

# SECURITIES AND EXCHANGE COMMISSION “CAPITAL FORMATION FOR SMEs”

17 SEPTEMBER 2021

MARKETS AND SECURITIES  
REGULATION DEPARTMENT (“MSRD”)



# REALITY CHECK FOR SMEs

A substantial number of SMEs

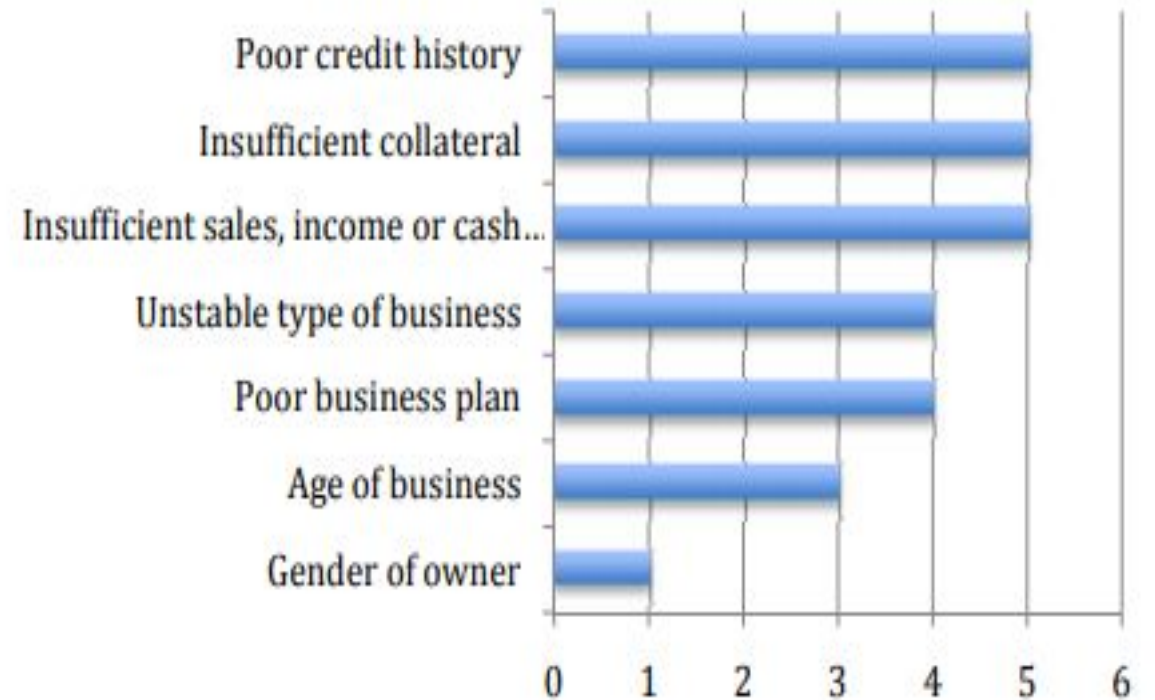
- Experience credit constraints
- Hardly use formal credits
- Access informal source of credits (with higher interest rates)
- Cannot solely fund their expansion from internal cash flows (CFs)

The recent economic slowdown due to Covid-19 crisis has exacerbated SMEs financial positions

# FACTORS THAT AFFECT SMEs FINANCING

- To acquire financing, various requirements are imposed on SMEs to comply such as collateral, formal application, business financial statements, appraisal of assets, cash flow projection or business plan (Aldaba, 2012).
- Due to tedious documentation and mandatory collateral requirements, some SMEs do not pursue external financing and instead rely on their internal resources (Aldaba, 2012).

