REVISED IMPLEMENTING RULES AND REGULATIONS OF THE SECURITIES REGULATION CODE

* * *

TITLE I

Rule 1 - Reference

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

Rule 2 – Interpretation of the Rules

Any doubt that may arise in the interpretation of these Rules shall be resolved by the Commission in a manner that would accomplish the following objectives: (i) organize a socially-conscious and self-regulatory market, (ii) encourage wide public ownership of business enterprises, (iii) promote the development of the capital market, (iv) protect the investors, (v) ensure full and timely disclosure of material information, and (vi) minimize, if not eliminate, fraudulent or manipulative devices and practices that create distortions in a free market.

Rule 3 – Definition of Terms

1. As used in these Rules, unless the context provides otherwise:

   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 direct the voting of such security) and/or investment returns or power (which includes the power to dispose of, or direct the disposition of such security); provided, that a person shall be deemed to have an indirect beneficial ownership interest in any security which is held by:

       (i) members of his immediate family sharing the same household;
(ii) a partnership in which he is a general partner;

(iii) a corporation in which he is a controlling shareholder; or

(iv) is subject to any contract, arrangement or understanding which gives him voting power or investment power with respect to such securities; provided, 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, as long as such shares were acquired by such persons or institutions without the intention of effecting a change or influencing the control of the Issuer:

(a) a broker dealer;

(b) an investment house registered under the Investment Houses Law;

(c) a bank authorized to operate by the Bangko Sentral ng Pilipinas (BSP);

(d) a duly-registered insurance company;

(e) an investment company registered under the Investment Company Act;

(f) a pension plan registered with and regulated by the Bureau of Internal Revenue, Insurance Commission or any other regulatory authority; and

(g) an entity whose members are the persons specified above.

All securities of the same class that are beneficially owned by a person or institution, regardless of the form of the beneficial ownership, shall be aggregated in calculating the number of shares that shall be considered as beneficially owned by such person or institution.

A person or institution shall be deemed to be the beneficial owner of a security if that person or institution has the right to acquire beneficial ownership within five (5) business days from the exercise of any option, warrant or right, or conversion of any security; or
pursuant to the power to revoke a trust, discretionary account or similar arrangement; or pursuant to the 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.** Clearing agency is any entity that provides a facility to a broker dealer, salesman, or associated person of a broker dealer or another clearing agency for the performance of any of the following activities:

(i) make deliveries in connection with transactions in securities;

(ii) reduce the number of settlements of securities transactions or allocate settlement responsibilities in accordance with the rules issued by the Commission or the Exchange; and

(iii) provide the means for the central handling of securities so that transfers, loans, pledges and similar transactions can be made by bookkeeping entry; or otherwise facilitate the settlement of securities transactions without physical delivery of securities certificates.

As used in this Rule, “facility” includes a clearing agency’s systems, processes or services and all the properties necessary to operate such systems, processes or services, whether within or outside its specific physical location, for the performance of any or all the activities enumerated in the immediately preceding paragraph, as may be authorized by the Commission.

**D.** Code means the Securities Regulation Code.

**E.** Commission means the Securities and Exchange Commission.

**F.** Control is the power to determine the financial and operating policies of an entity in order to benefit from its activities. It is
presumed to exist when the parent entity owns, directly or through subsidiaries and/or affiliates, more than fifty percent (50%) of the voting power of an entity. It also exists when the parent entity owns fifty percent (50%) or less of the voting power of an entity, but has any of the following the powers:

(i) over more than fifty percent (50%) of the voting rights by virtue of an agreement with other investors;

(ii) to determine the financial and operating policies of the entity under a statute or agreement;

(iii) to appoint or remove the majority of the members of the board of directors or equivalent governing body; or

(iv) to cast the majority of votes at meetings of the board of directors or equivalent governing body.

G. Derivative is a financial instrument whose value changes in response to changes in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or similar variable or underlying factor. It does not require an initial or small 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:

(i) Options or 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;

(ii) Call options or rights to buy;

(iii) Put options or rights to sell;

(iv) Warrants or rights to subscribe or purchase new 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 rules of the Commission and/or the Exchange.
H. Issuer is any entity authorized by the Commission to offer to sell, sell or promote the sale to the public of its equity, bonds, instruments of indebtedness and other forms of securities.

I. Long term commercial paper is 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.

J. Material Fact or Information is any fact or information that may result in a change in the market price or value of any of the Issuer’s securities, or may potentially affect the investment decision of an investor.

K. Exchange is an organized marketplace or facility that brings together buyers and sellers, and executes trades of securities and/or commodities.

L. Member of an Exchange is any broker dealer who has the right, pursuant to the rules of the Exchange, to trade in that Exchange.

M. Non-proprietary share or certificate is an evidence of interest, participation or privilege over a specific property of a corporation that allows the holder of the share or certificate to use such property under certain terms and conditions. The holder, however, shall not be entitled to dividends from the corporation or to its assets upon its liquidation.

N. Proprietary share or certificate is an evidence of interest, participation or privilege in a corporation which gives the holder of the share or certificate the right to use such property and to receive dividends or earnings from the corporation. Upon the liquidation of the corporation, the holder shall have proportionate ownership rights over its assets.

O. Public company means any corporation with a class of equity securities listed on an Exchange, or with assets in excess of Fifty Million Pesos (PhP50,000,000.00) and has two hundred (200) or more holders, at least two hundred (200) of which hold at least one hundred (100) shares of a class of its equity securities.
P. Public offering is a random offering of securities to the public or to anyone who is willing to 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;

(ii) Presentation in any public or commercial place;

(iii) Advertisement or announcement on radio, television, Internet or any other forms of mass media; or

(iv) Distribution and/or making available flyers, brochures or any offering material in a public or commercial place, or mailing them to prospective purchasers.

Q. Registrant means an issuer of securities with respect to which a registration statement, or required issuer report has been or is to be filed.

R. Reporting company is a corporation that has sold a class of its securities pursuant to a registration under Section 12 of the Code, or a public company, as defined under subparagraph (O) above.

S. Self-Regulatory Organization, or SRO, means an organized Exchange, registered clearing agency, organization or association registered as an SRO under Section 39 of the Code.

T. 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.

U. Transfer agent is any person who performs on behalf of an Issuer or by itself as Issuer any of the following activities:

(i) countersigns, when applicable, certificates of securities upon their issuance;

(ii) monitors the issuance of securities to prevent unauthorized issuances;
(iii) registers the transfer of such securities;

(iv) exchanges or converts such securities;

(v) records the ownership of securities by bookkeeping entry without physical issuance of securities certificates.

2. Unless otherwise specifically stated, the terms used in these Rules shall have the meaning defined in the Code.

3. A person, under these Rules, refers to natural or juridical persons depending on the context it is used. All references to the masculine gender in these Rules shall likewise cover the feminine gender.

4. A rule or regulation which defines a term without express reference to the Code or these Rules, or any of its parts, shall be considered as defining such term for all purposes as used in the Code and in these Rules, unless the context specifically requires otherwise.

TITLE II
Rule 8.1 – Filing of Registration Statement

1. Filing of Registration Statement and Effectivity of Offering

A. No securities shall be sold or offered for sale, or distributed by any person or entity within the Philippines unless such securities are duly registered with the Commission through Form 12-1, and the registration statement has been declared effective by the Commission except of a class exempt under Section 9 of the Code or unless sold in any transaction exempt under Section 10 thereof and these Rules. 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 Rule 8.3.

B. All outstanding shares of the following corporations shall be registered with the Commission:

(i) Corporations that will conduct Initial Public Offerings;

(ii) Corporations that will apply for listing on an Exchange by way of introduction.
C. No registration shall be required for the outstanding shares of the following corporations:

(i) Shares already registered with the Commission but were not listed on an Exchange and are applying for listing for the first time;

(ii) Shares of corporations covered by Sections 10.1 and 10.2 of the Code that are applying for listing on an Exchange; and

(iii) Shares already listed on an Exchange that were not registered with the Commission pursuant to Section 5(a)(3) of the Revised Securities Act, now Section 9(e) of the Code.

In these cases, the corporations shall disclose to the Commission, through SEC Form 17-C, the total number of shares that will be issued and offered to the public.

D. If the securities subject of a registration statement are intended to be listed on an Exchange, a copy of the registration statement and all other pertinent documents, including any amendments, shall be filed with that Exchange. Two (2) copies of the application for listing shall also be filed with the Commission.

E. The sale of the securities subject of the registration statement shall commence within two (2) business days from the date of the effectivity of the registration statement and shall continue until the end of the offering period or until the sale is terminated by the Issuer.

F. A written notification of completion or termination of the offering shall be filed by the Issuer with the Commission within three (3) business days from such completion or termination, and the notice shall state the number of securities sold.

2. Shelf Registration

If the remaining registered but unsold securities shall be offered within six (6) months after the completion or termination mentioned
in the immediately preceding paragraph, the registrant shall comply with the following requirements:

A. At least five (5) business days prior to the offering or sale of the securities, it shall file a supplemental report with the Commission containing the substantial amendments, if any, to the registration statement previously rendered effective by the Commission; and

B. Pay a fee in such amount as the Commission may determine for the additional securities to be sold within seven (7) business days prior to the commencement of the sale.

Unless otherwise authorized by the Commission, securities covered by a previously rendered effective registration statement may continue to be offered or sold under the same terms and conditions within three (3) years from the said effective date.

3. Prospectus Delivery Requirements

A. The prospectus shall be submitted to the Commission as part of the registration statement within one year from the date of the pre-effective letter, otherwise the registration statement shall be deemed abandoned and all fees paid in connection with such filing shall be forfeited in favor of the Commission.

B. Securities required to be registered pursuant to Sections 8 and 12 of the Code shall not be offered for sale or sold unless the prospectus, or any information material which has been filed with the registration statement in the form and containing the information described below, has been widely disseminated and sufficient copies have been made available to interested parties.

C. In addition to the requirements of this Rule, the prospectus shall contain the information required by Rule 12.1 and Form 12-1 and shall be prepared in accordance with the requirements of Rule 72.1. The contents of the prospectus shall be worded in a language that can be understood by an ordinary person.

D. The prospectus is presumed to have been widely disseminated or circulated if copies were distributed initially and additional copies were furnished promptly, upon request, to the following:
(i) all the participants in the distribution (e.g., underwriters and brokers);

(ii) the principal office of the Commission;

(iii) an Exchange, if the securities will be listed;

(iv) twenty (20) or more persons who are not qualified buyers under Section 10.1(l) of the Code.

E. Notice of Availability of the Prospectus

(i) All participants in the distribution of an offering of securities to the public shall, when inquiries are made about it, inform the interested parties about the availability of the prospectus and shall, if requested, provide them copies.

(ii) A notice shall be placed on the front cover of the subscription agreement distributed in connection with the offering informing interested persons that they are entitled to a copy of the prospectus if they so desire and how and where it can be obtained.

(iii) The information referred to in paragraphs (i) and (ii) above on where the prospectus may be obtained shall include the address of the principal office of the Commission, the Exchange where the securities may be listed, the Issuer company, and the telephone number and address of the Issuer’s contact person. A statement shall also be made to the effect that the prospectus is available from all underwriters and brokers participating in the distribution.

F. The use of selling documents other than the prospectus during the offering period is prohibited, provided, that the information described in Rule 8.3 may be disseminated in whole or in part to summarize the offering.

G. The prospectus shall not be used unless all the information it contains are up to date and accurately reflect the terms of the offering and the true financial condition of the Issuer. Accordingly, until all appropriate amendments have been made
and filed with the Commission under Rule 14, the use of the prospectus and the right to sell and offer for sale may be suspended under Section 15 of the Code if any of the following events occurs:

(i) there is a material change in any of the information provided (including, but not limited to, the occurrence of a material event that is required to be reported in Form 17-C);

(ii) the accompanying financial statements are more than two hundred twenty five (225) days old.

H. Format of the Prospectus

(i) The information required in the prospectus shall follow the order of the items or other requirements in Part I of Form 12-1. The information should be complete and should not mislead its reader or render its contents incomprehensible.

(ii) All information in the prospectus should be properly captioned or labeled to indicate the subject matters covered. The information shall be divided into short paragraphs or sections, except the financial statements and tabular data.

(iii) The information in the prospectus shall not be condensed or summarized. References may be made to information in other parts of the prospectus instead of repeating them.

(iv) All information required to be included in the prospectus should be clearly understandable without the need to refer to Form 12-1 or to outside sources.

Rule 8.3 – Written Communications Not Deemed Offers for Sale

1. A notice, circular, advertisement, letter or other form of communication does not constitute an offer for sale that violates Section 8 of the Code if it is published or transmitted to any person after a registration statement has been filed and contains the following information:
A. The name of the Issuer of the security;

B. The full title of the security and amount being offered;

C. A brief description of the type of business of the Issuer;

D. The price of the security or, if the price is not known, the method for its determination or the probable price range as specified by the Issuer or underwriter;

E. In the case of a debt security with a fixed (not contingent) interest provision, the yield or, if the yield is not known, the probable yield range, as specified by the Issuer or 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 commencement date of the sale to the public;

I. Whether the security is being offered through rights issued to existing security holders and, if so, the class of securities the holders will be entitled to subscribe, the subscription ratio, the actual or proposed record date, the date the rights were issued or are expected to be issued, the actual or anticipated date they will expire, and the approximate subscription price, or any of the foregoing;

J. For any class of debt securities, convertible debt securities or preferred stock, the security rating or ratings assigned to the class of securities by a credit rating agency 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:
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 THEM BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT IS RENDERED EFFECTIVE. THIS COMMUNICATION SHALL NOT CONSTITUTE AN OFFER TO SELL OR BE CONSIDERED A SOLICITATION TO BUY.

B. A statement whether the security is being offered in connection with a distribution by the Issuer or a security holder, or both, and whether the issue represents new financing or refinancing, or both;

C. The name/s and addresses of the person/s from whom a prospectus that meets the requirements of Section 12 of the Code may be obtained.

Rule 9.2 – Exempt Securities

1. Any evidence of indebtedness issued by a financial institution that has been licensed by the BSP to engage in banking or quasi-banking shall be exempt from registration under Section 8.1 of the Code, but the purchase and sale of such security shall not be exempt from the coverage of the provisions of the Code on anti-fraud, civil liability or other related liabilities.

2. The registration requirements shall not also apply to the following:

   A. Evidence of indebtedness issued to the BSP under its open market and/or rediscounting operations;

   B. Evidence of indebtedness issued to qualified buyers as defined in Rule 10.1 and under the same terms and conditions;

   C. Bills of exchange arising from a bona fide sale of goods and services that are distributed and/or traded by banks or investment houses duly licensed by the Commission and BSP
through an organized market that is operated under the rules approved by the Commission;

D. Evidence of indebtedness, e.g., short or long term commercial papers, that meet 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 held on to maturity; and
(iv) In an amount not exceeding Fifty Million Pesos (PhP50,000,000.00) or such higher amount as the Commission may prescribe.

Rule 10.1 – Exempt Transactions

1. Disclosure to Investors

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

A. The specific provision of Section 10.1 of the Code on which the exemption from registration is claimed; and

B. The following statement in bold face:

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

2. Restrictions for Transactions under Section 10.1(k) of the Code
A) Sections 8 and 12 of the Code are violated if the number of non-qualified investors exceeds nineteen (19) within a twelve (12) month period, or when a security instrument or any document evidencing a securities transaction is issued to a non-qualified buyer by a foreign financial institution or intermediary that has a presence in the Philippines regardless of the site of the issuance or execution of the said instrument or document. The local branch, representative office or any similar office of the said foreign financial institution shall have the burden of proof, if questioned, in proving that it had no participation, direct or indirect, in the said transaction.

The issuer of the security or, in the proper case, the foreign financial institution and its representative in the Philippines regardless of the nature or manner of its representation, shall be liable for penalty in accordance with the rules of the Commission, without prejudice to other actions that may be taken against it.

B) If the initial purchaser/s resell the said securities to more than nineteen (19) non-qualified investors, Sections 8 and 12 of the Code shall apply, notwithstanding the exemption of the initial transaction unless such succeeding sale qualifies as an exempt transaction.

C) Debt instruments issued by other Issuers, such as, financing and lending companies without quasi-banking licenses, shall not be considered exempt transactions if they exceed Fifty Million Pesos (PhP50,000,000) or such higher amount as the Commission may prescribe.

D) A request for confirmation of exemption under Section 10.1(k) shall be subject to the following terms and conditions:

(i) The Issuer claiming relief shall not engage in any form of general solicitation or advertising in that connection;

(ii) Securities sold in any such transaction may only be sold to persons purchasing for their own account;

(iii) The sale may be made to not more than nineteen (19) “non-qualified” buyers. A corporation, partnership or
other entity shall be counted as one buyer; provided, 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 be counted as a separate buyer under this Rule;

(iv) The Issuer provides any person to whom it offers for sale or sells securities the following information in writing:

[1] name of the Issuer and its predecessor, if any;
[2] address of its principal executive office;
[3] place of incorporation;
[4] 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 officer and members of the board of directors;
[12] the Issuer’s most recent financial statements for the two preceding fiscal years or such shorter period as the issuer (including its predecessor) if it 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 if the Issuer is a reporting company under Section 17 of the Code, a copy of its most recent annual report may be used to provide the required information.
E. Offer or Sale of Securities to Qualified Buyers under Section 10.1(l) of the Code.

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

3. Application for Confirmation or Declaration of Exemption

A. If the Issuer wants a confirmation of exemption under Section 10.1 of the Code, it shall file SEC Form 10-1 with the Commission.

B. In cases involving the distribution of securities through stock dividends, the Commission shall determine the sufficiency of the retained earnings of the Issuer prior to issuing a confirmation of exemption.

C. If the consideration for the offered securities is other than cash, except in the case of issuance of shares by way of stock dividends, a request for confirmation of exemption from registration shall be filed with Company Registration and Monitoring Department of the Commission and shall be deemed to include an application for approval of valuation required under Section 62 of the Corporation Code and vice versa.

4. Exempt Commercial Paper Transactions

An Issuer of commercial papers in an exempt transaction shall:

A. File a Notice or Application for Confirmation of Exemption (SEC Form 10-1) prior to issuance. The application shall make a disclosure of the following financial ratios:

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

\[
\text{Debt to equity Ratio} = \frac{\text{Total Liabilities}}{\text{Stockholders’ Equity}}
\]

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

NON-NEGOTIABLE/NON-ASSIGNABLE
C. The Issuer of outstanding long term commercial papers shall also file the prescribed disclosure statement and semestral reports on such borrowings.

5. Other Requirements and Limitations

   A. A request for confirmation of exemption under Section 10.1(c) of the Code shall be available only to Issuers.
   
   B. The Commission may take any action it may deem appropriate in an application for confirmation even if it is filed after the offer or sale of the securities without prejudice to the imposition of penalties if warranted.

6. Burden of Proof on the Availability of Exemption

   Unless a confirmation of exemption is applied for under paragraph 4 of this Rule, any person claiming exemption under Section 10 of the Code has the burden of proof, if challenged, of showing that it is entitled to the exemption. The Commission may challenge such exemption any time.

7. The sale or offer for sale of a security in an exempt transaction under Section 10 of the Code shall not exempt it from anti-fraud, civil liability or other liability provisions of the Code.

8. A request for confirmation of exemption under Section 10 of the Code shall not be available to any Issuer or other persons to any transaction or chain of transactions that, although it may appear to be in compliance with the Code and these Rules, is a part of a plan or scheme to evade compliance with the registration requirements of the Code. In such cases, registration shall be mandatory.

9. Qualified Buyers

   A. For purposes of Section 10 of the Code, a natural person shall be considered a qualified individual buyer if he has registered as such with a Self Regulatory Organization and such other entities that may be authorized by the Commission, and possesses the following qualifications:

   (i) Has an annual gross income of at least Twenty Five Million Pesos at least two (2) years prior to registration, or a total portfolio investment in securities registered
with the Commission of at least Ten Million Pesos, or a personal net worth of not less than Thirty Million Pesos; and

(ii) Has been engaged in securities trading personally or through a fund manager for a minimum period of one (1) year, or has held for at least two (2) years a position of responsibility in any professional business entity that requires knowledge or expertise in securities trading, such as, legal consultant, financial adviser, sales person, or associated person of a broker-dealer, bank finance or treasury officer, trust officer or other similar executive officers.

B. If the buyer is a juridical person, it shall, at the time of registration with an authorized registrar, (i) have an annual gross income of at least One Hundred Fifty Million Pesos at least two (2) years prior to registration; or (ii) a total portfolio investment in securities registered with the Commission of at least Sixty Million Pesos; or (iii) a net worth of not less than One Hundred Million Pesos.

C. All persons registering as qualified buyers shall, in addition, show proof that they possess the above-enumerated qualifications and submit under oath certified copies of the documents that show the following matters:

(i) total portfolio of securities;
(ii) annual gross income for the last two (2) years based on their income tax returns stamped-received by the BIR;
(iii) their net worth; and
(iv) threshold risk (low, medium, high risk).

D. The registration as qualified buyers shall be valid for two years. It may renewed by the Commission upon favorable recommendation of an authorized registrar. For this purpose, the registrar shall maintain a registry which shall be open for inspection by the Commission.

E. No securities acquired by qualified buyers shall be assigned, transferred or sold to investors who do not possess similar qualifications.
Rule 10.2 – Small or Limited Public Offerings

1. An offering of securities shall be considered as small amount if the aggregate amount of securities covered by the application for exemption is less than five percent (5%) of the Issuer’s total net assets and that the number of shares covered by the application for exemption does not exceed five percent (5%) of the outstanding shares of the same class of the Issuer.

2. For a public offering to be considered of limited character, the covered securities should be available only to the parties or persons named in the application for exemption for a specified period.

3. The following documents shall be submitted in support of an application for exemption under Section 10.2 of the Code:

   A. Letter-request which shall contain the following information:

      (i) Registered name of the applicant;
      (ii) Primary purpose of the applicant;
      (iii) Number of option shares to be issued;
      (iv) Profile of the optionees or persons to whom the offer shall be made;
      (v) Latest audited financial statement of the applicant;
      (vi) If applicable, the names and addresses of the applicant's subsidiaries and affiliate companies and their dates of registration with the Commission; issue price or exchange rate, including its source or basis, of the option shares at the time of filing; and last quoted price of the option shares.

   B. Notarized certificate of the corporate secretary of the applicant attesting to the following:

      (i) Approval by the applicant’s board of directors and stockholders of the stock offering plan (“the Plan”);

      (ii) Genuineness and due execution of the Plan, a copy of which shall be attached to the certificate; and

      (iii) If applicable, a breakdown of the number of shares earlier exempted from registration, the shares subscribed
by the optionees, and the remaining unissued shares computed on a year-to-year basis, and an explanation on why the applicant has renewed its application in spite of the availability of unissued shares.

4. Issuers of securities of small or limited character that are granted exemption under this Rule shall submit to the Commission, on an annual basis, the amount of securities issued and the persons to whom the same were issued, or such other reports and for such period as the Commission may from time to time require.

5. Applications for exemption filed under this Rule shall pay a filing fee in such amount as may be prescribed by the Commission.

Rule 12.1 – Filing Requirements under the Code

1. General Terms

A. Reports filed on SEC Form 17-A shall be deemed to satisfy Section 141 of the Corporation Code, and reports given to security holders pursuant to Rule 20 shall be deemed sufficient compliance with Section 75 of the Corporation Code.

B. In addition to the requirements of this Rule, the filing of reports with the Commission shall be governed by Rule 72.1. The definitions contained in Rules 72.1 and 38 shall have the same meaning of similar terms as used herein.

2. Requirements for Registration of Commercial Papers

A. This Rule shall apply to commercial papers that corporations offer to the public or whose sale 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 a credit evaluation of corporations, business projects or debt issues to (i) assess the overall creditworthiness of the Issuer; or (ii) ascertain the willingness and ability of the Issuer to pay its financial obligations as they fall due, and the results of which are expressed through periodically and publicly announced credit ratings.
C. The conditions for registration of commercial papers are the following:

(i) A registration statement shall be filed in accordance with Rule 8.1 and this Rule;

(ii) Except for short term commercial papers, the Issuer shall enter into a firm underwriting agreement for the commercial paper with a universal bank, investment house or any other financial institution duly licensed under the Investment Houses Law; provided, that if the underwriter is part of a group composed of such institutions, the group shall agree on a syndicate manager that shall act on behalf of, and be responsible to, the group and whose actions shall be binding on the members of the group;

(iii) Except for an issuance that amounts to not more than twenty five percent (25%) of the Issuer’s net worth 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 CRA accredited by the Commission in accordance with the following rules:

(a) Confidentiality of information

All information received by a CRA from an Issuer shall be kept confidential, except 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 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 and directors) shall not be allowed to trade in that Issuer’s securities, or shall not disclose such information nor withhold any rating recommendation on the relevant Issuer until the reason for the rating is publicly announced.

