

SECURITIES AND EXCHANGE COMMISSION (SEC) 2001 ANNUAL REPORT*

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2001 ANNUAL REPORT

Managing Through Times of Change and Adjustment

Introduction

Throughout its 65 years of existence, the SEC has proven flexible in the face of major global and domestic developments that have shaped the financial landscape. Last year was especially fraught with problems and challenges, but as this Annual Report will attest, the SEC was able to meet these challenges with the same grit and determination that has made it one of the most resilient agencies of government.

SEC's ability to adapt to a dynamic external environment is clearly one aspect of managing through change and adjustment. Indeed, "Change or perish" is a truism that continually guides the Commission in the fulfillment of its vision and mission.

Over and above this capacity to adapt, however, there is a more challenging side to managing change and adjustment. For the SEC to stay relevant, the Commission must not only adapt to change; it must go the extra mile and actually become agents of change.

This is by no means an easy feat, but it is certainly a worthy challenge. Alan Cohen summed it up best when he said "It takes a lot of courage to release the familiar and seemingly secure, to embrace the new. But there is no real security in what is no longer meaningful. There is more security in the adventurous and exciting, for in movement there is life, and in change there is power."

Unless SEC becomes an agent of change, it would fall short of fulfilling its role as a leader in the development of the capital market, a role which is appropriately enshrined in the Securities Regulation Code. This is important. Unless the SEC is pro-active, its future will continually be determined by external forces.

The SEC has already taken significant strides in this direction. Indeed, the past year has been marked by several reform initiatives which it has pursued consistently. Internally, it has proceeded with its mandated reorganization under the SRC, a process which has enabled the SEC to become a leaner organization, staffed with vibrant and highly-qualified professionals, and governed by a structure more responsive to the changing demands of prudential regulation.

Externally, one of the SEC's most noteworthy initiatives is its continuing work towards the demutualization of the Philippine Stock Exchange. While the difficulties in taking the initial steps towards demutualization have been surmounted, much more work has to be done, such as broadening the ownership structure of the PSE, among others.

Just looking at what has been achieved through SEC's reorganization, and the work ahead with respect to demutualization, it becomes clear that the challenge currently facing the SEC is to ensure that the reforms it has started actually bear fruit, and that it continues to undertake bolder interventions that will bring about true and lasting reform.

As it begins a new year, the SEC stands ready to face this challenge, with the same dynamism and commitment that has been the hallmark of the Commission's distinguished history.



Republic of the Philippines
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila

From the desk of Chairperson Lilia R. Bautista

31 January 2002

It is with modest pride that we present our 2001 Annual Report which gives an account of our achievements that have contributed significantly in improving the environment for our equities market. We are pleased to report that despite the distractions resulting from the discouraging events within our country and in the world, we were able to introduce reforms in the areas of, among others: promoting transparency which we believe is essential in the strengthening of our market institutions; improving our regulatory environment; and, effecting vigilant enforcement. Part 1 of our five-part report gives our major accomplishments at a glance.

Notwithstanding the fact that a high quotient of uncertainty exists resulting from a world that has changed immutably because of the 911 (September 11) terrible acts of terrorism which in reality is an attack on all the peoples yearning for a world free from uncivilized activities, and which deepened further the ill effects of the economic recession that started in CY 2000, we remain steadfast in our resolve to deliver on our mandate to be the catalyst in the development of our capital market.

For this purpose, however, we should not forget the fact that in efficient and successful markets, all the market participants understand that good regulation means good business. Thus, we reiterate the call we made in July 2000 that all the professional market participants should assist in the difficult work of restoring investors' faith in the integrity of our equities market, which has been badly eroded by the worst market manipulation that occurred in 1999. The SEC, by itself, should not be expected to carry all the burden of regulation and development.

Finally, as we go on in doing our task, it is appropriate to ponder on the following statement made on 20 September 2001 by Mr. Alan Greenspan, the Chairman of the US Federal Reserve Board: "***All modern economies require the confidence that free-market institutions are firmly in place and that commitments made today by market participants will be honored not only tomorrow, but for years into the future. The greater the degree of confidence in the state of future markets, the greater the level of long-term investment.***"

That confidence in the future will exist as we succeed in restoring and building up on that confidence in our market today.

Mabuhay!

Lilia R. Bautista

I. SEC IN 2001: MAJOR ACCOMPLISHMENTS AT A GLANCE

- ◆ Considerable contribution to the government coffers from its income from service fees and penalties amounting to **PhP 610.41 Million** which exceeded its target of PhP 565.09 Million by PhP 45.32 Million.
- ◆ Determined enforcement actions resulted in the collection of **PhP 30.05 Million** in fines and penalties from the infraction of the Securities Regulation Code (SRC), the Corporation Code, and related laws. The timely enforcement of securities-related provisions of our laws is necessary in restoring investors' confidence in the Philippines since it shows the capability of the government to protect the interests of investors.
- ◆ Methodical examination and gathering of information and evidence, in coordination with the NBI and PNP as warranted, culminated in the issuance of Cease and Desist Orders (CDOs) against thirteen (13) entities engaged in activities such as: selling fraudulent securities, unregistered investment contracts, boiler room operations, and selling intangible products such as WebPages; thus, minimizing the opportunity for perpetrators of investment scams and swindles.
- ◆ Resolute implementation of SRC provision mandating the demutualization of the PSE by 08 August 2001. The first step involved the conversion of the PSE from a non-stock organization (mutual structure for broker-members) owned by brokers, to a stock corporation in order to pave the way for broadening its ownership, and in the process, dispel the "old boys club" image of the PSE.
- ◆ Calibrated granting of exemptive relief to three key provisions in the SRC, namely:
 - Section 19.1 on the Mandatory Tender Offer,
 - Section 30.1, or the Broker-Director Rule; and,
 - Section 34, or the Broker-Dealer Prohibition wherein the exempted transactions have been expanded to include alternative market-making activities by Member Brokers and its associated person's account, subject to certain conditions.

The exemptive relief, which was granted following the 911 (September 11) terrorist attacks in the USA, is effective for one year but may be extended by the Commission as warranted by economic conditions.

- ◆ Conscientious study of corporate governance guidelines of developed markets in order to identify those that are appropriate for implementation in the Philippines, in order to promote the best practices in corporate governance and thereby enhance the economic value for its shareholders and attract additional capital.
- ◆ Prompt processing of all applications for the registration of capital market instruments amounting to **PhP 11.30 Billion**, consisting of the following: equity securities amounting to **PhP 3.54 Billion**; commercial papers worth **PhP 2.50 Billion**; and other types of securities (proprietary/nonproprietary membership certificates/shares, timeshares) valued at **PhP 5.26 Billion**.
- ◆ Proactive issuance of innovative guidelines for the holding of board meeting through teleconferencing or videoconferencing, which adopts the salient features of the recently promulgated E- Commerce Act, and makes it possible for directors to participate in board meetings even if they are physically absent.
- ◆ Careful adherence to the provisions of the SRC by formulating, in coordination with all stakeholders in the pre-need industry, and promulgating the Implementing Rules and Regulations on Pre-Need Plans.
- ◆ Judicious implementation of the reforms being implemented under the Public Expenditure Management program being undertaken by NEDA and DBM.
- ◆ Continuous improvement of the SEC Website www.sec.gov.ph by giving it a new look to make it more user friendly and constant updating to give timely and relevant information for visitor-clients and investors
- ◆ Devoted and continuous upgrading of personnel skills to enhance capability in securities regulation and enforcement, consistent with international best practices.
- ◆ Conscientiously studied the provisions of the E-Commerce Act in relation to the information system requirements of the Commission and its clients, both public and private, in order to formulate the NCC – approved updated Information Systems Strategic Plan for CY 2001 to 2004.

II. SEC'S FINANCIAL PERFORMANCE IN CY 2001

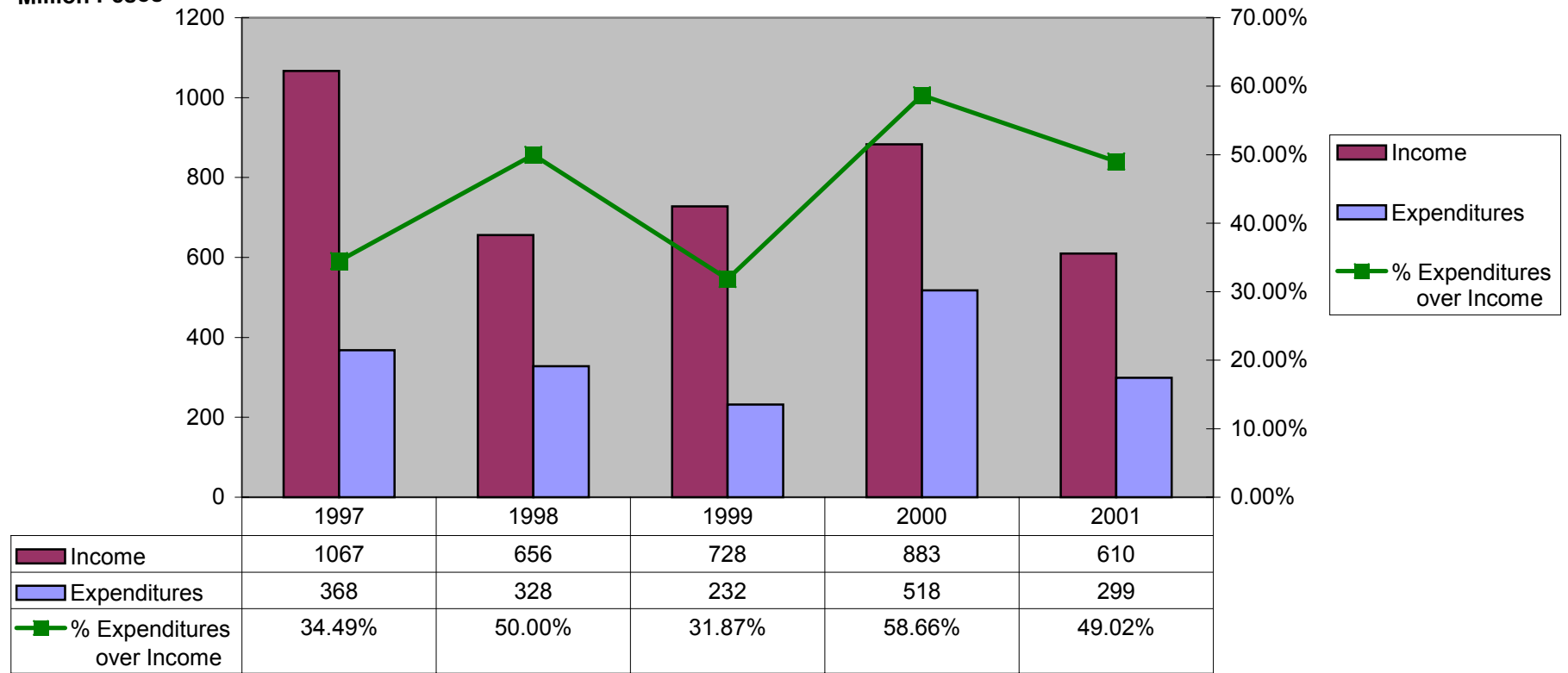
SEC's income from service fees and penalties amounted to **PhP 610.41 Million** in CY 2001, exceeding its projected target of PhP 565.09 Million by PhP 45.32 Million. SEC's expenditures, which stood at PhP 299 Million in CY 2001, posted a decline of 43 percent from the previous year's level. Thus, for the past five years, SEC has been a net contributor to the Philippine Treasury, with SEC's surplus in CY 2001 standing at PhP 311 Million. The ratio of expenditures over income likewise improved from 59 percent in CY 2000, to 49 percent in CY 2001 (Chart 1).

Disaggregated by source, registration, filing and certification fees, which reached PhP 522.60 Million, accounted for more 85 percent of total income in CY 2001; license fees of securities brokers, and salesmen accounted for an aggregate eight (8%) percent of total income. Fines and penalties accounted for an aggregate five (5%) percent of total income in CY 2001 (Chart 2).