**Figure 9: Reasons for Turning Down Financial Requests**



Source: Aldaba (2012)

# A BUSINESS OBJECTIVE



# A CHOICE OF FUNDING SOURCES

OWN POCKET



BANKS & LENDERS



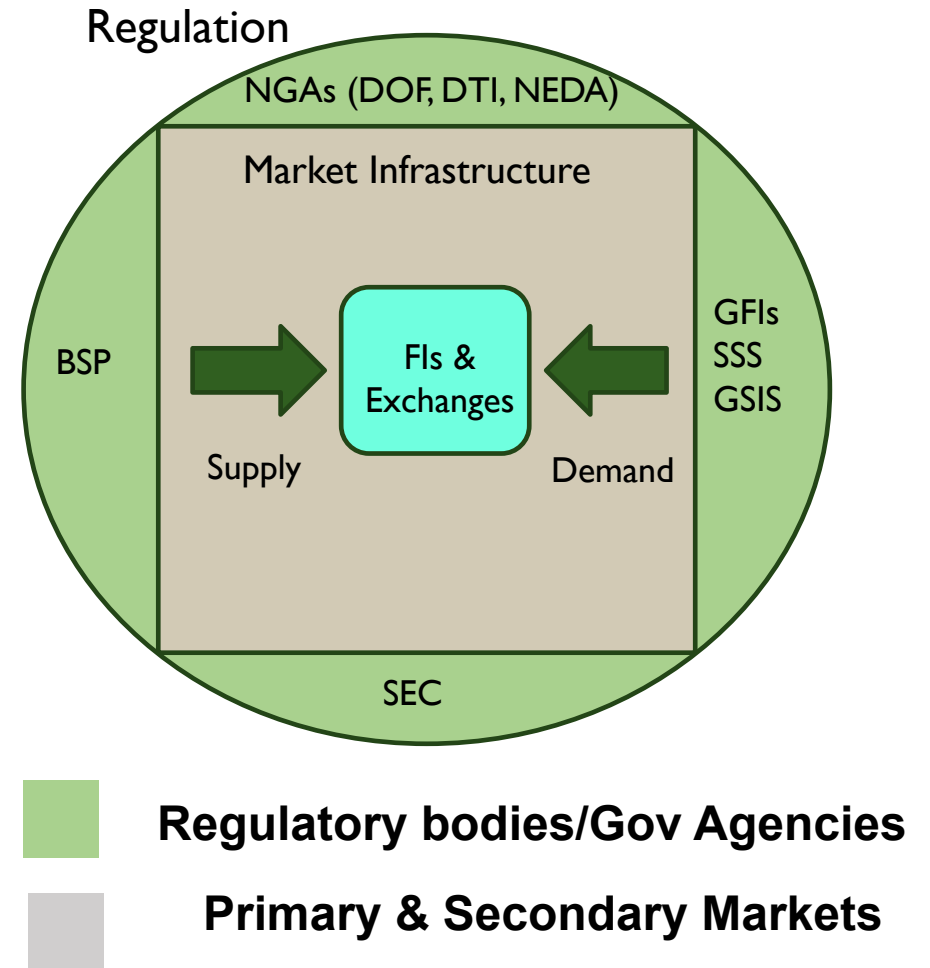
IPO



CAPITAL MARKET

# A FUNDING SOLUTION

Can a Capital  
Market-based financing  
provide a solution to  
SMEs funding problems?





# IPO: A COMPLEX ARRANGEMENT???

# Is going public (IPO) difficult?

- Myriad of Players?
- Tedious process?
- More Expensive?

# Is there an alternative?



# EQUITY FINANCING THROUGH CAPITAL MARKETS



## IPO

- Common
- Preferred
- Convertibles



## Crowdfunding

- Equity
- Debt



## Private Placements

- 19 Or Less Investors
- Qualified Buyers
- Angel Investors
- Venture Capitalists





# OTHER FINANCING THROUGH CAPITAL MARKETS



CPs Issuance



Crowdfunding

- Equity
- Debt



Trade  
Receivable-based  
financing

# SEC Crowdfunding Rules: An Overview



## Crowdfunding Issuer

To be exempt from securities registration under SRC Sec 8, CF Issuer must disclose with the SEC information on:

- a Chosen intermediary via SEC list of registered CF Intermediary
- a nature of its business, financial condition, historical reports of operation,
- a its business plan with respect to CF offering;
- a Risk factors of investing in its project
- a Procedure on how to return funds if target offering is not met
- a Max. Capital: P10 M (Retail) or P50 M (QBs)



## Crowdfunding Intermediary

### Broker-Dealers

#### Investment Houses

Already registered with SEC, and licensed to buy and sell securities.