(b) Monitoring of Issuers Whose Securities Have Been Rated

To ensure the accuracy and objectivity of a rating, the CRA shall monitor on a continuing basis the Issuer if an Issuer rating was given, or each issue in the case of an issue rating. The CRA shall raise or lower the rating to reflect significant changes in the creditworthiness of the Issuer or the credit quality of the issuance.

(c) Change, suspension or withdrawal of rating

[1] A rating may be changed, suspended or withdrawn due to (i) changes in, unavailability or non-submission of information; or (ii) misleading statements or actions of the Issuer.

[2] The CRA shall advise an Issuer in advance of any proposed change in the rating; provided, that the CRA may withdraw a rating without prior notice based on lack of information, receipt of material adverse information, or compelling reason to change the rating for the information and protection of investors.

[3] The CRA shall not be required to get the approval of the Issuer to change its rating on
the Issuer or an issue. Under pain of sanctions under the Code, Issuers shall not suppress, curtail or otherwise prevent rating changes.

(d) **Rating criteria**

Ratings shall be based on the following factors:

[1] Nature and provisions of the debt obligation;
[2]Likelihood of default by an Issuer; provided, that if the issuer has, in the immediately preceding five (5) years, defaulted on any commercial paper or security issued in the Philippines or abroad, the circumstances behind the default/s and the action taken by the issuer on such default shall be explained in detail in the credit report;
[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;
[5] Industry risk;
[10] Capital structure or leverage;
[11] Financial flexibility; and
[12] Compliance with leading practices and principles on corporate governance.

(e) **Application for accreditation**

To apply for accreditation, a CRA shall:


[2] Have a minimum paid-up capital of at least Ten Million Pesos (PhP10,000,000.00).
Submit to the Commission the (i) list of shareholders and their corporate affiliations; (ii) list of other business activities, if any; (iii) copies of its Articles of Incorporation and By-Laws; (iv) a statement pertaining to its ownership structure and possible conflicts of interest; (v) names, professional qualifications and independence of the staff involved in the rating decision (“rating specialists”); (vi) a written code of conduct that can ensure 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 related assessment devices it uses; (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.

Other applicable rules

An applicant may request confidentiality of the foregoing information except on matters that relate to its operating procedures, rating policies and rating criteria, and Manual on Corporate Governance.

Within sixty (60) business days from receipt of an application for accreditation, the Commission shall either approve the registration or schedule a hearing to clarify certain issues relative to its application.

All applications for accreditation shall be accompanied by a filing fee in such amount as the Commission may determine.
If the accreditation is granted, the accreditation shall be effective until revoked. However, an annual fee in such amount as the Commission may determine shall be paid yearly at least forty five (45) business days prior to the anniversary date of the accreditation. If the annual fee is not paid, the accreditation shall be suspended until payment is made; provided, that if the fee is not paid prior to the thirtieth (30th) day after the required payment date, the 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) business days from notification of the agency of the termination.

All accredited CRAs shall ensure that the information stated in their application and all documents appended to it are current, true and correct. Any change in the information shall be filed with the Commission not later than ten (10) business days from the occurrence of the change.

The failure to provide an informed and objective assessment of an Issuer’s credit quality or any violation of the foregoing rules shall be sufficient ground, after due notice and hearing, for the revocation or suspension of the accreditation of a CRA.

A CRA cannot issue a credit rating with respect to an Issuer where the CRA or its affiliate has offered to or made recommendations to the Issuer or its underwriter of the commercial paper or security about the corporate or legal structure, assets, liabilities or activities of the issuer or its underwriter.
A staff member of CRA who participated in determining the credit rating of a commercial paper or security, or in developing or approving the procedures or methodologies to determine the credit rating shall not participate in any fee discussions, negotiations or arrangements with the Issuer or its underwriter.

No person or entity shall, under pain of sanctions under the Code, hold itself out as an accredited CRA or otherwise provide credit rating services unless it has been accredited by the Commission.

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 the said securities. The failure to comply with the conditions shall be sufficient ground, after notice and hearing, for the suspension or revocation of the registration.

F. Term of Registration and Reissuance

(i) The 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 Code and these Rules, and paid all required fees; provided, that any application for renewal of registration shall be filed at least forty five (45) business days prior to the expiry date.

(ii) The issued portion of the authorized amount of a registered long term commercial paper cannot be reissued to the public unless it is re-applied for registration in accordance with this Rule.
G. Pre-termination

(i) Long term commercial papers, except bonds, which have a maturity period of five (5) years or more shall not be pre-terminated by the Issuer or lender within two (2) years from their issue date.

(ii) Pre-termination shall include optional redemption, partial installments and amortization payments; provided, that installments and amortization payments may be allowed if they are stipulated in the loan agreement.

H. Default

(i) If an Issuer of short term commercial papers fails to pay in full any interest due, or the principal upon demand at its maturity date, the Issuer shall, within the next business day after such failure, notify in writing its underwriter or selling agent and the Commission of such failure and the latter shall forthwith issue a Cease and Desist Order enjoining the Issuer and underwriter or 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, or the principal upon demand at its maturity date, the Issuer shall, within the next business day after such failure, notify in writing its underwriter or selling agent and the Commission of such failure. In the event the failure occurs within the one-year effectivity period of the permit, the Commission shall issue a Cease and Desist Order enjoining the Issuer and underwriter or 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 such failure, inform in writing the Exchange of the 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 as may be determined by the Commission.

7. **Requirements for Registration of Derivatives**

A. **Warrants**

(i) Definitions. For purposes of this Rule, the following terms shall be as construed as follows:

(a) Warrant Certificate – means the certificate representing the right to a Warrant, which may or may not be detachable, that is issued by an Issuer to a Warrantholder.

(b) Warrant Instrument – means the written document or deed containing the terms and conditions of the issue and exercise of a Warrant whose terms and conditions shall include (i) the maximum underlying shares that can be purchased upon exercise, (ii) the exercise period, and (iii) 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) Non-detachable 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 entitlement in a Warrant.

(f) Underlying Shares – means the unissued shares of a corporation that may be purchased by the
Warrantholder upon the exercise of the right granted under the Warrant.

(ii) Registration

(a) Upon registration of its warrants under Sections 8 and 12 of the Code and Rules 8.1 and 12.1, a corporation may offer and issue such securities to the public.

(b) Only Warrants with underlying shares shall be registered.

(c) The Issuer shall disclose in its registration statement the terms and conditions of the warrant plan, including its related computational data.

(d) An Issuer proposing to offer Warrants to the public shall file SEC Form 12-1 and pay the filing fees in such amounts as the Commission may determine.

(iii) Form, 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 corporate secretary of the Issuer.

(b) For Detachable Warrants, the Warrant Certificate shall state the following on its face: “This Warrant does not represent any share of stock, but only a right to purchase shares of stock of the Issuer under the terms and conditions contained in the certificate.”

(c) For 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 (whether on its face or on its reverse side) the warrant certificate number; par or issue value, class and number of the corresponding underlying shares; exercise price, or formula for computing the same, or any adjustments; exercise period and expiry date of the Warrant; procedure for the exercise; summary of the provisions contained in the Warrant Instrument; and exchange ratio or the number of underlying shares that may be purchased by each Warrantholder.

(iv) Exercise Period

Warrantholders may exercise the right granted under a Warrant within the period set by the Issuer as disclosed in its registration statement. No extension of such period shall be allowed without the written consent of the majority of the Warrant Holders.

(v) Exercise Price

(a) The Exercise Price shall be a price fixed at the time of the registration, or computed using the stated formula, and disclosed by the Issuer in its registration statement.

(b) The Exercise Price shall be paid in full upon the exercise of the right, and shall not be less than the par value of the underlying shares nor less than Five Pesos (PhP5.00) per share, if the underlying shares have no 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; (ii) the formula under which the adjusted Exercise Price can be determined; and (iii) under
any of the following circumstances that may occur after the issuance of the Warrant:

[1] Change in the par value of the underlying shares;

[2] Declaration of stock dividends;

[3] Offering of additional shares at a price different from the original exercise price;

[4] Merger, consolidation or quasi-reorganization;

[5] 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 or equivalent scripless record system maintained by a designated Warrants Registrar who shall preferably be 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 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 the 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; provided, that Non-detachable Warrants 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 in accordance with existing rules for the listing of securities, and under such other rules as the Exchange may adopt and approved by the Commission; provided, that the Warrants shall be automatically delisted upon the lapse of the Exercise Period. Warrants issued by listed companies shall be listed on the Exchange.

B. Options

(i) No corporation shall grant or offer any Option to the public unless it is registered in accordance with Sections 8 and 12 of the Code and Rules 8.1 and 12.1, except when the security is exempt from registration under Sections 9 and 10 of the Code.

(ii) Only Options with underlying shares shall be registered.

(iii) A person proposing to offer any Option to the public shall file SEC Form 12-1. Notwithstanding that the Option has no issue value, it shall pay the filing fees in such amounts as the Commission may determine.

(iv) The Issuer shall disclose in its registration statement the terms and conditions of the Option plan, including its related computational data. The plan shall be submitted as an exhibit to the registration statement.

(v) In evaluating the registration of stock Options, the Commission shall be guided by the following considerations:

(a) Stocks granted to stockholders proportionate to their shareholdings may be allowed.
(b) Stock Options may be granted to employees or officials who are not members of the board of directors, subject, however, to a review of the scheme by the board and approval by the stockholders in order to widen the corporate base and distribute corporate profits more equitably.

(c) Stock Options may be granted to non-stockholders if the board has been authorized to grant that benefit by its articles of incorporation, by-laws or by a resolution of the stockholders representing at least two-thirds (2/3) of the outstanding voting and non-voting capital stock, excluding treasury shares.

(d) Stock Options granted to directors and officers must be approved in a meeting of the stockholders representing at least two-thirds (2/3) of the outstanding voting and non-voting capital stock, excluding treasury shares; provided, however, that independent directors cannot participate in stock Options.

(e) The exercise of Options must be done within the period set by the Issuer as disclosed in its registration statement.

(vi) Corporations that grant Options shall maintain an Option Registry Book or equivalent scripless record system where all Options granted, including transfers, shall be recorded with the entries showing the name of the person to whom the Option has been granted, the basis or authority for such grant, the date of the grant, the number of shares, the price per share, the exercise date, the total cost and official receipt number.

B. Other Types of Derivatives

(i) All companies that plan to offer to sell derivatives to the public shall file a registration statement under SEC Form 12-1 in accordance with Rules 8.1 and 12.1.
(ii) The registration statement shall include financial statements prepared in accordance with the Philippine Financial Reporting Standards and applicable International Accounting Standards on Financial Instruments, enumeration of attendant risks and a description of the company’s financial risk management policies, including its policies for hedging.

8. Additional registration requirements for Proprietary and Non-Proprietary Shares or 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 or certificates, rights and privileges of their holders, in particular, their right over the use of the facilities of the Issuer;

(ii) The undertaking that the certificates or shares shall be issued within sixty (60) business days from the date of their full payment, and that the Issuer shall qualify the prospective members before the actual sale or transfer of the share or certificate.

B. The registrant shall also include in the prospectus an undertaking that, if the project or underlying asset for which the securities are sold is, for any reason, not completed within the periods stated in the prospectus, it shall refund the amount of the investment of the purchaser of the securities within ten (10) business days from receipt of a written demand, and which undertaking shall be covered by a surety bond under such terms and conditions as may be approved by the Commission.

C. The Issuer shall also state in the prospectus that it shall:

(i) Not collect membership dues unless the project is fifty percent (50%) usable as indicated in the prospectus, unless the Issuer’s by-laws provide for a higher percentage of usability;
(ii) Submit to the Commission a report under oath of any increase in fees and the rationale for such increase within thirty (30) business days from the approval by its board of directors of such increase;

(iii) Notify the members of any increase in fees upon the board’s approval of the 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 of the Issuer for the benefit of the secondary market.

D. The following documents shall be submitted as annexes to the registration statement:

(i) Copy of Subscription Agreement containing the required undertaking under subparagraph (B) above;

(ii) Copy of a Credit Line Agreement with a reputable domestic bank. The credit line shall be availed of in the event of insufficiency of funds for the completion of the project arises. The terms of the agreement shall be disclosed in the prospectus;

(iii) Copy of a Custodianship or Escrow Agreement with a reputable bank covering the proceeds from the sale of the shares or certificates, which provides, among others, that the said proceeds shall be withdrawn only upon the 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 project.

**Rule 12.2 – Incorporation by Reference**

1. Except for information filed as an exhibit, as provided for in paragraph 3, or is required to be contained in the prospectus subject of paragraph 4, both of this Rule, information may be incorporated
by reference in full or partial answer to any item of a registration statement filed pursuant to Rule 8 or a report filed pursuant to 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 full 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. All materials incorporated by reference shall be clearly identified by page, paragraph, caption or other means of identification. If only certain pages of a document are incorporated by reference and filed as an exhibit, the document from which the material was 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 if such incorporation would render the statement or report incomplete, unclear or confusing.

3. Incorporation of Exhibits by Reference

A. Any document or parts of it that have been 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 parts of it that are 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 been made in the text of any document incorporated by reference since its filing, the registrant shall file with the reference a statement containing the text of any such modification and its date.

4. Information shall not be incorporated by reference in a prospectus.

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 state that (a) a registration statement for the sale of the subject security has been filed with the Commission; (b) that the registration statement is open for inspection by interested parties during business hours at the Commission; and (c) that copies shall be furnished anyone requesting them for a reasonable cost. The notice shall be signed by the Director of the Corporation Finance Department or any officer designated by the Commission. The Issuer shall, upon or before filing, publish the notification, at its own expense, in two (2) national newspapers of general circulation once a week for two (2) consecutive weeks. The required format for this publication is shown in “Annex A.”

A. In the choice of the newspaper where the notice shall be published, the Issuer shall take into account the following considerations:

(i) The notice shall likely be read by the persons who may be interested in or whose interests would be affected by the registration statement;

(ii) The newspaper is of national circulation and is published at regular intervals, preferably five (5) times a week;

(iii) The newspaper must not be devoted to the interests of or published for the entertainment of a particular class, profession, trade, calling, race or religious denomination.
B. The burden of proof of showing satisfactory compliance with the publication requirement shall rest with the registrant and the Commission may order a re-publication of the notice if, in its judgment, the objective of the publication requirement has not been met.

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 a copy of the pro-forma notice to be published, with the attestation that the publication has been or will be immediately undertaken.

3. The order of the Commission rendering effective the registration statement shall be published in a national newspaper of general circulation within ten (10) business days from its issuance.

Rule 13 – Suspension or Revocation of Registration of Securities

1. If the Commission, after due notice and hearing, revokes or suspends the effectivity of a registration statement under Sections 13 and 15 of the Code respectively:

   A. The Commission shall publish a notice of the order of revocation or suspension in a national newspaper of general circulation in the Philippines and/or post at the Commission’s website, along with a statement that the offering in its current form has been cancelled.

   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) business days after the notice was first published.

2. Voluntary Revocation

   A. An Application for Voluntary Revocation of Registration of Securities shall include the following documents:

      (i) Verified Petition for Revocation of Registration and Permit to Sell Securities to the Public;
(ii) Board Resolution approving the revocation, certified under oath by the corporate secretary and attested to by the president or anyone performing a similar function;

(iii) List of stockholders indicating their respective shareholdings as of the latest date;

(iv) All relevant books and papers of the registrant, as may be determined by the Commission;

(v) Proposed Notice of Filing of Petition for Voluntary Revocation of Registration of Securities, reciting the facts supporting the said petition which shall be subject to the approval of the Commission; and

(vi) Copy of the official receipt representing payment of the prescribed filing fees.

B. The Commission may impose such other requirements or conditions it may deem necessary.

C. Procedures

(i) Upon the 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 national newspaper of general circulation.

(ii) If, after fifteen (15) business days from the said publication, the Commission finds that the petition together with all other papers and documents attached to it, is on its face complete and that no party stands to suffer any damage from the revocation, it shall prepare an order revoking the registration.

(iii) The Order of Revocation shall be published once in a national newspaper of general circulation at the expense of the company, and/or uploaded at the Commission’s website.
3. The Order of Revocation shall not exempt the Issuer from its reporting obligations under Section 17.2 of the Code unless no securities were sold to the public.

**Rule 14 – Amendments to the Registration Statement and Prospectus**

1. For purposes of this Rule, material information shall include, but not be 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 or decrease in the volume of the securities being offered at an issue price higher or 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 the proceeds;

   F. Loss, deterioration or substitution of the property underlying the securities;

   G. 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 the derogation of the rights of existing security holders, as may be determined by the Commission.

2. If a registration statement or prospectus on file with the Commission becomes incomplete or inaccurate in any material respect or if the Issuer wants to change any material information therein after a current report or SEC Form 17-C has been filed, the Issuer shall:

   A. File an amendment to the registration statement with the Commission explaining in detail all proposed changes which
shall be reviewed by the Commission in accordance with Section 14 of the Code;

B. If the registration statement has been declared effective by the Commission, publish a notice of the proposed amendment/s, including the reasons for the amendments, in two (2) national newspapers of general circulation in the Philippines stating that the offering in its current form has been cancelled;

C. If the changes shall result in a derogation of the rights of existing security holders or purchasers of securities or, membership certificates who have paid a portion of the selling price, the Issuer may 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) business days for the purchasers to respond to the rescission offer before initiating the amended offering;

D. If the conditions under paragraph (C) are present, the purchasers may, within thirty (30) business days from the date of such notification, renounce their purchase of the said securities. Upon such renunciation, the Issuer, or any person acting on behalf of the Issuer in connection with the distribution of the said securities, shall, within ten (10) business days from receipt of notification of such election, return the payments made by security holders or purchasers of securities, or membership certificates. Purchasers who decide not to renounce their purchase of securities shall be subject to the terms of the amended offering; and

E. In case of an increase in the volume or offering price of the securities to a level higher than the range previously disclosed by the Issuer, the amended registration statement or prospectus shall be accompanied by a filing fee based on the difference between the highest aggregate amount in relation to the previous range and the total amount based on the new volume or price. For amendments other than the offering price, the filing fee for the amended registration statement or prospectus shall be in such amount as the Commission may determine.

3. If the Commission learns that the prospectus is on its face incomplete or inaccurate in any material respect, or there is a
material omission in it, it may require its Issuer to comply with paragraph 2 above, or suspend or revoke its registration under Section 13 or 15 of the Code and Rule 13.

4. If non-material information stated in the prospectus changes, the Issuer shall file a report on SEC Form 17-C on the said changes prior to making any amendments in the registration statement. The proposed amendments shall be considered part of the original disclosure unless the Commission, within twenty (20) business days from receipt of such report, requires the Issuer to explain such changes.

5. Every amendment of 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 prospectus shall, however, be signed by all the required signatories under Section 12.4 of the Code.

6. The Issuer shall file 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 amended registration statement and prospectus shall be signed by the 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 on the use of his certificate in 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 the amendments are received by the Commission shall be considered their date of filing if all the requirements of the Code and these Rules have been complied with.

9. The Commission may, taking into consideration the interests of the investors, order the publication in a national newspaper of general circulation of its order rendering effective the amended registration statement.
Rule 17.1 – Reportorial Requirements

1. Public and Reporting Companies

This paragraph shall apply to all public and reporting companies as defined in 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 notified of that fact. The suspension shall be availed of only after the year the registration became effective.

A. The public and reporting companies 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) business days after the end of the fiscal year.

(ii) A quarterly report on SEC Form 17-Q within forty five (45) business days after the end of each of the first three quarters of each fiscal year. The first quarterly report of the Issuer shall be filed either within forty five (45) business 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) [a] A current report on SEC Form 17-C, as may be 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 the 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 the said news item which may create public speculation if
not officially denied or clarified by the concerned company.

[b] The disclosure required by paragraph 1(A)(iii)[a] above shall be made by the company in accordance with the following guidelines:

(1) promptly to the public through the news media;

(2) if the company is listed on an Exchange, to that Exchange within ten (10) minutes after the occurrence of the event and prior to its release to the public through the news media, copy furnished the Commission;

(3) if it is not listed, to the Commission through SEC Form 17-C within five (5) business days after the occurrence of the event reported, unless substantially similar information as that required by Form 17-C has been previously reported to the Commission by the company.

B. Any disclosure signed and filed with the Commission and the Exchange where the securities of the Issuer are listed, or released to the news media by any director, executive officer or a substantial stockholder (as defined under Rule 38.1) of an Issuer shall be considered as part of any report mentioned in paragraph 1(A)(iii) above and deemed as an official filing of such company if it does not deny the subject information within two (2) business days from the filing or release of the disclosure. Any misleading statement, misrepresentation or omission of a material fact therein shall be considered 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 public and reporting company that meets the requirements of Section 17.2 of the Code 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 the said
stockholder to the sanctions applicable to violations of this Rule.

D. Issuers of securities registered with the Commission shall file an annual report on SEC Form 17-A for its predecessors that registered securities with the Commission during the last full fiscal year of the predecessor prior to the registrant’s succession, unless such report has already been filed by the predecessor. The annual report shall contain the information required if it were filed by the predecessor.

E. In the event 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 Rule 17.1 is not filed within the period prescribed for such report, the Issuer shall, not later than the due date for such report, file with the Commission and, if applicable, with the Exchange where any class of its securities is listed, SEC Form 17-L which shall contain a disclosure in reasonable detail of its inability to timely file the report and the reasons for such failure. All information available on the date of the required filing shall be filed.

(ii) If any report or portion of any report described in paragraph (A) above 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:

(a) The Issuer files SEC Form 17-L in compliance with paragraph (i) hereof and, if applicable,
furnishes the document required by paragraph (iii) below;

(b) The Issuer states in SEC Form 17-L that: (i) the reason(s) that caused the inability to timely file could not be eliminated by the Issuer without unreasonable effort or expense; (ii) either the subject annual report on SEC Form 17-A, or portion thereof, will be filed not 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 not later than the fifth calendar day following the prescribed due date; and (iii) the report or portion thereof is actually filed within the period specified by paragraph 1(A) above.

(iii) If paragraph (ii) above is applicable and the reason the subject report or portion thereof cannot be timely filed without unreasonable effort or expense relates to the inability of any person, other than the Issuer, to furnish any required opinion, report or certification, a statement signed by such person stating the specific reasons why that person is unable to furnish the required opinion, report or certification on or before the date must be filed with SEC Form 17-L.

(iv) Notwithstanding paragraph (ii) above, a registration statement filed on SEC Form 12-1 pursuant to 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 1(A) above.

(v) If the Form 17-L filed pursuant to paragraph (ii) above relates only to a portion of a subject report, the Issuer shall:

(a) File the balance of such report and indicate on its cover page which disclosure items are omitted; and

(b) Include at 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 reports:
      
      (i) Monthly reports (M-2-3-01) within ten (10) business 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) business days after the end of the quarter, respectively.

   B. Issuers shall furnish the BSP copies of the 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. The corresponding fee shall be paid for such filing.

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

1. This Rule shall apply to any person who holds legal title to, or directly or indirectly acquires the beneficial ownership of more than five percent (5%) or less, as the Commission may prescribe of, any class of equity securities of a company that satisfies the requirements of Section 17.2 of the Code.

2. If the equity securities under the name of the legal owner are beneficially owned by another person/s, the legal owner and beneficial owner shall individually or jointly, 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 of such report, file with the Commission within forty five (45) business days after the end of the year in which such person became 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 at its principal 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 for the purpose 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 the regulation and supervision by the BIR and/or the Insurance Commission; or [g] a group where all its 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 who later 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. In determining the amount of outstanding securities of a class of equity securities, a person may rely upon information set forth in the Issuer’s most recent quarterly or annual report, and any subsequent current report 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 that stated in 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 the steps required to declare a default and has determined 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 from 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 the equity securities of an Issuer, the group formed in the process 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 that are beneficially owned by such persons.

Rule 19 – Tender Offers

1. Definitions

   A. Affiliate means any person controlled by or under common control by an Issuer.

   B. Beneficial owner shall have the same meaning as defined in Rule 3.

   C. Offeror 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 person or entity 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 whose equity securities are sought by an offeror pursuant to a 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 Rule 3.

