup>10</sup> Currently, Article VI, Part E of the Listing Rules.

Exchange's registry and may only be re-listed with the Exchange upon the submission by the ETF of the following:

- 1) Copies of the documents submitted by the ETF to the Commission under Section 7.3(B)(1) of the SEC ETF Rules; and
  - 2) Payment of the processing fee of Fifty Thousand Pesos (PhP 50,000.00) or such amount as the Exchange may prescribe.
- d. **Underlying securities** – The underlying securities comprising the index which the applicant ETF intends to track must be listed and traded in a registered exchange and have sufficient liquidity. The ETF shall disclose the liquidity criteria and methodology in its Prospectus.
- e. **Procedure for processing of listing applications** - An application for listing shall only be accepted upon submission of the documentary requirements for listing of an ETF as set forth in Annex B and payment of the applicable processing fee. The general procedures for the listing of equity securities as contained in Article III Part B of the Listing Rules and any subsequent amendment and policies relevant thereto shall be adopted in processing listing applications for ETFs in accordance with the Exchange's initial listing rules.
- f. **Contents of Listing Application** - In addition to all minimum requirements set forth in the SEC ETF Rules (including, but not limited to, Sections 7, 11, 12, 13 and 19 thereof), the listing application of an ETF must contain the following information:
- (i) Complete information regarding the Fund Manager, Authorized Participants, Market Maker, Custodian, Auditor, Index Provider and Transfer Agent of the ETF;
  - (ii) The financial track record of the Fund Manager and when applicable, the persons or parties engaged by the Fund Manager to carry out activities necessary for the operation of the ETF pursuant to Subsection 15.5 of the SEC ETF Rules. The required information shall include, among others, their related engagement history and work experience and details of all funds and ETFs managed or advised by them;
  - (iii) Any other information or document that may be required by the Exchange in connection with its evaluation of an ETF's listing application.
- g. **Prospectus, Press Releases and Other Similar Documents** - In addition to the requirements under Sections 19 and 20 of the SEC ETF Rules, all prospectuses, primers, subscription agreement forms, newspaper prints, advertisements, press releases and similar documents in connection with the issuance shall first be submitted to the Exchange for review and disclosure purposes and may not be printed en masse, distributed or published without the prior written approval of the Exchange.
- h. **Suitability Rule** – An ETF shall be in compliance with the Suitability Rule as contained in Article 1 Part B Sections 1 b to m of the Listing Rules.

## **SECTION 6. Continuing Listing Requirements**

- a. Without in any way limiting the applicability of the rules governing the continuing listing of securities already in effect and all the rules and regulations set forth by the Exchange, the following shall be observed at all times:
- (i) **Minimum Public Ownership (MPO)** – As provided in the MPO rules of the Exchange, the ETF shall maintain a public ownership of at least 10% of the issued and outstanding shares, exclusive of treasury shares, or such other number as the Exchange may from time to time prescribe.  
  
To further implement the guidelines in determining public ownership, and for purposes of computing the MPO of an ETF, ETF shares held by Authorized Participants in the course of performing their duties as such or as Market Makers, and shares acquired through the process of creation and redemption shall be considered public shareholdings.
  - (ii) The ETF shall maintain all applicable regulatory licenses and accreditation;
  - (iii) The ETF must ensure that all necessary facilities and information are available to enable holders of its listed shares to exercise their rights.
- b. The ETF must have an Investor Relations Office which manages the investor relations program of the ETF. The said program must ensure that information affecting the company are communicated effectively to investors. This program shall include, at the minimum, a corporate website that contains, among others, information about the company, such as but not limited to the following:
- (i) **Company information** – controlling stockholders, board of directors and management team
  - (ii) **Company News** – analyst briefing report, latest news, press releases, newsletter (if any)
  - (iii) **Financial report** – annual and quarterly report for the past 10 years or the period applicable to the ETF
  - (iv) **Disclosures** - recent disclosures to PSE and SEC for the past 10 years or the period applicable to the ETF
  - (v) **Investor FAQs** – commonly asked questions of shareholders
  - (vi) **Investor Contacts** – email for feedback/comments, shareholder assistance and service
  - (vii) **Stock Information** – key figures, dividends, stock information

- c. Periodic Reporting, Disclosure Policy, and Other Requirements – The general structured and unstructured reportorial requirements shall apply to ETFs under the Disclosure Rules of the Exchange, in addition to the reportorial requirements under Section 27 of the SEC ETF Rules.

In addition, the ETF must likewise comply with the following:

(i) Periodic Reports

- a) The ETF must disclose the iNAV every one (1) minute or such other frequency as may be prescribed by the Commission from time to time or as proposed by the Exchange in its rules and approved by the Commission.