#### Funding Portals

Licensed only to operate a CF platform to offer and sell CF securities

- Register with the SEC as Crowdfunding Intermediary
- Must provide investors with educational material regarding crowdfunding (e.g. the procedures, types of issues, and inherent risks)



## Investors

- Must open an account with intermediary
- Investment limit of Php 50,000 across all CF projects
- Can exceed investment limit provided that he submits a waiver to the crowdfunding intermediary
- Can withdraw investment commitment until 48 hours before deadline of offering

# ADVISORY TEAM: A KEY TO GOING PUBLIC



## FINANCIAL ADVISOR

Guidance on the Best Financing Option



## LEGAL COUNSEL

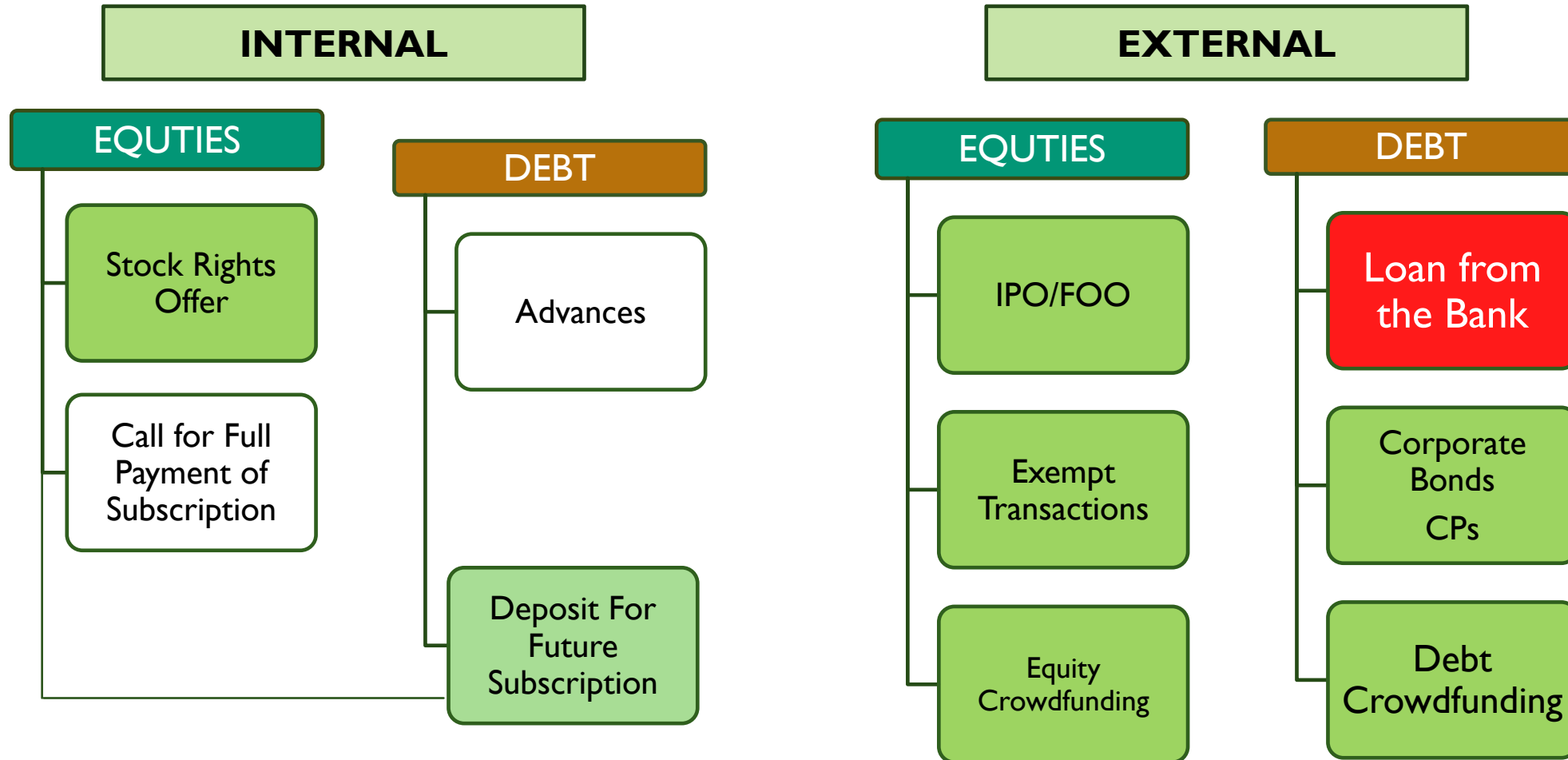
Guidance on compliance with laws & Regulations