J. Tender offer materials mean: (i) the offeror’s formal offer, including all the material terms and conditions of the tender offer and all their amendments; (ii) the related transmittal letter (whereby equity securities of the target company that are sought in the tender offer may be transmitted to the offeror or its depository) and all their amendments; and (iii) press releases, advertisements, letters and other documents published by the offeror or sent or given by the offeror to security holders which, directly or indirectly, solicit, invite or request tenders of the equity securities being sought in the tender offer.

K. Termination means the date after which equity securities may not be tendered pursuant to the tender offer.

2. Mandatory tender offers

A. Any person or group of persons acting in concert that intends to acquire directly or indirectly thirty five percent (35%) or more of equity shares in a public company in one or more transactions within a period of twelve (12) months shall disclose such intention and contemporaneously make a tender offer for the percentage sought to all holders of such class within the said period, subject to paragraph (9)(E) of this Rule.
In the event 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 other shareholders.

B. If any acquisition of less than thirty five percent (35%) would result in ownership of over fifty percent (50%) 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 all securities tendered. However, if the acquirer wants to buy thirty five percent (35%) or more shares directly from one or more stockholders and which acquisition will not result in ownership of over fifty percent (50%), it shall be required to make a tender offer for the same percentage of shares sought to be acquired in accordance with Rule 19, paragraph 2(A).

C. 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 that meets the threshold shall not be purpose of consummated until the closing and completion of the tender offer.

3. Exemptions from the Mandatory Tender Offer Requirement

A. Unless the acquisition of securities is intended to circumvent or defeat the objectives of the tender offer rules, the mandatory tender offer requirement shall not apply to the following:

(i) Any purchase of shares from the unissued capital stock provided 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 a privatization undertaken by the government of the Philippines;

(v) Purchases in connection with corporate rehabilitation under court supervision;

(vi) Purchases at the open market at the prevailing market price; and

(vii) Merger or consolidation.

B. Purchasers of shares in the foregoing transactions shall, however, comply with the disclosure and other obligations under Rules 18.1 and 23.

4. Tender Offer by an Issuer or Buy Back

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 is undertaken for 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; and

(iv) such other legitimate corporate purpose/s.

Any acquisition made pursuant to subparagraph (i) above may be accounted for as an “Investment in Marketable Securities” in accordance with International Accounting Standards.
B. An Issuer or any of its affiliates that intends to reacquire its own securities through active and widespread solicitation from the stockholders in general and in substantial amounts shall comply with the disclosure and procedural requirements provided for in subparagraphs (C) and (D) below, and the preceding provisions of this Rule.

C. If an Issuer or its affiliate publishes, sends or disseminates its tender offer to security holders by means of 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 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 tender offer, the information required in paragraph 7 of this Rule.

D. Until the expiration of at least ten (10) business days from the date of termination of the 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 tender offer, or any security of the same class and series, or any right to repurchase such securities; and

(ii) In the case of a 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 its intention in a newspaper of general circulation within five (5) business days from either the company’s board approval authorizing negotiations relative to the purchase of shares that could result to a mandatory tender offer or thirty (30) business days prior to the commencement of the offer; provided, that such announcement shall not be made until the offeror has the resources to implement the offer in full. A copy of the said notice shall be submitted to the Commission on the date of its publication.

6. Filing Requirements

A. No offeror shall make a tender offer unless the offeror:

   (i) Has filed with the Commission SEC Form 19-1, including all its exhibits, and

   (ii) Has hand delivered a copy of the SEC Form 19-1, including all its exhibits, to the target company at its principal executive office and to each Exchange where such class of the target company’s securities is listed for trading.

B. The offeror 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 the additional tender offer materials and amendments shall be hand delivered to the target company and to any Exchange as required above.

C. The offeror shall report the results of the tender offer to the Commission by filing, not later than ten (10) business days after the termination of the tender offer, copies of the final amendments to SEC Form 19-1.

7. Disclosure Requirements in Tender Offers
A. The offeror shall publish, send or give to security holders in the manner prescribed by paragraph 9 of this Rule, a report containing the following information:

(i) The identity of the offeror including his or 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;

(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 shall have the right to withdraw their securities pursuant to this Rule and the manner by which shares will be accepted for payment and which withdrawal may be effected;

(vi) If the tender offer is for less than all of the securities of the class and the offeror 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 offeror with respect to the tender offer in the event of an oversubscription by security holders;

(vii) The confirmation by the offeror’s financial adviser or another appropriate third party that the resources available to the offeror are sufficient to satisfy full acceptance of the offer; and

(viii) The information required in SEC Form 19-1.

B. If any material change occurs in the information previously disclosed to security holders, the offeror shall disclose promptly such change in the manner prescribed by this Rule.

8. Dissemination Requirements
A. An offeror or Issuer shall publish the terms and conditions of the tender offer 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 after the information required by paragraph 7 (A) of this Rule; or

B. If a material change occurs in the information published, sent or given to security holders, the offeror shall disseminate promptly a disclosure of such change in a manner reasonably calculated to inform security holders of such change.

9. Period and Manner of Making Tender Offers

A. A tender offer shall, unless withdrawn, remain open until the expiration of:

(i) At least twenty (20) business days from its commencement; provided, that an offer should as much as possible be completed within sixty (60) business days from the date the intention to make such offer 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. In a mandatory tender offer, the offeror shall be compelled to offer the highest price paid by him for such shares during the preceding six (6) months. If 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, the subject of the tender offer (“the target company”) shall not engage in any of the following transactions during the course of a tender offer, or before its commencement if its board has reason to believe that an offer might be imminent, except if such transaction is pursuant to a contract entered into earlier, or with the approval of the shareholders in a general meeting or, where special
circumstances exist, the Commission’s 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 issuance of, any securities carrying rights of conversion into, or subscription to, shares;

(iv) Sell, dispose of or acquire, or agree to acquire, any asset whose value amounts to five percent (5%) or more of the total value of the assets prior to acquisition; or

(v) Enter into contracts that are not in the ordinary course of business.

**D.** The offeror in a tender offer shall permit the 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, the offeror shall be obliged to accept and pay the securities on a pro rata basis, disregarding fractions, according to the number of securities tendered by each security holder during the period the offer was open.

**F.** In the event the offeror in a tender offer increases the consideration offered after the tender offer has commenced, the offeror shall pay such increased consideration to all security holders whose tendered securities have been accepted for payment by such offeror, whether or not the securities were tendered prior to the variation of the tender offer’s terms.

**G.** The offeror 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 shall be made unless:

   (i) It is 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 offeror shall not extend the period of a tender offer without prior clearance from the Commission and without issuing a notice of such extension by publication in a national newspaper of general circulation. The notice shall include a disclosure of the number of securities deposited to date and shall be made public not later than the scheduled original expiration date of the offer.

10. Transactions Based on 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 or Lapse of the Tender Offer

Unless with the prior approval of the Commission, if an offer has been announced but has not become unconditional in all respects and has been withdrawn or has lapsed, neither the offeror 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 has 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

The following acts are prohibited in 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 equity securities of a public company are purchased at threshold amounts provided for in Subsection 2(A) and (B) of this Rule without complying with the tender offer requirements under this Rule, the Commission may, upon complaint, nullify the said purchase and order the conduct of a tender offer, without prejudice to the imposition of other sanctions under the Code.

TITLE IV
Rule 20 – Disclosures to Stockholders Prior to Meetings

1. Applicability

This Rule shall apply to all corporations covered by the reporting requirements of Section 17 of the Code and to any person who shall solicit votes for any stockholders’ meeting or securing the written assent of stockholders in lieu of such meeting pursuant to Section 16 of the Corporation Code.

2. Definitions

A. As used in this Rule and SEC Form 20-IS, the following terms shall have the following meanings:

(i) Employee Benefit Plan means any purchase, savings, option, profit sharing, bonus, incentive, pension or similar plan primarily for the benefit of employees, directors, trustees or officers.
Entity that exercises fiduciary powers means any entity that holds securities in a nominee’s name or on behalf of a beneficial owner.

Information statement means the statement required by this Rule.

Proxy refers to the proxy, consent or authorization referred to in Section 20 of the Code.

Record date means the date on which the holders of securities entitled to vote at the meeting in person or by written consent or authorization shall be determined.

B. Solicitation

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 circumstances reasonably calculated to result in the procurement, withholding or revocation of a proxy.

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 the conduct of annual or other stockholders’ meetings, the registrant shall transmit either a written or verifiable soft copy
of the 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 entitled to vote.

B. The proxy form shall be prepared in accordance with paragraph 5 of this Rule.

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.

(ii) Upon filing the preliminary information material, the registrant shall pay a filing fee in such amount that the Commission may determine.

(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 the material/s 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 management report referred to in paragraph 4 of this Rule, if applicable, shall be distributed to security holders at least fifteen (15) business days prior to the date of the stockholders’ meeting; provided, that in case any changes are made within the said fifteen (15) business days, the company shall comply with the following requirements:

a) Publish in a national newspaper of general circulation the order of the Commission granting the request of the company to make such changes within the said period;
b) Submit its updated Definitive Information Statement, proxy form and Management Report within five (5) business days from the approval by the Commission of the said changes; and

e) Distribute relevant portions of the Definitive Information Statement, proxy form and Management Report which have been updated pursuant to the changes made at least five (5) business days before 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 (i) discuss, review or comment on the merits of any matter to be acted upon and (ii) which shall be furnished by the persons making the solicitation 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, proxy form or other materials (if applicable) filed pursuant to this Rule is amended or revised, copies of such amended or revised material shall be filed in accordance with this Rule and marked to indicate clearly and precisely the changes made.

4. Report to be Furnished to 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 Rule 68, as amended;

(ii) Information concerning disagreements with accountants on accounting and financial disclosures;
(iii) Management’s discussion and analysis or plan of operation;

(iv) 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 in which such persons are employed;

(vi) Market price of and dividends on the registrant’s common shares;

(vii) Discussion on compliance with leading practices on corporate governance; and

(viii) Undertaking in bold face prominent type to provide without charge to each person solicited, upon 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 written request is to be directed. At the discretion of management, a charge may be made for exhibits, provided the charge is limited to reasonable expenses incurred by the registrant in furnishing the exhibits.

B. Any information 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, however, 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 the date of its annual stockholders’ meeting, 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 the management report to security holders shall be considered as compliance with Section 75 of the Corporation Code in regard to the presentation of a financial report of operations, including financial statements, to the 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 on whose behalf the solicitation is being made;

(ii) provide a specifically designated blank space for dating the proxy form;

(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. Appropriate means shall be provided in the proxy form to give the person solicited the opportunity to specify his choice between approval or disapproval of, or abstention with respect to, each separate matter referred to therein 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 the form of proxy states in bold face how it is intended to vote the shares represented by the proxy in each such case.

C. A proxy form that provides for the election of directors shall state the names of persons nominated for election as directors. The form 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 the authority to vote for such nominee is withheld;

(ii) an instruction in bold face which indicates that the security holder may withhold the authority to vote for any nominee by lining through or otherwise striking out the name of the nominee; or

(iii) designate blank spaces in which the shareholder may enter the names of nominees to whom the shareholder chooses to withhold the authority to vote.

D. Any proxy form executed by the security holder in such manner as not to withhold the authority to vote for the election of any nominee shall be deemed to grant such authority, provided the form so states in prominent bold face.

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, 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) 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 be able to serve; or

(iv) Matters incidental 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 any material attached to it;
(ii) to vote with respect to more than one meeting (and any of its adjournment), unless a specific statement is made in the information statement and proxy form that the proxy is valid for more than one meeting; provided, 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 specific 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 stated specifications made.

H. No person making a solicitation covered by 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 a Registrant to Provide a List of, or Mail Meeting Material/s to Security Holders

A. If 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 materials, the registrant shall grant the request either by providing the list or mailing the materials to the requesting stockholder.

B. If the registrant opts to mail the materials for the requesting stockholder, the registrant shall:

(i) promptly advise the requesting stockholder of the number of record holders and beneficial holders to whom the materials will be sent;
(ii) inform the requesting stockholder of the estimated cost of mailing an information statement, proxy form or other materials to such holders; and

(iii) promptly mail the materials to the stockholders.

7. Providing Copies of Material to Beneficial Owners

A. If the registrant or solicitor knows that the securities of any class entitled to vote at a meeting for which SEC Form 20-IS is furnished are held of record by a broker, dealer, investment house, voting trustee, bank, association, or other entity that exercises fiduciary powers in a nominee’s name or otherwise, the registrant or solicitor shall, by first class mail or other equally prompt means, inquire from 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 solicitor shall supply, in a timely manner, each record holder for 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 to be furnished with such material by the record holder.

C. At 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 the mailing of such material to the beneficial owners.

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

A. This paragraph applies to solicitations by any person or group of persons other than the registrant in regard 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 an information statement on SEC Form 20-IS, provided that:

(i) The following information are stated in the communication that shall be attached to 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 the 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, in security holdings or related businesses;

(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, in security holdings or related businesses of each solicitor or participant to the solicitation in any matter to be acted upon at the meeting, and with respect to each solicitor the following information or its fair and accurate summary:
[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 (2) 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 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 their details; 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 [i] material features of any contract or arrangement for such solicitation and the identity of the parties, [ii] their cost or anticipated cost, and [iii] 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 described 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.

D. The prescribed filing fees 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 considered 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.
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) business days after the effective date of the registration statement for that security, or within ten (10) business 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 the Exchange, if the security is listed on an Exchange, on Form 23-A indicating the amount of securities of such issuer of which he is the beneficial owner;

B. Within ten (10) business 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 the Exchange, if the security is listed on an 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;

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; and

D. A newly appointed officer who has no beneficial ownership over the shares of the company, notify the Commission of such fact within the above-stated reporting period, otherwise, the obligation to file SEC Form 23-A shall remain in force.

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.

For the purpose of determining the percentage of ownership of voting trust certificates or certificates of deposit for securities, the
class of voting trust certificate or certificates of deposit shall consist of the entire amount of issuable voting trust certificates or certificates of deposit.

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 the amount of such security which represents his proportionate interest in the partnership, indicating that the statement covers only such interest.

-------------- 000 ----------------------------

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:

A. Whether the order or execution of the order, would materially alter the market for, and/or the price of, the securities;

B. The date and time the order is entered or any instructions concerning the date and time of entry of the order;

C. 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;

D. Whether the order is accompanied by settlement, delivery or security arrangements which are unusual;

E. 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

F. 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.

A. 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);

B. Buying and selling securities at the close of the market in an effort to alter the closing price of the security (marking the close);

C. 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);

**D.** Engaging in transactions in which there is no change in beneficial ownership of a security (wash sales).

**E.** 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);

**F.** 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

**G.** 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 24.2-2 - Short Sales**

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 with the commitment of the seller or securities borrower to return or deliver said securities or their equivalent to the lender on a determined future date. 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. Order for Short Sale

Upon receiving an order to sell short a qualified security, 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 dealer shall make a determination that the customer has already borrowed the security and same will be delivered in good deliverable form within three (3) business days from the execution of the order.

4. Definition of Qualified Security

For purposes of this rule, the term qualified security shall mean a listed security that is eligible for short selling in accordance with the following standards: (1) market capitalization; (2) tradability; (3) liquidity; and (4) with other applicable guidelines as may be prescribed by the Commission.

5. 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.

6. 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 three (3) business days from the execution of the order. Failure on the part of the seller to make delivery on such date will be construed by the Commission as prima facie evidence of the lack of intention on his part to make such delivery.

7. 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.

8. 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.

9. Record Keeping

A Broker Dealer who engages in short selling activities is required to maintain and keep up-to-date ledgers, whether in manual or electronic form, to record the complete details of all short selling transactions whether for its account or for the account of their customers. Such ledgers shall be kept in accordance with the Records Retention Rule.

10. Prohibition on Short Selling

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 26.3 – Fraudulent Transactions**

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.

   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 registered owner when such representation is not true and documented in writing at the time and date it was used.
Rule 28.1 - Registration of Brokers and Dealers

1. A Broker Dealer is any entity that buys or sells securities for its own and customers’ account and who shall be registered with the Commission pursuant to Section 28 of the Code.

2. A. An entity applying for registration as a Broker Dealer under Section 28 shall indicate in the application form for registration, or in an amendment thereto, whether it will:

   (i) Act as a Broker or Dealer;

   (ii) Trade, directly or indirectly, in an Exchange, in the Over-The-Counter Market or in an Alternative Trading System;

   (iii) If an Exchange Trading Participant, act as a clearing or a non-clearing participant or as a market maker;

   (iv) Deal with Equity Securities, Fixed Income/Debt Securities, Proprietary Shares, Non-Proprietary Shares, Government Securities, Derivatives;

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 such authorization shall be a continuing requirement for registration.

(ii) Proof of compliance with paid up capital requirements pursuant to Subparagraph E 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:

(a) Individual applicants (salesman/ associated person);

(b) Officers;

(c) Directors; and

(d) 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 11; 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 liquid capital requirements in accordance with SRC Rule 49.1, paragraph 1D 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:

   (a) 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;

   (b) Articles of Incorporation indicating that the purpose of the applicant is to engage in the business of a Broker Dealer;

   (c) Board resolution attesting to particulars contained in the application and in the attached documents.

(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 for continuing registration

(i) Applicable to Exchange Trading Participants

   (a) 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;

(b) Membership or participation in a Trust Fund accredited by the Commission under SRC Rule 36.5 (a);

(c) Where the Broker Dealer is a participant in a registered clearing agency, fulfillment of its obligation to contribute to the guarantee fund;

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

(a) Compliance with SEC Memorandum Circular No. 16 Series of 2004 [Re: Adoption of Risk Based Capital Adequacy (RBCA) Requirement/Ratio for Brokers Dealers], otherwise known as the RBCA Rules or any amendments thereto.

(b) [1] Unimpaired paid up capital of One Hundred Million pesos (P100,000,000.00) for the following types of Broker Dealers:

(a) First time registrants who will be participating in a registered clearing agency upon the effectivity of the Code;

(b) Those acquiring the business of existing Broker Dealer companies pursuant to SRC Rule 28.1, paragraph 3 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.

[2] 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 Thirty Million Pesos (P30,000,000.00) unimpaired paid up capital, or such other amount as the Commission may prescribe, and file the required surety bond in lieu of the 100 Million pesos as prescribed under SRC Rule 28.1, paragraph 6.

[3] Unimpaired paid up capital of Two Million Five Hundred Thousand Pesos (P2,500,000.00), or such other amount as the Commission may prescribe, for applicants dealing purely in proprietary shares and who are not holding securities for their clients.

(c) Registration of each branch office;

(d) 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 5;

(e) 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 5;

(f) A sufficient number of back office staff at the main office of the applicant;

(g) A computerized and effective recording and accounting system;

(h) Separate bank accounts for client funds;

(i) Separate bank account for proprietary funds;

(j) Reporting, using SEC Form 28-BDA, changes in the information provided in the application form to the Commission in writing within seven (7) days of such changes;
(k) Compliance with the provisions of the Revised Code of Corporate Governance and Anti Money Laundering Act, as amended;

(l) Filing of reports required under the rules and regulations, including but not limited to the filing of the Revised Manuals on Good Governance and Anti-Money Laundering;

(m) A certificate of Membership in good standing from a duly-accredited or recognized broker/dealer association; and

(n) Such other requirements which the Commission may prescribe.

F. Every Broker Dealer license shall be valid for three (3) years, or such other period as the Commission may prescribe. Applications for the issuance of a new license shall be filed not later than the November preceding the expiration of its license. Each registered Broker Dealer shall pay a required annual fee every November of each year of registration. The filing and payment of the required annual fee after the prescribed period will be charged a fee for late filing. Failure to pay the required annual fees is a ground to suspend registration.

3. Registration of Successor to Broker Dealer

A. In the event that an entity (hereinafter after referred to as “successor Broker Dealer” or “successor”) succeeds to and continues the business of an existing Broker Dealer (hereinafter referred to as “predecessor Broker Dealer”), the registration of the predecessor Broker Dealer shall be deemed to remain effective as the registration of the successor Broker Dealer if the successor within thirty (30) business days files the application for registration and complies with all application requirements after such succession, and simultaneously publishes at its expense a notice of such application in any national newspaper of general circulation. The Commission, within thirty (30) days from submission of application and all requirements, shall either approve or deny registration as successor Broker Dealer.
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 4.

(iii) A person or group of persons representing the same interest or acting in concert invests in the Broker Dealer, where such investment results 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.

4. 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 such date as determined by
the Commission for its effectivity.

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

(i) Publication in at least two (2) national newspapers of general circulation of the notice of the filing of request to withdraw business and/or cancel registration with the Commission and/or the Exchange; and

(ii) The company will execute within five (5) days an affidavit under oath, undertaking to comply with the following conditions:

(a) 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;

(b) The company will no longer execute orders from clients within five (5) days from actual cessation of operation;

(c) The terms and conditions of the Surety Bond shall remain effective until its expiration;

(d) There will be no disposal or transfer of clients’ securities to successor Broker without the prior written agreement or confirmation of the client. The Broker Dealer shall provide the client a template for the agreement or confirmation. The Broker Dealer shall submit to the Commission and/or the Exchange proof of mailing or transmission of the agreement or confirmation. The client shall submit a copy of the agreement or confirmation to the Broker Dealer via facsimile or electronic mail, with the original copy thereof to follow. Should the client fail to submit the agreement or confirmation to the Broker Dealer within fifteen (15) business days from receipt, the client shall be deemed to have consented to the transfer of his securities to the successor Broker designated by the Commission or the Exchange as the case may be.
(e) The company will continually inform the client of its corporate activities until the transfer to successor broker;

(f) 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;

(g) 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;

(iii) Following the submission of SEC Form 28 BDW Notice of Withdrawal from Registration, the company is given a maximum of forty five (45) business 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:

(a) 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;

(b) Issue latest statement of accounts to individual clients to give them the opportunity to validate their stock positions with the company including their payables;

(c) 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;

(d) Execute clients’ instructions on how to effect transfer/liquidate their securities and cash positions;

(e) 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

(f) 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.

(iv) 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.

(v) 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:
(a) 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;

(b) Certificate of Good Standing from the Commission;

(c) Clearance from the Exchange that the company has no outstanding liabilities to the Exchange;

(d) Clearance from the Exchange 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;

(e) Clearance from the registered clearing agency that all obligations have been settled, delivered and/or securities intact and in good control location;

(f) Current original licenses of the Broker Dealer, salespersons and its associated person; and

(g) Filing of SEC Form 28 T for each of the company’s associated person/s and salesperson/s.

(vi) 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 (5) years pursuant to Section 22 of the Corporation Code.

5. Registration of Salesmen and Associated Persons of Brokers Dealers

A. A person may not be employed as a salesman or associated person of a Broker Dealer or Issuer of proprietary or non-proprietary securities unless registered as a salesman or Associated Person under this Rule. The Broker Dealer/Issuer 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 and surrendering to the Commission the original registration certificate of such salesman or associated person,
no later than five (5) business 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) A former salesman or Associated Person who has not been registered as such for a continuous period of at least three (3) years prior to the date of his re-application, shall not be allowed to apply for a new registration until he has undergone training and a refresher course or taken the certification seminar, and passed the related examination within three (3) years prior to his application; provided, further, that all applicants must have taken the Continuing Professional Education Program for Securities Professionals within the last three (3) years prior to renewal of his registration; provided, finally, that a currently registered Associated Person who was a former salesman and who wants to revert back to being a Salesman shall no longer be required to attend the certification seminar and pass the examination for salesmen.

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, paragraph 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, paragraph 7 to stockholders, directors, officers, salesmen, other employees, agents, and authorized clerks of the Broker Dealer for compliance with the Code and these Rules;
(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, these Rules, 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. The registration of salesmen and Associated Persons shall be valid for at least three (3) years, or for such other period as the Commission may prescribe, but in no instance shall be beyond the expiration of the registration of their employer Broker Dealer.
Applications for the issuance of a new license shall be filed not later than the November preceding the expiration of their registration. Each registered salesman or Associated Person shall pay a required annual fee every November of each year of registration, and should be 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 charged a fee for late filing. Failure to pay the required annual fees is a ground to suspend registration.

6. The surety bonds required to be filed pursuant to SRC Rule 28.1, paragraph 2E 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 shall be not less than Ten Million Pesos (P10,000,000.00) for Brokers and not less than Two Million Pesos (P2,000,000.00) for Dealers, or such other amount as the Commission shall 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 it. Such bond shall be executed by a surety company authorized to do business in the Philippines and duly accredited as a surety company pursuant to the Commission's Guidelines on Accreditation as a Surety Company. 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 it, to comply with the provisions of this Code and these Rules 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. The Commission shall file the claim or call on the surety on behalf of claimants.