The iNAV, as defined in the SEC ETF Rules, is an approximation of the current value of the basket of securities on a per share basis computed at a one (1) minute interval throughout the trading hours of the Exchange.

The iNAV calculation may be provided by the ETF or the ETF Fund Manager or a third party.

- b) An ETF must announce no later than 4:30 p.m. of every trading day, or on a frequency that the Exchange may from time to time prescribe, via the Online Disclosure System of the Exchange (ODiSy) the following information:
- (1) Net Asset Value (NAV) and NAV per share;
  - (2) Issued and outstanding shares of the ETF;
  - (3) Underlying index; and
  - (4) Tracking Error as defined under Section 5 (21) of the SEC ETF Rules.

**Note:** Pursuant to a resolution issued and approved by the Exchange's Board of Directors on 11 September 2013, the cut-off time for the ETF Daily Report was amended to 6:30 p.m. (Per Resolution No. 141 Series of 2013 of the Exchange's Board of Directors)

- (ii) Annual Report – In addition to the requirements under the Securities Regulation Code and the SEC ETF Rules, an ETF must submit an annual report which shall disclose the following information within one hundred five (105) days after the end of the fiscal year, or such other time as the Commission, by rule, shall prescribe:
- a) A list of all investments with a value greater than 5% of the ETF's gross assets, and at least the 10 largest investments stating their:
- (1) applicable comparative periodic figures, if any;
  - (2) brief description of the business;

- (3) proportion of share capital owned;
  - (4) cost;
  - (5) valuation of other assets and investments, and in the case of listed investments, market value;
  - (6) dividends received during the year (indicating any interim dividends);
  - (7) dividend payout ratio;
  - (8) extraordinary items, if any; and
  - (9) net assets attributable to investments.
- b) An analysis of any provision for diminution in the value of investments, stating for each such investment:
- (1) cost;
  - (2) book value; and
  - (3) provision made.
- c) Breakdown of the income received:
- (1) dividends and interest; and
  - (2) other income, if any.
- d) An analysis of realized and unrealized gain/loss on investment(s)
- e) The name of the Fund Manager together with an indication of the terms and duration of its appointment and the basis for its remuneration;
- f) The Securities Lending activities of the ETF

The ETF as a direct lender shall include the latest two (2) bi-annual Summary Reports of their Securities Borrowing and Lending (SBL) transactions submitted to the Commission.

- g) Amount of related-party transactions for the period under review;

The term "related parties" shall refer to "affiliates of the ETF, the Fund Manager, the Custodian, the Transfer Agent, or the Index Provider, accounted for by the equity method of accounting; trusts for the benefit of employees such as pension and profit sharing plans that are managed by or under the trusteeship of the management of the ETF; directors, major shareholders or principal owners of the ETF, the Fund Manager, the Custodian, the Transfer



Agent, or the Index Provider; and their management; members of the immediate families of major shareholders, principal owners and management of the ETF and the ETF Fund Manager.”

- h) The performance of the ETF in comparison to its underlying index, in a consistent format, covering the following periods of time: 3-month, 6-month, 1-year, 3-year, 5-year, 10-year and since inception of the ETF.
  - i) Expense ratios for the period under review and for the immediately preceding year. It should be indicated that the expense ratio does not include brokerage and other transaction costs, performance fee, foreign exchange gains/losses, and tax deducted at source or arising out of income received front or back end loads arising from the purchase or sale of other investments; and
  - j) Turnover ratios for the period under review and for the immediately preceding year.
- (iii) Quarterly Reports – In addition to the requirements under the Securities Regulation Code and the SEC ETF Rules, particularly Subsection 27.2, an ETF must submit Quarterly Reports which must disclose the following information within forty-five (45) days from the end of each quarter:
- a) Top 10 holdings at market value and as a percentage of NAV as at the end of the period under review and for the immediately preceding year;
  - b) Expense ratios for the period under review and for the immediately preceding year. It should be indicated that the expense ratio does not include brokerage and other transaction costs, performance fee, foreign exchange gains/losses, and tax deducted at source or arising out of income received front or back end loads arising from the purchase or sale of other investments; and
  - c) Turnover ratios for the period under review and for the immediately preceding year.
- (iv) Monthly Issuance and Redemption Report of ETF Creation Units to be submitted not later than five (5) trading days from the last day of the preceding month;
- (v) If the ETF is also listed on another stock exchange, any information released to that stock exchange must also be released to the Exchange at the same time. The disclosure to the Exchange shall be in English.
- (vi) The ETF must also comply with the following reportorial requirements:
- a) The ETF must notify the Exchange at the end of each dividend distribution period the following as soon as they are computed by the Fund Manager:
    - (1) The net amount per share;
    - (2) The date of the recording of the list of shareholders; and