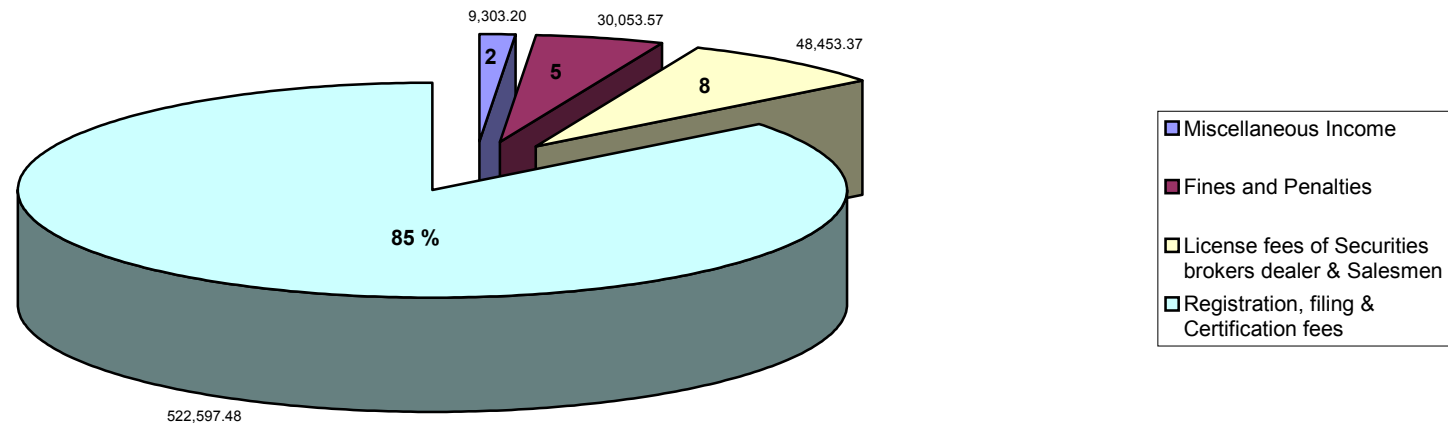
CHART 1

SEC INCOME VS. EXPENDITURES, 1997-2001

Million Pesos



SEC'S INCOME IN CY 2001, DISAGGREGATED BY SOURCE
(IN PhP MILLION AND % SHARE)



III. CORPORATE SECTOR PERFORMANCE IN 2001

NEW EQUITY INVESTMENTS

Despite the global economic downturn which started in 2000 and new uncertainty arising from the September 11 terrorist attacks, new investments continued to come in last year, albeit at levels that were much lower than those achieved in previous years.

In CY 2001, SEC registered 11,908 new domestic stock corporations with total authorized capital amounting to PhP 71.01 Billion, 25 percent lower than the amount achieved in CY 2000 (Chart 3A). The subscribed and paid up capital stocks of new companies likewise declined. In CY 2001, new companies' subscribed capital stock amounting to PhP 28.08 Billion and their paid-up capital of PhP 17.60 Billion were lower by 16 percent and 10 percent than the levels achieved in CY 2000, respectively (Charts 3B and 3C).

Meanwhile, SEC registered 2,505 domestic partnerships in CY 2001, with total contributions amounting to PhP 1.11 Billion, less than a third of the amount posted in CY 2000 (Chart 4).

By major industry group (Chart 5), wholesale and retail trade and repair accounted for the lion's share of total paid-up capital stock (5,261 corporations and partnerships, 44.2 percent share of total paid-up capital). This was followed by the real estate, renting and business activities (3,749 corporations and partnerships, 19.15 percent of total paid-up capital), and the financial intermediary group (1,108 corporations and partnerships, 18.11 percent of total new paid-up capital).

With paid-up capital investments of PhP 14.92 Billion, the National Capital Region accounted for 79.75 percent of total paid-up capital investment in 2001. Southern Tagalog was a distant second, accounting for 10.92 percent with paid-up capital of PhP 2.045 Billion, while Central Luzon came in third with 3.91 percent and paid-up capital of PhP 731,616.69. Outside Luzon, Central Visayas and Southern Mindanao accounted for 1.49 percent and 1.44 percent of the total paid-up capital investment, respectively (Chart 6).

AMENDMENTS IN THE CAPITAL STOCK OF EXISTING CORPORATIONS

Among existing domestic stock corporations and partnerships, 608 increased their capital investments in CY 2001 by PhP 87.54 Billion.

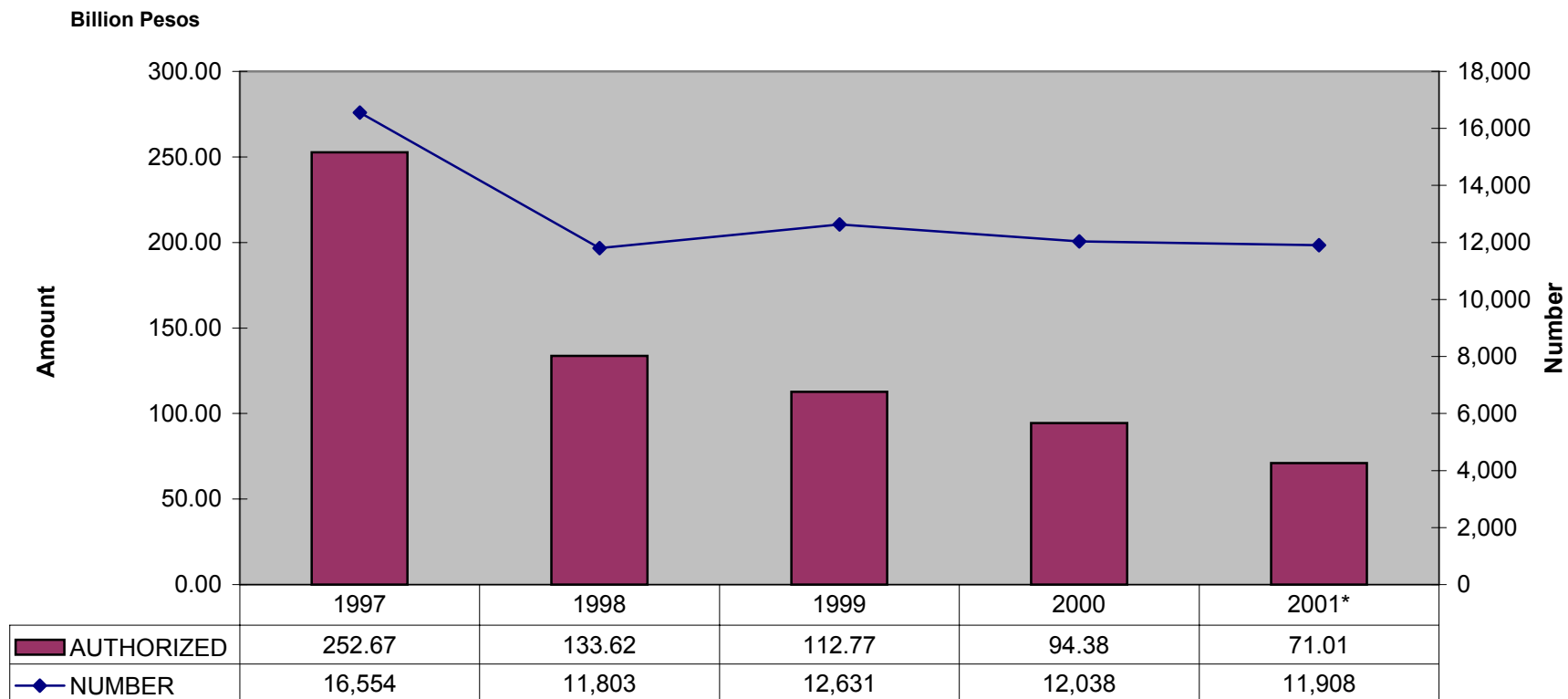
Only 599 corporations applied for an increase of PhP 87.54 Billion in their authorized capital stock, less than half of the PhP 202.53 Billion increase reported by 1,232 corporations last year (Chart 7).

By industry group, existing corporations and partnerships in financial intermediation accounted for 37.86 percent of the total increase in capital investments. This was followed by manufacturing at 27.73 percent, and real estate, renting and business activities at 15.48 percent (Chart 8).

FOREIGN DIRECT INVESTMENTS

In terms of paid-up capital, total foreign direct investments (FDIs) in new and existing domestic stock corporations and partnerships reached PhP 4.09 Billion in CY 2001. By major industry group, wholesale and retail trade and repair accounted for 55.94 percent of total FDI. Financial intermediation was a distant second at 13.86 percent, while real estate, renting and business activities came in third with 12.83 percent (Chart 9).

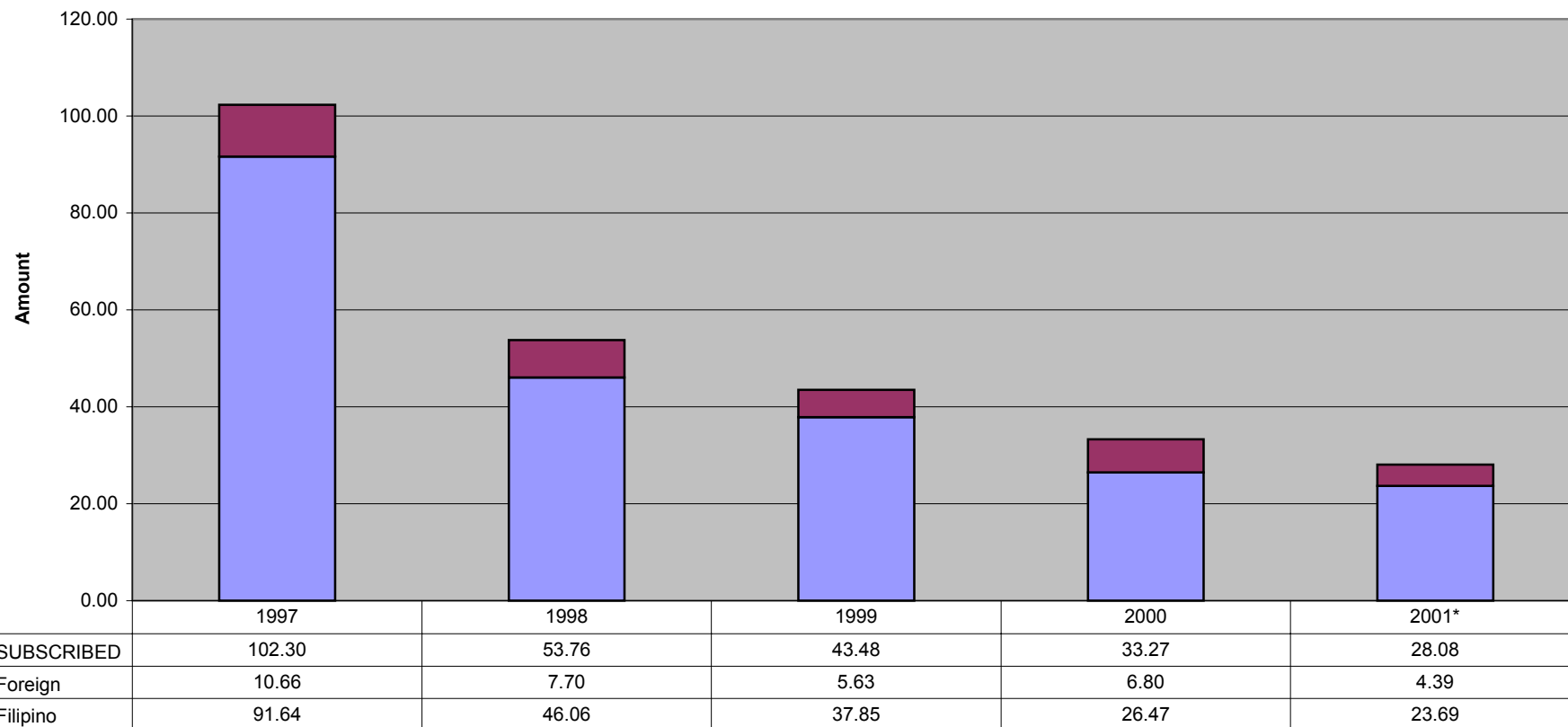
NUMBER OF NEWLY REGISTERED DOMESTIC CORPORATIONS AND AMOUNT OF AUTHORIZED CAPITAL STOCK FOR 1997-2001



* Preliminary (as of 11 March 2002)