7. Nothing in this Rule shall be construed as precluding the Commission from requiring an applicant for registration or a registered Broker Dealer, salesman, or 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 Participant in.

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

1. **Procedure for Refusal, Suspension, Cancellation or Revocation of Registration**

   The Commission may, upon its initiative or upon the complaint of any person, upon existence of any of the grounds provided for under Section 29 and/or Section 54 of the Code, refuse, suspend, cancel or revoke the registration of a broker-dealer, salesman or Associated Person in accordance with the 2006 Rules of Procedure of the Securities and Exchange Commission.

2. **Protection of Customer Accounts Where Registration of a Broker Dealer is Suspended or Revoked**

   If registration of a Broker Dealer is suspended or revoked the following procedure shall be observed:

   **A.** If such Broker Dealer is an Exchange Trading Participant, the Exchange shall immediately arrange for another 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.

   **B.** If such Broker Dealer is not an Exchange Trading Participant, the Commission shall notify the affected customers, if any, of such suspension or revocation and shall require the Exchange Trading
Participant to which the Broker Dealer courses its trade to take over the operations of such Broker Dealer.

**SRC Rule 30.1 – Monitoring of Affiliated Transactions by Broker Dealers**

1. Every Broker Dealer shall require 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 (Affiliated Transactions Monitoring Sheet) to ensure compliance with the conditions set forth in Section 30.1 of the Code.

2. Based on information set forth in the Affiliated Transactions Monitoring Sheet, 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 under SEC Form 30.1/30.1-AMD (Report by Broker-Dealers on Restricted Transactions), 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 Affiliated Transactions Monitoring Sheet 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. Brokers Dealers that transact listed shares of corporations which would have been prohibited by Section 30.1 of the Code shall disclose the same within five (5) calendar days after such transaction. The disclosure shall include the following information:

   **A.** Name of the traded issue;

   **B.** Date and time of the transaction;

   **C.** Number of shares;
D. Traded price;

E. Side of the transaction (i.e., whether it is a buy or a sell);

F. Name of the customer that transacted the prohibited shares; and

G. Relationship of the Broker Dealer with the issuer company (i.e., the reason why the reported issue falls under the restriction of Section 30.1 of the Code).

5. 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**

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, and 28.2.

(b) A registered person shall ensure that at all times, pursuant to SRC Rule 30.2, paragraph 6, 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
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. If a client refuses to disclose reasonable information about his financial condition, the registered person may, based on his initial appreciations of the information given by the client, make an estimate of his client.

(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 Risk Based Capital Adequacy Report, (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 an Exchange Trading Participant;

[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 cannot 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, These Rules 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 company, and the level of control or knowledge he may have considering any failure by his company 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 referred to as “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 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.

E. The Client Agreement shall state the nature of the account, whether directory or discretionary.

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 shall file a schedule of their minimum commission rates with the Commission. No discounts and/or rebates shall be permitted from the minimum rates. Before the execution of any transaction, they shall inform their clients of any change in the commission rates charged.

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 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 company’s supervisory system shall include at least the following:

(i) establishment and maintenance of written supervisory procedures, including procedures for establishing and maintaining a “Chinese Wall” taking into consideration the applicable requirements under the AMLA and the Revised Code of Corporate Governance.

(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 company, 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 company or its staff with legal and regulatory requirements, as well as with the company’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 within fifteen (15) calendar days after the end of each quarter, a Compliance Report which shall follow the format of SEC Form BD-30.2 QCR on the company’s compliance and /or non-compliance with the provisions of the Code and these Rules including, but not limited to, the following matters:

(i) whether the company complies with the requirements of the Code and these Rules;

(ii) the significant findings of non-compliance; and
(iii) information on the action taken by management to address the issue.

The Report shall also include a summary of all events of material non-compliance by the company 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 (1) 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 referred to as “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**

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 market for the subject security and buy and sell in such market so that the result to the customer is as favorable as possible under prevailing market conditions. Among the factors that shall be considered in determining whether a Broker Dealer has used reasonable diligence are the price, promptness of execution of the order, size of the transaction, available markets, settlement cycle and attendant transaction costs.

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.

Rule 33.1(d) – Protection of Customer Accounts in Case of Business Failure of an Exchange Trading Participant

1. When an Exchange Trading Participant has filed or is the subject of a petition for insolvency, suspension of payment and/or rehabilitation or when an Exchange determines that the Trading Participant’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 Trading Participant and the Exchange to take the necessary action to protect customer accounts including, but not limited to, the preservation of the failed Trading Participant’s books and records. Said order shall remain in effect until lifted by the Commission *motu proprio* or upon petition of the failed Trading Participant.

2. Based on any of the grounds mentioned in the preceding paragraph, 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 Trading Participant for the purpose of settling its liabilities to its customers.

3. Where the Commission has ordered an Exchange to take over the operations of a failed Trading Participant, an Exchange shall:

   A. Suspend such failed Trading Participant and immediately arrange for another Trading Participant to take over the outstanding contracts relating to securities, and simultaneously notify the Commission of such suspension and takeover;

   B. Promptly notify customers of the failed Trading Participant that their accounts have been transferred to another Trading Participant and provide such customers with the opportunity to transfer anew their accounts to another Trading Participant of their choice;
C. Settle the failed Trading Participant’s liabilities to customers through the sale of the Trading Participant’s trading rights and other trade-related assets as may be prescribed by the Commission; the liquidation of paid up capital; and/or the supervision of 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 Trading Participant is a 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 Trading Participant’s trade-related assets, there are outstanding liabilities to customers of the failed 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 Trading Participant’s customers even before the Exchange has finalized the settlement of the failed Trading Participant’s liabilities, subject to the validation as provided in paragraph 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 Trading Participant’s liabilities by the Exchange.

**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, participant of the Exchange controlled by the Exchange Controller, for a period of two (2) years prior to his 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 34.1 – Segregation and Limitation of Functions of Members, Brokers and Dealers
1. Segregation of Broker and Dealer Transactions, Affiliations and Practices

An Exchange Trading Participant 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 Trading Participant, including its affiliates, or an account with respect to which an associated person exercises investment discretion, unless it complies with the “Customer First” Policy as prescribed below:

A. A trader or salesman of an Exchange Trading Participant shall execute a customer order in the Exchange trading terminal immediately upon the receipt thereof.

B. The time the customer order was received shall be recorded either manually or electronically.

C. All orders whether customer or proprietary shall be executed in their assigned trading terminals and by the designated trader.

D. Orders of stockholders, officers, directors, Associated Persons and salesmen, or any other person associated with the Exchange Trading Participant, including affiliated persons, traded within the Trading Participant shall be treated as the proprietary account of the Trading Participant’s account, in which case, the “Customer First” Policy shall apply.

2. A trader or salesman shall use and maintain only one (1) dealing account, and only with his employing broker, which shall be registered under his name or jointly with members of his family within the first degree of consanguinity and shall be treated as the Trading Participant’s proprietary account only for the purpose of complying with the Customer First Policy.

3. Orders from a Done-through Account shall be executed in accordance with the “Customer First” policy.

A. Done-through transactions of the initiating Trading Participant shall be recorded in the executing Trading Participant’s records under the name of the initiating Trading Participant. The initiating Trading Participant shall prepare and maintain a list of its done-through transactions.
B. Requests for Done-through order from the initiating Trading Participant shall include a disclosure to the executing Trading Participant of the beneficial owner/s for the said order. Orders for the account of a customer shall be executed by the executing Trading Participant in the Exchange trading terminal assigned for customers and orders of proprietary accounts shall be executed in the Exchange trading terminal for proprietary accounts.

4. Stockholders, directors, officers, Associated Persons, salesmen, and other employees cannot trade outside their employing Trading Participant unless they obtain the appropriate permission, and the Executing Trading Participant agrees to send duplicate account statements to the employing Trading Participant.

5. Non-Exchange Broker Dealers shall likewise observe the “Customer First” Policy whenever applicable.

6. For purposes of this Rule, “affiliated person” of a Trading Participant is any person who (a) exercises control, as defined in Rule 3 F of these Rules, is controlled by, or is under common control with the Trading Participant; (b) has stockholders, directors, officers (such as president, vice president, manager, treasurer, comptroller, secretary or others occupying positions of trust and responsibility), Associated Persons, salesmen, or authorized clerks of a Trading Participant or a relative of any of the foregoing within the first civil degree of consanguinity; or (c) directly or indirectly owns more than ten percent (10%) of the equity of the Trading Participant.

7. An Exchange Trading Participant and any other Broker or Investment House as defined in P.D. 129, as amended, with securities accounts of other Trading Participants, and/or their Associated Persons, other employees, owners, directors and/or officers, including discretionary accounts on behalf thereof, for transactions executed, shall, when receiving and executing such transactions, identify such accounts as that of the Exchange Trading Participant, its Associated Persons, other employees, affiliates or discretionary accounts on behalf thereof, and require the company’s Associated Person or, in the case of an Investment House, a person responsible for compliance, to review such accounts on a daily basis.

8. A Broker Dealer shall adopt proper internal controls to prevent the commission of fraud and ensure that customers’ cash and securities positions are intact and are properly accounted for by segregating
trading, settlement, accounting and back-office functions including their respective physical facilities.

9. Access to computer files should be limited to authorized users and the appropriate security measures shall be adopted.

10. The Associated Person of a Broker Dealer shall supervise the functions of the employees and check all executed trades and other transactions of the company.

11. Segregation of Functions (Chinese Walls)

A. Any Broker Dealer that assumes more than one function whether as a dealer, adviser, or that engages in market making transactions, shall maintain proper segregation of those functions within the company to prevent the flow of information between the different units of the company that performs functions that may have potential conflict of interest.

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 36.5 (a) – Trust Funds for Broker Dealer Customers

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 Trading Participant; or the Commission, or where the Broker Dealer is not an Exchange Trading Participant, 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 outside 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 Trading Participant, 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 Trading Participant, 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**

1. This Rule shall apply to all registered corporations and to branches or subsidiaries of foreign corporations operating in the Philippines that (a) sell equity and/or debt securities to the public that are required to be registered with the Commission, or (b) have assets in excess of Fifty Million Pesos and at least two hundred (200) stockholders who own at least one hundred (100) shares each of equity securities, or (c) whose equity securities are listed on an exchange; or (d) are grantees of secondary licenses from the Commission.

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 subsidiaries and affiliates except when the same shall be an independent director of any of the foregoing;

B. Does not own more than five percent (5%) of the outstanding shares of the covered company and/or its subsidiaries and affiliates;

C. Is not related to any director, officer or a shareholder owning at least 20% of the outstanding capital stock of the covered company or any of its subsidiaries and affiliates. 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 subsidiaries and affiliates 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 two (2) years; (SEC MC No. 13, Series of 2004)

F. Has not been retained, either personally or through his firm or any similar entity, as professional adviser, by that covered company or any of its subsidiaries and affiliates, within the last two (2) years; (SEC MC No. 13, Series of 2004) or

G. Has not engaged and does not engage in any transaction with the covered company and/or with any of its subsidiaries and affiliates, 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 on arms length basis.

3. Qualifications and Disqualifications
A. In addition to the qualifications for membership in the Board provided for in the Corporation Code, Securities Regulation Code and other relevant laws, the Board may provide for additional qualifications which include, among others, the following:

(i) College education or equivalent academic degree;
(ii) Practical understanding of the business of the corporation;
(iii) Membership in good standing in relevant industry, business or professional organizations; and
(iv) Previous business experience.

B. No person enumerated under Article 3(E) of the Revised 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) No person, who is disqualified by the Commission under existing and/or future regulations or ruling, shall qualify as an independent director;
(ii) His equity ownership exceeds five percent (5%) of the outstanding capital stock of the company where he is such director*; (*Based on leading practices on corporate governance. Explanation shall be provided in case of noncompliance);
(iii) Absence in more than fifty (50) percent of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.

C. A regular director, other than an Executive Director, who resigns or whose term ends on the day of the election shall qualify for nomination and election as an Independent Director after a one (1) year cooling-off period.
D. An Executive Director, who resigns or whose term ends on the day of the election shall qualify for nomination and election as an Independent Director after a two (2) year cooling-off period.

4. Number of Independent Directors

A. All covered companies shall have at least two (2) independent directors or at least twenty percent (20%) of the members of the board, but in no case less than two (2).

B. No person shall serve as an independent director in more than 5 corporations, including subsidiaries and affiliates, unless prior approval of the Commission is secured under its existing rules and regulations.

C. No person shall serve as an independent director in a covered company and any of its subsidiaries or affiliates in excess of five (5) continuous years.

5. Nomination and Election of Independent Director/s

A. The Nomination Committee (the “Committee”) shall have at least three (3) members, one of whom shall be 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 of the would-be nominees.

C. The Committee shall 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 the nominees for independent directors, as required under these Rules, which list shall be submitted to the Commission and to all stockholders, in accordance with these Rules, or in such other reports the company is required to submit to the Commission.
E. Unless otherwise allowed by the Commission, only nominees whose names appear on the final list of candidates shall be eligible for election as Independent Director/s. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders’/memberships’ meeting.

6. 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

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 3.

(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 audit
calendar for the year on or before the 30th day of January of the succeeding 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.

(ii) 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.

(iii) 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 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 to be submitted on or before the 15th of the following month, 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 risk based capital adequacy requirements by members;

(iii) Quarterly reports on the result of investigations conducted with respect to the trading of listed companies to be submitted on or before the 15th of the month after each quarter;

(iv) Annual report on the number of newly listed issues, delisted/suspended issues and reasons therefor, and the number, type of share and issuer of current listed issues to be submitted on or before the 30th of every January;

(v) Such other report as may, from time to time, be required by the Commission from the SRO.

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. Unless otherwise set by the Commission, 110 days 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 Annual Audited Financial Statements 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 effectiveness 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**

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**

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**

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 Rule 39.1, paragraph 2 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 43 – Registration of Transfer Agents and Issuance of Uncertificated Securities

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, 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. Every application for registration as a Transfer Agent shall be filed with the Commission on SEC Form 36 – TA and be accompanied by the following documents:

(i) For existing corporation:

(a) Certified True Copy of Articles of Incorporation

(b) Certified True Copy of By-Laws

(c) Latest Annual Audited Financial Statements;

(d) General Information Sheet

(ii) For newly registered corporations:

(a) Certified True Copy of Articles of Incorporation;
(b) Certified True Copy of By-Laws;

(c) List of Officers and Stockholders

(iii) Transfer Agent Rules and Procedures, certified true and correct by its President, including procedures on withdrawal as transfer agent and successor transfer agent;

(iv) Organizational Chart;

(v) Business Plan;

(vi) Manual on Anti-Money Laundering;

(vii) Manual of Corporate Governance

(viii) Copy of the sample engagement letter containing, among others, the identification of the services to be rendered and specification of the responsibilities of the transfer agent;

(ix) Undertaking under oath to 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 Exchanges or Self-Regulatory Organizations and duly approved by the Commission, and its own internal rules and procedures set for transfer agency operation;

(x) Undertaking under oath to be member of transfer agent association/organization and to submit a copy of transfer agent agreement with issuer companies;

(xi) Undertaking to conduct due diligence prior to engagement to warrant the completeness and reliability of the records to be received from the company or its former transfer agent; and

(xii) Undertaking to assume the obligation in relation to the stock transfer services as provided in the engagement letter during the period of engagement
Any amendment to 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;
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;

have an officer, member of the board of directors, or principal shareholder who is disqualified to be such an officer, director or principal shareholder;

have a backlog of share certificate transfers which indicates an inability of the registrant to fulfill its responsibilities as a transfer agent;

have repeatedly or materially failed to comply with its procedures or those of a registered clearing agency; or

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 cannot 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) actual termination of its function as a transfer agent for a particular security;

(iv) withdrawal from business of a transfer agent.; and

(v) additional listed issues being handled or have ceased from servicing.
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 Rule 43, paragraph 2 B;
(iii) complaint log as required to be maintained under Rule 43, paragraph 2 D;
(iv) reports to the issuers for whom the firm acts as transfer agent as required under Rule 43, 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.

4. All corporations covered by Section 43 of the Code may issue uncertificated (“scripless”) securities:
   A. If the board of directors motu proprio, with the consent of the concerned shareholder, investor or securities intermediary or upon written request of a shareholder, investor or securities intermediary to the corporate secretary of the relevant corporation may adopt a resolution to issue scripless securities to such shareholder, investor or securities intermediary, without prejudice to the right of the securities intermediary subsequently to require the corporation to issue a certificate in respect of any shares recorded in its name.

B. The corporation shall, prior to the adoption of a resolution on scripless securities, ensure that all cash and stock dividends due and payable to shareholders have been paid. The Corporate secretary shall within five (5) days from the adoption of the resolution, certify under oath the corporation’s compliance with these requirements.
5. All corporations covered by Section 43 of the Code shall within one (1) year from the effectivity of this Rule adopt an electronic system to allow for the issuance of uncertificated securities, which system must be submitted to and approved by the Commission prior to its implementation. Such system shall include an electronic registry whereby ownership of securities and transfers thereof, including any other transaction affecting the uncertificated securities such as pledge, shall be recorded and registered. Subject to the approval of the Commission, such electronic registry shall have the same legal status as a stock and transfer book of the corporation insofar as uncertificated shares are concerned.

**SRC Rule 44 – Records of Clearing Agencies**

1. All transactions between a clearing agency and its participants must be recorded by book entries.

2. The corporate secretary’s or the stock transfer agent’s receipt of the report of such transactions from a clearing agency shall be deemed a recording by the corporate secretary or the transfer agent of the transactions in the books of the corporation. However, the ultimate beneficial owner of the securities may prove his rights, title and entitlement to the relevant securities as against the participant so recorded as owner of the securities.

**SRC Rule 45 – Pledging of Uncertificated Securities**

1. If an uncertificated security is pledged, the pledgor shall submit the corresponding pledge agreement over the shares to the corporate secretary, transfer agent or the securities intermediary maintaining the electronic registry of shares pledged.

2. Within three (3) calendar days from receipt of the pledge agreement over the shares, the corporate secretary, stock transfer agent or the securities intermediary, as the case may be, shall indicate by book entry that a pledge has been created over the pledged securities.

3. The clearing agency that recorded the agreement shall within three (3) calendar days after such recording notify the corporate secretary or transfer agent of the pledge either by mail, email, facsimile or such other manner as the Commission may prescribe from time to time. The receipt by the corporate secretary or transfer agent of the report
from the clearing agency shall be deemed a recording of the pledge in the books of the corporation.

**SRC Rule 46 – Issuer’s Responsibility for Wrongful Transfer to Registered Clearing Agency**

An instruction by a registered clearing agency for registration of a transfer of a security shall be acted upon by the corporation or its transfer agent within five (5) business days from receipt of instruction. Within the said period, the corporation or transfer agent shall: (a) confirm the registration of the transfer and immediately issue the security in the name of the transferee; or (b) notify by mail, email, facsimile or such other means as the Commission may prescribe, the clearing agency, the registered owner and the adverse claimant, if any, of a discrepancy in the records of the corporation. In case of such discrepancy, the corporation or transfer agent shall maintain the status quo until the discrepancy is settled.

**SRC Rule 48.1 – Margin**

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 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 receipt of the call. A call for maintenance margin shall be satisfied within twenty four (24) hours after the call is received. No purchase or sell order from the customer on the margin account shall be executed by the Broker Dealer from the time of insufficiency up to the satisfaction of the call.

4. If a margin call is not satisfied 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 in which it is traded before the close the next trading day.

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**

1. **Risk Based Capital Adequacy Requirement**

   Risk Based Capital Adequacy Requirement shall refer to the ratios and other financial requirements set by the Commission after taking into account the Broker Dealer’s total risk exposure.

   **A.** Every Broker Dealer shall at all times comply with the Risk Based Capital Adequacy Requirements set by the Commission.

   **B.** Every Broker Dealer shall make a computation of RBCA requirements on a daily basis. Such computations, upon request, shall immediately be provided in written form to the Commission and/or Exchange if such Broker Dealer is a Trading Participant.

   **C.** Every Broker Dealer covered by the RBCA Requirements shall prepare its RBCA Report and file the same with Commission and the Exchange (if such Broker Dealer is a Trading Participant) on or before the 20th of the month, for RBCA Report covering the period 1st to 15th day of the month and on the 5th of the following month, for RBCA Report covering the period 16th to 30th of the month. The RBCA Report 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.

D. Every Broker Dealer shall take all necessary action to increase its Net Liquid Capital or immediately reduce its total risk exposure if any of the RBCA Requirement set by the Commission is breached.

2. Satisfactory Subordination Agreements

A. This rule sets forth minimum and non-exclusive requirements for satisfactory subordination agreements (hereinafter “subordination agreement”). The Commission, Exchange 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.

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

C. A subordination agreement may be either a subordinated loan agreement or a secured demand note agreement.

(i) “Subordinated loan agreement” shall mean a notarized agreement evidencing or governing a subordinated borrowing of cash.

(ii) “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.

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 in the case of non-Exchange Broker Dealer and to an Exchange for an Exchange Broker Dealer.

D. 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.

E. 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.

F. 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**

1. Physical Possession or Control of Securities

   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;
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 Rule 49.1 and which carries aggregate customer funds 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 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 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 Rule 52.1, paragraph 10, preparation of the annual report of financial condition in accordance with 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 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 3A (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 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 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** include 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 Rule 49.2 are set forth as Annexes 49.2-A and 49.2-B, respectively.

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

1. The following Rules on Rule 49.1, paragraph 1 and 2 on the Net Capital Rule and Satisfactory Subordination Agreements, respectively, are hereby superseded by the relevant provisions of the RBCA Rules
(SEC Memorandum Circular No. 16, Series of 2004), insofar as the former Rules are inconsistent with the latter.

2. Net Liquid Capital Rule

Every Broker Dealer at all times shall have and maintain a Net Liquid Capital (NLC) amounting to whichever is the higher of the following:

A. NLC of at least Five Million Pesos (P5,000,000.) sufficient to maintain Risk-Based Capital Adequacy Requirement/Ratio of 1.1 pursuant to the RBCA Rules, including any amendments thereto, if any or Five Million Pesos (P5,000,000.00), or Two Million Five Hundred Thousand Pesos (P2,500,000.00) for Broker Dealers dealing only with proprietary shares and who do not keep shares under its custody; or

B. Five percent (5%) of its aggregate indebtedness, or only two and one-half percent (2.5%) of its aggregate indebtedness for Broker Dealers dealing only with proprietary shares and who do not keep shares under its custody.

**SRC Rule 49.3 – Lending and Voting Customers Securities**

A Broker Dealer 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 his own.

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

1. Books and Records Rule

A. A Broker Dealer shall make, keep current and maintain in its principal office the following books and records relating to its business:

(i) Blotter and Similar Records - A Broker Dealer shall have blotters or books of original entry containing a historical
account of all the daily transactions of the Broker Dealer or its customers. The Broker Dealer may keep a number of different blotters to record separate types of transactions, provided that the Broker Dealers shall have at least:

(a) A Purchase and Sales Blotter setting forth for each transaction the purchaser and seller, subject security, confirmation invoice number, quantity, price, amount, any interest or commission, net amount of proceeds from the transaction, trade date, and settlement date;

(b) An IN/OUT Receipts Book setting forth the receipt and delivery of securities to and from other Broker Dealers and PCD in case of stock dividend distribution, including information on the date of receipt or delivery of the securities to or from Broker Dealers, the IN/OUT Receipt number, name of security, number of shares, and description of such receipt and delivery of securities (e.g. lodgment or upliftment of shares, transfer request by a customer). If the receipt and delivery of shares refer to a transfer of shares by a customer from/to his account with the Broker Dealer to/from his other account with another Broker Dealer, the Broker Dealer should obtain a written transfer request from the customer prior to executing the transfer and keep the document on file;

(c) A Stock Debit Memo (SDM) /Stock Credit Memo (SCM) book setting forth the receipt and delivery of securities to and from customers of the Broker Dealer, including information on the date of receipt and delivery of the securities, the SDM/SCM number, name of security, number of shares, and a short description of such receipt and delivery of securities; and

(d) Cash Receipts/Disbursement Book setting forth the receipt and disbursement of cash, including information on the official receipt/check voucher number, check number, bank account wherein cash was withdrawn or deposited, utilization of the cash and accounting entries at the end of each month.
The IN/OUT Receipts, SDM/SCM and Official Receipts/Check Vouchers shall be utilized in chronology according to their control numbers.