## UNDERWRITER

- Conducts Due Diligence
- Prepares RS (Prospectus)
- Distributes/Sells the Equity or Debt securities

# FINANCING OPTIONS OF SME (SNAPSHOT)



# EQUITY FINANCING THROUGH CAPITAL MARKETS

Financing Scheme	SRC Obligations	Amount Raised	Dilution in Ownership
IPO	High	High	High
Crowdfunding	Low/Medium	Low/Medium	Low
Private Placements	Low	Medium/High	Medium/High

# EQUITY FINANCING THROUGH CAPITAL MARKETS

TYPE OF INVESTORS	PROs	CONs
<b>19 or Less Investors</b>	No RS Filing Arranger performs everything	Hard to Find Willing Investors Additional Costs to pay the arranger
<b>Qualified Buyers</b>	No RS Filing Can be arranged by own bank	Investors can be more demanding Additional Costs for the arranger
<b>Angel Investors</b>	No RS Filing Investment is directly negotiated Continuous investments can be secured	Looks for exit mechanism Continuing conduct of DD
<b>Venture Capitalists</b>	No RS Filing Investment is directly negotiated Continuous investments can be secured	Looks for exit mechanism Requires Board presence



## TO GO OR NOT TO GO PUBLIC? THIS IS THE QUESTION

The Board makes the decision, after taking into consideration the findings, recommendations and advice of the IPO Advisory Team, on whether to conduct an Initial Public Offering – Equity or Debt Offering.

Or opt first for an alternative capital raising scheme and conduct an IPO later.

# ADVANTAGES, DISADVANTAGES & CHALLENGES OF GOING PUBLIC

## *Advantages*

- Obtain capital in a more efficient way
- Enhance access to future capital raising
- Use company's equity as a form of currency
- Increase public awareness about the company
- Create liquidity for shareholders (both new and old)

## *Disadvantages*

- Tedious pre-IPO process
- Demanding post-IPO requirements
- Dilutive effect in the ownership and control

## *Challenges*

- Conduct a thorough review of the company's operation
- Conduct a thorough review of the company's financial records
- Conduct a thorough review of the company's governance structure and practices
- Conduct a thorough review of the company's management structure and practices

# THE DECISION

**The company goes public.**

# GENERAL PROCESS FOR GOING PUBLIC

- Conduct of Due Diligence
- Preparation of the Registration Statement, including the Prospectus
- Preparation of the PSE Listing Application
- Simultaneous filing of documents with SEC and PSE for review
- Issuance of SEC Pre-effective Letter
- PSE Listing Approval
- Company conducts a road show and the book-building process
- SEC issues the Order of Registration and Permit to Sell the Registered Securities
- PSE causes the listing of the registered shares on listing date.

# REGISTRATION OF SECURITIES

Legal Basis: Sections 8 and 12 of the SRC

SRC requires full disclosure of information by filing a Registration Statement which contains both financial and non-financial disclosures.

The Registration Statement (RS) is comprised of:

- Prospectus - you tell the story of your business in it
- Exhibits - you support your story with documents and data
- SEC Form 12-1 - It is a fill in the blanks form.