**AMOUNT OF SUBSCRIBED CAPITAL STOCK OF
NEWLY REGISTERED DOMESTIC CORPORATIONS, 1997-2001**

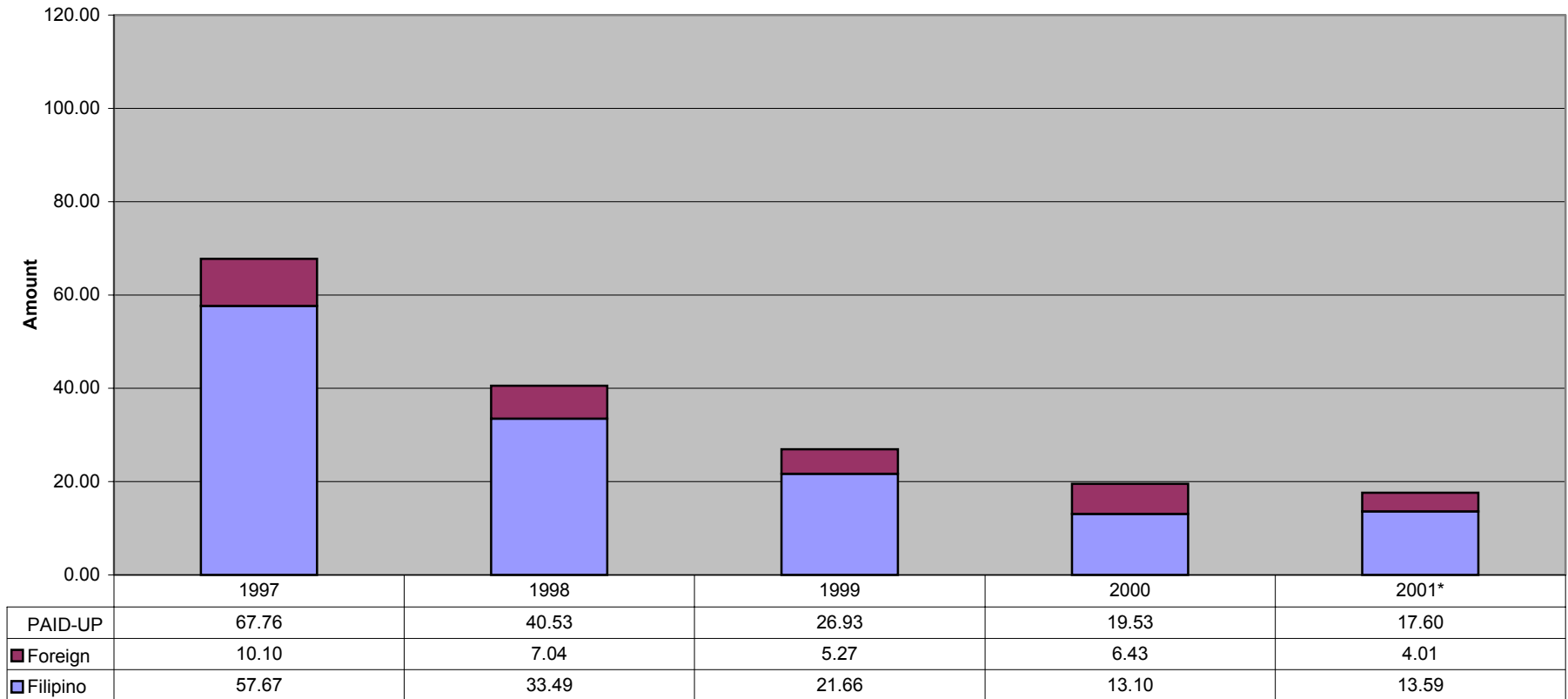
Billion Pesos



* Preliminary (as of 11 March 2002)

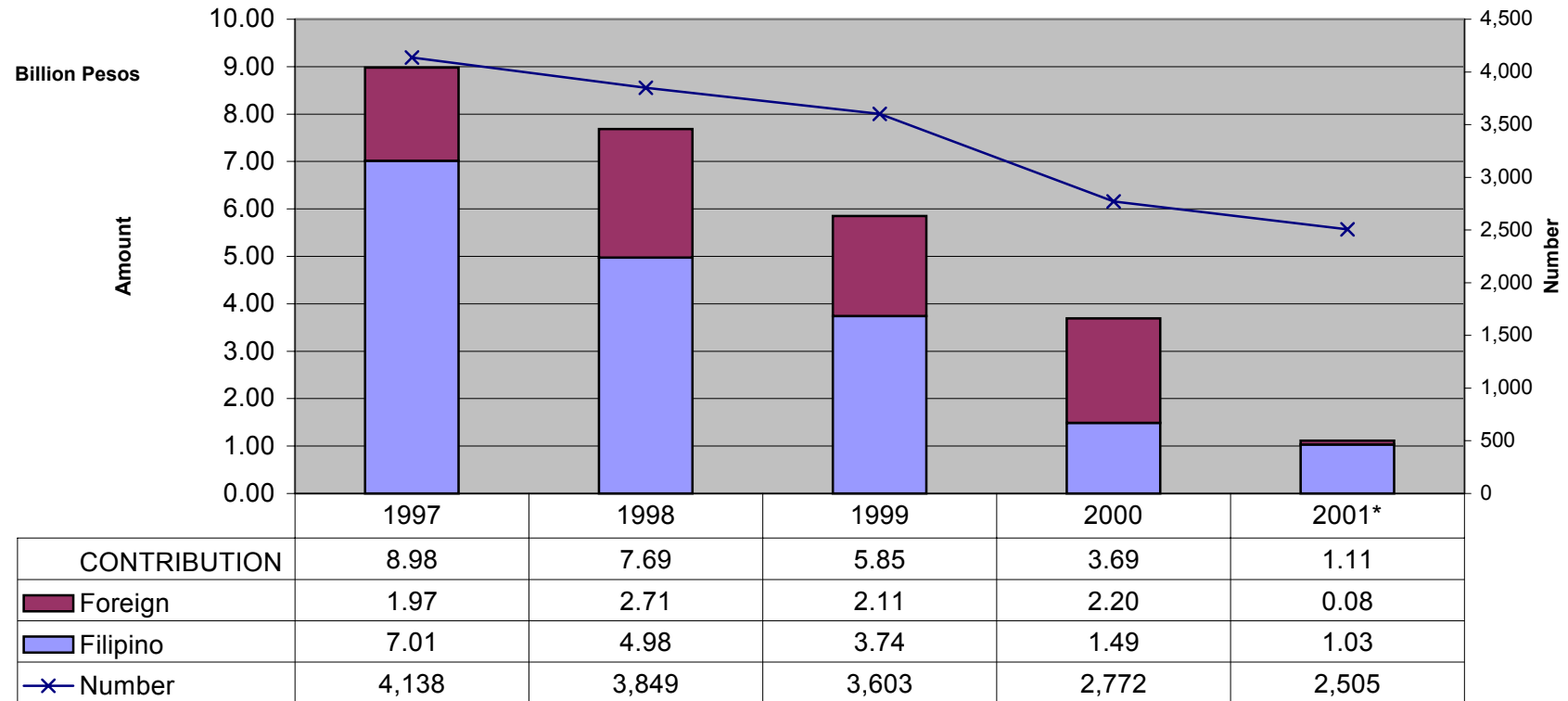
**AMOUNT OF PAID-UP CAPITAL STOCK OF NEWLY REGISTERED CORPORATIONS
1997-2001**

Billion Pesos



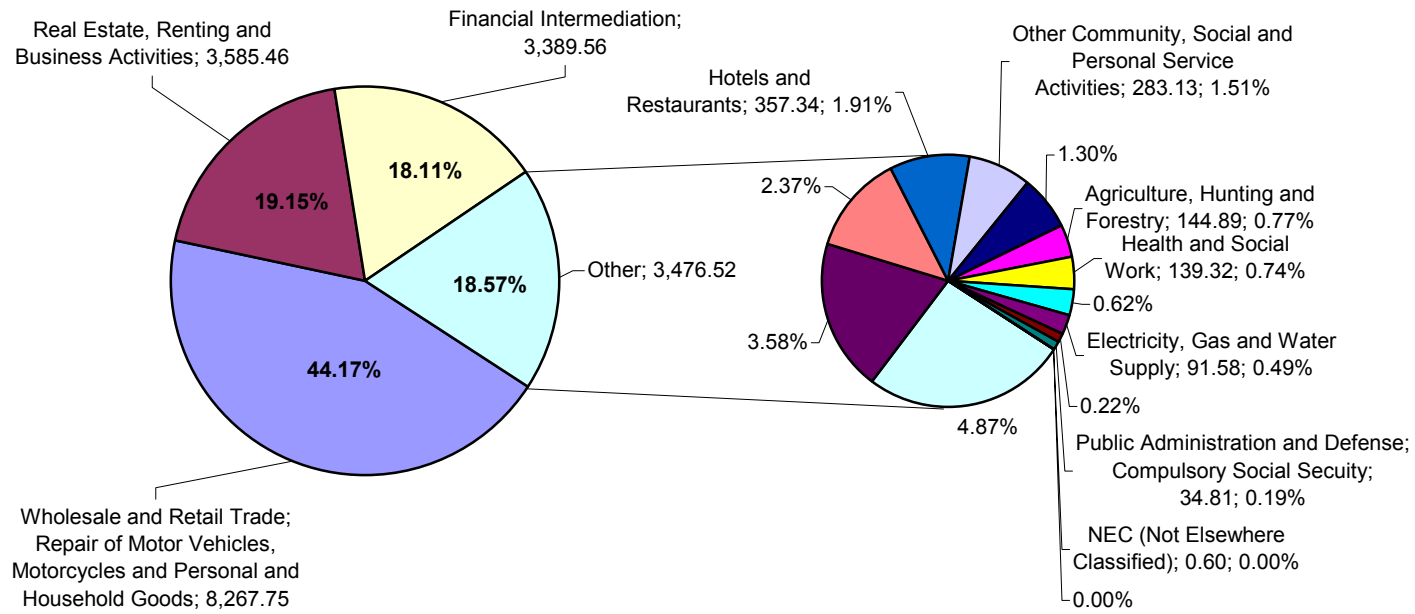
* Preliminary (as of 11 March 2002)

**NUMBER AND CONTRIBUTION OF NEWLY REGISTERED
DOMESTIC PARTNERSHIPS FOR 1997-2001**

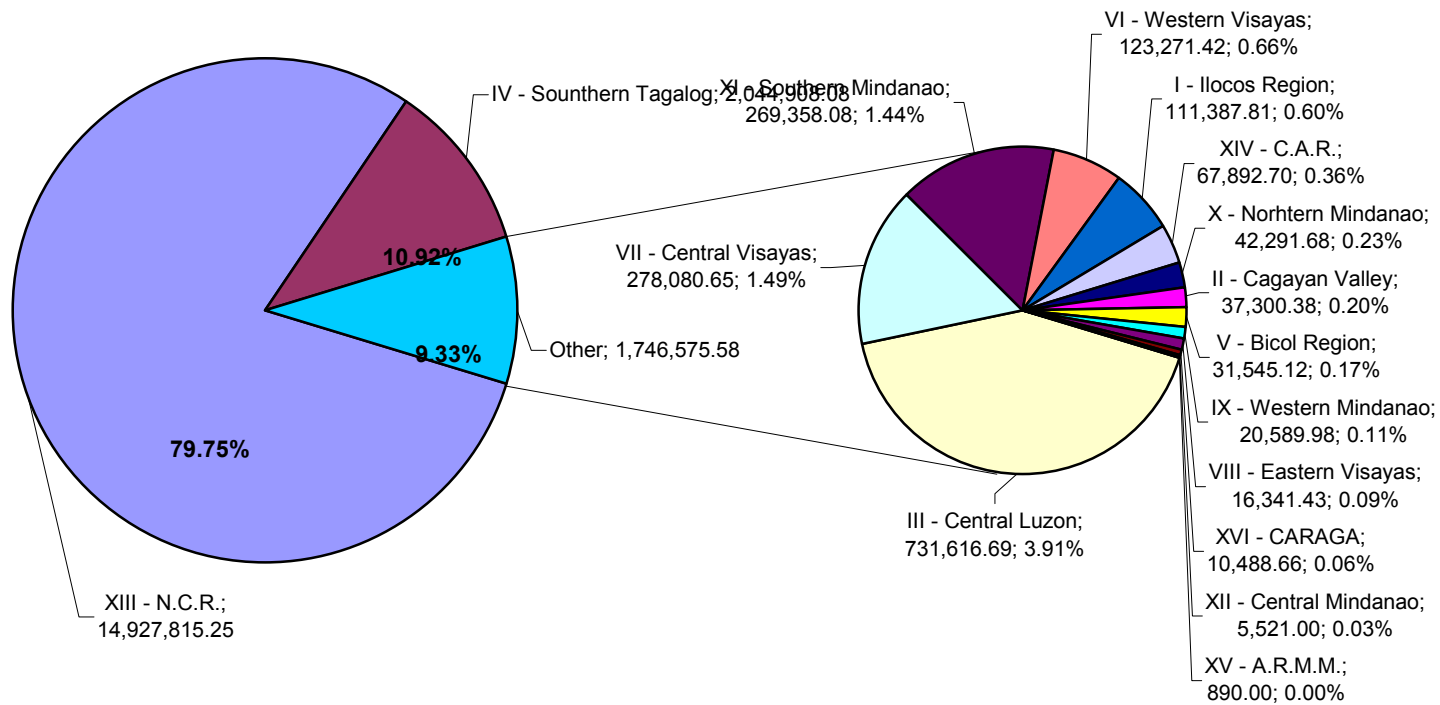


* Preliminary (as of 11 March 2002)