(ii) General Ledger – A Broker Dealer shall have a General Ledger reflecting all its assets and liabilities, and its income and expense and capital accounts, and from which a trial balance can be abstracted in order to prepare financial statements showing the Broker Dealer’s financial condition.

(iii) Subsidiary Ledgers – A Broker Dealer shall have an individual Subsidiary Ledger of all its asset and liability accounts, and its income and expense and capital accounts which shall set forth the itemized account activity and entries.

(iv) Journal Book – A Broker Dealer shall have a Journal Book which shall set forth all entries showing the asset, liability, income, expense, or capital accounts debited and credited, the amounts and the journal voucher control numbers and the description of such entries. Journal vouchers shall be utilized in chronology according to their control numbers.

(v) Customer’s Ledger – A Broker Dealer shall have a Customer’s Ledger, which shall set forth the itemized account activity and the securities positions and money balances (beginning and ending positions and balances) of the customer. A complete set of the statements of account of a customer on file with the Broker Dealer can be the Customer’s Ledger.

(vi) Detailed Collateral Valuation Schedule - A Broker Dealer shall have a Detailed Collateral Valuation Schedule, which shall set forth the name of the customer, money balance, name of security, number of shares, market value of position, and percentage of total market value of position of customer over money balance classified as follows:

(a) More than 250%;

(b) At least 200% but not more than 250%;

(c) At least 150% but not more than 200%;
(d) At least 100% but not more than 150%;

(e) Less than 100%; and

(f) Fully Secured.

(vii) Securities In Transfer Ledger -- A Broker Dealer shall have a Securities In Transfer Ledger, which shall show the number of the transfer receipts received from the transfer agent, the number of shares, name of security, name of previous owner, name of new owner, date sent out to transfer agent, old certificate number, date received back from transfer, and new certificate number.

(viii) Dividends and Interest Received Ledger – A Broker Dealer shall have a Dividends and Interest Received Ledger, which shall show the name of the security, the ex-dividend date (or interest date), the rate per share, and the payment date.

(ix) Securities Borrowed and Securities Loaned Record – A Broker Dealer shall have a record of securities borrowed to make deliveries against sales and securities lent to other Broker Dealers. Said record shall state the borrowing or lending date, name of borrowing or lending Broker Dealer, number of shares, name of security, price, amount, the date returned, and any interest or other compensation. As securities are marked to market, resulting in additional monies paid or collected, the record should reflect that money movement in order to balance the daily cash blotter and reflect the appropriate money amount to be paid or collected when the loan is paid.

(x) Record of Monies Borrowed, Monies Loaned, Etc. -- A Broker Dealer shall have a record of all borrowings, regardless of whether customers' or its securities are pledged as collateral. This record should show the name of the bank, the date of payment, and particulars of the collateral, if any.

(xi) Record of Securities and Monies Failed to Receive or Failed to Deliver – A Broker Dealer shall have a record of securities and monies, which the Broker Dealer failed to receive or deliver. In case of failure to receive securities and
monies, the Broker Dealer shall state in said record the date on which delivery was due but not made, number of securities or amount of money, name of security, purchase price, Broker Dealer from whom delivery is due, and date received. In case of failure to deliver securities and monies, the Broker Dealer shall state in said record the date on which delivery was due, number of shares or amount of money, name of security, Broker Dealer to whom securities were sold, sales price and date on which delivery is made.

(xii) Securities Record or Ledger -- A Broker Dealer shall have securities record or ledger or position book, which shall state separately for each security all long or short positions (including securities in safekeeping) carried by the Broker Dealer either for its account or for the account of its customers. Said record or ledger shall state the location of all securities "long", the offsetting position to all securities "short", and in all cases the name or designation of the account in which each position is carried.

(xiii) Order Ticket – A Broker Dealer shall have a memorandum of each order and any other instruction, which the Broker Dealer, on its behalf or on behalf of its customer, gave or received for the purchase or sale of securities, whether executed or unexecuted. The memorandum shall state the terms and conditions of the order or instructions and of any modification or cancellation thereof, the account for which entered, the time of entry (i.e., the time the order was transmitted by the Broker Dealer and received by the relevant party), 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 the Broker Dealer shall be so designated. A Broker Dealer may adopt an electronic form for the order ticket with the approval of the Commission.

(xiv) Confirmations and Notices – A Broker Dealer shall have copies (Broker’s copies and copies acknowledged by customers) of (i) confirmations of all purchases and sales of securities and (ii) copies of notifications of all other debits and credits for cash and/or securities for the account of customers.
(xv) Records on Cash and Margin Accounts -- A Broker Dealer shall have, in respect of each cash and margin account, a record containing the name and address of the beneficial owner of the account, and, in the case of a margin account, the signature of the owner, subject to the following rules:

(a) In case of a joint account or an account of a corporation, the record shall only be in respect of the person or persons authorized to transact business for such account;

(b) In case of a Done Through Account and for purposes of record keeping, only the Broker Dealer maintaining said account with another Broker Dealer shall be regarded as the beneficial owner; the customers of the Broker Dealer maintaining the account shall not be customers of the Broker Dealer with whom the Done Through Account is maintained. Transactions of a done-through account, however, should be executed in accordance with the “Customer First” policy and in compliance with Rule 34.1, paragraph 1; and

(c) Where a trustee, nominee or other fiduciary opens and maintains an account with a Broker Dealer as a representative of one or more particular beneficiaries and where all transactions effected in that trust are solely for the particular predetermined beneficiaries for whom the account is maintained, such beneficiaries (who thus have ownership of the account itself as distinguished from an interest in particular securities or credits which may happen to be recorded therein) shall be beneficial owners of the account. Where the agent's or trustee's transactions on behalf of a trust or particular individuals are of such volume and importance as to warrant the opening of a separate account for the particular trust or individuals, the Broker Dealer shall obtain the name and address either of the particular trust or of the beneficiaries.

(xvi) Monthly Trial Balances and RBCA Computation – A Broker Dealer shall prepare at least once a month a current record of (a) the proof of money balances in all ledger accounts in the form of trial balances; and (b) the computations of the
aggregate indebtedness, net liquid capital and RBCA ratio as of the trial balance date; *provided, however,* that the computation of the aggregate indebtedness net capital and RBCA ratio shall be made on a daily basis and available for review when required by the Commission or the Exchange.

(xvii) A Broker Dealer shall have on file its written supervisory procedures (WSP) detailing the operating procedures established by the Broker Dealer and other internal procedures adopted in compliance with the requirements and provisions of the SRC, these Rules and other relevant regulations. A Broker Dealer shall always update these internal procedures to be compliant with the new rules and regulations issued by the Exchange, the Commission, Anti-money Laundering Council and other relevant organizations.

(xviii) A Broker Dealer shall have on file an employment questionnaire or application for each Associated Person and Salesman. Said questionnaire or application shall state material information on such person, and must be approved in writing by the designated Associated Person or other authorized agent of the Broker Dealer. A Broker Dealer may comply with this record requirement by retaining a complete copy of the registration application, which the Broker Dealer filed on behalf of such person with the Commission.

(xix) A Broker Dealer shall have on file all Anti-Money Laundering Act (AMLA) Resolutions and such file shall be updated with any new AMLA resolutions released by the Anti-Money Laundering Council.

B. Logbook on material compliance and non-compliance of Broker companies and the Compliance Reports maintained and/or submitted by the Associated Person pursuant to Rule 30.2, paragraph 6 E.

C. With the prior approval of the Commission and in addition to the computerized and effective recording and accounting system mandated by Rule 28.1, paragraph 1 E (g) (ii), a Broker Dealer may make, keep current and maintain the books and records in electronic form and/or medium (including electronic records, which the Exchange trading system may allow to be so made, kept
current and maintained), *provided that,* upon directive by the Commission, the Exchange, or any other party, who may be legally entitled or authorized to access said books and records, the Broker Dealer shall promptly and readily provide a comprehensible and certified true printed and/or electronic copy of the books and records or any part thereof. 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.

**D. All Broker Dealers shall comply with the International Accounting Standards (IAS) and the Philippine Financial Reporting Standards as issued by the Board of International Accounting Standards Council.**

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 1A (i), (ii), (iii) and (iv) of 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 1A (v), (vi), (vii), (viii), (ix), (x), (xi), (xii) of the Books and Records Rule, Rule 52.1;

(ii) All Check books, bank statements and passbooks, 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 Rule 52.1, paragraph 5:

(a) Money balance and 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) Money balance and position, long or short, including description, quantity, price and valuation of each security, including contractual commitments included in the Computation of Risk Based Capital Adequacy (RBCA) Ratio 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 1 A (xii) of the Books and Records Rule, Rule 52.1, 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 electronic form and/or medium and be maintained and preserved for the required time in that form. If such electronic form and/or medium 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 electronic form and/or
medium and for producing easily readable facsimile enlargements, (b) arrange the records and index and file the film electronic form and/or medium 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 electronic form and/or medium for the time required.

G. Every Broker Dealer who ceases or suspends its trading operations voluntarily, shall preserve for a period of not less than five (5) years, from the date that the Exchange and/or Commission has approved the cessation or suspension, 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 administrative, civil or criminal cases have been filed in court or an investigation is being conducted or the customer is involved or impleaded as a party to the case or investigation, the books, records and trade-related assets shall be retained beyond the five (5) year period until it is confirmed by final judgment that the case has been finally resolved or terminated.

Every Broker Dealer who has been involuntarily suspended shall surrender all books and records and trade related assets to the Exchange. The Exchange shall retain custody over these books, records and trade-related assets for a period of not less than five (5) years, from the date that the Commission issued the takeover order. If administrative, civil or criminal cases have been filed in court or an investigation is being conducted on the Broker Dealer involved or impleaded as a party to the case or investigation, the Exchange shall retain custody over these books, records and trade-related assets which 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.

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 a Commission-accredited independent certified public accountant and a statement of management responsibility signed by chairman of the board of directors, chief executive officer and chief financial officer of the said Broker Dealer.

B. The latest Annual Audited Financial Report (SEC Form 52-AR) for Broker Dealers shall be filed with the Commission depending on the last numerical digit of its registration number as announced by the Commission.


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 and residence telephone, and email address, if any;
(ii) Occupation of customer and name, address and telephone number of employer, and e-mail address, if employed;
(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, and e-mail address, if employed;

(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;

(iii) Attach discretionary agreement executed between the Broker Dealer and the customer indicating the terms and conditions and extent of discretion to be exercised.

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 P1,200,000,000; 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, separate account information shall be obtained for each party.

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 cannot be margin accounts unless specifically authorized by the trust agreement.

G. A Broker Dealer is allowed to maintain a numbered account for trading purposes of a client who wishes to keep his or her name confidential, provided that the owner fills up the CAIF with his identity clearly indicated in the form. If numbered accounts are used, the company 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. The Broker Dealer cannot create new accounts without a face-to-face meeting.

M. All existing CAIFs of active clients shall be updated or amended annually to comply with the new requirements. All existing CAIFS shall be updated within one hundred eighty (180) days after the effectivity of these amendments.

N. 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.

O. 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).

P. Broker Dealers should also comply with the provision on identification of customer’s accounts and orders through the use of code, symbol or account number and multiple accounts.

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 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 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 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. 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 Rule 34.1, paragraph 1 regarding priority of customer orders.

G. 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.

H. 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, at least once a month, send a statement of account containing a description of any securities positions, money balances, or account activity to each customer whose account has trades during the period since the last such statement was sent to the customer. In exceptional cases upon written request of the customer, the Broker Dealer may issue quarterly statements, in lieu of monthly statements, such written request shall be kept in the company’s files for audit/investigation purposes.

B. A Broker Dealer shall issue a quarterly statement to a customer whose account has not been regularly traded but whose account is active within a period of one year. Otherwise, annual statements shall be issued.

C. The Broker Dealer shall be excused from the foregoing obligation if, after at least three (3) attempts, the mail (with registry cards) is returned by the post office to the sender for failure to locate the addressee’s whereabouts. In such cases, the Broker Dealer shall notify the Exchange of the status of these accounts and retain in its files the returned mail.

D. Notwithstanding the issuance of quarterly statements of account, the Broker Dealer shall maintain closing balances of customers’ positions every end of the month. These balances shall be reflected and easily identified in the company’s books and records. They shall be available for inspection by the Exchange and/or the Commission any time.

E. Such statements 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 by the customer.

F. 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.

9. Customer Complaint Rule

A. Every Broker Dealer shall maintain and preserve in its respective offices separate files of all complaints from customers received by
that office and the action taken by the Broker Dealer, 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. Every Broker Dealer shall every 15th day of the month notify in writing the Exchange and the Commission of any written complaints received from customers and the action taken thereon by the Broker Dealer with respect thereto. Duplicate copies of the complaints shall be attached to the report.

D. **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) If applicable, physically examine and count all securities held and compare the results with its records;

(ii) Account for and verify the discrepancies noted which may be caused by 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.

(iii) Record on its books and records all unresolved discrepancies, setting forth the security involved, not later than the date when the securities count was made.

(iv) All unresolved securities differences shall be examined and accounted for within seven (7) business days after the date such differences were discovered.

(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 monthly 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 made within fifteen (15) days following a prior examination, count, verification and comparison.

C. An independent quarterly examination, count, verification and comparison shall be conducted by the auditor. Such independent quarterly 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. The provision of paragraph 10 B (iv) of this Rule shall apply for security differences noted.

D. 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 which shall be filed with the RBCA Report, certified by the company’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. The aging schedule shall indicate the monetary and securities collateral values of the customers’ receivable as of end of month, broken down as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Provision</th>
<th>Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>T+0 to T+2</td>
<td>0</td>
<td>Total Receivables (TR)</td>
</tr>
<tr>
<td>T+3 to T+13</td>
<td>2%</td>
<td>TR</td>
</tr>
<tr>
<td>T+14 to T+30</td>
<td>50%</td>
<td>TR less collateral (net of haircut)</td>
</tr>
<tr>
<td>T+31 up</td>
<td>100%</td>
<td>TR less collateral (net of haircut)</td>
</tr>
</tbody>
</table>

C. Every Broker Dealer shall appropriate Allowance for Doubtful Accounts (ADA) using and in accordance with the following schedule:

The ADA is computed by getting, for each doubtful account, an amount equivalent to the provision (see table above) of the amount outstanding, net of collateral (net of haircut). Basis for the computation would be the individual accounts.

**SRC Rule 55.1 – Settlement Offers**
1. Any person who is notified that a proceeding, inquiry or investigation has been or will be instituted may propose to the Commission, through the Operating Department concerned, an offer of settlement prior to the promulgation of any resolution or decision thereon. A settlement offer shall be in accordance with Section 55 of the Code. It shall be made in writing and signed by the party making the offer. If the respondent is a juridical person, the appropriate board resolution shall be attached to the offer of settlement.

2. Cases that involve reduction of fines shall not be the subject of settlement offers pursuant to existing rules and regulations of the Commission.

3. Consideration of Settlement Offers:

   A. The Operating Department concerned shall present the offer of settlement to the Commission with its recommendations. When making a recommendation to the Commission which favorably accepts a settlement offer, the Operating Department concerned shall prepare a memorandum for the Commission, taking into consideration the following:

   (i) The gravity of the offense;

   (ii) The amount and time spent by the Commission;

   (iii) The chances of a favorable decision if the case were to go to trial;

   (iv) Whether the Proponent has previously violated any provision of any law being administered by the Commission;

   (v) The total imposable penalty;

   (vi) The damage caused, if any;

   (vii) Whether the settlement is in the public interest;

   (viii) Other matters that may be deemed material and relevant.

   B. By submitting an offer of settlement, the Proponent 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;

(v) Judicial review by any court.

C. By submitting an offer of settlement, the Proponent 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; and

(ii) Any right to claim bias or prejudgment by the Commission based on the consideration of discussion concerning settlement or all or any part of the proceeding.

D. If the Commission rejects the offer of settlement, the Proponent 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 Proponent; provided, however, that rejection of an offer of settlement does not affect the continued validity of waivers pursuant to this rule.

E. Final acceptance by the Commission of any offer of settlement will occur 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 as may be determined by the Commission. Such disclosure may be made without a determination of guilt on the part of the Proponent and shall include the name of the Proponent,
relevant sections of the Code and rules and regulations, 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 enumerate or state with particularity, in matrix form, the information or items it wants to be treated as confidential; state the justification for such request for each of the above-mentioned information or items and should answer the question “How will the public disclosure of this information adversely affect my interests?”; indicate the period of effectivity of confidential treatment; and complies with this Rule; provided, however, that the Commission may require disclosure of such confidential information. *(SEC RES. No. 154, s. of 2010)*

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 as to the validity of the request for confidential treatment. *(SEC RES. No. 154, s. of 2010)*

4. Within two (2) working days from receipt of the report, the Corporation Finance Department shall evaluate the application for confidential treatment and present to the Commission En Banc its recommendation on whether or not to grant said request within five (5) working days from receipt of all requirements. *(SEC RES. No. 154, s. of 2010)*

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

#### PART I

**GENERAL FINANCIAL REPORTING REQUIREMENTS**

1. **APPLICATION AND DEFINITION OF TERMS**

   A. **Application of this Rule**

   (i) This Rule (together with subsequent official pronouncements, interpretations and rulings on accounting and reporting matters, which may be issued by the Commission from time to time) states the requirements applicable to the form and content of financial statements required to be filed with the Commission by corporations which meet the threshold, as follows:

   a) Stock corporations with paid-up capital stock of ₱50,000.00 or more;

   b) Non-stock corporations with total assets of ₱500,000.00 or more, or with gross annual receipts of ₱100,000.00 or more;

   c) Branch offices of stock foreign corporations with assigned capital in the equivalent amount of ₱1,000,000.00 or more;
d) Branch offices of non-stock corporations with total assets in the equivalent amount of PhP1,000,000.00 or more;

e) Regional operating headquarters of foreign corporations with total revenues in the equivalent amount of PhP1,000,000.00 or more.

(ii) Financial statements of branch offices of foreign corporations licensed to do business in the Philippines by the Commission shall comply with the requirements of this Rule unless otherwise determined by the Commission as not applicable.

(iii) Additional requirements for financial statements of corporations covered under Section 17.2 of the Securities Regulation Code are set forth under Part II of this Rule.

B. Definition of Terms Used in this Rule

(i) Unless otherwise used in a different context, the terms used in this Rule shall have the same meanings as defined in the accounting and auditing standards adopted by the Commission as part of this Rule.

(ii) Financial reporting framework means a set of accounting principles, standards, interpretations and pronouncements that must be adopted in the preparation and submission of the annual financial statements of a particular class of entities, as defined in this Rule by the Commission. This includes, but is not limited to, the Philippine Financial Reporting Standards and the Philippine Financial Reporting Standards for Small and Medium Entities.

In prescribing the applicable financial reporting framework for a particular class or sub-class of entities covered by this Rule, the Commission shall consider the pronouncements and interpretation of the following bodies:

(a) The primary regulator of the entities concerned, e.g., the Bangko Sentral ng Pilipinas and Insurance Commission;

(b) Philippine Financial Reporting Standards Council; or

(c) International Accounting Standards Board.

In case of a conflict in the pronouncement or interpretation between any of the bodies listed above, the Commission shall have the authority subject only to prior consultation with concerned parties, to prescribe the most appropriate requirement that shall form part of the applicable financial reporting framework of corporations covered by this Rule.
(iii) **Entity**, when use in this Rule, refers to a juridical person or a corporation registered under the Corporation Code.

(iv) **Error** means an unintentional mistake in the financial statements which reduces or increases the consolidated total assets, total liabilities or income of the company by five percent (5%). It may involve:

(a) Mathematical or clerical mistakes in the underlying records and accounting data;
(b) Oversight or misinterpretation of facts; or
(c) Unintentional misapplication of accounting policies.

(v) **Fraud** means an intentional act by one or more individuals among management, employees, or third parties that results in a misrepresentation of financial statements which reduces or increases the consolidated total assets, total liabilities or income of the company by five percent (5%). It may involve:

(a) Manipulation, falsification or alteration of records or documents;
(b) Misappropriation of assets;
(c) Suppression or omission of the effects of transactions from records or documents;
(d) Recording of transactions without substance;
(e) Intentional misapplication of accounting policies; or
(f) Omission of material information.

(vi) **Gross negligence** means wanton or reckless disregard of the duty of due care in complying with Philippine Standards on Auditing.

(vii) **Material information**, for purposes of this Rule, means information whose omission or misstatement could influence the economic decisions of its users.

(viii) **Significant subsidiary** means a subsidiary, including its subsidiaries, which meet any of the following conditions:

(a) The corporation’s and its other subsidiaries’ investments in and advances to the subsidiary exceed ten percent (10%) of the total assets of the corporation and its subsidiaries consolidated as of the end of the most recently completed fiscal year (for a proposed business combination to be accounted for as a pooling of interests, this condition is also met when the number of common shares exchanged or to be exchanged by the corporation exceeds ten percent (10%) of its total common shares outstanding at the date the combination is initiated); or
(b) The corporation’s and its other subsidiaries’ proportionate share of the total assets (after inter-company eliminations) of the subsidiary exceeds ten percent (10%) of the total assets of the corporation and its subsidiaries consolidated as of the end of the most recently completed fiscal year; or

(c) The corporation’s and its other subsidiaries’ equity in the income from continuing operations before income taxes exceeds ten percent (10%) of such income of the corporation and its subsidiaries consolidated for the most recently completed fiscal year.

**********

Computational note: For purposes of making the prescribed income test the following guidance shall be applied:

[1] When a loss has been incurred by either the parent and its subsidiaries consolidated or the tested subsidiary, but not both, the equity in the income or loss of the tested subsidiary shall be excluded from the income of the corporation and its subsidiaries consolidated for purposes of the computation.

[2] If income of the corporation and its subsidiaries consolidated for the most recent fiscal year is at least 10 percent lower than the average of the income for the last five (5) fiscal years, such average income shall be substituted for purposes of the computation. Any loss years shall be omitted for purposes of computing average income.

[3] Where the test involves combined entities, as in the case of determining whether summarized financial data shall be presented, entities reporting losses shall not be aggregated with entities reporting income.

**********

(ix) **Summarized financial information** referred to in this Rule shall mean the presentation of summarized financial information as to the assets, liabilities and results of operations of the entity for which the information is required. Summarized financial information shall include the following disclosures:

(a) Current assets, noncurrent assets, current liabilities, noncurrent liabilities (for specialized industries in which classified balance sheets or statements of financial position are normally not presented, information shall be provided as to the nature and amount of the major components of assets and liabilities);

(b) Net sales or gross revenues, gross profit (or, alternatively, costs and expenses applicable to net sales or gross revenues), income or loss from continuing operations and net income or loss (for specialized industries, other information may be
substituted for sales and related costs and expenses if necessary for a more meaningful presentation).

2. GENERAL GUIDES TO FINANCIAL STATEMENTS PREPARATION

A. Financial Reporting Framework

The financial statements that shall be prepared and filed by entities covered by this Rule shall be in accordance with the financial reporting framework as prescribed under this section.

(i) LARGE AND/OR PUBLICLY-ACCOUNTABLE ENTITIES

(a) For purposes of this Rule, large or publicly accountable entities are those that meet any of the following criteria:

(1) Total assets of more than P350 Million or total liabilities of more than P250 Million; or
(2) Are required to file financial statements under Part II of SRC Rule 68; or
(3) Are in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market; or
(4) Are holders of secondary licenses issued by regulatory agencies.

(b) Large and/or publicly-accountable entities shall adopt the Philippine Financial Reporting Standards ("PFRS") as their financial reporting framework. However, a set of financial reporting framework other than the PFRS may be allowed by the Commission for certain sub-class (e.g., banks, insurance companies) of these entities upon consideration of the pronouncements or interpretations of any of the bodies listed in paragraph 1(B)(ii) above.

(ii) SMALL AND MEDIUM-SIZED ENTITIES

(a) Small and medium-sized entities (SMEs) are those that meet all of the following criteria:

(1) Total assets of between P3M to P350 Million or total liabilities of between P3M to P250 Million. If the entity is a parent company, the said amounts shall be based on the consolidated figures;
(2) Are not required to file financial statements under Part II of SRC Rule 68;

(3) Are not in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market; and

(4) Are not holders of secondary licenses issued by regulatory agencies.