- b) The Fund Manager must state clearly, in all disclosures issued in respect of the sale of shares of the ETF, the terms upon which it undertakes to repurchase ETF shares. If there is no undertaking, it must state that fact; and
- c) The ETF must notify the Exchange of the following within ten (10) minutes from their occurrence:
  - (1) Any creation and redemption and the resulting issued and outstanding ETF shares;
  - (2) Breach of tracking error threshold;
  - (3) Failure and/or inability to disclose the iNAV at the prescribed frequency;
  - (4) Any changes in the control of the Fund Manager;
  - (5) Any proposed change in the general character, nature or investment objective of the ETF and/or fund management;
  - (6) Any resolution or decision to renew, vary or terminate the management agreement;
  - (7) The fact of inability of the Market Maker to perform its functions or the absence of the Market Maker and the reasons therefor;
  - (8) The name and qualifications of the Authorized Participant which will assume the functions and obligations of the ETF's Market Maker;
  - (9) The decision to terminate the ETF's agreement with any of the following participants and the reasons therefor:
    - (a) Market Maker;
    - (b) Authorized Participant;
    - (c) Fund Manager;
    - (d) Custodian;
    - (e) Index Provider; and
    - (f) Transfer Agent.

Provided, however, that within thirty (30) days prior to the effectivity of the termination, the ETF must notify the Exchange in writing of the fact of termination.

Further, the ETF must engage a new Market Maker/Authorized Participant/Fund Manager/Custodian/Index Provider or Transfer Agent no later than ten (10) trading days prior to the effectivity date of the termination of services of the previous Market Maker/Authorized Participant/Fund Manager/Custodian/Index Provider or Transfer Agent. Notice to the Exchange that the ETF has engaged a new Market Maker/Authorized Participant/Fund Manager/

Custodian/Index Provider or Transfer Agent must be filed within the same period.

Upon failure to engage the replacement within the prescribed period, the Exchange shall suspend trading of securities of the ETF which shall be lifted upon receipt of notice of the engagement of a new Market Maker/Authorized Participant/Fund Manager/Custodian/Index Provider or Transfer Agent.

(10) Detailed information including the qualifications of the new Authorized Participant(s) which will assume the functions and obligations of the ETF's Authorized Participants;

(11) Any trading halt or suspension imposed by another exchange on the ETF Shares and the reasons therefor, if the ETF is simultaneously listed in another stock exchange;

(12) Any trading halt or suspension of the underlying securities and subsequent lifting thereof, including the percentage of the said underlying securities in relation to the applicable current index value and, in the case of underlying securities listed in another exchange, the reason for the halt or suspension;

(13) Any material facts related to the listed ETF, or the operation, business or assets of the ETF, which may significantly affect the investment decisions of investors.

d) Other reports and records as may be required by the Commission from time to time.

## **SECTION 7. Trading Halts and Suspensions**

a. Trading of the ETF shares shall be suspended under the following circumstances:

(i) If the underlying securities accounting for 20% or more thereof have been suspended;

(ii) Absence of a Market Maker for a period of one (1) month;

(iii) When the Commission issues an order of suspension or revocation on the registration of the ETF shares; or

(iv) Other applicable grounds provided under the Listing and Disclosure Rules and Trading Rules of the Exchange.

b. Trading of the ETF shares shall be halted for an hour, or for any appropriate period as may be deemed necessary by the Exchange, on the first day of occurrence of the following circumstances:

- (i) Breach of tracking error threshold;
  - (ii) Any of the underlying securities has been delisted;
  - (iii) Trading has been halted for one or more underlying securities accounting for 20% or more of the applicable current index value;
  - (iv) If the iNAV is not timely published within the frequency prescribed in these Rules; or
  - (v) Other applicable grounds provided under the Listing and Disclosure Rules and Trading Rules of the Exchange.
- c. In the case of ETF shares simultaneously listed in another exchange, the Exchange may halt or suspend the trading of the ETF shares if the trading thereof is halted or suspended in the other exchange.

#### **SECTION 8. Delisting of an ETF**

- a. In addition to the grounds for involuntary delisting under the Delisting Rules, the following shall be grounds for the involuntary delisting of an ETF:
- (i) Failure by the ETF to comply with its continuing listing obligations, including the failure to pay the applicable fees;
  - (ii) Continued breach of the tracking error threshold set by the ETF for a period of at least one year. Tracking error as defined in the SEC ETF Rules Section 5.21 is the standard deviation of the difference in relative returns between the ETF and its underlying index;
  - (iii) Revocation of the registration of the ETF and/or its shares;
  - (iv) Such other grounds as may be determined by the Exchange, where delisting of the ETF may be appropriate in the public interest or for the protection of investors.
- b. Tender Offer/Redemption Requirement – In all instances, an ETF that undergoes delisting, must purchase or redeem, either by itself, a stockholder, or through a proponent, more than ninety percent (90%) of the issued and outstanding shares of the ETF.