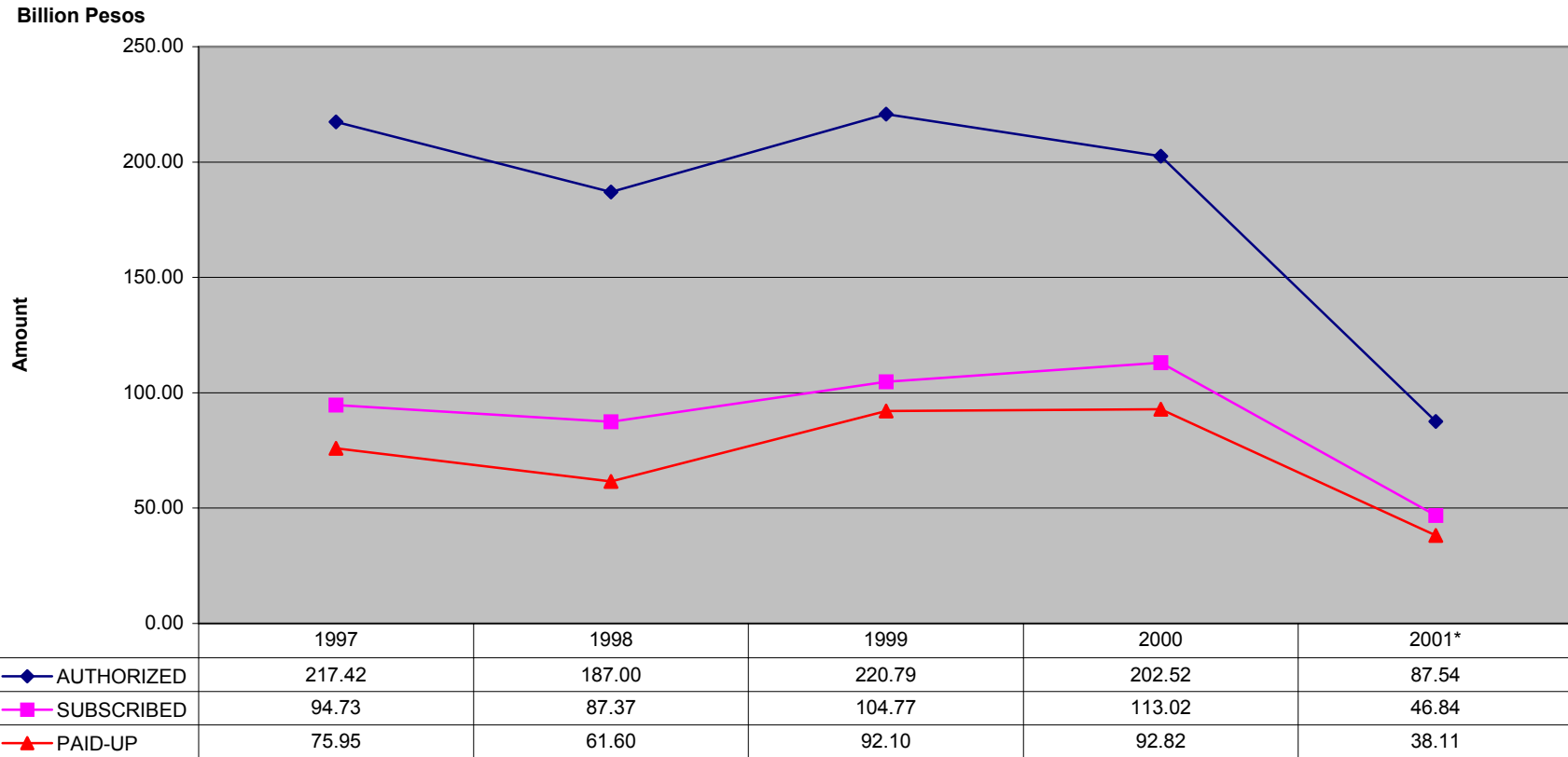
**INVESTMENTS OF NEWLY REGISTERED DOMESTIC STOCK CORPORATIONS AND PARTNERSHIPS
BY MAJOR INDUSTRY GROUP
CY 2001
(in thousand pesos)**



**INVESTMENTS OF NEWLY REGISTERED DOMESTIC STOCK CORPORATIONS AND PARTNERSHIPS BY REGION
CY 2001
(in thousand pesos)**

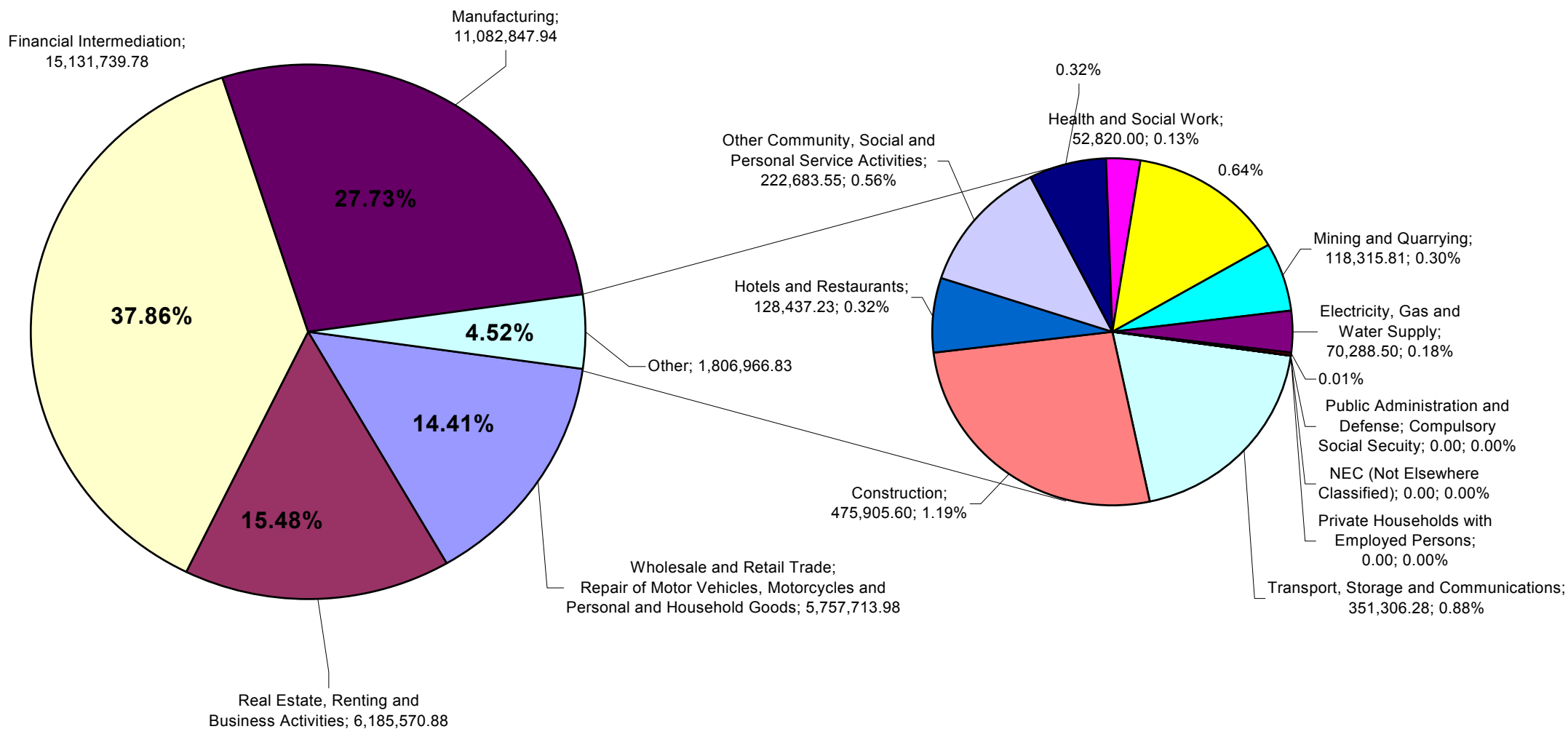


**INCREASE IN CAPITAL INVESTMENTS OF
EXISTING DOMESTIC STOCK CORPORATIONS: 1997-2001**

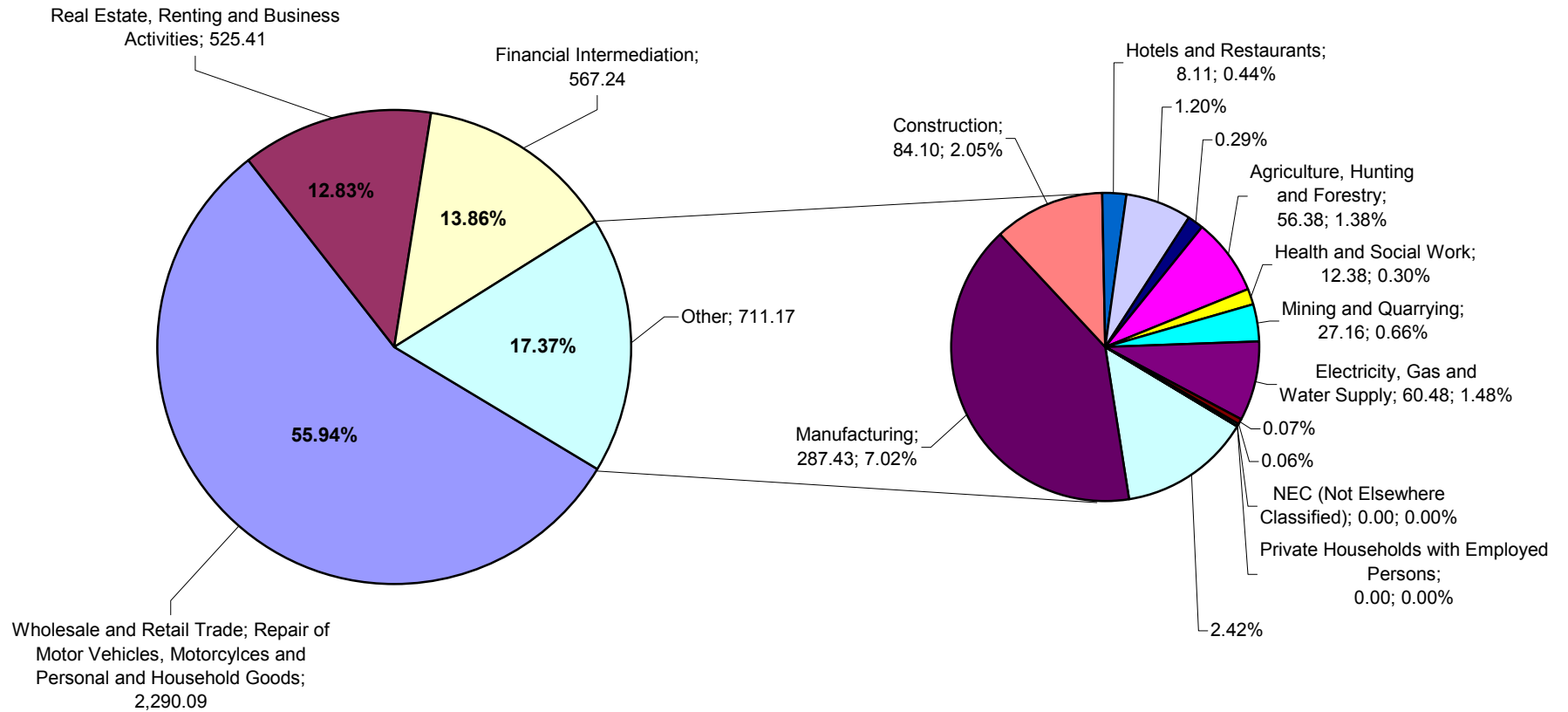


* Preliminary (as of 11 March 2002)

INCREASE IN CAPITAL INVESTMENTS OF EXISTING DOMESTIC STOCK CORPORATIONS AND PARTNERSHIPS BY MAJOR INDUSTRY GROUP CY 2001 (in thousand pesos)



**AMOUNT OF FOREIGN INVESTMENTS IN NEWLY REGISTERED DOMESTIC STOCK CORPORATIONS AND PARTNERSHIPS BY INDUSTRY GROUP
CY 2001
(in thousand pesos)**



IV. TRENDS IN SECURITIES

PRE-NEED INDUSTRY PERFORMANCE

With some 52 active players, the pre-need industry managed to sustain its growth in sales in 2001. The number and amount of pre-need plans sold in 2001 increased to 822,494 valued at PhP 38.1 billion, up by 41.3 percent and 5.6 percent, respectively, compared to levels reached in 2000 (Table 1).