(b) SMEs shall adopt the **Philippine Financial Reporting Standards for SMEs** ("PFRS for SMEs") as their financial reporting framework. However, the following SMEs shall be exempt from the mandatory adoption of the PFRS for SMEs and may instead apply, at their option, the PFRS:

(1) An SME which is a subsidiary of a parent company reporting under the PFRS;

(2) An SME which is a subsidiary of a foreign parent company which will be moving towards International Financial Reporting Standards ("IFRS") pursuant to the foreign country’s published convergence plan;

(3) An SME which is a subsidiary of a foreign parent company and has been applying the standards for a non-publicly accountable entity for local reporting purposes. It is considering moving to PFRS instead of the PFRS for SMEs in order to align its policies with the expected move to full IFRS by its foreign parent company pursuant to its country’s published convergence plan;

(4) An SME, either as a significant joint venture or associate, is part of a group that is reporting under the PFRS;

(5) An SME which is a branch office or regional operating headquarter of a foreign company reporting under the IFRS;

(6) An SME which has a subsidiary that is mandated to report under the PFRS;

(7) An SME which has a short term projection that show that it will breach the quantitative thresholds set in the criteria for an SME. The breach is expected to be significant and continuing due to its long-term effect on the company’s asset or liability size;

(8) An SME which has a concrete plan to conduct an initial public offering within the next two (2) years;
(9) An SME which has been preparing financial statements using PFRS and has decided to liquidate;

(10) Such other cases that the Commission may consider as valid exceptions from the mandatory adoption of PFRS for SMEs.

(c) An SME availing of any of the above-mentioned grounds for exemption shall provide a discussion in its notes to financial statements of the facts supporting its adoption of the PFRS instead of the PFRS for SMEs.

(d) If an SME that uses the PFRS for SMEs in a current year breaches the floor or ceiling of the size criteria at the end of that current year, and the event that caused the change is considered “significant and continuing”, the entity shall transition to the applicable financial reporting framework in the next accounting period. If the event is not considered “significant and continuing”, the entity can continue to use the same financial reporting framework it currently uses.

(e) The determination of what is “significant and continuing” shall be based on management’s judgment taking into consideration relevant qualitative and quantitative factors. As a general rule, 20% or more of the consolidated total assets or total liabilities would be considered significant.

(iii) MICRO ENTITIES

(a) Micro entities are those that meet all of the following criteria:

(1) Total assets and liabilities are below P3 Million;

(2) Are not required to file financial statements under Part II of SRC Rule 68;

(3) Are not in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market; and

(4) Are not holders of secondary licenses issued by regulatory agencies.

(b) Micro entities have the option to use as financial reporting framework either the income tax basis, accounting standards in effect as of December 31, 2004 or PFRS for SMEs, provided however, that the financial statements shall at least consist of the Statement of Management’s Responsibility, Auditor’s Report,
Statement of Financial Condition, Statement of Income and Notes to Financial Statements, all of which cover the two-year comparative periods, if applicable.

(c) If an entity uses a basis of accounting other than the PFRS for SMEs in the preparation of its financial statements, its management shall assess the acceptability of such basis of accounting in the light of the nature of the entity and the objective of the financial statements, or the requirements of the law or regulators.

B. Responsibility for Financial Statements

(i) The financial statements filed with the Commission are primarily the responsibility of the management of the reporting company and accordingly, the fairness of the representations made therein is an implicit and integral part of the management’s responsibility. The Board of Directors, in discharging its responsibilities, reviews and approves the financial statements before these are submitted to the stockholders.

(ii) The Statement of Management’s Responsibility for Financial Statements that shall be attached to the financial statements shall read as follows:

STATEMENT OF MANAGEMENT’S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of (name of reporting company) is responsible for the preparation and fair presentation of the financial statements for the year(s) ended (date), in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable financial reporting framework (specify prescribed framework for the entity), and for such internal control as management determines is necessary to enable the preparation of the financial statements free from material misstatement, whether due to fraud or error.

The Board of Directors or Trustees reviews and approves the financial statements and submit the same to the stockholders or members.

(name of auditing firm), the independent auditors and appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Standards on Auditing and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature______________________
Printed Name of the Chairman of the Board ___________________
(iii) The Chairman of the Board, Chief Executive Officer and Chief Finance Officer shall all sign the Statement of Management’s Responsibility (SMR) as prescribed by this Rule. If required by the company’s by-laws, persons holding equivalent position as that of the aforementioned signatories shall sign the statement. The failure of any of the prescribed signatories to sign the SMR constitutes a material deficiency of the financial statements.

(iv) In case of branch offices or regional operating headquarters of foreign corporations, the above Statement shall be signed by its local manager who is in charge of its operations within the Philippines. The third paragraph of the Statement may be deleted since the Philippine branch does not have any local Board of Directors or stockholders.

(v) The independent auditor’s responsibility for the financial statements required to be filed with the Commission is confined to the expression of his opinion on such statements which he has examined.

(vi) In the audit of the company’s financial statements, the management shall provide the external auditor with the following documents:

(a) Complete set of financial statements as prescribed under the applicable financial reporting framework of the entity, and if applicable, schedules and reconciliation forming part of the financial statements required under the existing rules of the Commission;

(b) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements. These include schedules, computations, projections, reconciliations, reports, analyses and other financial information;

(c) Any additional information that the auditor may request from management and when appropriate, from those tasked to perform governance.

(vii) The management shall provide unrestricted access to records and personnel of the entity from whom the auditor deems it necessary to obtain audit evidence.
(viii) The company shall neither allow nor require its independent auditor to prepare its financial statements and/or any of its supporting documents. The independent auditor’s duty is to conduct an independent examination of the company’s financial statements and supporting documents pursuant to the prescribed auditing standards and practices.

C. Form, Order and Terminology

(i) This section shall be applicable to financial statements filed with the Commission for all corporations covered by this Rule.

(ii) Financial statements shall be filed in such form and order, and shall use such generally accepted terminology as will best indicate their significance and character in the light of the provisions applicable thereto. The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading.

(iii) All money amounts required to be shown in financial statements may be expressed in whole currency units (e.g. pesos) or multiples thereof, as appropriate: provided, that when stated in other than whole currency units, an indication to that effect is inserted immediately beneath the caption of the statement or schedule, at the top of the money columns, or at an appropriate point in narrative material.

(iv) Negative amounts shall be shown in a manner which clearly distinguishes the negative attribute. When determining methods of display, consideration shall be given to the limitations of reproduction and microfilming processes.

(v) The chronological arrangement of data may be with the most recent date to the right or to the left. However, the ordering used shall be consistent in all financial statements, tabular data and footnote data in the document.

(vi) The financial statements, other than the consolidated financial statements, shall be stamped “received” by the Bureau of Internal Revenue (BIR) or its authorized banks, unless the BIR allows an alternative proof of submission for its authorized banks (e.g. bank slips) or prohibits acceptance of the financial statements in certain case (e.g., on-going examination).

D. Presentation for Receipt of the Audited Financial Statements
(i) Financial statements required to be submitted by corporations shall be accompanied by an auditor's report issued by an independent auditor and presented in accordance with the requirements of this Rule. Failure to comply with any of the formal requirements under this Rule including the prescribed qualifications for independent auditors shall be considered a sufficient ground for the denial of the receipt of the financial statements or the imposition of appropriate penalties.

(ii) The acceptance and receipt by the Commission of the financial statements shall be without prejudice to the fines that may be imposed for any material deficiency or misstatement that may be found upon evaluation of the specific contents thereof.

3. QUALIFICATIONS AND REPORTS OF INDEPENDENT AUDITORS

A. Examination of Financial Statements by Independent Auditors

(i) Financial statements required to be submitted by corporations covered by this Rule shall be accompanied by an auditor's report issued by an independent auditor and presented in accordance with the requirements of this Rule. Failure to comply therewith shall subject the company with the penalties under paragraph 10 of this Rule.

(ii) All registered corporations covered by this Rule shall have independent auditors who are duly registered with the Board of Accountancy (BOA) of the Professional Regulation Commission (PRC) in accordance with the rules and regulations of said professional regulatory bodies. A corporation with financial statements audited by an independent auditor who is not registered with the BOA shall be subject to appropriate fines.

B. Additional Requirements for Independent Auditors of Regulated Entities

(i) The following regulated entities shall have independent auditors accredited by the Commission under the appropriate category:

(a) Group A

(1) Issuers of registered securities which have sold a class of securities pursuant to a registration under Section 12 of the Securities Regulation Code (SRC) except those issuers of registered timeshares, proprietary and
non-proprietary membership certificates which are covered in Group B;

(2) Issuers with a class of securities listed for trading in an Exchange;

(3) Public companies or those which have total assets of at least Fifty million pesos (₱50,000,000.00) or such other amount as the Commission shall prescribe, and having two hundred (200) or more holders each holding at least One hundred (100) shares of a class of its equity securities.

(b) **Group B**

(1) Issuers of registered timeshares, proprietary and non-proprietary membership certificates;
(2) Investment Houses;
(3) Brokers and Dealers of securities;
(4) Investment companies;
(5) Government Securities Eligible Dealers (GSEDs);
(6) Universal Banks Registered as Underwriters of Securities;
(7) Investment Company Advisers;
(8) Clearing Agency and Clearing Agency as Depository;
(9) Stock and Securities Exchange/s;
(10) Special Purpose Vehicles registered under the Special Purpose Vehicle Act of 2002 and its implementing rules;
(11) Special Purpose Corporations registered under the Securitization Act of 2004 and its implementing rules;
(12) Such other corporations which may be required by law to be supervised by the Commission.

(c) **Group C**

(1) Financing Companies;
(2) Lending Companies;
(3) Transfer Agents.

(ii) For companies not included above but are mandated by other regulatory agencies to have an independent auditor accredited by the Commission, they are classified under **Group D**. It is understood however that such accreditation shall be accommodated by the Commission under this Rule on the condition that the Commission has been consulted on such requirement by the said agency and that it has agreed on the terms thereof through a Memorandum of Agreement.
(iii) Scope and Limitations of Accreditation

(a) The independent auditors and auditing firms (if applicable) of companies under Groups A and B shall be both accredited by the Commission in accordance with this Rule.

(b) For companies under Group C, the accreditation of the auditing firm shall be sufficient. However, an individual independent auditor shall be accredited by the Commission as such.

(c) Financial statements filed with the Commission shall be the primary responsibility of the reporting company; hence, the fairness of the representations made therein is the company’s responsibility. The independent auditor’s responsibility for the financial statements required to be filed with the Commission shall be confined to the expression of his opinion, or lack thereof, on such statements which he has examined. Such opinion shall however, be supported by sufficient audit evidence.

(d) The Commission shall not be liable for any liability or loss that may arise from the selection of the said accredited independent auditor and/or auditing firm engaged by a corporation for regular audit.

(e) The accreditation of an independent auditor and/or auditing firm shall expire or be automatically delisted after three (3) years from the date of approval of the accreditation, unless an application for its renewal is filed not later than thirty (30) business days before its expiration;

(f) Accreditation under Group A shall be considered a general accreditation which shall allow the independent auditor to also audit companies under Groups B, C and D. Independent auditors with Group B accreditation can likewise audit companies under Groups C and D. Accordingly, Group C accredited independent auditors are allowed to audit Group D companies.

(iv) Accreditation Requirements for Individual Independent Auditors or Signing Partners

(i) General requirements

(1) The applicant shall be accredited with the BOA;
(2) At the time of application, the applicant shall have at least five (5) years experience in external audit. The audit experience shall have been acquired as an in-charge, manager or partner or its equivalent;

(3) The applicant shall have adequate policies and procedures related to the elements of a system of quality control provided for under Philippine Standard on Auditing No. 220 (Quality Control for an Audit of Financial Statements), Philippine Standard on Quality Control No. 1 (Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, Other Assurance and Related Services Engagements), and their amendments. These shall be reflected in his Quality Assurance Manual.

(ii) Specific Requirements

(1) The applicant shall have sufficient knowledge on the regulatory requirements, operations and functions of companies under Group A, B or C for which he is applying for accreditation;

(2) He shall have a total of 60 units of trainings and seminars on the following topics within the last 3 years: 15 units on Philippine Financial Reporting Standards, 15 units on Philippine Standards on Auditing, 18 units on Taxation, 8 units on Professional Ethics, and 4 units on relevant laws and recent issues affecting business or other areas relevant to the practice of accountancy. The said trainings shall have been approved by the Professional Regulation Commission CPE Council or the Commission. For renewal applications, the required CPE units shall be 90 units for the last 3 years. The additional units shall be on topics relevant to the companies under the category which the auditor is accredited, e.g., Securities Regulation Code, Financing Company Act.

(3) The quality of audit work based on the evaluation of the financial statements of clients shall be acceptable. See Annex “68-A” of this Rule;

(4) At the time of application, the applicant shall have the following track record:

(i) For Group A applicant, he shall have had a minimum of five (5) corporate clients with total assets of at least ₱50 million each, or such amount as may be prescribed by the Commission;
(ii) For Group B, he shall have had a minimum of three (3) corporate clients with total assets of at least ₱20 million each, or such amount as may be prescribed by the Commission;

(iii) For Group C, he shall have had a minimum of three (3) corporate clients with total assets of ₱5 million each, or such amount as may be prescribed by the Commission;

(iv) For Group D, he shall have had a minimum of one (1) corporate client with total assets of at least Five Million Pesos (₱5,000,000.00) or such amount as may be prescribed by the Commission, or a minimum of five (5) clients regardless of the amount of the total assets.

(iii) Application documents

(1) For the initial accreditation, a notarized application form (SEC Form ExA-001) shall be submitted by the applicant to the Commission, together with the prescribed supporting documents.

(2) The accreditation may be renewed by filing a notarized renewal application form (SEC Form ExA-001-R) together with the prescribed supporting documents. In addition to the said documents, the applicant must show proof that he is engaged or had been engaged for the audit of a company under the category that he was previously accredited for and under which he is applying for renewal.

(iv) Accreditation Requirements for Auditing Firms

(a) The auditing firm shall be accredited with the BOA;

(b) At the time of application, it shall have at least one (1) signing independent auditor who is accredited under the same category as the firm is applying for;

(c) It shall have adequate policies and procedures related to the elements of a system of quality control provided for under Philippine Standard on Auditing No. 220 (Quality Control for an Audit of Financial Statements), Philippine Standard on Quality Control No. 1 (Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, Other Assurance and Related Services Engagements), and their amendments. These shall be
reflected in the Quality Assurance Manual of the firm. For Groups A or B, the highest level of quality assurance procedures within the audit firm are required in order that matters like proper consultation policies, concurring reviews and independence monitoring are in place.

(iv) Application documents

(1) For initial accreditation, a notarized application form (SEC Form AuF-002) shall be signed by the managing partner of the auditing firm and shall be submitted to the Commission together with the prescribed supporting documents.

(2) The accreditation may be renewed by filing a notarized renewal application form (SEC Form AuF-002-R) with the supporting documents.

(v) Mutual Recognition Policy

The mutual recognition policy covering auditors of Group C companies is subject to the BSP restriction that for banks and their subsidiary and affiliate banks; quasi-banks; trust entities; non-stock savings and loan associations (NSSLAs) and their subsidiaries and affiliates engaged in allied activities; and other financial institutions which, under special laws, are subject to the BSP’s consolidated supervision, only one (1) independent auditor or auditing firm shall audit their individual and consolidated financial statements.

(vi) Operational Requirements

(a) An accredited auditing firm or independent auditor shall not engage in any of the following non-audit services for his statutory audit clients, unless the safeguards under the Code of Ethics for CPA’s are undertaken by the firm or auditor to reduce the threat to its independence:

(1) bookkeeping or other services related to the accounting records or financial statements of the audit client;
(2) financial information systems design and implementation;
(3) appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
(4) actuarial services;
(5) internal audit outsourcing services;
(6) management functions or human resources;
(7) broker or dealer, investment adviser, or investment banking services;
(8) legal services and other professional services unrelated to the audit; and
(9) any other services that the Commission may declare as not permissible.

(b) The firm and/or independent auditor shall comply with the following:

(1) Terms of its engagement letter and its undertakings;
(2) Philippine Standards on Auditing and Practices and other issuances of the Auditing and Assurance Standards Council and/or the Commission;
(3) Code of Professional Ethics which includes independence rules;
(4) Applicable provisions of this Rule and other relevant regulations and circulars of the Commission; and
(5) Other pertinent laws, rules and regulations.

(c) The written procedure for quality assurance and monitoring of professional ethics and independence from clients which shall be submitted with the application for accreditation shall be complied with. Any change or amendment thereto shall be reported to the Commission not less than ten (10) business days prior to its effectivity. If the Commission does not comment or object to the changes or amendment within ninety (90) business days from the date of submission, the change or amendment shall be considered duly noted and shall form part of the records of such accredited firm on file with the Commission.

(d) In relation to an on-going investigation of a regulated entity, accredited independent auditors and firms shall, upon order of the Commission, present its working papers, audit evidence and other audit related records.

(vii) Reportorial Requirements

(a) A regulated entity shall report to the Commission its action on a report of its independent auditor pertaining to any item enumerated under item (iii) below hereof within five (5) business days from the date the report is submitted by the independent auditor. For companies under Group A, the report shall be in a SEC Form 17-C. For companies under Groups B to C, the report shall be in the form of a letter signed by the Chairman of the Board or Chairman of the Audit Committee. For companies under Group D, the report shall be submitted to the concerned regulatory agency, copy furnished the Commission’s Office of the General Accountant.
(b) In case the regulated entity fails to submit the report required above, the independent auditor shall, within thirty (30) business days from the submission of his findings to the entity, file a report (SEC Form Au-Rep) to the Commission.

(c) The following findings shall be disclosed to the Commission:

(1) Any material findings involving fraud or error;

(2) Losses or potential losses the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the company;

(3) Any finding to the effect that the consolidated assets of the company, on a going concern basis, are no longer adequate to cover the total claims of creditors;

(4) Material internal control weaknesses which may lead to financial reporting problems.

(d) The independent auditor shall submit his findings to the client-company’s audit committee or Board of Directors. The adverse findings shall be discussed by the independent auditor with the said body in order to preserve the concerns of the supervisory authority and independent auditors regarding the confidentiality of the information.

(e) The independent auditor shall document management’s explanation and/or corrective action taken regarding his adverse findings. The same shall be included in the report mentioned under item (b) above.

(f) The engagement contract between the company and the independent auditor shall contain a provision that the disclosure of information by the independent auditor to the Commission shall not constitute a breach of confidentiality nor shall it be a ground for civil, criminal or disciplinary proceedings against the independent auditor.

(viii) Rotation of External Auditors

The independent auditors or in the case of an audit firm, the signing partner, of the aforementioned regulated entities shall be rotated after every five (5) years of engagement.
C. Independence of Auditors

The term independent auditor as used in the foregoing paragraph refers to an auditor who fully meets the requirements of independence as provided for in the Code of Ethics for Professional Accountants.

D. Engagement of Independent Auditors

(i) The company through its Board of Directors or Audit Committee, if applicable, shall conduct due diligence in confirming the personal identification and professional qualifications of the independent auditor whose services it will engage as independent auditor.

(ii) Prior to engagement, the company shall require the independent auditor to present a copy of his/her professional license from the Professional Regulation Commission (PRC) and the Certificate of Accreditation issued to him/her by the Board of Accountancy (BOA) as sole independent auditor or to the auditing firm if he is a partner thereof.

(iii) The company shall confirm the authenticity of the BOA Certificate of Accreditation by checking the latest list of accredited practitioners issued by the BOA.

(iv) In addition to above, regulated entities shall observe the following procedures prior to the engagement of an independent auditor:

   (a) The company shall require the presentation of the Commission’s Certificate of Accreditation issued to the independent auditor and its auditing firm, if applicable. The level of accreditation (Group A to D) indicated in the said certificate shall be at least equivalent to the company’s classification under this Rule;

   (b) The authenticity of the said certificate shall be verified against the official list of accredited auditors and firms.

(v) Preliminary meetings with the management and the exit conference shall be attended to personally by the independent auditor or by the handling partner or engagement manager, in case of a firm.

(vi) A complete documentation of the foregoing requirements shall be retained by the company. The independent auditor’s file with the company shall include a copy of his/her PRC license, BOA Accreditation Certificate, Commission’s Certificate of Accreditation (if applicable), engagement
contract and minutes of conference with the auditors, among others.

E. Audit Reports of Independent Auditors

(i) The auditor’s report shall: (A) be dated; (B) be signed by the certifying independent auditor; (C) identify the financial statements covered by the report; (D) state the signing accountant’s License, Tax Identification and PTR numbers, and registration number with BOA including its expiration date; (E) state the complete mailing address of the client and the auditor; (F) in the case of an auditing firm, the certifying partner shall sign his own signature and shall indicate that he is signing for the firm, the name of which is printed the report.

(ii) The auditor’s report of a company mentioned under paragraph (B)(i) of this section shall likewise indicate the signing auditor/partner’s accreditation number, category and expiration of accreditation. In case of an auditing firm, the same information with respect to the accreditation of the firm shall be indicated.

(iii) The auditor’s report shall state whether the examination was made in accordance with Philippine Standards on Auditing.

(iv) The auditor’s report shall state clearly the opinion of the independent auditor on the fairness of presentation in conformity with the prescribed financial reporting framework for the company.

(v) Unless exempted under sub-paragraph (viii) below, the external auditor of a company which has incurred a capital deficiency, shall provide in the audit report an emphasis paragraph indicating the following information:

(a) The fact that the company has incurred a capital deficiency that raises an issue on its going concern status;
(b) A brief discussion of a concrete plan of the company to address the capital deficiency and reference to the note to financial statements that provides a complete disclosure of the said plan;
(c) A statement that the auditor conducted sufficient audit procedures to verify the validity of the aforementioned plan.

(vi) In case the company fails to present to the external auditor a concrete plan or sufficient supporting documents to address the capital deficiency, the auditor shall provide an emphasis paragraph indicating that the company is no longer a going concern and should use liquidation basis in the preparation of its financial statements.
(vii) The independent auditor shall likewise consider other instances, e.g., loss of major market/customers or ban of major product, which would raise an issue on going concern status of the company and that, shall require an emphasis paragraph in his report as required under sub-paragraph (v) above.

(viii) The requirement under sub-paragraph (v) above shall not apply to a company that incurred a capital deficiency due to any of the following reasons:

(a) The entity is at pre-operating stage and has incurred capital deficiency due to higher pre-operating expenses than its initial capitalization. Projected financial statements indicate that it will generate net income once it starts commercial operations;

(b) Significant losses incurred in prior years but has generated positive results (net income) from operations over the current period due to developments in the business or regularization of its operation;

(c) An entity has incurred capital deficiency during the current period only due to a significant adjustment arising from the adoption of new financial reporting framework or occurrence of non-recurring transaction for the period;

(d) Such other cases which the Commission may consider as valid ground for considering the company as a going concern.

Any company covered by any of above exemptions shall provide in Note 1 of its audited financial statements a discussion on the reason for its capital deficiency and a concrete plan to address the same.

F. Supplemental Written Statement of Auditor

(i) For stock corporations filing under Part I of this Rule (and therefore not covered by Part II), their independent auditors shall issue a supplemental written statement as prescribed under Annex 68-B of this Rule.

(ii) Such statement may be incorporated in the report accompanying the Income Tax Return, which is required to be submitted with the BIR.

(iii) To support the above statement, the auditor may undertake the audit procedures he deems necessary, such as the following:
(a) Obtain a certification from the issuer’s corporate secretary on the number of stockholders and their corresponding shareholdings; or
(b) Inspect the stock and transfer book and conduct the tests needed to validate their entries and balances.

4. OTHER DOCUMENTS TO BE FILED WITH THE FINANCIAL STATEMENTS

The following documents shall be filed with the annual audited financial statements:

A. Non-stock and non-profit organizations

A schedule showing the nature and amount of each items comprising the total receipts and disbursements according to sources and activities (e.g. pursuant to primary purpose or commercial activity);

B. Foundations

A sworn statement of the foundation’s President and Treasurer on the following:

(i) Specific sources of funds;

(ii) Application of funds with the following information on activities accomplished, on-going and planned:

(a) Complete name, address and contact number of project officer-in-charge;
(b) Complete address and contact number of project office.

(iii) As supporting documents to the above information, copies of the certifications from the Office of the Mayor or the Head of either the Department of Social Welfare and Development or Department of Health, on the existence of the subject program or activity in the locality on which it exercises jurisdiction.