The required redemption may be made:

- (i) By delivering the corresponding basket of securities to the concerned shareholder after the surrender of the ETF shares in accordance with Section 11.1 of the SEC ETF Rules; and/or
- (ii) In exchange for cash in accordance with Section 13 of the SEC ETF Rules.

The ETF shall demonstrate that following the redemption of the shares, the ETF, the stockholder or the proponent, has obtained more than ninety percent (90%) of the issued

and outstanding shares of the ETF, or such level or percentage as may be prescribed by the Exchange.

The purchase or redemption price or valuation shall be duly supported by a fairness opinion prepared by an independent and reputable firm, and in accordance with the Guidelines for Fairness Opinions and Valuation Reports of the Exchange.

#### **SECTION 9. Penalties and Fines**

- a. For non-compliance with the required number of Authorized Participants, a monetary penalty of One Hundred Pesos (Php100.00) for every day of non-compliance shall be imposed upon the ETF.
- b. For the absence of a Market Maker, a monetary penalty of Five Hundred Pesos (Php500.00) for every day of non-compliance shall be imposed upon the ETF.
- c. In the absence of a Fund Manager, Custodian, Index Provider, Authorized Participant, Transfer Agent, the Exchange shall suspend the trading of securities of the ETF which shall be lifted upon receipt of notice of the engagement of a new Fund Manager, Custodian, Index Provider, Authorized Participant, or Transfer Agent .
- d. For any violation of these Rules not stated herein, the penalties under the PSE Disclosure Rules shall apply.

#### **SECTION 10. Fees**

An ETF shall be required to pay the following fees:

- a. Processing Fee – Upon filing of its application to list, the ETF shall pay a non-refundable processing fee of Fifty Thousand Pesos (Php50,000.00) plus other incidental expenses.
- b. Listing Fee – The ETF shall pay a flat rate of One Hundred Thousand Pesos (Php100,000.00).
- c. Annual Listing Maintenance Fee – The ETF shall pay an Annual Listing Maintenance Fee of 1/200 of 1% of the total market capitalization but in no case shall it be more than Two Hundred Fifty Thousand Pesos (Php250,000.00).

#### **SECTION 11. Compliance with Laws Governing Investments**

The ETF must ensure compliance with the provisions of existing laws, rules and regulations and issuances including, but not limited to, the Anti-Money Laundering Act of the Philippines, the Investment Company Act, and any other applicable law or regulations.



## **RULES ON EXCHANGE TRADED FUNDS**

### **PART C ETF Market Making Rules**

- SECTION 12. ETF Market Making Rules
- SECTION 13. Registration of the ETF Market Maker
- SECTION 14. Exchange Reportorial Requirements of the ETF Market Maker
- SECTION 15. Market Making Orders
- SECTION 16. Occurrence of a Wide Spread
- SECTION 17. Other ETF Market Making Obligations
- SECTION 18. Segregation of Functions
- SECTION 19. Temporary Suspension of the Obligations to be Performed by the ETF Market Maker
- SECTION 20. Voluntary Termination of a Designated Specialist
- SECTION 21. Voluntary Withdrawal of Registration as ETF Market Maker
- SECTION 22. Expiration of ETF Market Making Agreement
- SECTION 23. Involuntary Suspension and Termination of an ETF Market Maker
- SECTION 24. Resumption of ETF Market Making Obligations
- SECTION 25. Violations and Penalties for ETF Market Making Operations

### **Implementing Guidelines of ETF Market Making Rules**

- SECTION 1. Registration of ETF Market Maker
- SECTION 2. Obligations of an ETF Market Maker

## **PART C ETF Market Making Rules**

### **SECTION 12. ETF Market Making Rules**

Pursuant to Sections 5(14) and 8(2) of the SEC ETF Rules, which provide for the obligations of a Market Maker as a required participant in the ETF, the following sections comprise the Market Making Rules specific to ETFs:

### **SECTION 13. Registration of the ETF Market Maker**

- a. In order to participate in the ETF trading process as a Market Maker, a Trading Participant shall apply for registration as an ETF Market Maker with the Exchange. For this purpose, the Trading Participant shall fulfill other requirements that may be imposed by the Exchange and the Commission, including, without limitation, the requirement to have at least one (1) licensed Salesman who has been accredited as a Designated Specialist by the Exchange or any person authorized by the Commission. Designated Specialists, as defined in the PSE Trading Rules, shall mean the appointed licensed Salesman employed by a Market Maker to perform Market Making obligations.
- b. Upon compliance with the requirements of the Exchange and the Commission, the applicant shall be registered as an authorized ETF Market Maker and may be engaged as such by an ETF.
- c. The registration and authority of a Trading Participant to act as an ETF Market Maker shall be non-transferable.
- d. The registration of an ETF Market Maker and the accreditation of Designated Specialists shall be valid for a period of one (1) year unless sooner terminated under these Rules. The registration and accreditation may be renewed thereafter subject to compliance with the requirements of the Exchange and the Commission.
- e. Only a registered ETF Market Maker shall be allowed to enter into a Market Making agreement with an ETF and shall be allowed to perform its Market Making functions pursuant to the agreement and in accordance with the requirements of the Exchange and the Commission.
- f. Only accredited Designated Specialists are allowed to perform the Market Making functions and obligations of the ETF Market Maker.
- g. The ETF Market Maker shall furnish the Exchange, through the PSE Listings Department, copies of all Market Making agreements it has entered into with ETF/s. The Market Maker shall comply with this obligation throughout the duration of its registration. However, the Exchange shall not be liable to the ETF Market Maker, ETF

or any other party for any and all losses, claims, or damages, direct or indirect, arising out of or in connection with the Market Making agreement.

#### **SECTION 14. Exchange Reportorial Requirements of the ETF Market Maker**

The ETF Market Maker shall immediately inform the Exchange, through the PSE Market Operations Division, delivered by hand or submitted in electronic form, within one (1) trading day from their knowledge provided that such provision of information to the Exchange shall not be later than three (3) trading days from occurrence of any of the following matters:

- a. Any material change in information relating to the ETF Market Maker or its Designated Specialist/s;
- b. Any actual or expected breach by the Designated Specialist/s of the ETF Market Making rules and the requirements of the Exchange;
- c. Any disciplinary actions taken or any penalties imposed by the SEC or any regulatory body, on the ETF Market Maker or the Designated Specialist;
- d. Any disciplinary action taken by the ETF Market Maker against its Designated Specialist/s;
- e. Notice of filing or pendency of any criminal case involving fraud filed by or against the ETF Market Maker, its officers, directors or Designated Specialist/s;
- f. Notice of filing or pendency of any civil case amounting to at least One Hundred Thousand Pesos (Php100,000.00) is filed by or against the ETF Market Maker.

The ETF Market Maker shall supply any additional information or supporting documents that may be requested by the Exchange in connection with the aforementioned circumstances.

The Exchange reserves the right to disclose to the public any and all documentary submissions and disclosures of the ETF Market Maker upon a determination that the same is necessary in order to maintain a fair and orderly market for the protection of the investing public or upon order of the Commission.

#### **SECTION 15. Market Making Orders**

Only when the ETF has a market making agreement with its Market Maker can its shares be subject of Market Making orders.

#### **SECTION 16. Occurrence of a Wide Spread**

Wide spread shall mean the occurrence of any of the following situations:

- a. the bid and ask spread is larger than a limit specified by the Exchange from time to time;



- b. there is only one-sided quotation; or
- c. there is no existing quotation on both the bid and ask queues.

The abovementioned circumstances shall be in occurrence continuously for a period of time, as the Exchange may from time to time prescribe, during the Continuous Trading phase, defined as the period during the market open, where orders are immediately matched.

#### **SECTION 17. Other ETF Market Making Obligations**

- a. A Market Maker shall be permitted to act as a Market Maker for more than one ETF, subject to the approval by the Exchange.
- b. An ETF Market Maker shall only use its designated ETF Market Making account to enter Orders that are covered under, or in pursuance of, its ETF Market Making functions.
- c. An ETF Market Maker shall be allowed to maintain only the ETF Market Making and error account for the ETF in which it is designated as a Market Maker.
- d. An ETF Market Maker shall be fully responsible and liable for all ETF Market Making Orders entered into the Trading System. The ETF Market Maker, upon entering an ETF Market Making Order, warrants to the Exchange that the said Order is valid, binding and enforceable and that the necessary authorizations and approval have been secured.

All acts or violations of the Designated Specialist in performance of its market making obligations are binding on and considered acts or violations of the Market Maker.

- e. The Exchange reserves the right to define the parameters on ETF Market Making obligations of the ETF Market Maker as provided in Section 2 of the Implementing Guidelines of the ETF Market Making Rules and approved by the Commission. Subject to these Rules, each ETF Market Maker shall be obliged, upon occurrence of Wide Spread, to perform the following:
  - (i) enter buy and/or sell ETF Market Making Orders into the System in quantities not less than the minimum volume required by the Exchange to eliminate wide spread;
  - (ii) observe a maximum bid and offer spread throughout a mandatory period; and
  - (iii) maintain presence in the market within the period required by the Exchange.