# CONTENTS OF THE REGISTRATION STATEMENT I

## Risk Factors

### Risk Disclosure Statement

- General Risk Warning
- Prudence Required
- Professional Advice

### Use of Proceeds

### Determination of the offer price

### Dilution

### Selling security holders

### Interest of named experts and independent counsel



# CONTENTS OF THE REGISTRATION STATEMENT 2

## Plan of distribution

- Underwriters' compensation
- Underwriters' rep. to the board
- Designated shares and allocations
- Brokers/dealers' compensation
- Finders

## Business

- Business Development
- Business of the Issuer

Major risks involved in each business of the company and subsidiaries;  
procedure on how to identify, assess and manage such risks

## Properties

## Material Pending Legal Proceedings

# CONTENTS OF THE REGISTRATION STATEMENT 3

Management Discussion & Analysis and Plan of Operation

Changes in and disagreements w/ accountant on accounting and financial disclosures

External audit fees

Directors and Executive Officers

Significant Employee/s

Family Relationships

Involvement in certain legal proceedings

Executive compensation

# CONTENTS OF THE REGISTRATION STATEMENT 4

Security Ownership of certain record and beneficial owners

Security ownership of management

Certain relationships and related transactions

Audited Financial Statements

Comparative periods

Interim Audited Financial Statements (for IPOs)

Statement of Management's Responsibility

Accredited External Auditors (category "A")

# REGISTRATION PROCESS (OVERVIEW)

## *1 - Pre-evaluation of Requirements*

- Checklist of requirements
- Issuance of Payment Assessment Form

## *2 - Review of the Registration Statement*

- Notice of Publication
- Comment Letter
- Clearance from SEC's internal departments

