



Republic of the Philippines
SECURITIES AND EXCHANGE COMMISSION
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August 13, 2007

PHILIPPINE STOCK EXCHANGE
PSE Center
Exchange Road, Ortigas Center
Pasig City
Fax: 637-8803

*Attention: Mr. Justice Jose C. Vitug, Chairman
Atty. Francisco Ed. Lim, President*

Gentlemen:

This refers to PSE's compliance with Section 33.2 (c) of the Securities Regulation Code and SRC Rule 33.2(c)(C) which require that no industry or business group may beneficially own or control, directly or indirectly, more than 20% of the voting rights of the Exchange.

Recall that on 23 September 2005, the Commission reminded PSE to comply with the industry ownership limit and required PSE to submit within thirty (30) days an action plan with definite date for compliance with the industry ownership limit.

Since PSE did not submit the required action plan, the Commission, on 6 December 2005, ordered PSE : (1) to call a meeting immediately of the Board of Directors and if necessary of the stockholders to address the issue on compliance with the industry ownership limit; (2) to submit within 30 days an action plan to comply with the 20% rule on industry ownership. The Commission required that the action plan shall indicate the definite date for compliance with the ownership limit which should not be later than the record date for the annual stockholders meeting and election of directors of PSE for 2006 or 31 March 2006 whichever is earlier.

In the same Order, the Commission warned PSE that its failure to comply with the industry ownership limit within the period fixed shall subject the PSE to a fine of P100,000.00 plus P100.00 per day of delay pursuant to SEC Memorandum Circular No. 6, series of 2005.

On 12 January 2006, PSE submitted a proposed action to reduce the ownership of brokers to 20% of the total voting rights to be implemented in six (6) months.

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On 10 July 2006, PSE applied for exemption from the coverage of Section 33.2(c) of the SRC.

On 20 July 2006, the Commission granted PSE's request for exemptive relief from the coverage of Section 33.2 (c) of the SRC for a limited time or until 20 July 2007 within which to comply with the industry ownership limit. However, the Commission advised PSE that notwithstanding the exemption the Commission may enforce SRC Rule 33.2(c)(4) of the IRR of the SRC. The said rule provides that where any ownership restrictions are exceeded and/or violated, the Commission may order divestment of such excess ownership and until such excess ownership is divested, a person violating shall be barred from exercising his voting rights.

On 5 September 2006, the PSE sought a permanent exemption from the coverage of Section 33.2(c) of the SRC.

On 19 July 2007, the Commission adopted and approved SEC Resolution No. 282 which reads:

"RESOLVED, To APPROVE the following recommendations of MRD:

1.To deny the request of the Philippine Stock Exchange Inc. for permanent exemption from Section 33.2 (c) of the SRC;

2.To advise PSE to endeavor to comply with the industry limit consistent with the order dated July 20, 2006, with a warning that non-compliance thereof may warrant sanction in accordance with SEC Memorandum Circular No. 6, series of 2005; and

3.To limit the voting rights of brokers as a group to 20% of the total outstanding stock in the next stockholders meeting and/or election and until such time that they have complied with the industry ownership limit."

In its letter to PSE dated 19 July 2007, the Commission noted that the brokers as a group own approximately 42% of the voting rights of the PSE as of 15 June 2007 which is in breach of the Commission's Order dated 20 July 2006. Hence, the Commission directed PSE to submit proof of compliance with the Commission's letter dated 20 July 2006, not later than 25 July 2007. Again, PSE was warned that it maybe penalized for non-compliance with Section 33.2 (c) of the SRC.

On 20 July 2007, PSE sought an extension for another year within which to comply with Section 33.2 (c) of the SRC.

On 25 July 2007, the Commission denied PSE's request for extension for one (1) year within which to comply with the industry ownership limit. PSE was told that the filing of the request on the very last day does not, in any way, automatically give PSE additional time to comply with Section 33.2 (c) of the SRC, nor does it suspend compliance with the earlier directive to PSE to submit proof of compliance with the said ownership limit not later than 25 July 2007.

Considering that PSE did not file a report of compliance by 25 July 2007 showing the ownership of brokers of PSE shares, the Commission asked PSE's transfer agent to submit said data.

Based on the report submitted by RCBC Stock Transfer Department, the brokers as group beneficially own or control approximately **6,457,548** shares of the 15,277,511 outstanding PSE shares as of the close of business day on 20 July 2007. That represents about **42.27%** of the total outstanding capital stock of the PSE.


Clearly, PSE failed to comply with the industry ownership limit despite previous reminders, warnings and extension of time for compliance given by the Commission.

Accordingly, the Commission hereby imposes on PSE a **FINE** of P100,000.00 plus P100.00 for every day of delay of compliance, for violation of Section 33.2 (c) of the Securities Regulation Code and SRC Rule 33.2 (c)(C), in accordance with SEC Memorandum Circular No. 6 (2005) and SEC Resolution No. 282 (2007).

PSE is ordered to pay the fine of **P101,100.00**, within five (5) days from receipt of this Order. The said fine represents the basic fine of P100,000.00 plus P100.00 fine for every day of delay covering the period July 21 to 31, 2007. PSE shall be periodically assessed the additional fine until PSE shall have fully complied with the industry ownership limit.

Further, the Commission hereby directs PSE to impose a **limit on the voting rights of brokers** as a group to twenty percent (20%) of the total outstanding stock in the next stockholders meeting and/or election and until such time that the industry ownership limit is complied with, in accordance with SRC Rule 33.2(c)(4) of the IRR of SRC and SEC Resolution No. 282 (2007).

Very truly yours,


V. GRACIANO P. FELIZMENIO JR.
Officer-in-Charge

*On 21 August 2007, PSE paid the fine of P101,000.00 per Official Receipt No. 0090101, with notice that PSE will file a request for reconsideration.