The Exchange may periodically assess and revise the parameters to adjust to market conditions such as, but not limited to, excessive volatility of the relevant securities.

### **SECTION 18. Segregation of Functions**

- a. The ETF Market Maker shall maintain proper segregation of functions within the firm to prevent the flow of information between its Designated Specialists and its other salesmen and any conflict of interest that may result.
- b. The ETF Market Maker shall ensure that its Designated Specialist does not, in the same trading day, enter orders or handle or manage any transactions relating to client accounts or to any other ETF.
- c. The ETF Market Maker shall maintain complete and identifiable books and records for its ETF Market Making transactions. The ETF Market Maker shall include a registry pinpointing the person who acted as the Designated Specialist(s) during a particular day or period.

### **SECTION 19. Temporary Suspension of the Obligations to be Performed by the ETF Market Maker**

Any agreement between the ETF and the ETF Market Maker to the contrary notwithstanding, the Exchange may grant the request of an ETF for the temporary suspension of the market making obligations of its ETF Market Maker under any of the following circumstances:

- a. If the delay or inability to execute the obligation is due to technical problems arising from circumstances outside the reasonable control of the ETF Market Maker;
- b. If the Designated Specialist is temporarily unable to perform his functions for reasons beyond his control and there is no substitute Designated Specialist available; or
- c. Such other cases as the Exchange may deem necessary for a fair and orderly market and to protect the investing public.

The Exchange and the ETF shall immediately disclose any grant of a temporary suspension of the market making obligations by posting in their respective websites the decision to grant the request and stating therein the reason for granting the request and the period covered relative to the suspension.

The continuing disclosure requirements under the Securities Regulation Code and the Exchange Rules shall still have to be complied with by the ETF.

### **SECTION 20. Voluntary Termination of a Designated Specialist**

The Exchange may, upon the written request of the ETF Market Maker, terminate the registration of its Designated Specialist and the Market Maker shall immediately assign a replacement, if necessary.

### **SECTION 21. Voluntary Withdrawal of Registration as ETF Market Maker**

An ETF Market Maker may voluntarily withdraw as an ETF Market Maker for any ETF with which it has an existing ETF Market Making agreement provided it submits to the Exchange at least thirty (30) trading days prior to the intended date of withdrawal: (i) a written request for its withdrawal; and (ii) the written consent of the concerned ETF.

If the ETF Market Maker intends to completely cease its ETF Market Making operations, it shall submit to the Exchange at least thirty (30) trading days prior to the intended date of cessation: (i) a written request for its cessation; and (ii) the written consent of all ETFs with which it has existing ETF Market Making agreements. If the ETF Market Maker submits both requirements, it shall be eligible to reapply for registration as an ETF Market Maker at any time. If it submits only the request for cessation but fails to submit the written consent of the concerned ETFs, it shall only be eligible to reapply for registration as an ETF Market Maker after a cooling-off period of one (1) month from the effective date of cessation.

Within a reasonable time and in all cases prior to the intended date of withdrawal by the ETF Market Maker or its intended date of cessation of Market Making operations, the ETF shall submit to the Exchange the name and other details of the replacement ETF Market Maker appointed by the ETF. In cases where the previous ETF Market Maker is the sole ETF Market Maker of the ETF, the appointment of the replacement ETF Market Maker shall commence not later than the date of withdrawal or the date of the cessation of the ETF Market Making operations of the previous ETF Market Maker.

### **SECTION 22. Expiration of ETF Market Making Agreement**

Upon expiration of the agreement between the ETF and the ETF Market Maker, the ETF Market Maker is prohibited from entering ETF Market Making Orders for that particular ETF.

### **SECTION 23. Involuntary Suspension and Termination of an ETF Market Maker**

The Exchange may suspend the ETF Market Maker or terminate the ETF Market Maker's registration for any of the following causes:

- a. Substantial non-compliance with the ETF Market Making rules, regulations and guidelines of the Exchange;
- b. Failure to promptly settle any dues or fees payable to the Exchange;
- c. Suspension of the ETF Market Maker by the Commission, the Capital Markets Integrity Corporation or the Securities Clearing Corporation of the Philippines ; or
- d. Other reasons as deemed necessary by the Exchange to maintain an orderly and fair market.

Such suspension or termination of registration shall be without prejudice to any penal sanctions that may be imposed by the Exchange or to any civil, criminal and/or administrative action that the Exchange may take against the ETF Market Maker as a Trading Participant or its Designated Specialist in his capacity as a Licensed Salesman, as may be applicable under the circumstances.