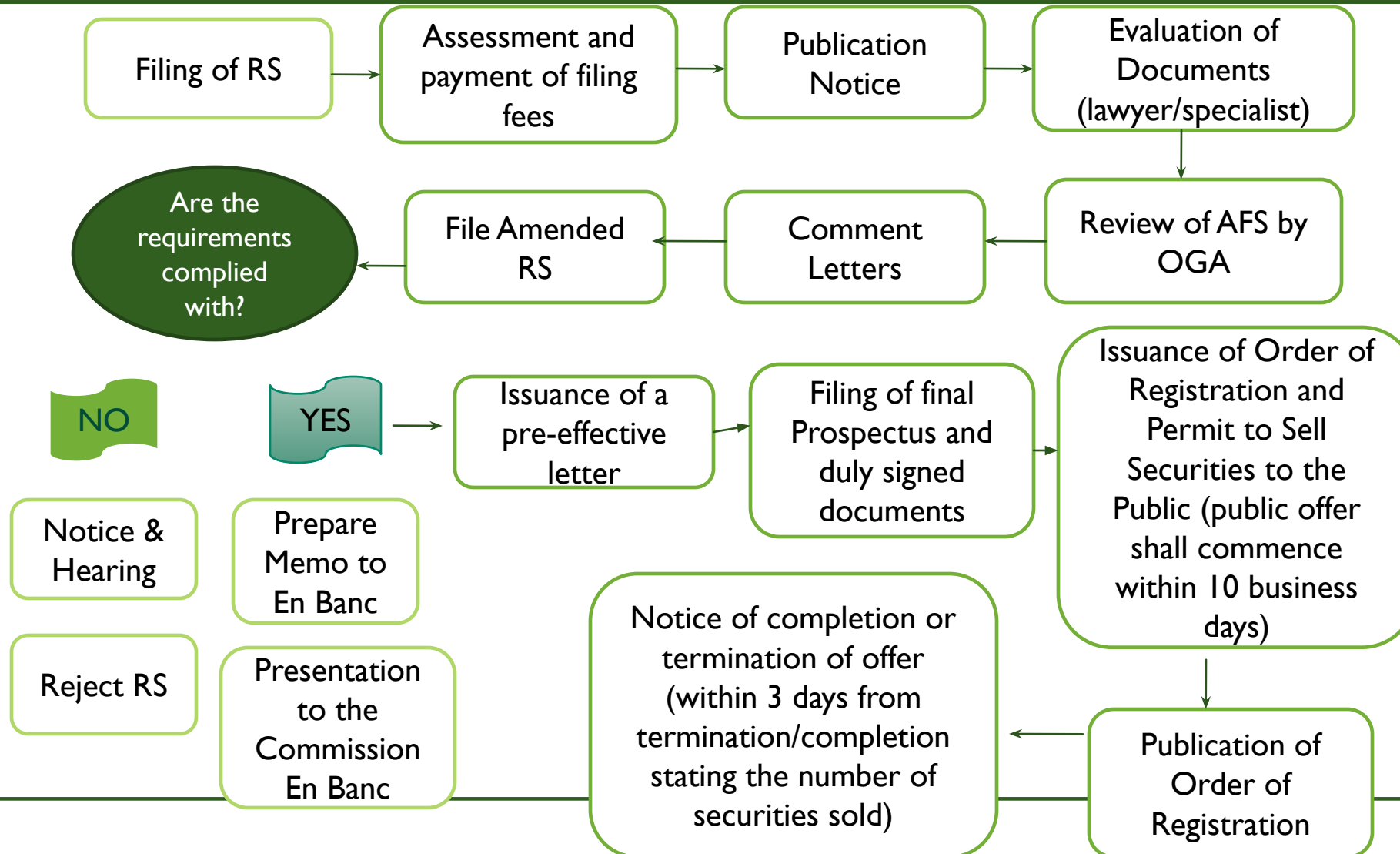
## *3 - Management Presentation*

- SEC: MSRD Director, Chief Counsel, Handling Specialist, Handling Lawyer
- Issuer: Officers of the Issuer, the Underwriter, Legal Counsels, Audit Firm

## *4 - Commission en Banc*

- Pre-effective letter
- Final prospectus
- Order of Registration
- Permit to Sell

# REGISTRATION PROCEDURE



# IF OTHERS HAVE GONE PUBLIC, WHY CAN'T YOU?



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## USE CASES I

Through SEC MC No. 11, S of 2017, hospitals seeking to register their securities may use SEC Form 12-1 Simplified Registration Statement (SRS) in lieu of SEC Form 12-1.

- Simplified RS
- Accredited External Auditor (“B”) for first 5 years
- Shortened Processing Time of only 28 days.
- Up to Php 1.0 billion of capital

From December 2018 to August 2021, a total of 13 hospitals have caused the registration of their securities worth Php 12.479 billion as part of their capital raising.

## USE CASES 2

- Electric utility companies are mandated to participate in the market pursuant to the EPIRA Law and further elaborated by ERC Resolution No. 04-2019, **requiring generation companies and distribution utilities which are not publicly listed to offer and sell to the public** a portion of not less than fifteen percent (15%) of the **common shares stock**.
  - On June 2021, **Tarlac Electric, Inc.** successfully registered a total of 5.75 million shares (PV=100.00) and offer in an IPO up to Php665.0 million worth of shares (1,750,000 shs @Php380.00).
  - On 31 August 2021, **Central Azucarera de San Antonio** registered a total of 1.85 million shares (PV=1,000.00) and will offer in an IPO up to Php 432.0 million worth of shares (277.5k shares @Php2,012.52).
- **We are working on a templated RS for these covered entities.**

# THE GOAL: 888@SEC88

The Securities and Exchange Commission (“Commission”) is committed to establishing the **Office for the Advancement of Strategic Investments in SMEs (“OASIS”)**.

# 888@SEC88 in 2024

When “we celebrate our 88<sup>th</sup> year anniversary in 2024, there are at least 888 companies that would have tapped the capital market for their capital raising activities.”

**SEC Chair Emilio B. Aquino**, Road to IPO: SME  
Forum, 17 Sep 2021



## THE PLAN: SEC-SQUARED AGENDA

**Set-up the capital market as a viable alternative for raising capital for SMEs;**

**Simplify the capital-raising products and streamline the registration processes for SMEs;**

**Encourage the Investment Houses and other Financial Institutions to conceive and implement an SME-friendly underwriting and/or advisory program;**

**Engage multilateral agencies such as ADB and IFC in launching SME-focused investment funds;**

**Challenge the existing markets and intermediaries to update and upgrade their systems with the use of SME-responsive Fintech;**

**Collaborate with other Government Offices and the Private Sector in developing the appropriate ecosystem for SMEs, both developmental and regulatory.**

## Q&A

**Q? Can a capital market-based financing provide a solution to SMEs funding problems?**

**A: YES. But it should not be considered as a substitute.**  
Instead, capital market-based financing should complement and supplement the traditional source of financing for SMEs.

**Bank financing and Capital Market financing can co-exist.**



**THANK YOU!**