**TABLE 1. NUMBER AND AMOUNT OF PLANS SOLD BY PRE-NEED CORPORATIONS
2000 AND 2001**

Item	2000	2001	Percent Increase/ (Decrease)
Number of Plans Sold	582,003	822,494	41.32
Education	208,438	380,313	82.46
Life	82,186	88,410	7.57
Pension	291,379	353,771	21.41
Amount of Plans Sold	P36,073,035,938	P38,096,699,471	5.61
Education	17,032,499,505	14,838,738,705	(12.88)
Life	1,885,049,533	2,671,312,935	41.71
Pension	17,155,486,900	20,586,647,831	20.00

The pre-need industry contributed significantly to the capital market through the investment of its trust fund in various instruments. As of June 30, 2001, 31 percent of the total PhP 33 Billion trust funds of pre-need companies were placed in government securities. The second favored investment vehicle were equities, with a 24 percent share. Meanwhile, real estate investments came in third, accounting for 20 percent of the total. Cash on hand and in bank including foreign account, time deposits, common trust fund, commercial papers and promissory notes, mutual fund, among others, comprised the rest of the trust fund investment portfolio.

For more comprehensive statistics on the Pre-Need Industry, please see Table 2.

To ensure continued viability in the operation of pre-need companies, the minimum paid-up capital was raised to PhP 100 million, to be complied with by end of April 2002. The profile of the paid-up capitalization of the 52 licensed pre-need companies (excluding two corporations that merged) in 2001 is as follows: 15 corporations have PhP 100 Million paid-up capital; 16 corporations, at least PhP 50 Million but less than PhP 100 Million; 19 corporations, at least PhP 26 Million but less than PhP 50 million; two (2) corporations with less than PhP 26 Million paid-up capital. To date, 31 corporations have at least PhP 50 Million paid-up capital.

TABLE 2 - SELECTED FINANCIAL DATA OF PRE-NEED CORPORATIONS:

1994 - 2000

(Amount in million pesos)

Financial Item	2000	1999	1998	1997	1996	1995	1994
Number of Reporting Corporations	54	52	44	49	54	47	49
TOTAL ASSETS	144,666.8	130,303.2	96,075.6	78,777.9	65,431.2	45,914.3	37,660.6
Current Assets	5,524.4	5,370.3	3,526.0	3,430.6	4,950.6	12,924.9	12,754.6
Trust Fund	34,226.7	26,499.6	21,245.8	16,861.6	14,352.8	10,436.9	7,537.6
Installment Contract Receivables	88,889.1	83,195.8	58,296.1	48,096.8	37,840.7	18,206.6	14,286.1
Long Term Investments	n.a.	4,194.6	2,990.6	1,826.5	1,330.5	1,142.0	491.8
Other Investments	2,954.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Property and Equipment	3,158.9	3,407.9	3,143.5	2,304.9	1,889.9	1,317.7	712.8
Deferred Charges	7,192.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other Assets	2,720.8	7,635.0	6,873.6	6,257.5	5,066.7	1,886.2	1,877.7
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	144,666.7	130,303.2	96,075.6	78,777.9	65,431.2	45,914.3	37,660.6
TOTAL LIABILITIES	133,747.7	117,630.1	86,002.8	71,060.2	58,919.6	41,642.7	35,173.8
Current Liabilities	4,652.7	3,490.4	3,678.6	2,986.0	2,326.6	1,473.7	1,125.3
Actuarial Reserve Liabilities	36,893.6	20,476.5	0.0	0.0	0.0	0.0	0.0
Estimated Benefit Provision in ICR	48,556.0	52,005.1	52,652.0	38,714.9	37,130.3	27,284.7	23,427.5
Unrealized Gross Income in ICR	40,736.8	38,802.0	27,440.5	19,746.4	17,557.1	11,091.9	9,877.2
Long Term Liabilities	n.a.	541.9	504.8	860.3	989.0	385.4	171.8
Benefits Payable	114.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Planholder's Deposit	8.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Counselor's Bond Reserve	209.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other Liabilities	2,575.5	2,314.2	1,726.9	8,752.6	916.6	1,407.0	572.0
STOCKHOLDERS' EQUITY	10,919.0	12,673.1	10,072.8	7,717.7	6,511.6	4,271.6	2,486.8
Paid-up Capital	4,025.0	3,278.2	2,532.5	1,818.6	1,408.2	868.7	574.1
Retained Earnings	2,363.9	4,004.8	3,891.6	2,808.6	2,300.9	1,622.2	1,136.0

Additional Paid-In Capital	14.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dep. On Future Subscription	459.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Fluctuation (stocks)	330.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Revaluation in Real Estate	2,789.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Trust Fund Income	757.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Treasury Stocks	(24.8)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Unrealized Gain	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Others	203.9	5,390.1	3,648.7	3,090.5	2,802.5	1,780.7	776.7
GROSS REVENUE	13,351.6	13,797.7	10,842.2	9,068.1	7,623.3	6,223.8	633.8
Realized Gross Income/Net Sales	10,697.9	11,569.7	8,581.5	7,219.2	5,955.9	5,119.7	5,313.2
Trust Fund Earnings	1,409.8	1,116.8	181.9	192.9	118.4	130.8	70.1
Commission Income	-						
Interest Income	894.1	950.6	1,610.2	1,212.4	1,106.0	655.5	553.3
Realized Capital Gains	-	0.0	69.4	n.a.	n.a.	n.a.	n.a.
Other Operating Income	59.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other Income	290.2	160.6	399.2	443.5	443.3	317.8	397.2
Expense	12,498.4	12,782.3	9,739.8	8,132.4	6,774.0	5,493.8	5,870.6
Plan Benefits	983.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Increase/Decrease in ARL	1,542.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Direct Acquisition Cost	4,496.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
General and Administrative Cost	5,476.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Profit Before Tax	853.2	1,015.4	1,102.4	935.7	849.3	730.0	463.2
Provision for Income Tax	153.1	155.3	172.9	207.4	131.4	136.1	97.2
Net Profit After Tax	700.1	860.1	929.4	728.3	717.8	593.8	365.6

Details may not add-up to totals due to rounding-off of figures.

n.a. Not Available

Source of Basic Data: Financial Statements submitted to SEC-NTD

STOCK MARKET PERFORMANCE

New historic lows were reached in year 2001 as listless trading persisted in the stock market. Uncertainties over the prospects of the global economy in the aftermath of September 11 terrorist attacks, the continued threat of a global recession, and adverse domestic developments all conspired to keep investors on the sidelines and caused the market to hit a new, ten-year low.

The 30-stock Composite Index, the main barometer of market performance, ended the year at 1,168.08 points, a downward trend of 280.41 points or 21.84 percent from the previous year's close of 1,494.50 points. The broader all shares index ended at 682.87 points from the previous year's 829.93 points, a decrease of 17.72 percent.

All sub-indices declined except for the oil sector, which went up by 200 points or 11.56 percent; Banks and Financial Services shed 49.06 points or 8.85 percent, to end at 505.02 points. Commercial-Industrial was down to 1,579.39 points, shedding 525.15 points or 24.95 percent. Mining shed 1,308.90 points or 56.41 percent to end at 1,011.29 points, while Property decreased 6.87 points or 1.35 percent to 501.30 points.

Total volume traded decreased to 164.43 billion shares in CY 2001, a decrease of 75.06 percent from the 659.42 billion shares traded last year. Value turnover fell by 55.39 percent to PhP 198.10 billion, from PHP 357.66 Billion in CY 2000.

The top three (3) gainers for the year were: Cosmos Bottling Corp. 5% Con. Pref. after gaining 185.71 percent or PhP 6.50, to close at PhP 10.00. This was followed by International Container Service, Inc. (ICT) which increased 183.78 percent or PhP 1.36 to end at PhP 2.10; and Cosmos Bottling Corporation (CBC), which rose PhP 154.39 or PhP 3.52 to settle at P5.80. Others gainers were: Atlas Construction Mining and Development Corp.; RFM Corp.; Republic Cement Corp.; Republic Glass Holdings Corp. and Primetown Property Group, Inc., among others.

On the other hand, the biggest losers were: Waterfront Philippines, Inc. "Warrants; Fil-Estate Corporation; and Music Corporation, which slipped by 98.40 percent, 88.33 percent, and 88.21 percent, respectively. Others in the losing side were: Macroasia Corp. "Warrants; Benpres Holdings Corp., Zipporah Realty Holdings, Inc.; Pryce Corp. and Metro Alliance Holdings and Eqts. Corp., among others.

The most actively traded stocks for the year were: Philippine Long Distance Telephone Co. (TEL) closing at PhP 417.00; Manila Electric Company "B" (MERB) ending at PhP 29.50; and Ayala Land, Inc. (ALI) closing at PhP 4.85, with total value traded at PhP 20.011 Billion, PhP 12.580 Billion, and PhP 10.356 Billion, respectively.

V. ACCOMPLISHMENTS OF THE SPECIAL OFFICES AND DEPARTMENTS

SPECIAL OFFICES

The Commission has two (2) special offices to enable the body to perform expanded and specialized functions, requiring expertise in law and in accounting principles and practices. These are the Office of the General Counsel and the Office of the General Accountant.

OFFICE OF THE GENERAL COUNSEL (OGC)

FUNCTIONS

- Provides expert legal counsel to the Commission
- Assists in the preparation of the Commission's legislative agenda
- Reviews and comments upon proposed legislation that would affect the securities industry and the Commission's powers and functions
- Acts as the Commission's liaison with Congress and other agencies, when necessary
- Ensures that the rulings and opinions of the Commission are consistent with Philippine laws and jurisprudence

ACCOMPLISHMENTS

The OGC achieved an increase in activity and output from June to year end, in spite of limited manpower --- with the retirement of two lawyers in August and the General Counsel in October, and the hiring of legal staff only in September. The 334 intra-corporate cases of record as of January 2001 have been resolved, in compliance with Section 5.2 of the SRC, which transfers jurisdiction over cases of this nature to the regular courts.

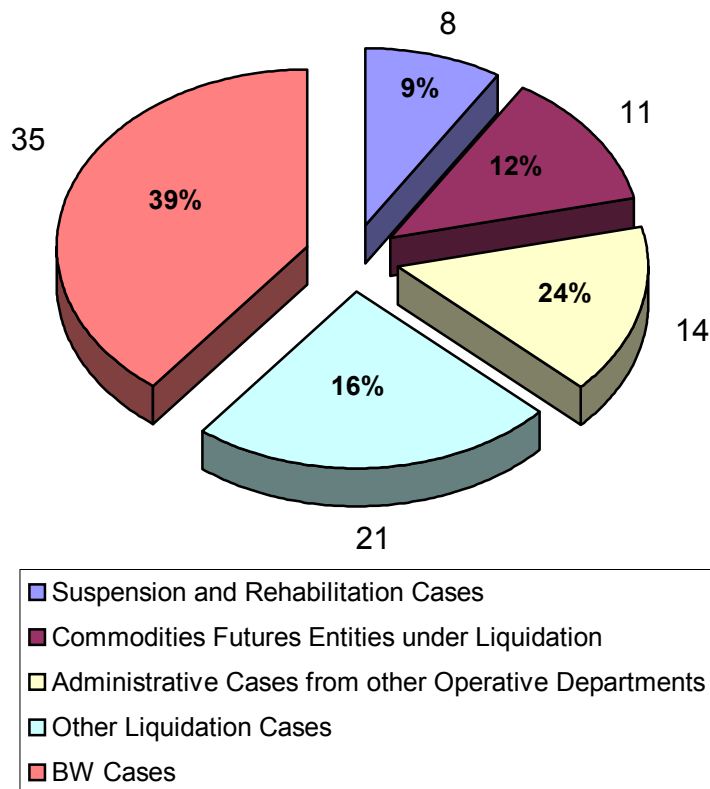
There were 125 corporate recovery cases pending at the start of the year, of which 117 cases or 94 percent were disposed or released from Commission supervision. The eight

remaining cases involve suspension of payments/rehabilitation, and 32 liquidation cases are still under the directory mantle of the Commission.