C. Issuers of securities to the public, and stock corporations with unrestricted retained earnings in excess of 100% of paid-in capital stock

A Reconciliation of Retained Earnings Available for Dividend Declaration which shall present the prescribed adjustments as indicated in Annex 68-C of this Rule.
D. Large and/or publicly-accountable entities

A schedule, in table format, showing in the first column a list of all the effective standards and interpretations under the PFRS as of year-end, and an indication opposite each in the second column on whether it is “Adopted”, “Not adopted” or “Not applicable”.

E. Such other schedules or components that the Commission may require.

5. COMPARATIVE FINANCIAL STATEMENTS

A. The financial statements to be filed with the Commission shall be presented in comparative form. The figures for the most recently ended fiscal year may be presented at the right portion immediately after the accounts name, followed by the figures for the last preceding year.

B. Balance Sheet or Statement of Financial Position

The audited balance sheets or statements of financial position shall be as of the end of each of the two most recently completed fiscal years.


If practicable, these statements shall be for each of the two most recent completed fiscal years or such shorter period as the company (including predecessors) has been in existence.

D. An explanation through a note or otherwise shall be made explaining the reasons for filing a single-period statement, e.g. it is the first period of a new company.

E. When financial statements are presented on a comparative basis for more than the periods required, the auditor’s report need not extend to prior periods for which the financial statements are not required to be audited.

(i) If the financial statements of the prior year were not audited, such statements shall be marked prominently as “UNAUDITED.” In addition, the auditor shall disclose this in an “other matter” paragraph in the auditor’s report.

(ii) If the financial statements of a prior-period have been examined by another independent certified public accountant whose report is not presented, the statements shall be marked to disclose prominently that they are not
being reported upon by the current auditor. If the auditor of the financial statements for such periods did not give an unqualified opinion on such statements, the auditor for the current year shall indicate in an “other matter” paragraph of his report (I) that the financial statements of the prior-period were examined by other auditors, (II) the date of their report (III) the type of opinion expressed by the predecessor auditor and (IV) the substantive reasons it was qualified.

PART II
ADDITIONAL REQUIREMENTS FOR ISSUERS OF SECURITIES TO THE PUBLIC

1. APPLICATION

In addition to those set forth under Part I of this Rule, this Part II (together with subsequent official pronouncements, interpretations and rulings on accounting and reporting matters, which may be issued by the Commission from time to time) provides for the special requirements on the financial statements required to be filed with the Commission by corporations which filed registration statements under Section 12 of the Code or which meet the following criteria with respect to the requirements to file reports:

A. Issuer which has sold a class of their securities pursuant to a registration under Section 12 of the Code;
B. Issuer with a class of securities listed for trading on an Exchange; and
C. Issuer with assets of at least ₱50,000,000.00 or such other amount as the Commission shall prescribe and has two hundred (200) or more holders each holding at least one hundred (100) shares of a class of its equity securities as of the first day of the issuer’s fiscal year.

2. AUDITOR’S OPINION ON FINANCIAL STATEMENTS

A. Audited financial statements of companies covered by Part II of this Rule with an auditor’s opinion other than unqualified because of deviation(s) from the required financial reporting framework or due to a scope limitation imposed by the company, shall be considered a violation of this Rule.

B. For listed banks, a qualified opinion from their independent auditors shall not be considered a non-compliance with this Rule if the qualification pertains to a deviation from the financial reporting framework adopted by the Bangko Sentral ng Pilipinas as part of its prudential reporting requirements.

C. The company shall, if warranted, after due notice and hearing, be subject to the applicable penalties and shall be required to
submit its amended financial statements to address the modification or limitation.

3. RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Statement of Management’s Responsibility of companies covered under Part II of this Rule shall in addition to the requirements under paragraph B of Part I be signed under oath.

4. PERIODIC PRESENTATION

The periodic presentation and coverage of financial statements accompanying the registration statements (SEC Form 12-1), annual reports (SEC Form 17-A) and management reports attached to the information statements (SEC Form 20-IS) shall be made in accordance with the requirements of this section.

A. Registration Statements

(i) Consolidated Balance Sheets or Statement of Financial Position

(a) If the registrant has been in existence for less than one fiscal year, there shall be filed an audited balance sheet or statement of financial position as of a date within 135 days of the date of filing the registration statement.

(b) If a filing on SEC Form 12-1 is made within one hundred five (105) days after the end of the most recently ended fiscal year, the filing shall include audited consolidated balance sheets or statements of financial position as of the end of each of the two (2) years prior to the most recently ended fiscal year and a separate interim balance sheet as of the end of the most recently ended fiscal year.

(c) If a filing on SEC Form 12-1 is made more than one hundred five (105) days but not more than one hundred thirty five (135) days after the end of the most recently ended fiscal year, the filing shall include audited consolidated balance sheets or statements of financial position as of the end of each of the two most recently ended fiscal years.

(d) If a filing on SEC Form 12-1 is made more than one hundred thirty five (135) days but not more than two hundred twenty five (225) days after the end of the most recently ended fiscal year, the filing shall include audited consolidated balance sheets or statements of financial position as of the end of each of the two most recently
ended fiscal years and a separate interim balance sheet or statement of financial position as of the end of the first fiscal quarter subsequent to the most recent fiscal year end.

(e) If a filing on SEC Form 12-1 is made more than two hundred twenty five (225) days but not more than three hundred fifteen (315) days after the end of the most recently ended fiscal year, the filing shall include audited consolidated balance sheets or statements of financial position as of the end of each of the two most recently ended fiscal years and a separate interim balance sheet or statement of financial position as of the end of the second fiscal quarter subsequent to the most recent fiscal year end.

(f) If a filing on Form 12-1 is made more than three hundred fifteen (315) days after the end of the most recently ended fiscal year, the filing shall include audited consolidated balance sheets or statements of financial position as of the end of each of the two most recently ended fiscal years and a separate interim balance sheet as of the end of the third fiscal quarter subsequent to the most recent fiscal year end.

(ii) Consolidated Statement of Comprehensive Income

(a) There shall be filed for the registrant and its subsidiaries consolidated and its predecessors, audited statement of comprehensive Income in a comparative format for each of the three most recent completed fiscal years or such shorter period as the registrant (including predecessors) has been in existence.

(b) In addition, statement of comprehensive Income shall be provided for any interim period between the latest audited balance sheet or statement of financial position and the date of the most recent interim balance sheet being filed, and for the corresponding period of the preceding year.

(iii) Consolidated Statement of Changes in Equity

(a) There shall be filed for the registrant and its consolidated subsidiaries and its predecessors, audited statements of changes in equity in comparative format for each of the three most recent completed fiscal years or such shorter period as the registrant (including predecessors) has been in existence.

(b) In addition, statements of changes in equity shall be provided for any interim period between the latest audited
balance sheet or statement of financial position and the date of the most recent interim balance sheet being filed, and for the corresponding period of the preceding year.

(iv) Consolidated Statement of Cash Flows

(a) There shall be filed for the registrant and its subsidiaries consolidated and its predecessors, audited statements of cash flows in comparative format for each of the three most recent completed fiscal years or such shorter period as the registrant (including predecessors) has been in existence.

(b) In addition, consolidated statement of cash flows shall be provided for any interim period between the latest audited balance sheet and the date of the most recent interim balance sheet being filed, and for the corresponding period of the preceding year.

(v) Interim Financial Statements

(a) The interim financial statements mentioned in the preceding subparagraphs need not be audited. However, in case of an initial public offering of securities by a company, such interim financial statements shall be audited by an accredited independent auditor (Group A category) of the Commission. The audited interim financial statements shall be complete in details as in a full fiscal year financial report.

(b) In lieu of the audited interim financial statements, the submission of reviewed interim financial statements shall be acceptable subject to the following conditions:

(1) The public offering shall be made in the Philippines and in other countries;
(2) Interim reviewed financial statements are allowed under the rules of the said foreign countries;
(3) The age requirement for financial statements under this Rule shall be complied with; and
(4) The submission of audited interim financial statements will not be practical due to time constraints.

The review by an independent auditor of the financial statements shall be in accordance with the applicable standards.

(vi) Age Requirement for Financial Statements

(a) At the time a registration statement on SEC Form 12-1 is to become effective, the financial information therein shall be as of a date within 135 days from effective date or such
longer period which the Commission may allow upon favorable consideration of a written request of the registrant. The factors that may considered in granting the request include the time constraints and the significant circumstances surrounding the given proposed issue.

(b) Except as required under sub-paragraph (v) above, the interim financial statements which are necessary to keep the registration statement current, need not be audited but shall comply with the required form and contents under PAS 34 on Interim Financial Statements or any of its amendments.

B. Annual Reports (SEC Form 17-A)

(i) There shall be filed consolidated audited balance sheets or statements of financial position (except if not applicable), in comparative format, as of the end of each of the two most recent completed fiscal years.

(ii) The Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity shall be in comparative format for the three most recent completed fiscal years or such shorter period as the company (including predecessors) has been in existence.

C. Information Statements (SEC Form 20-IS)

(i) There shall be filed consolidated audited balance sheets or statements of financial position (except if not applicable), in comparative format, as of the end of each of the two most recent completed fiscal years. If the meeting date is beyond one hundred thirty five (135) days from the company’s fiscal year end, a separate interim unaudited balance sheet or statement of financial position as of the end of the most recent quarter with comparative figures as of the end of the preceding fiscal year shall likewise be filed.

(ii) The Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity shall be in comparative format for the three most recent completed fiscal years or such shorter period as the company (including predecessors) has been in existence. If the meeting date is beyond one hundred thirty five (135) days from the company’s fiscal year end, separate interim unaudited statements for the most recent quarter with comparative figures for period ending of the same quarter of the preceding year shall likewise be filed.

5. APPLICABILITY WITH OTHER REPORTS
The schedules provided under Paragraph 11 are not required in management reports to be distributed to shareholders as part of the information statement.

6. ADDITIONAL DISCLOSURE REQUIREMENTS

A. Balance Sheet or Statement of Financial Position

In addition to the disclosures required under the PFRS and except as otherwise permitted by the Commission, the various line items and certain additional disclosures set forth in Annex 68-D if applicable, shall appear on the face of the balance sheets or related notes filed by the persons to whom this Rule pertains.

B. Statement of Comprehensive Income

In addition to the disclosures required under the PFRS and except as otherwise permitted by the Commission, the various line items and certain additional disclosures set forth in Annex 68-D if applicable, shall appear on the face of the Statement of Comprehensive Income or related notes filed by the persons to whom this Rule pertains.

C. General Notes to Financial Statements

In addition to the disclosures required under the PFRS and except as otherwise permitted by the Commission, the various line items and certain additional disclosures set forth in Annex 68-D if applicable, shall appear on the face of the financial statements or related notes filed by the persons to whom this Rule pertains.

D. Schedules

Please see Annex 68-E for the required form and content.

7. INTERIM FINANCIAL STATEMENTS

The following additional instructions shall be applicable for purposes of preparing interim financial statements:

A. If appropriate, the statement of comprehensive income shall show earnings per share and dividends declared per share applicable to common stock. The basis of the earnings per share computation shall be stated together with the number of shares used in the computation. For mutual funds or investment companies, the amount of Net Asset Value per Share (NAVPS)
and the basis for its computation shall likewise be disclosed in the balance sheet or the notes to financial statements.

B. If, during the most recent interim period presented, the registrant or any of its consolidated subsidiaries entered into a business combination treated for accounting purposes as a pooling of interests, the interim financial statements for both the current year and the preceding year shall reflect the combined results of the pooled businesses. Supplemental disclosure of the separate results of the combined entities for the periods prior to the combination shall be given, with appropriate explanations.

(i) Where a material business combination accounted for as a purchase has occurred during the current fiscal year, pro forma disclosure shall be made of the results of operations for the current year up to the date of the most recent interim balance sheet provided (and for the corresponding period in the preceding year) as though the companies had combined at the beginning of the period being reported on. This pro forma information shall, as minimum, show revenues, income before extraordinary items and the cumulative effect of accounting changes, including such income on a per share basis, and net income per share.

(ii) Where the registrant has disposed of any significant segment of its business, revenues and net income—total and per share—for all periods shall be disclosed.

(iii) In addition to meeting the reporting requirements specified by existing standards for accounting changes, the registrant shall state the date of any material accounting change and the reasons for making it.

(iv) Any material retroactive prior period adjustment made during any period covered by the interim financial statements shall be disclosed, together with the effect thereof upon net income—total and per share—of any prior period included and upon the balance of retained earnings. If results of operations for any period presented have been adjusted retroactively by such an item subsequent to the initial reporting of such period, similar disclosure of the effect of the change shall be made.

(v) Any unaudited interim financial statements furnished shall reflect all adjustments which are in the opinion of management, necessary to a fair statement of the results for the interim periods presented. A statement to that effect shall be included. Such adjustments shall include, for example, appropriate estimated provisions for bonus and profit sharing arrangements normally determined or settled at year-end. If all such adjustments are of a normal recurring
nature, a statement to that effect shall be made; otherwise, there shall be furnished information describing in appropriate detail the nature and amount of any adjustments other than normal recurring adjustments entering into the determination of the results shown.

C. Periods for which interim financial statements are to be provided in registration forms are stated in Paragraph 4 of Part II this Rule. For filings on Form 17-Q, financial statements shall be provided as set forth below:

(i) An interim balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year. The balance sheet as of the end of the preceding fiscal year may be condensed to the same degree as the interim balance sheet provided. An interim balance sheet as of the end of the corresponding fiscal quarter of the preceding fiscal year need not be provided unless necessary for an understanding of the impact of seasonal fluctuations on the registrant's financial condition.

(ii) Interim statements of income shall be provided for the current interim period and cumulatively for the current financial year to date, with comparative Statement of Comprehensive Income for the comparable interim periods (current and year -to-date) of the immediately preceding financial year.

(iii) Statement showing changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year; and

(iv) Interim statements of cash flows shall be provided for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

(v) For registrants whose business is highly seasonal, financial information for the twelve months ending on the interim reporting date and comparative information for the prior twelve-month period may be useful. They may provide interim statements of income and of cash flows for the twelve month period ended during the most recent quarterly period and for the corresponding preceding period in lieu of the year-to-date statements specified in (ii) and (iii) above.

D. Filing of other interim financial information in certain cases - The Commission may, upon the informal written request of the
registrant, and where consistent with the protection of investors, permit the omission of any of the interim financial information herein required or the filing in substitution therefor of appropriate information of comparable character. The Commission may also by informal written notice require the filing of other information in addition to, or in substitution for, the interim information herein required in any case where such information is necessary or appropriate for an adequate presentation of the financial condition of any person for which interim financial information is required, or whose financial information is otherwise necessary for the protection of investors.

8. PRO FORMA FINANCIAL INFORMATION AND FINANCIAL STATEMENTS OF BUSINESS ACQUIRED OR TO BE ACQUIRED

A. Applicability

(i) This section prescribes the requirements in a report of an issuer or in a registration statement for the registration of securities for initial public offering or follow-on offering of corporations.

(ii) In addition to the audited financial statements of business acquired, the pro forma financial information shall be submitted with the report or with the registration statement if any of the following transactions occurs after the date of the most recent balance sheet or during the interim period:

(a) Significant business combination accounted for as a purchase has occurred (for purposes of this Rule, the term "purchase" encompasses the purchase of an interest in a business accounted for by the equity method);

(b) Consummation of a significant business combination that has occurred or is probable;

(c) Securities being registered by the registrant are to be offered to the security holders of a significant business to be acquired or the proceeds from the offered securities will be applied directly or indirectly to the purchase of a specific significant business;

(d) The disposition of a significant portion of a business either by sale, abandonment or distribution to shareholders by means of a spin-off, split-up or split-off has occurred or is probable and such disposition is not fully reflected in the financial statements of the registrant included in the filing;

(e) Acquisition of one or more real estate operations or properties which in the aggregate are significant, or since the date of the most recent balance sheet filed has
acquired or proposes to acquire one or more operations or properties which in the aggregate are significant.

(f) The registrant previously was a part of another entity and such presentation is necessary to reflect operations and financial position of the registrant as an autonomous entity; or

(g) Consummation of other events or transactions has occurred or is probable for which disclosure of pro forma financial information would be material to investors.

(iii) If the acquisition is not significant but meets certain conditions specified in the definition of “significant subsidiary” under paragraph 1(B)(viii) of Part I of this Rule, the most recent audited financial statements of the business acquired shall be submitted with the report of the issuer:

(a) If the aggregate impact of the individually insignificant businesses acquired since the date of the most recent audited balance sheet filed for the registrant exceeds twenty percent (20%), financial statements covering at least the substantial majority of the businesses acquired, combined if appropriate, shall be furnished. Such financial statements shall be for at least the most recent fiscal year and any interim periods.

(b) If any of the conditions exceeds ten percent (10%), but none exceed twenty percent (20%), financial statements shall be furnished for at least the most recent fiscal year and any interim periods.

(c) If any of the conditions exceeds twenty percent (20%) but none exceed forty percent (40%), financial statements shall be furnished for at least the two most recent fiscal years and interim periods.

Provided that, the foregoing percentages may be reduced or increased by the Commission as circumstances may warrant through appropriate issuances.

(iv) A business combination or disposition of a business shall be considered significant if:

(a) A comparison of the most recent annual financial statements of the business acquired or to be acquired and the registrant’s most recent annual consolidated financial statements filed at or prior to the date of acquisition indicates that the business would be a significant subsidiary pursuant to the definition specified in Paragraph 1(B)(viii) of Part I of this Rule.
(b) The business to be disposed of meets the definition of a significant subsidiary in Paragraph 1B(viii) of Part I of this Rule.

(v) The requirement under paragraph A(ii) above shall not apply in those circumstances when, for purposes of a more meaningful presentation, a transaction consummated after the balance-sheet date is reflected in the historical financial statements.

(vi) When consummation of more than one transaction has occurred or is probable during a fiscal year, the tests of significance in (iii) above shall be applied to the cumulative effect of those transactions. If the cumulative effect of the transactions is significant, pro forma financial information shall be presented.

(vii) For purposes of this Rule, the term business shall be evaluated in light of the facts and circumstances involved and whether there is sufficient continuity of the acquired entity's operations prior to and after the transactions so that disclosure of prior financial information is material to an understanding of future operations. A presumption exists that a separate entity, a subsidiary, or a division is a business. However, a lesser component of an entity may also constitute a business. Among the facts and circumstances which shall be considered in evaluating whether an acquisition of a lesser component of an entity constitutes a business are the following:

(a) Whether the nature of the revenue-producing activity of the component will remain generally the same as before the transaction; or

(b) Whether any of the following attributes remain with the component after the transaction:

1. Physical facilities.
2. Employee base.
3. Market distribution system.
4. Sales force.
5. Customer base.
6. Operating rights.
7. Production techniques, or
8. Trade names.

(viii) This Rule does not apply to transactions between a parent company and its wholly-owned subsidiary.
B. Pro forma Financial Information

(i) Objective

Pro forma financial information shall provide investors with information about the continuing impact of a particular transaction by showing how it might have affected historical financial statements if the transaction had been consummated at an earlier time. Such statements shall assist investors in analyzing the future prospects of the registrant because they illustrate the possible scope of the change in the registrant’s historical financial position and results of operations caused by the transaction.

(ii) Form and content

(a) Pro forma financial information shall consist of a pro forma condensed balance sheet, pro forma condensed statements of income, cash flow statements, statements of changes in equity and accompanying explanatory notes. In certain circumstances (i.e., where a limited number of pro forma adjustments are required and those adjustments are easily understood), a narrative description of the pro forma effects of the transactions may be furnished in lieu of the statements described herein.

(b) The pro forma financial information shall be accompanied by an introductory paragraph which briefly sets forth a description of (I) the transaction, (II) the entities involved, and (III) the periods for which the pro forma information is presented. In addition, an explanation of what the pro forma presentation shows shall be set forth.

(c) The pro forma condensed financial information need only include major captions (i.e., the numbered captions) prescribed by the applicable paragraphs of this Regulation. Where any major balance sheet caption is less than 10 percent of total assets, the caption may be combined with others. When any major income statement caption is less than 15 percent of average net income of the registrant for the most recent three fiscal years, the caption may be combined with others. In calculating average net income, a loss year shall be excluded unless losses were incurred in each of the most recent three years, in which case the average loss shall be used for purposes of this test. Notwithstanding these tests, “minimal” amounts need not be shown separately.

(d) Pro forma statements shall ordinarily be in columnar form showing condensed historical statements, pro forma adjustments, and the pro forma results.
(e) The pro forma condensed Statement of Comprehensive Income shall disclose income (loss) from continuing operations before nonrecurring charges or credits directly attributable to the transaction. Material nonrecurring charges or credits and related tax effects which result directly from the transaction and which will be included in the income of the registrant within the 12 months succeeding the transaction shall be disclosed separately. It shall be clearly indicated that such charges or credits were not considered in the pro forma condensed Statement of Comprehensive Income. If the transaction for which pro forma financial information is presented relates to the disposition of a business, the pro forma results shall give effect to the disposition and be presented under an appropriate caption.

(f) Pro forma adjustments related to the pro forma condensed Statement of Comprehensive Income shall be computed assuming the transaction was consummated at the beginning of the fiscal year presented and shall include adjustments which give effect to events that are (I) directly attributable to the transaction, (II) expected to have a continuing impact on the registrant, and (III) factually supportable. Pro forma adjustments to the pro forma condensed balance sheet shall be computed assuming the transaction was consummated at the end of the most recent period for which a balance sheet is required by Paragraph 4 of this Rule and shall include adjustments which give effect to events that are directly attributable to the transaction and factually supportable regardless of whether they have a continuing impact or are nonrecurring. All adjustments shall be referenced to notes which clearly explain the assumptions involved.

(g) Historical primary and fully diluted per share data based on continuing operations (or net income if the registrant does not report either discontinued operations, extraordinary items, or the cumulative effect of accounting changes) for the registrant, and primary and fully diluted pro forma per share data based on continuing operations before nonrecurring charges or credits directly attributable to the transaction shall be presented on the face of the pro forma condensed Statement of Comprehensive Income together with the number of shares used to compute the per share data. For transactions involving the issuance of securities, the number of shares used in the calculation of the pro forma per share data shall be based on the weighted average number of shares outstanding during the period adjusted to give effect to shares subsequently issued or assumed to be issued had the particular
transaction or event taken place at the beginning of the period presented. If a convertible security is being issued in the transaction, consideration shall be given to the possible dilution of the pro forma per share data.

(h) If the transaction is structured in such a manner that significantly different results may occur, additional pro forma presentations shall be made which give effect to the range of possible results.

* Instructions*

(1) The historical statements of income used in the pro forma financial information shall not report operations of a segment that has been discontinued, extraordinary items, or the cumulative effects of accounting changes. If the historical statement of income includes such items, only the portion of the Statement of Comprehensive Income through "Income from continuing operations" (or the appropriate modification thereof) shall be used in preparing pro forma results.

(2) For a purchase transaction, pro forma adjustments for the Statement of Comprehensive Income shall include amortization of goodwill, depreciation and other adjustments based on the allocated purchase price of net assets acquired. In some transactions, such as in financial institution acquisitions, the purchase adjustments may include significant discounts of the historical cost of the acquired assets to their fair value at the acquisition date. When such adjustments will result in a significant effect on earnings (losses) in periods immediately subsequent to the acquisition which will be progressively eliminated over a relatively short period, the effect of the purchase adjustments on reported results of operations for each of the next five years shall be disclosed in a note.

(3) For a disposition transaction, the pro forma financial information shall begin with the historical financial statements of the existing entity and show the deletion of the business to be divested along with the pro forma adjustments necessary to arrive at the remainder of the existing entity. For example, pro forma adjustments would include adjustments of interest expense arising from revised debt structures and expenses which will be or have been incurred on behalf of the business to be divested such as advertising costs, executive salaries and other costs.

(4) For entities which were previously a component of another entity, pro forma adjustments shall include adjustments similar in nature to those referred to in Instruction 3 above. Adjustments may also be necessary when charges for corporate overhead, interest, or income taxes have been allocated to the entity on a basis other than one deemed reasonable by management.

(5) Adjustments to reflect the acquisition of real estate operations or properties for the pro forma Statement of Comprehensive Income shall include a depreciation charge based on the new accounting basis for the assets, interest financing on any additional or refinanced debt, and other
appropriate adjustments that can be factually supported. See also Instruction 4 above.

(6) When consummation of more than one transaction has occurred or is probable during a fiscal year, the pro forma financial information may be presented on a combined basis; however, in some circumstances (e.g. depending upon the combination of probable and consummated transactions, and the nature of the filing) it may be more useful to present the pro forma financial information on a disaggregated basis even though some or all of the transactions would not meet the tests of significance individually. For combination presentations, a note shall explain the various transactions and disclose the maximum variances in the pro forma financial information which would occur for any of the possible combinations. If the pro forma financial information is presented in a proxy or information statement for purposes of obtaining shareholder approval of one of the transactions, the effects of that transaction shall be clearly set forth.