#### **SECTION 24. Resumption of ETF Market Making Obligations**

- a. An ETF Market Maker whose market making obligations have been suspended by the Exchange shall be prohibited from performing its ETF Market Making activities until it receives the appropriate notification/clearance from the Exchange. The Exchange shall send an advisory to all Trading Participants informing them of the resumption of the functions of the ETF Market Maker.
- b. An ETF Market Maker whose registration has been terminated by the Exchange shall be prohibited from performing its ETF Market Making activities until it has re-registered as an ETF Market Maker. It shall be eligible to reapply for registration as an ETF Market Maker after a period of three (3) months counted from the effective date of termination, unless a longer period is imposed by the Exchange or the Commission under the circumstances.

#### **SECTION 25. Violations and Penalties for ETF Market Making Operations**

The following acts shall be considered violations of ETF Market Making Rules and shall be penalized in accordance with Article IX (Penal Sanctions) of the Trading Rules of the Exchange:

- a. Major Violations
  - (i) Using the ETF Market Making account for non-ETF Market Making transactions;
  - (ii) Allowing an unauthorized person or entity to use the ETF Market Making account;
  - (iii) Maintaining in its proprietary account, ETF shares for which it is engaged to act as Market Maker; and
  - (iv) Any acts similar or analogous to the foregoing;
  - (v) Non-compliance with the reportorial requirements of the Market Maker as specified in Part C Section 14 of these rules; and
  - (vi) Continuous failure by the ETF Market Maker to comply with its Market Making obligations under these Rules which may be detrimental to the interest of the investing public or cause a disruption in the fair and orderly maintenance of the market.
- b. Minor Violations

- (i) Failure to comply with the reportorial requirements under these ETF Market Making Rules.

The penalties imposed pursuant to these ETF Market Making Rules shall be without prejudice to any civil, criminal and/or administrative action that the Exchange may take against the violating party, or to any penalty that may be imposed under the Trading Rules, depending on the circumstances.

### **Implementing Guidelines of ETF Market Making Rules**

#### **SECTION 1. Registration of ETF Market Maker**

- a. To register as an ETF Market Maker with the Exchange, an Authorized Participant designated by an ETF, shall meet the following requirements:
  - (i) Licensed to act as a broker/dealer by the Commission;
  - (ii) Registered as a trading participant of the Exchange;
  - (iii) Has been continuously operating as a broker/dealer for the five (5) year period immediately preceding the filing of the application;
  - (iv) Has at least one (1) Designated Specialist; and
  - (v) Has no violation of laws or serious non-compliance with rules and regulations for the last two (2) years prior to filing the application.
- b. The Authorized Participant designated by an ETF shall submit the following to the Exchange as an ETF Market Maker:
  - (i) Letter of Intent to operate as an ETF Market Maker duly signed by the nominee;
  - (ii) Board Resolution authorizing the Trading Participant to engage in ETF Market Making operations;
  - (iii) Processing fees in the amount of Five Thousand Pesos (₱5,000.00) for each issue, or such other amount as may be prescribed by the Exchange from time to time; and
  - (iv) Such other documents that may be required by the Exchange.

**SECTION 2. Obligations of an ETF Market Maker**

All ETF Market Makers must comply with the rules set by the Exchange. To ensure sufficient liquidity in the market, ETF Market Makers are obliged, upon occurrence of Wide Spread, to perform the following when posting Market Making orders:

a. Maximum Spread

An ETF Market Maker must ensure two-way quotes, i.e. buy and sell orders, with a maximum spread based on the table below:

Price		Maximum Spread
From	To	
0.0001	0.4950	20 ticks
0.5000	19.9800	15 ticks
20.0000	999.5000	10 ticks
1000.0000	UP	5 ticks

b. Minimum Order Quantity

Each Market Making order posted by an ETF Market Maker must have a minimum quantity of five (5) board lots. The Exchange may prescribe other appropriate volume requirements, as may be necessary.

c. Presence

- (i) The limit of the bid and ask spread for the situations under the definition of Wide Spread as stated in Section 16 of the ETF Market Making Rules shall be based on the following table:

Price		Bid and Ask Spread Limit
From	To	
0.0001	0.4950	Beyond 20 ticks
0.5000	19.9800	Beyond 15 ticks
20.0000	999.5000	Beyond 10 ticks
1000.0000	UP	Beyond 5 ticks

- (ii) The minimum period of time for which the situations described in Section 16 of the ETF Market Making Rules, must have occurred continuously for at least three (3) minutes, in order to constitute a Wide Spread.
- (iii) The period of time within which the ETF Market Maker must enter order/s to eliminate wide spread, must not exceed ninety (90) seconds.
- (iv) An ETF Market Maker shall maintain Market Making Orders for at least fifty percent (50%) of the time for any given trading day. This obligation is measured by getting

- the total number of hours/minutes that the Market Maker has an active order when the market is open at any given trading day.
- (v) An ETF Market Maker shall post and maintain Market Making Orders for a total of at least eighty percent (80%) of the time for one month. This obligation is measured by getting the total number of hours/minutes in a month that the Market Maker has an active order when the market is open.