Thirty-five (35) cases relative to BW Resources assigned to the OGC were given priority in 2001, as their resolution will have a lasting impact in restoring the credibility which is critical to the development of the Philippine equities market in particular and the capital market in general.

The chart below reports the cases under process by the OGC as of 16 January 2002.

**CHART 10. CASES UNDER PROCESS BY THE OFFICE OF THE GENERAL COUNSEL
AS OF 16 JANUARY 2002**



OFFICE OF THE GENERAL ACCOUNTANT (OGA)

FUNCTIONS

- Leads the establishment of international accounting standards to improve the transparency of the Philippine capital market
- Works closely with the Accounting Standards Council (ASC), the Philippine Institute of Certified Public Accountants (PICPA), the Actuarial Society of the Philippines (ASP), Self-Regulatory Organizations (SROs), and industry associations to develop accounting standards for the Philippines and the capital market
- Provides technical support to the Corporation Finance, Market Regulation, and Non-Traditional Securities and Instruments Departments on issues of accounting treatment for public offerings and disclosure issues
- Acts as resource person to the Commission, SROs, and SEC departments in the area of accounting standards and treatment

ACCOMPLISHMENTS

Given the need for reliable and globally acceptable financial reporting structures, that will promote full disclosure and transparency, the OGA has been working closely with the Corporation Finance Department towards the harmonization of Philippine accounting and auditing standards with international accounting and auditing standards practices, as well as the improvement of corporate governance. Some of the more notable initiatives in this regard are the following:

- o Initial amendments in SRC Rule 68, i.e., Special Accounting Rules, to conform with International Accounting Standards;
- o Preparation of an IT-driven and risk-oriented monitoring device called I-MoDe. I-MoDe tracks the extent to which corporations are complying with laws, policies, rules, and regulations, including the recently promulgated Anti-Money Laundering Law. It also

reflects the risks involved as a result of non-compliance, the weight of the risks involved, and the monetary and non-monetary sanctions for non-compliance. I-MoDe will be complemented by a Handbook on SEC Reportorial Requirements; and

- o Development of a Rating System called SEC MILEAGE (for initial implementation among listed companies), which will warn investors about companies that have weak fundamentals and that rate poorly in corporate governance.

CORE FUNCTION: CAPITAL MARKET DEVELOPMENT AND REGULATION

The 1997 Asian financial crisis and the 1999 stock manipulation scandal in the PSE are two of the most recent reminders of the need for effective and dynamic regulation of the capital market. In this regard, the SEC has not lost time exercising the authority given to it by the SRC and other securities-related laws, considering the widely-held notion that “liberal markets are efficient only if they are efficiently regulated.”¹

Towards this end, the SEC, under its first core function of capital market and regulation, continued to perform its regulatory function by, among others, the licensing of traditional and non-traditional securities as well as the registration of capital market participants such as brokers, dealers, traders, and the PSE and related institutions.

MARKET REGULATION DEPARTMENT (MRD)

FUNCTIONS

- Develops the registration criteria for all market participants
- Ensures compliance with registration requirements and endorses infractions of the Code and its Rules and Regulations to the Compliance and Enforcement Department

¹ John Eatwell and Lance Taylor, *GLOBAL FINANCE AT RISK – The Case for International Regulation*, The New Press, New York © 2000

ACCOMPLISHMENTS

Demutualization of the Philippine Stock Exchange

The year 2001 marked the start of the demutualization of the Philippine Stock Exchange (PSE).

Demutualization involves the conversion of the PSE from a non-stock organization (mutual structure for broker-members) to a stock corporation. Efforts to effect demutualization within one year from the effectivity (8 August 2000) of the SRC were pursued to ensure better corporate governance and address the “old boys club” image at PSE, through the diversification of stock ownership. The ultimate goals of demutualization are to restore investors’ confidence in the market, in the short run, and to ensure the competitiveness of the local exchange in an ever changing global environment, in the medium and long run.

The SRC imposes certain restrictions on the activities and ownership of a demutualized exchange. It likewise spells out the composition of the Board and requires SEC approval of the demutualization plan. Some critical issues attending the demutualization process involved the procedure on how the PSE can be demutualized and how the assets should be valued.

The PSE submitted to the MRD its conversion plan, amended Articles of Incorporation and By-Laws, incorporating therein suggestions from the Commission. The approval of these documents were officially communicated to the PSE on 8 August 2001.

The Commission continues to guide the PSE to fully comply with all the provisions of the SRC to carry out the objective of the lawmakers in mandating demutualization.

Rulemaking and Provision of Exemptive Relief

Section 72.1 of the SRC gives the SEC express authority to exempt any person, security, or transaction from any section of the Act, so long as the exemption is consistent with

the protection of investors². This authority allows the SEC to accommodate change and innovation in ways that preserve the SRC's underlying principles.

Following the September 11th or the 911 terrorist attacks in the United States, and the closure of certain exchanges in the region, and consistent with DOJ Opinion No. 45 (Series of 2001), MRD was instrumental in granting exemptive relief to three key provisions in the SRC. Exempted transactions under Section 34, or the Broker-Dealer Prohibition have been expanded under SEC-MRD Memorandum Circular No. 9, to include alternative market-making activities by Member Brokers and its associated person's account, subject to certain conditions. Moreover, in its Special Resolution No. 103 dated 12 September 2001, the SEC allowed temporary exemptions to Section 19.1 on the Mandatory Tender Offer, and Section 30.1, or the Broker-Director Rule. The exemptions, as contained in Memorandum Circular No. 12, are effective for one year but may be extended by the Commission as warranted by economic conditions.

The department also reviewed and recommended improvements in the rules of the following entities:

- o PSE - Rules and Procedures on Unusual Trading
- o PSE - Trading and Settlement Rules
- o Securities Clearing Corporation of the Philippines (SCCP) - Rule on Mark to Market Collateral Fund and Credit Ring Agreement
- o PSE - Customer First Policy, which contributed to the finalization of SEC-MRD Memorandum Circular No. 9.

Regulation of Market Participants

Protecting the integrity of the market to generate investor confidence requires the registration, licensing and monitoring of all market participants.

² While Sec 72.1 of the SRC grants broad powers to the SEC, prudence dictates that this latitude should be defined accordingly. Thus, SEC's exercise of its exemptive powers is guided by DOJ Opinion No. 45 (Series of 2001), which was issued on September 12, 2001.

Towards this end, the licenses of the following entities were registered or renewed, and their operations continuously monitored (See Annex A for the list of registered/licensed market participants in CY 2001):

TABLE 3. REGISTRATION/RENEWAL OF MARKET LICENSES, CY 2001

Market Participant	Total
Broker/Dealer	
PSE-member 164	182
Foreign 25	
Local 139	
Non-member 18	
Broker/Dealer Salesmen	1,069
ICA Salesmen	338
Broker/Dealer Associated Persons	200
Dealer in Government Securities	46
Investment Company Advisers	11
Investment Houses	38
w/ Quasi-Banking (QB) Functions 6	
w/o QB Functions 32	
Underwriters of Securities	8
Investment House Branch Offices	13
Transfer Agents	31
Permanent 28	
Provisional 3	
Investment House Associated Person	11

Monitoring the activities of market participants was done through the following:

- o *Transfer Agents'(TA) monthly reportorial requirement* - Reconciliation Report on TA-Philippine Central Depository (PCD) Stock Balances- All transfer agents were able to submit the requirements within the deadline (every 10th of the month) Further, no differences were observed between TA and PCD stock balances. Thus, no further action was taken.
- o *Monitoring of SCCP's Daily Delivery Versus Payment (DVP) Settlement Report* - In 241 of the 250 settlement days for CY 2001, settling brokers were able to

complete their cash and securities obligations before the daily deadline at 12:00 noon. However, nine brokers were not able to deliver their securities obligation at 12:00 noon due to late delivery and technical gridlock. These brokers were penalized by SCCP.

- o *Daily monitoring of listed issues* - The daily percentage change of listed issues was monitored relative to the threshold of 30%-50% for the 5 - 7 day period. Appropriate letters were sent to the PSE, asking for the steps they had taken as to the unusual trading of two issues.
- o *Preparation of Daily and Monthly Stock Market Reports* - A total of 250 daily and 12 monthly market reports were prepared by MRD. Copies of the daily reports were furnished to the Office of the President and the Department of Trade and Industry. In CY 2001, there were fifty-nine (59) floor price alerts and eighty five (85) ceiling price alerts. Most of the issues that registered floor/ceiling alerts were speculative stocks. MRD did not observe any other trend in the prices before or after the one-day unusual movements.

Effective monitoring resulted in the collection of fines and penalties amounting to PhP 4.363 Million from erring market participants.

Income from Service Fees and Penalties

MRD collected an aggregate amount of PhP 35,532,658.57 in fees and penalties for the year 2001, as follows:

TABLE 4. REVENUE GENERATED BY MRD, CY 2001

Collections	Amount
<i>Registration Fees</i>	<i>PhP 7,041,224.00</i>
Investment House	586,360.00
Transfer Agents	110,064.00
Broker/Dealer	6,344,800.00
<i>Fines/Penalties</i>	<i>4,363,298.73</i>
Investment Houses	
Transfer Agents	1,370,555.58
Broker/Dealer	190,400.00
	2,802,343.15
<i>PSE "SEC Fees for 2001"</i>	<i>PhP 35,532,658.57</i>
Total	PhP46,937,181.30

CORPORATION FINANCE DEPARTMENT (CFD)

FUNCTIONS

- Registers securities before they are offered for sale or sold to the public and ensures that adequate information is available about said securities
- Ensures that investors have access to all material disclosures regarding the said offering and the securities of public companies
- Monitors compliance by issuers with the SRC and the rules and regulations adopted thereunder and endorses infractions thereof to the Compliance and Enforcement Department

ACCOMPLISHMENTS

Registration of Securities and IPOs

Notwithstanding the downtrend in the composite index of the PSE, the Corporation Finance Department registered capital market instruments amounting to PhP 11.30 Billion, consisting of the following: equity securities amounting to PhP 3.54 Billion; commercial papers

worth PhP 2.50 Billion; and other types of securities (proprietary/nonproprietary membership certificates/shares, timeshares) valued at PhP 5.26 Billion (See Annex B for the list of registered securities and companies with IPOs in CY 2001).

Promotion of Corporate Governance

Promoting good governance is a key element in accelerating the recovery of the corporate sector. Towards this end, CFD spearheaded the drafting of a proposed Code of Corporate Governance for listed companies. The draft was reviewed in consultation with the private sector and is slated for implementation in 2002. The Code prescribes, among other things, higher qualification standards for directors, ethical standards for directors and committees, requirements for independent directors, accountabilities, and reporting requirements. Also included in the Code is the formation of more board committees to monitor performance, enhance accountability, and ensure an appropriate mix of expertise and experience in the board. Some of these committees are the Audit and Compliance Committee; Executive Compensation or Remuneration Committee; and Nomination Committee.

Adoption of International Accounting Standards

CFD began work towards amending the Special Accounting Rules (SRC Rule 68) which govern the financial disclosures of publicly-held corporations, bringing them in line with International Auditing Standards. Phased amendments in SRC Rules to incorporate Accounting and Auditing Standards will be made annually, until these standards are fully compliant with IAS by 2003.