(7) Tax effect, if any, of pro forma adjustments normally shall be calculated at the statutory rate in effect during the periods for which pro forma condensed Statement of Comprehensive Income are presented and shall be reflected as a separate pro forma adjustment.

(iii) Periods to be presented

(a) A pro forma condensed balance sheet as of the end of the most recent period for which a consolidated balance sheet of the registrant is required shall be filed unless the transaction is already reflected in such balance sheet.

(b) Pro forma condensed statements of income shall be filed for only the most recent fiscal year and for the period from the most recent fiscal year end to the most recent interim date for which a balance sheet is required. A pro forma condensed Statement of Comprehensive Income may be filed for the corresponding interim period of the preceding fiscal year. A pro forma condensed Statement of Comprehensive Income shall not be filed when the historical Statement of Comprehensive Income reflects the transaction for the entire period.

(c) For a business combination accounted for as a pooling of interests, the pro forma Statement of Comprehensive Income (which are in effect a restatement of the historical Statement of Comprehensive Income as if the combination had been consummated) shall be filed for all periods for which historical Statement of Comprehensive Income of the registrant are required.
(d) Pro forma condensed statements of income shall be presented using the registrant's fiscal year end. If the most recent fiscal year end of any other entity involved in the transaction differs from the registrant's most recent fiscal year end by more than 93 days, the other entity's Statement of Comprehensive Income shall be brought up to within 93 days of the registrant's most recent fiscal year end, if practicable. This updating shall be accomplished by adding subsequent interim period results to the most recent fiscal year-end information and deducting the comparable preceding year interim period results. Disclosure shall be made of the periods combined and of the sales and revenues and income for any periods which were excluded from or included more than once in the condensed pro forma Statement of Comprehensive Income.

(e) Whenever unusual events enter into the determination of the results shown for the most recently completed fiscal year, the effect of such unusual events shall be disclosed and consideration shall be given to presenting a pro forma condensed Statement of Comprehensive Income for the most recent twelve-month period in addition to those required in sub-paragraph (d) above if the most recent twelve-month period is more representative of normal operations.

(f) Pro forma information shall be prepared primarily by applying pro forma adjustments to historical financial information. Pro forma adjustments shall be based on management's assumptions and shall recognize all significant effects directly attributable to the transaction (or event).

(g) Pro forma financial information shall be labeled as such to distinguish it from historical financial information. This presentation shall describe the transaction (or event) that is reflected in the pro forma financial information, the source of the historical financial information on which it is based, the significant assumptions used in developing the pro forma adjustments, and any significant uncertainties about those assumptions. The presentation also shall indicate that the pro forma financial information shall be read in conjunction with related historical financial information and that the pro forma financial information is not necessarily indicative of the results (such as financial position and results of operations, as applicable) that would have been attained had the transaction (or event) actually taken place earlier.

(iv) Attestation of Independent Auditor
The pro forma financial information that shall be submitted with the registration statement shall be accompanied by a report of an independent auditor accredited by the Commission under Group A category. The said auditor shall comply with the requirements provided under SEC Memorandum Circular No. 2, Series of 2008 (Guidelines for Reporting and Attestation on Pro Forma Financial Information) or any amendments thereto.

9. CONSOLIDATED FINANCIAL STATEMENTS

In addition to those required under the applicable financial reporting framework, the following requirements shall be complied with by companies covered by Part II of this Rule:

A. Disclosure about Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons

(i) Summarized financial information (see definitions in paragraph 1B(ix) of Part I of this Rule) shall be furnished in the notes to the financial statements for each significant subsidiary not consolidated and for each 50 percent or less owned person. Notwithstanding the requirement for separate summarized financial information for each significant subsidiary, where summarized financial information of two or more majority-owned subsidiaries not consolidated are required, combined or consolidated summarized financial information of such subsidiaries may be filed subject to principles of inclusion and exclusion which clearly exhibit the financial position, cash flows and results of operations of the combined or consolidated group.

Similarly, where summarized financial information of two or more 50 percent or less owned persons are required, combined or consolidated summarized financial information of such persons may be filed subject to the same principles of inclusion or exclusion referred to above.

(ii) Summarized financial information shall be furnished in the aggregate for (A) subsidiaries not consolidated and (B) 50 percent or less owned persons, not reported upon pursuant to (A) hereof. If in the aggregate, either subsidiary not consolidated or 50 percent or less owned persons would not constitute a significant subsidiary, it may be stated that such groupings would not constitute a significant subsidiary and summarized financial information is not required.

B. A company covered by Part II of this Rule which has a significant foreign subsidiary or subsidiaries shall submit to the Commission copies of the financial statements of said subsidiaries.
C. A parent company covered by Part II of this Rule shall submit consolidated audited financial statements accompanied by its separate audited financial statements which must be stamped received by the BIR or its authorized banks, unless the BIR allows an alternative proof of submission for its authorized banks (e.g., bank slips) or prohibits acceptance of the financial statements in certain cases, e.g., on-going examination.

10. PENALTIES

A. Penalties

(i) All financial statements submitted to this Commission by entities covered by this Rule shall adhere strictly to the provisions hereof.

(ii) Penalties, as may be prescribed by the Commission, shall be imposed on the erring company due to any of the following violations:

(a) Material misrepresentation in the financial statements;

(b) Any material misstatement resulting from material deviation from the applicable financial reporting framework, such as:

(1) Failure to adopt the prescribed financial reporting framework or any accounting standard resulting in a material misstatement;

(2) Failure to disclose required information and other relevant or material information;

(3) Failure to submit any basic component of the financial statements, and

(4) Failure to present the required comparative figures.

(c) Failure to submit financial statements audited by a qualified independent certified public accountant;

(d) Failure to submit a complete Statement of Management’s Responsibility;

(e) Failure to comply with any other requirements under Parts I or II of this Rule.

(iii) The penalties imposable on an erring company for the violation of this Rule shall be in addition to the fine imposable due to late or incomplete filing of other parts of any report to which the financial statements are required to be attached.
(iv) Penalties, as may be prescribed by the Commission, shall be imposed on the **independent auditor or auditing firm**, as the case may be, due to any of the following violations:

(a) Failure to submit any of the reports required under paragraph 3B(vii) and 3F of Part I this Rule;

(b) Any material misrepresentation in the following information or documents:

1. Application for accreditation;
2. Certifications submitted with the application;
3. Any of the reports required under paragraph 3B(vii), 3E and 3F of Part I of this Rule;

(v) Refusal for no valid reason, upon lawful order of the Commission, to submit requested documents in connection with an ongoing investigation. The independent auditor shall, however, been made aware of such investigation.

(vi) Gross negligence in the conduct of the audit or failure to comply with any of the Philippine Auditing Standards and Practices and such other issuances of the Auditing and Assurance Standards Council and the Commission;

(vii) Issuance of an unqualified opinion which is not supported by full compliance by the auditee with the applicable financial reporting framework due to a material deficiency or misstatement in the financial statements;

(viii) Conduct of an audit despite the lack or eventual loss of independence as provided for under the Code of Professional Ethics for CPAs;

(ix) Conduct of any of the non-audit services for his statutory audit clients, if he has not undertaken the safeguards to reduce the threat to his independence;

(x) Failure to obtain from the Commission an accreditation appropriate to company-client’s category under this Rule prior to engagement or during the period of audit and signing of the auditor’s report.

### B. Test of Materiality

The materiality of the deficiency, misrepresentation or misstatement shall be based on the tests set by the Commission in SEC Memorandum Circular No. 8, Series of 2009 (Scale of Fines for Non-Compliance with the Financial Reporting Requirements of the Commission) or any amendments thereto.
C. Re-issuance of the Financial Statements

(i) For financial statements that may be found by the Commission to be deficient and/or misstated, it shall make a determination whether such misstatement or incompleteness is significantly material that would necessitate the re-issuance of such financial statements.

(ii) Corporations covered by Part II of this Rule shall not re-issue their audited financial statements without prior request from and approval by the Commission.

(iii) An amendment or re-issuance of the financial statements shall not exonerate the company from the penalty that may be assessed by the Commission due to the material deficiency or misstatement of the original financial statements.
1. GROUP A or B APPLICATIONS

A. The latest audited financial statements (AFS) of the top two (2) clients of the applicant based on total assets including that of his/her large regulated entities, shall be reviewed.

B. For Group A or B applications, the audit work of applicant shall be acceptable only if there is no material disclosure deficiency or material misstatement in the AFS of each of the applicant’s clients. The number of minor disclosure deficiencies therein shall not exceed two (2) items. The level of deficiencies acceptable for Group B accreditation shall also be minor disclosure deficiencies that do not exceed five (5) items.

C. In case the number of minor disclosure deficiencies exceeds the limit or there is a material deficiency or misstatement in the financial statements of the top two (2) clients or regulated entities, the applicant shall be recommended only for conditional Group A or B accreditation, or Group C, depending on the level of deficiency or misstatement. The probationary accreditation shall be subject to the following conditions:

   (i) In case of renewal applications and the findings on the clients’ AFS include material deficiency or misstatement, the applicant-independent auditor shall be assessed a penalty based on Section 12 of the Circular;

   (ii) The probationary accreditation shall be effective for a period of four (4) months only from date of grant;

   (iii) A copy of the top two (2) clients’ AFS signed by the independent auditor during the said period shall be submitted to the Commission at least fifteen (15) business days before the lapse of the 4-month period;

   (iv) The final approval of the accreditation, which shall be effective for three (3) years, shall not be granted unless the said AFS and such other clients’ latest financial statements as the Commission may review, fully comply with the effective accounting standards and SRC Rule 68.
D. The list of findings on the clients’ AFS resulting from the foregoing procedures shall be referred to the operating department of the Commission which monitors the compliance by the said company-clients for imposition of appropriate penalties under existing rules.

2. GROUP C or D APPLICATIONS

A. The latest AFS of the top two (2) clients of the applicant based on total assets shall be reviewed.

B. An application for accreditation under Group C or D shall be denied if upon evaluation, the AFS of top (2) clients show that there are material deficiencies or misstatements therein as follows:

   (i) Any of the basic components of the financial statements as prescribed by the applicable financial reporting framework, or any of the following required document is not presented:

      (a) Supplemental Written Statement of Auditor (for stock corporations not covered by Part II of this Rule);
      (b) Reconciliation of Retained Earnings Available for Dividend Declaration (if applicable).

   (ii) The auditor’s report does not substantially comply with the Philippine Standards on Auditing, SRC Rule 68 and other relevant regulations;

   (iii) The notes to financial statements are substantially incomplete due to the absence of more than five (5) disclosure items on significant accounts;

   (iv) More than three (3) accounting policies on significant accounts, as defined under paragraph III of SEC Memorandum Circular No. 8, Series of 2009, or any of its amendments, are not in accordance with the applicable financial reporting framework, or there are material misstatements involving the said accounts.

3. The foregoing level of quality of audit work may be changed by the Commission as circumstances may warrant through appropriate issuances.

4. The materiality of a deficiency, misrepresentation or misstatement shall be determined based on the tests set by the Commission in SEC Memorandum Circular No. 8, Series of 2009 (Scale of Fines for Violation
of the Financial Reporting Requirements of the Commission) or any amendments thereto.

5. As a remedy on the denial of application due to any of the foregoing deficiencies, the applicant may be granted, upon request, a conditional accreditation subject to the following conditions:

A. In case of renewal application for Group C category and the findings on the clients’ AFS include material deficiency or misstatement, the applicant-independent auditor shall be assessed a penalty based on Section 12 of the Circular;

B. The conditional accreditation shall be effective for a period of four (4) months only from date of grant;

C. A copy of the largest clients' AFS signed during the said period shall be submitted to the Commission at least fifteen (15) business days before the lapse of the 4-month period;

D. The final approval of the accreditation, which shall be effective for three (3) years, shall not be granted unless the said AFS are compliant with the effective accounting standards and SRC Rule 68.

6. The list of findings on the clients’ AFS resulting from the foregoing procedures shall be referred to the operating department of the Commission which monitors the compliance by the said company-clients for imposition of appropriate penalties under existing rules.
To the Stockholders and the Board of Directors
Name of Company
Address

I/We have examined the financial statements of (name of company) for the year ended _____, on which I have rendered the attached report dated ______.

In compliance with SRC Rule 68, I/We are stating that the said company has a total number of _____ stockholders owning one hundred (100) or more shares each.

For the firm: (if signing for the firm)

Signature of the Independent auditor
BOA No.
PRC License No.
SEC Accreditation (if any)
ANNEX 68-C
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION

Name of Company
Address

(Figures based on functional currency Audited financial statements)

Unappropriated Retained Earnings, as adjusted to
available for dividend distribution, beginning

xxx

Add: Net income actually earned/realized during the period

Net income during the period closed to Retained Earnings

xxx

Less: Non-actual/unrealized income net of tax

xxx

Equity in net income of associate/joint venture

xxx

Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents) Unrealized actuarial gain

xxx

Fair value adjustment (M2M gains)

xxx

Fair value adjustment of Investment Property resulting to gain

xxx

Adjustment due to deviation from PFRS/GAAP-gain

xxx

Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS

xxx

Sub-total

xxx

Add: Non-actual losses

xxx

Depreciation on revaluation increment (after tax)

xxx

Adjustment due to deviation from PFRS/GAAP – loss

xxx

Loss on fair value adjustment of investment property (after tax)

xxx

Net income actually earned during the period

xxx

Add(Less):

Dividend declarations during the period

(XXX)

Appropriations of Retained Earnings during the period

(XXX)

Reversals of appropriations

xxx

Effects of prior period adjustments

xxx

Treasury shares

(XXX)

TOTAL RETAINED EARNINGS, END

AVAILABLE FOR DIVIDEND

xxx

ANNEX 68-D

Additional Disclosures in the Notes to Financial Statements
In addition to the requirements under the applicable PFRS, corporations covered by Part II of this Rule shall comply with the disclosure requirements of this Annex.

1. **BALANCE SHEET**

A registrant shall disclose, either on the face of the balance sheet or in the notes to the financial statements, further sub-classifications of the line items presented in accordance with this Annex and in a manner appropriate to the registrant’s operations and the nature and function of amount involved.

A. **Trade and Other Receivables**

   (i) State separately receivable from:

      (a) customers (trade);
      (b) related parties;
      (c) other than trade debtors such as loans or advances to officers and employees;

   (ii) Disclose the amount of balances, volume during the period and specific terms of the receivables from each related party which are eliminated during consolidation.

   (iii) If significant in amount, other receivables shall be segregated by type, otherwise, they may be grouped in one figure captioned as Accounts Receivables-Others, or other equivalent title.

B. **Inventories.** Disclose any unusual purchase commitments and accrued net losses, if any, on such commitments. Losses which are expected to arise from firm and uncancellable commitments for the future purchase of inventory items shall, if material, be recognized in the accounts and separately disclosed in the Statement of Comprehensive Income.

C. **Other Current Assets.** State separately any amounts in excess of five per cent (5%) of total current assets. The remaining items may be shown in one amount.

D. **Indebtedness of or Advances to Unconsolidated Subsidiaries and Related parties.** Show separately under this caption non-current advances to unconsolidated subsidiaries and related parties.

E. **Other Assets.** State separately any item which is in excess of 5% of total non-current assets.

F. **Trade and Other Payables**

   (i) The following payables shall be stated separately in the notes to financial statements:
(a) Trade Payables;
(b) Payables to related parties;
(c) Advances from Directors, officers, employees and principal stockholders and related parties of the company or its related parties (exclude from this item amounts for purchases subject to usual trade terms, for ordinary travel expenses, and for other items arising in the ordinary course of business).

(ii) Disclose the amount of balances, volume during the period and specific terms of the payables to each related party which are eliminated during consolidation.

(iii) Accruals (Show separately significant accruals for payrolls, taxes other than income taxes, interest, and any other material items);

(iv) The following information shall also be disclosed:

   (a) Any current liability guaranteed by others;
   (b) Assets pledged against secured liabilities.

G. Other Current Liabilities. If material, state separately in amount the following in the notes to financial statements:

   (i) Dividends declared and not paid at end of the reporting period
   Acceptances payable
   (ii) Liabilities under trust receipts
   (iii) Portion of long-term debt due within one year
   (iv) Deferred Income
   (v) Any other current liability in excess of 5% of total current liabilities.

H. Other Long-Term Liabilities. State separately, in the balance sheet or in a note thereto, any item not properly classified in one of the preceding liability captions (Such as deferred income taxes and other long-term deferred credits) which is in excess of 5 percent of total long-term liabilities.

I. Capital Stock. Provide a summarize discussion of the company’s track record of registration of securities under the Securities Regulation Code (formerly Revises Securities Act) by indicating the number of shares registered, issue/offer price, date of approval or date when the registration statement covering such securities was rendered effective by the Commission, and the number of holders of such securities as of year end.

2. STATEMENT OF COMPREHENSIVE INCOME

   A. Revenues
State separately on the face of the Statement of Comprehensive Income revenues from each of the following:

(i) Revenue from sale of goods;
(ii) Revenue from rendering of services;
(iii) Share of the profit or loss of associates and joint ventures accounted for using the equity method;
(iv) Other Income.

B. Costs

State separately on the face of the Statement of Comprehensive Income costs as follows:

(i) Cost of Sales;
(ii) Cost of rendering services;
(iii) Operating Expenses;
(iv) Other expenses.

C. Finance Costs

State separately in the notes to financial statements the amount of interest expense and amortization of debt discount and expenses for each of the following:

(i) Short-term promissory notes;
(ii) Long-term promissory notes;
(iii) Bonds, mortgages and other similar long-term debt;
(iv) Amortization of debt discount, expense or premium;
(v) Other interest.

D. Other Income

(i) State separately in a note to financial statements, the items and nature of each material other income including a disclosure on whether or not it is a result of a related party transaction;
(ii) Gain (loss) on Sale of Asset – State separately gain or loss from sale of each class of asset;
(iii) Miscellaneous Income - State separately any material amounts of miscellaneous income indicating clearly the nature of the transactions out of which the items arose.

E. Other Expenses. State separately expenditures with material amount or that which constitutes 5% or more of the total revenue of the registrant.
F. Specific disclosures on the face of the statement or in the notes

(i) Net Asset Value Per Share (NAVPS), in case of mutual funds or investment companies.

Annex 68-E

SCHEDULES

This Annex prescribes the disclosure requirements including the form and content of the schedules required by paragraph 6, Part II of SRC Rule 68.

1. Except as expressly provided otherwise, the schedules specified below shall be filed as of the latest balance sheet date.

2. The independent auditor’s report shall cover the schedules accompanying the financial statements filed.

3. In a registration statement filed on SEC Form 12-1, the Schedules need not be included in Part I - Information Required in Prospectus, but may be included in Part II - Information Not Required in Prospectus.

4. INSTRUCTIONS

Schedule A. Financial Assets (e.g., Loans and Receivables, Fair Value Through Profit or Loss, Held to Maturity Investments, Available for Sale Securities). This schedule shall be filed in support of the caption of each class of “Financial Assets” if the greater of the aggregate cost or the aggregate market value of FVPL as of the end of reporting period constitute 5% per cent or more of total current assets.

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties).
This schedule shall be filed with respect to each person among the directors, officers, employees, and principal stockholders (other than related parties) from whom an aggregate indebtedness of more than P100,000 or one per cent of total assets, whichever is less, is owed. For the purposes of this schedule, exclude in the determination of the amount of indebtedness all amounts receivable from such persons for purchases subject to usual terms, for ordinary travel and expense advances and for other such items arising in the ordinary course of business.

**Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements**

This schedule shall be filed with respect to each related party (e.g., subsidiary) the balances of receivable from which are eliminated during the consolidation of the financial statements.

**Schedule D. Intangible Assets - Other Assets** – This schedule shall be filed in support of the caption Intangible Assets in the balance sheet.

**Schedule E. Long-Term Debt** - This schedule shall be filed in support of the caption Long-Term Debt in the balance sheet.

**Schedule F. Indebtedness to Related Parties** - This schedule shall be filed to list the total of all non current Indebtedness to Related Parties included in the balance sheet. This schedule may be omitted if:

(i) The total Indebtedness to Related Parties included in such balance sheet does not exceed five per cent of total assets as shown in the related balance sheet at either the beginning or end of the period; or

(ii) There have been no changes in the information required to be filed from that last previously reported.

**Schedule G. Guarantees of Securities of Other Issuers.** - This schedule shall be filed with respect to any guarantees of securities of other issuing entities by the issuer for which the statement is filed.

**Schedule H. Capital Stock** - This schedule shall be filed in support of caption Capital Stock in the balance sheet.

5. **FORM AND CONTENTS**

**Schedule A. Financial Assets**

<table>
<thead>
<tr>
<th>Name of Issuing entity and association of each issue (i)</th>
<th>Number of shares or principal amount of bonds and notes</th>
<th>Amount shown in the balance sheet (ii)</th>
<th>Valued based on market quotation at end of reporting</th>
<th>Income received and accrued</th>
</tr>
</thead>
</table>
(i) Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a) securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by others for which the amounts in the aggregate are not more than two percent of total assets.

(ii) State the basis of determining the amounts shown in the column. This column shall be totaled to correspond to the respective balance sheet caption or captions.

(iii) This column may be omitted if all amounts that would be shown are the same as those in the immediately preceding column.

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties)

<table>
<thead>
<tr>
<th>Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name and Designation of debtor</td>
</tr>
</tbody>
</table>

(i) Show separately accounts receivables and notes receivable. In case of notes receivable, indicate pertinent information such as the due date, interest rate, terms of repayment and collateral, if any.

(ii) If collection was other than in cash, explain.

(iii) Give reasons for write off.

Schedule C. Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements

<table>
<thead>
<tr>
<th>Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name and Designation of debtor</td>
</tr>
</tbody>
</table>

(i) If collection was other than in cash, explain.

(ii) Give reasons for write off.

Schedule D. Intangible Assets - Other Assets
(i) The information required shall be grouped into (a) intangibles shown under the caption intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications.

(ii) For each change representing anything other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.

(iii) If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

### Schedule E. Long Term Debt

<table>
<thead>
<tr>
<th>Title of Issue and type of obligation [i]</th>
<th>Amount authorized by indenture</th>
<th>Amount shown under caption &quot;Current portion of long-term debt&quot; in related balance sheet [ii]</th>
<th>Amount shown under caption &quot;Long-Term Debt&quot; in related balance sheet [iii]</th>
</tr>
</thead>
</table>

(i) Include in this column each type of obligation authorized.

(ii) This column is to be totaled to correspond to the related balance sheet caption.

(iii) Include in this column details as to interest rates, amounts or number of periodic installments, and maturity dates.

### Schedule F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)

<table>
<thead>
<tr>
<th>Name of related party [i]</th>
<th>Balance at beginning of period</th>
<th>Balance at end of period [ii]</th>
</tr>
</thead>
</table>

(i) The related parties named shall be grouped as in Schedule D. The information called for shall be stated separately for any persons whose investments were shown separately in such related schedule.

(ii) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.
Schedule G. Guarantees of Securities of Other Issuers

<table>
<thead>
<tr>
<th>Name of issuing entity of securities guaranteed by the company for which this statement is filed</th>
<th>Title of issue of each class of securities guaranteed</th>
<th>Total amount guaranteed and outstanding (i)</th>
<th>Amount owned by person for which statement is filed</th>
<th>Nature of guarantee (ii)</th>
</tr>
</thead>
</table>

(i) Indicate in a note any significant changes since the date of the last balance sheet filed. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.

(ii) There must be a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", "Guarantee of Interest", or "Guarantee of dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

Schedule H. Capital Stock

<table>
<thead>
<tr>
<th>Title of Issue (i)</th>
<th>Number of Shares authorized</th>
<th>Number of shares issued and outstanding at shown under related balance sheet caption</th>
<th>Number of shares reserved for options, warrants, conversion and other rights</th>
<th>Number of shares held by related parties (i)</th>
<th>Directors, officers and employees</th>
<th>Others (ii)</th>
</tr>
</thead>
</table>

(i) Include in this column each type of issue authorized.

(ii) Related parties referred to include persons for which separate financial statements are filed and those included in consolidated financial statements, other than the issuer of the particular security.

(iii) Indicate in a note any significant changes since the date of the last balance sheet filed.