**Illustration:**

*ETF symbol:* ABC  
*LTP:* Php25.00  
*Tick size:* 0.05  
*Lot size:* 100

Using the table above, the Market Maker for ETF ABC must maintain a maximum spread of 10 ticks. This means that the difference between the best bid price and the best ask price for ETF ABC must not exceed .50 (10 ticks x .05). The market making orders to be entered must have a minimum quantity of 500 shares (5 board lots x 100 shares).

➤ Scenario 1:

**Current Order Book**

<b>Volume</b>	<b>Bid</b>	<b>Ask</b>	<b>Volume</b>
1,500	24.90	25.50	6,000
2,300	24.80	25.55	400
		25.60	1,200

In the current order book, the bid and ask spread is .60 which is beyond the maximum spread for ETF ABC. If this situation does not change for more than three (3) minutes, it is considered an occurrence of a wide spread. In this case, the Market Maker for ETF ABC is obliged to enter market making orders within ninety (90) seconds. The Market Maker may enter either of the following:

- Sell order: 500 shares at Php25.40

**New Order Book**

<b>Volume</b>	<b>Bid</b>	<b>Ask</b>	<b>Volume</b>
1,500	24.90	<b>25.40</b>	<b>500</b>
2,300	24.80	25.50	6,000
		25.55	400
		25.60	1,200

- Buy order: 700 shares at Php25.00

**New Order Book**

<b>Volume</b>	<b>Bid</b>	<b>Ask</b>	<b>Volume</b>
<b>700</b>	<b>25.00</b>	25.50	6,000
1,500	24.90	25.55	400

2,300	24.80	25.60	1,200
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- Buy order: 1,000 shares at Php24.95 and Sell order: 800 shares at Php25.45

**New Order Book**

Volume	Bid	Ask	Volume
<b>1,000</b>	<b>24.95</b>	<b>25.45</b>	<b>800</b>
1,500	24.90	25.50	6,000
2,300	24.80	25.55	400
		25.60	1,200

- Buy order: 900 shares at Php25.00 and Sell order: 1,200 shares at Php25.35

**New Order Book**

Volume	Bid	Ask	Volume
<b>900</b>	<b>25.00</b>	<b>25.35</b>	<b>1,200</b>
1,500	24.90	25.50	6,000
2,300	24.80	25.55	400
		25.60	1,200

➤ Scenario 2:

**Current Order Book**

Volume	Bid	Ask	Volume
3,000	24.75		
200	24.60		

This scenario is considered a one-sided quotation or one-sided order book since there are no selling orders. Thus, if there are no selling orders that will be posted for more than three (3) minutes, it is already considered as an occurrence of a wider spread. In this case, the Market Maker is obliged to enter market making orders to maintain the maximum spread for the ETF which is 10 ticks (equivalent to .50 for ETF ABC). The Market Maker may enter either of the following:

- Sell order: 600 shares at Php25.25

**New Order Book**

Volume	Bid	Ask	Volume
3,000	24.75	<b>25.25</b>	<b>600</b>
200	24.60		

- Buy order: 1,100 shares at Php24.80 and Sell order: 500 shares at Php25.30

**New Order Book**

Volume	Bid	Ask	Volume
<b>1,000</b>	<b>24.80</b>	<b>25.30</b>	<b>500</b>
3,000	24.75		



200	24.60		
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- Buy order: 1,300 shares at Php24.85 and Sell order: 700 shares at Php25.00

**New Order Book**

<b>Volume</b>	<b>Bid</b>	<b>Ask</b>	<b>Volume</b>
<b>1,300</b>	<b>24.85</b>	<b>25.00</b>	<b>700</b>
3,000	24.75		
200	24.60		

The Exchange shall regularly monitor the performance of all ETF Market Makers using the parameters set forth in these guidelines. Any breach or non-compliance with the obligations provided herein may result in the suspension or termination of an ETF Market Maker for any disciplinary action deemed appropriate by the Exchange.

An ETF Market Maker's agreement with an ETF may not supersede the minimum requirements of the Exchange as set forth in these guidelines. The ETF may impose additional obligations for the ETF Market Maker provided that the obligations set by the Exchange are complied with at the minimum.