Rulemaking

The CFD assisted the Commission in further improving the implementation of the Securities Regulation Code and the Financing Company Act, through the issuance of the following circulars:

TABLE5. MEMORANDUM CIRCULARS ISSUED IN CY 2001

No.	Subject
001	Scale of Fines
002	Guidelines on Exempt Transactions
003	Disclosure Statement on Loan/Credit Transaction
006	Rejection/Denial of Applications for Registration of Securities under the Securities Regulation Code
007	Suspension of Registration of Lending Investors
008	Submissions of Special Form for Financial Statements of Broker Dealers in Securities
010	Requirements for Filing Applications for Exemptive Relief under SRC Rule 19.1 (Mandatory Tender Offer Rule) and Section 72.1 of the SRC (Rules and Regulations)
011	Adoption of New/Revised Accounting Standards
013	Guidelines on Lending Investors

Processing and Approval of Applications

For the year 2001, the Department processed and recommended approval of the following number of applications:

TABLE 6. NUMBER AND TYPES OF APPLICATIONS APPROVED, CY 2001

Application	Number of Applications Approved
Registration Statements under SRC Rules 8 (Requirement of Registration of Securities) & 12 (Procedure for Registration of Securities)	23
Confirmation of Exemption under Sec. 10 of the SRC (Exempt Transactions)	721
Exemptive Relief under Section 72.1 of the SRC and SRC Rule 19-1	2
Certificate of Authority under the Financing Company Act	11
Registration as an investment company under the Investment Company Act	5
Total	762

Income from Service Fees and Penalties

Like MRD, CFD is likewise assisting the Commission in monitoring market participants and in the process, has collected fines and penalties amounting to PhP 9.473 million. CFD collected an aggregate amount of PhP74,653,639.00 in fees and penalties for the year 2001, as follows:

TABLE 7. REVENUE GENERATED BY CFD, CY 2001

Collections	Amount
<i>Registration Fees</i>	PhP 14,712,249.00
<i>Exemption Fees</i>	45,265,641.00
<i>Other Fees</i> Filing Fees for Proxy/Information Statements, Tender Offer Statements, listing fees, petitions	10,202,668.00
<i>Penalties</i>	9,473,081.00
Total	PhP 74,653,639.00

NON-TRADITIONAL SECURITIES AND INSTRUMENTS DEPARTMENT (NTD)

FUNCTIONS

- Registers and grants licenses for non-traditional securities and instruments, including but not limited to pre-need plans, commodity futures contracts, proprietary or non-proprietary membership certificates and other similar instruments
- Monitors compliance with related rules and endorses infractions thereof to the Compliance and Enforcement Department

ACCOMPLISHMENTS

Registration and Licensing of Pre-Need Plans

In CY 2001, the NTD evaluated and recommended the approval of 36 applications for new and additional securities of pre-need plans of 21 pre-need companies. PhP 47.8 Billion worth of pre-need plans were registered for sale to the public, an impressive 55 percent improvement from last year's PhP 30.8 Billion worth of securities registered by 25 pre-need companies.

This may be partly attributed to the new timetable for processing that was implemented under the reorganized SEC, resulting in the speedier review of applications. Hence, the Commission was able to generate PhP 32.2 Million revenues from the registration of these securities as compared to PhP 24.6 Million last year, an increase of 30.9 percent.

In addition, the Department processed six (6) petitions for price increase and additional number of years to mature of pre-need plans.

(See Annex C for the list of licensed pre-need companies and the top ten pre-need companies based on gross sales in 2001).

Formulation and Promulgation of IRR on Pre-Need Plans

To improve the regulation and monitoring of pre-need plan corporations, the NTD, in cooperation with the Federation of Pre-Need Companies, recommended the formulation and promulgation of the Implementing Rules and Regulations on Pre-Need Plans. The IRR defines the licensing/registration rules and monitoring of pre-need companies, plans and sales professionals, and sets out the requirements for the establishment of a Trust Fund. In addition, the SEC and the Federation have each organized a registration and complaints desk that will:

a) expedite the filing/processing of registration statements and avoid the over-issuance of pre-need plans; and b) facilitate the amicable settlement of complaints.

Implementation of SEC Rules and Compliance Monitoring

To strengthen the protection of planholders, NTD vigilantly monitored the trust fund deficiencies of pre-need companies, which declined to PhP 746.5 Million as of October 2001 from a high of PhP 3.9 Billion as of Dec. 2000. Prudential regulation requires that the Trust Fund be fully funded to ensure the continued viability of the pre-need industry.

NTD conducted for cause audits of the books of two (2) pre-need companies and table audits of all pre-need companies. Twenty-seven (27) pre-need companies were penalized for late or non-funding of trust fund requirements.

Proposed revisions in Four (4) Trust Agreements between banks and pre-need companies were reviewed, in order to ensure that they conform with the New Pre-Need Rules.

NTD likewise closely monitored compliance with the PhP 100 Million minimum paid-up capital requirement, with 15 companies adhering to the requirement by end-CY 2001. In addition, NTD evaluated the proposed capital build up plans of 14 pre-need companies, and audited the paid-up capital of two (2) pre-need companies.

Preliminary conferences on complaints were conducted, with 124 settlements out of 279 filed complaints, or a resolution rate of 44 percent.

Income from Service Fees and Penalties

With the implementation of the New Rules on Registration and Sale of Pre-Need Plans and the close monitoring of pre-need companies, higher revenues from fees and penalties amounting to PhP 66.94 Million were generated from pre-need companies, 44 percent higher than the income in CY 2000. Registration fees for renewal of licenses of dealers, general agents and salesmen of pre-need plans increased significantly due to the revised rates for registration fees and penalties which took effect in September 2001.

Collection of penalties for late submission of reports/over-issuance amounted to PhP 6.74 Million.

TABLE 8. REVENUE GENERATED BY NTD, CY 2001

Collections	Amount
<i>Application for Additional Securities</i>	PhP 32,250,803.00
<i>License of Salesmen</i>	25,280,353.00
<i>Renewal of Salesmen's License</i>	1,979,437.00
<i>Renewal of Dealer's License</i>	282,275.00
<i>Licensing of General Agent</i>	40,097.00
<i>Opening of Branches</i>	176,945.00
<i>Transfer of Branches</i>	129,280.00
<i>Closure of Branches</i>	9,090.00
<i>Accreditation of Actuaries</i>	35,850.00
<i>Petition for Amendment</i>	5,050.00
<i>Trust Fund Agreement</i>	6,736,088.90
<i>Penalties for Late Submission of Reports/Overissuance</i>	
Total	PhP 66,944,648.90

CORE FUNCTION: COMPANY REGISTRATION AND MONITORING

In keeping with provisions under the Corporation Code, Civil Code (specifically, the provisions on partnerships), Foreign Investments Act, and other related laws, SEC's second core function involves the registration of foreign and local companies and partnerships and the monitoring of the compliance of registered entities with the provisions of the aforementioned laws.

COMPANY REGISTRATION AND MONITORING DEPARTMENT

FUNCTIONS

- Registers and revokes the registration of domestic corporations and partnerships by itself or in coordination with other departments or agencies of government

- Grants and revokes licenses for foreign corporations doing business in the Philippines under the Foreign Investments Act of 1991
- Grants and revokes licenses for multinational companies establishing regional headquarters and regional operating headquarters in the Philippines under the Omnibus Investment Code of 1987
- Renders opinions on legal matters affecting corporations and partnerships
- Reviews corporate problems submitted to the Commission by the public and government agencies and instrumentalities
- Conducts monitoring/supervision activities in compliance with the Corporation Code and complimentary laws

ACCOMPLISHMENTS

Name Verification and Company Registration

In CY 2001, the Company Registration and Monitoring Department (CRMD) verified 110,582 corporate and partnership names and registered or acted on a total of 30,769 varied applications.

Simplification of Registration Procedures

CRMD continued to streamline its operations and simplify procedures to facilitate company registrations. In CY 2001, CRMD began implementing the pre-processing of applications, under which applications are not accepted unless the requisite documents are complete. During pre-processing, the applicants are advised immediately on deficiencies noted in the applications, or are forthwith endorsed to other concerned government agencies, when necessary.

Pre-processing has proven effective and has been welcomed by the transacting public, resulting in a reduction in backlog, early action on pending applications, and a decrease in expenses for mailing conference letters, endorsements and abandonment letters. Consequently, the certificates of registration are now released within one or two days from the official receipt of applications.

Financial Analysis/Verification

Last year, CRMD simplified financial statements requirements to facilitate processing of application involving amendments in capital structure. It also coordinated with the Office of the General Accountant (OGA) for the partial adoption of the International Accounting Standards (IAS).

In the course of verifying corporations' financial conditions, CRMD imposed penalties on errant corporations in the amount of PhP 3. 197 Million.

Company Monitoring

In coordination with the Economics Research and Investments Department (ERID), which generated the necessary listings of deficient corporations, CRMD monitored 3,822 delinquent corporations and identified 27,982 corporations whose certificates of registration are due for revocation.

Opinion and Rulemaking

CRMD rendered 67 opinions last year, the most significant of which involves videoconferencing and teleconferencing, a major breakthrough in the conduct of corporate meetings. The opinion, which adopts the salient features of the recently promulgated E-Commerce Act, allows the holding of meetings through the use of electronic media, making it possible for directors to participate in board meetings even if they are physically absent.

CRMD also issued/promulgated guidelines, rules and circulars on following:

- o Guidelines on Videoconferencing/ Teleconferencing
- o Revision of the General Information Sheet to fine tune with E-Commerce Act and other recent legislation, policies and rules

- o Elimination of registration requirements like the Alien Certificate of Registration (ACR)/Passport for foreign investors, the Personal Information Sheet (PIS) for consulting firms, and Professional Tax Receipts (PTRs), Bar/PRC Certificates for professional partnerships
- o Revision of Abandonment/Rejection Letters
- o Memorandum Circular No. 5 on Annual Meetings and attendance by proxy, to govern non-listed corporations and non-stock corporations

Information Dissemination/Advisory Assistance

CRMD rendered advisory assistance and replied to 14, 694 walk-in queries, 19,150 telephone queries, and 1,200 written queries.

Database Generation

CRMD encoded 24,651 new primary licenses and 8,261 amendments to primary licenses, and updated 145,591 corporate compliance with SEC reportorial requirements. It also issued 2,484 certifications on status of corporations, 186 certificates of good standing and encoded 145,591 updates on compliance with reportorial requirements.

CORE FUNCTION: ENFORCEMENT

SEC's demonstrated capability to enforce all securities related laws and in the process, protect investors, is essential in restoring investors' confidence in the Philippine equities market. With the full backing of the current administration, the SEC has been fulfilling with renewed vigor its mandate of regulation and enforcement, without fear against entities manipulating stock prices and committing securities fraud.

COMPLIANCE AND ENFORCEMENT DEPARTMENT (CED)

FUNCTIONS

- Ensures the compliance of all market participants, issuers and individuals, with Philippine regulations and governing legislation
- Takes appropriate action against all violators of the Code and other relevant laws, rules and regulations implemented by the Commission

ACCOMPLISHMENTS

Last year, the Compliance and Enforcement Department (CED) received a total of 998 cases and disposed of 423. This would translate to a performance rate of 42.3 percent.

At the beginning of CY 2001, the Department had 925 cases which were inherited from the previous Prosecution and Enforcement Department and from other departments of the SEC during the reorganization of the Commission. These cases generally covered violations of the Corporation Code, the majority of which were Section 43 violations, to wit, failure to declare dividends in excess of 100% of retained earnings. A number of cases also involved paid-up capital violations and inspection of corporate books.

The passage of the SRC enabled the re-channeling of resources from activities related to the settlement of intra-corporate disputes, to activities that have a direct impact on the development of the capital market, specifically the prevention of securities fraud such as stock market manipulation, boiler room operations, and sale of fraudulent securities, through timely investigation and enforcement actions.

Towards this end, CED regularly meets with agents of the National Bureau of Investigation, particularly those belonging to the INTERPOL Division. With the signing of an MOU between the SEC and the NBI last April 2001, the INTERPOL division was specifically tasked to assist the SEC in the investigation and prosecution of violations of securities fraud.

There is also a high level of cooperation between the CED and the Criminal Investigation and Detection Group (CIDG) of the PNP.

Major Enforcement Actions

Based on investigations, the department was able to cause the issuance of cease and desist orders against corporations engaged in fraudulent securities transactions, namely:

TABLE 9. CEASE AND DESIST ORDERS (CDOS) ISSUED IN CY 2001

Name of Corporation	Date of Cease and Desist Order
Performance Foreign Exchange Corp	January 16, 2001
American Automobile International, Inc.	January 24, 2001
PowerHomes Unlimited Corp	January 26, 2001
Prosperity.Com, Inc.	January 26, 2001
Multinational Telecom Investors Corp	March 8, 2001
Seven Golden Jewels Holding Co.*	March 19, 2001
Sherman Brothers Mgt. Ltd., Inc.	March 28, 2001
Barclays Group Inc.	April 10, 2001
Wells Chadwick Inc.	May 9, 2001
Oxford International Mgt., Inc.	May 10, 2001
GEI Training & Services Center	May 23, 2001
United Capital Management Inc.	May 23, 2001
G. Cosmos Phils., Inc	July 26, 2001
Goldberg and Partners, Inc.	August 2, 2001

In addition, CED filed 12 petitions for revocation/suspension of the primary franchise against errant corporations. Major violations involved fraud in securing Articles of Incorporation, and securities fraud. The corporations that have pending petitions for revocation against them are as follows:

* Investigated by Extension Office.

BOX 1. CORPORATIONS THAT ARE SUBJECT OF REVOCATION PROCEEDINGS

1. Newstart Realty & Devt. Corp
2. Red Sea Bar & Restaurant Inc.
3. HIBA International
4. Bradford Kempner Mgt. Services, Inc
5. Sherman Brothers Mgt. Ltd., Inc.
6. Oxford International Mgt., Inc.
7. Newport Pacific Securities & Mgt. Inc.
8. Chitty & June International Inc.
9. American Automobile International
10. Primelink Properties & Devt. Corp.
11. Union Films Exchange
12. Holiday Worldwide, Inc.

Summary of Disruptive Impact

CED took aggressive enforcement action against boiler rooms operating in the Philippines. Six (6) raids against boiler rooms were undertaken, namely: 1) Mendez Prior, 2) Dukes et. al. 3) Barclays Group Incorporated 4) Evergreen Consulting Corp and AEC Ventures, 5) Goldberg Consultancy and 6) Pryce Richardson Corp.

CED's investigation of boiler room operations resulted in the filing of administrative and criminal proceedings against the corporations. With the assistance of agents from the National Bureau of Investigation and the Criminal Investigation and Detection Group, PNP, the department was able to shut down and disrupt the activities of these corporations.

BOX 2. BOILER ROOM OPERATIONS DISRUPTED IN CY 2001

1. Dukes and Company Securities
2. Muller & Sons Securities Mgt., Inc.
3. Saxon & Swift, Inc.
4. Knowle & Sachs, Inc.
5. First Federal Capital, Inc.
6. Morgan Lynch United Resources Mktg., Inc
7. Pryce Weston, Inc
8. First Federal Capital, Inc Mktg & Dev.,
9. Bradshaw Global Asset Mgt., Inc
10. Wells Chadwick, Inc.;
11. Comsat International, Inc
12. Worldwide Investors Mgt., Inc
13. United Capital Mgt., Inc

14. Newport Pacific Securities & Mgt., Inc
15. Interloop Mktg.
16. Freeland & Kuhn.,
17. United Resources Asset Mgt., Inc
18. Westwood Mgt., Ltd
19. Sherman Brothers
20. Bradford-Kempner Mgt.
21. Barnes Mktg. Concept
22. Mendez Prior
23. Pfeiffer Galland
24. Barclays Group Incorporated
25. New World
26. Evergreen Consulting Corp
27. AEC Ventures, and
28. Goldberg and Goldstein Consulting
29. Pryce Richardson Corp.

Two criminal cases are currently pending preliminary investigation before the Department of Justice, namely: SEC vs. Dukes and Company, and SEC vs. Price Richardson Corp. Three criminal cases are pending trial before the Regional Trial Court of Makati, namely: People of the Philippines vs. Barclays Group; People of the Philippines vs. Evergreen; and People of the Philippines vs. Goldberg.

To ensure that these corporations and others engaged in the same activities, particularly the people behind the operations, are unable to conduct their illegal operations, the department continuously conducts inspections, surveillance, and investigation of leads and tips, with the goal of making the environment hostile, or to increase the cost of boiler room operations in the Philippines.

Unregistered Investment Contracts

In CY 2001, CED cracked down on Multi-Level Networking (MLN) corporations engaged in the selling of unregistered investment contracts – a form of security – in violation of the Section 8 of the Securities Regulation Code. In connection with this, the Department assisted and directly participated in actions against companies such as **Prosperity.Com** and **G. Cosmos**.

BOX 3. SUMMARY OF ACTIONS TAKEN AGAINST PROSPERITY.COM AND G. COSMOS PHILIPPINES

On January 26, 2001 the SEC issued a Cease and Desist Order against Prosperity.Com for engaging in the sale of unregistered investment contracts. For continued defiance of the order, the SEC, with the assistance of the National Bureau of Investigation, executed a permanent CDO and closure order against the Company. The company appealed the closure and the order to the Court of Appeals where the case is still pending.

Sometime in late November 2000 and early 2001, the SEC received two unsworn complaints from investors of G. Cosmos. Despite the fact that said complaints were not sworn, the SEC took *motu proprio* investigative action against G Cosmos. On **July 26, 2001**, the SEC issued a Cease and Desist Order against G. Cosmos Philippines for engaging in the sale of unregistered investment contracts. On **July 30, 2001**, SEC requested the assistance of the Philippine Trade Office in Japan in gathering information about G. Cosmos, Japan. Proceedings for the lifting of the CDO were taken from August 6, 2001 until December 12, 2001. To ensure compliance with the CDO pending the hearing, the SEC regularly sent an investigating team to monitor the corporation. On **September 24, 2001**, the SEC received a letter from the President of G. Cosmos, proposing a settlement offer, of PhP 200,000, which procedure is allowed under Sec. 55 of the SRC, and to defer judgment on the Motion to Lift. On **October 2, 2001**, G. Cosmos increased their offer to PhP 500,000. The Commission rejected the offer of settlement as this was below the prescribed minimum of PhP 4,050,000 based on the assessed penalty. On **October 9, 2001**, Mr. Ogami wrote the Chairperson of SEC that G. Cosmos will “discontinue its entry activity” and “returns due to the members will be remitted as scheduled”. On **November 23, 2001**, SEC forwarded documents to Philippine Trade Office in Japan, concerning Mr. Ogami, particularly his Japanese name and address. On **December 13, 2001**, the Commission En Banc declared the CDO dated July 26, 2001 permanent, ordering the G. Cosmos to remit the returns due to the members and the payment of a fine of P57,180,000.00, which was based on the admission by the corporation that they engaged in the sale of 5,718 unregistered investment contracts multiplied by the minimum fine of P10,000 per violation.

In October 2001, the CED filed 34 administrative cases against brokers and individuals alleged to have been involved in the 1999 BW stock manipulation scam.

Investigative action was also taken on the insider trading allegations in connection with the sale of Cosmos Bottler’s Corporation to San Miguel Corporation. While the results of the review validated the findings of the PSE, i.e. that there is insufficient evidence to show insider trading, the process was significant since it was the first opportunity under the recently enacted Securities Regulation Code that an insider trading investigation was taken by the SEC.

Investigations Taken and Penalties Collected

CED conducted 44 field investigations, issued 359 Show Cause Orders, issued four Suppoena Duces Tecum, and issued 48 Orders of Penalty. A total of PhP 2,281,199 was collected as penalty.

Reynolds Philippines Corporation paid the largest administrative fine at PhP 1,000,000. The largest penalty imposed by the Commission was against G. Cosmos Corp. which is at PhP 57.1 Million.**

CORE FUNCTION: SUPPORT SERVICES

SEC's fourth core function involves the provision of necessary services for human resource development and administration, economic research and information management and financial management, to enable the SEC to operate as mandated by law.

HUMAN RESOURCE AND ADMINISTRATION DEPARTMENT

FUNCTIONS

- Oversees all human resource and administrative support functions for the SEC, including equipment, supplies, mail, and facility security
- Oversees all activities related to employment policies and practices
- Ensures SEC compliance with all Philippine labor laws

** Not yet paid.

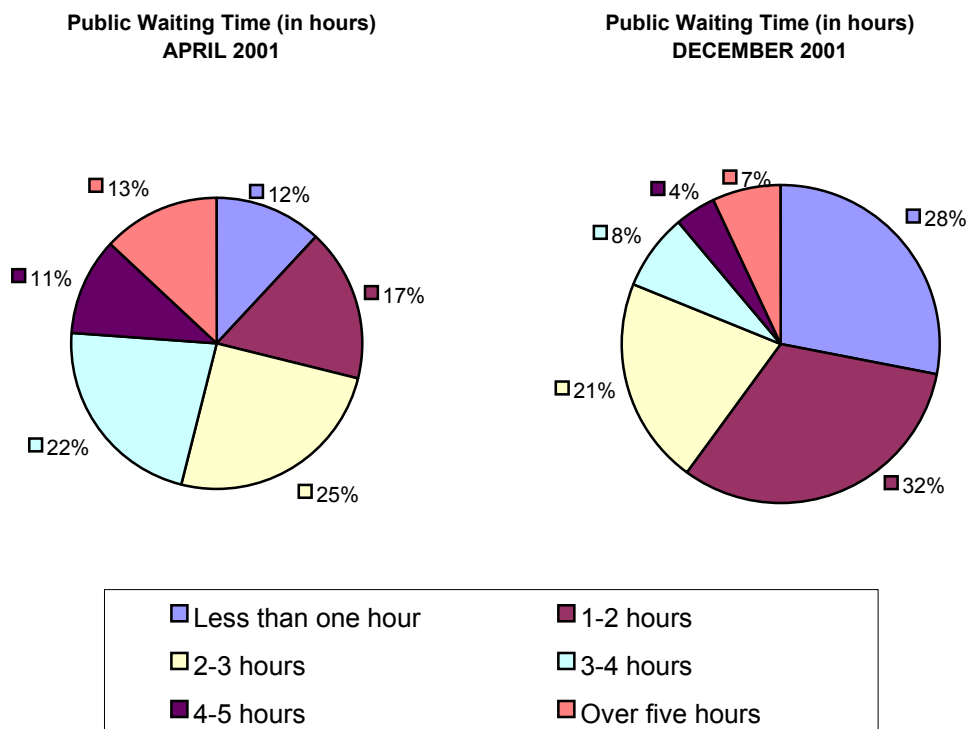
ACCOMPLISHMENTS

Information Dissemination

The Human Resource and Administrative Department's (HRAD) Public Reference Unit (PRU) updated its micrographics system, and completed the conversion of all files received from July 1999 to November 2001 to CDs. In coordination with the Economic Research and Information Department, HRAD-PRU likewise was able to upgrade its data retrieval system, enabling it to serve 60 percent of requests for company files within two hours, a significant improvement from the previous year's 30 percent. The chart below shows the decrease in public waiting time. As a result, by year-end HRAD had received various commendations from the public.

HRAD-PRU was able to serve 99,378 requests for the retrieval and reproduction of company files in CY 2001.

CHART 11. REDUCTION IN TURNOVER TIME FOR PUBLIC REQUESTS



Training and Development

HRAD's training and development efforts focused on programs aimed at further developing staff capability and strengthening SEC's institutional capacities. Technical trainings, including Orientations on the Securities Regulation Code, were provided to 261 trainees. HRAD initiated training to enhance employees' skills in Quality Customer Service, Writing, and Information and Communication Technology (ICT). HRAD likewise coordinated employees' attendance in foreign and local conferences and trainings.

As part of information dissemination and advocacy efforts, HRAD also conducted orientations on the Securities and Exchange Commission for four (4) schools, reaching a total of 225 students.

Personnel Services

HRAD continued to review and formulate policies and procedures for effective personnel management, with the aim of attracting and retaining the best and the brightest staff, and maximizing SEC's core competencies under its reorganized structure.

To improve hiring and selection, HRAD constituted a Personnel Selection Board, systematized procedures for selection, and formulated the evaluation criteria for hiring and promotion. Meanwhile, to improve performance measurement, HRAD reoriented employees on SEC's Performance Evaluation System.

General Services

Last year, HRAD continued to review systems and procedures to ensure the proper allocation and use of SEC's resources. Most notably, HRAD implemented the Electronic Procurement System to speed up bidding and award procedures. It also effected cost-saving measures, including the termination of lease agreements which resulted in rental savings amounting to a total of PhP200,887 in 2001, and roughly PhP 1.12 Million per year thereafter.

FINANCIAL MANAGEMENT DEPARTMENT

FUNCTIONS

- Provides services for budget, fiscal, accounting and treasury functions

ACCOMPLISHMENTS

FMD reported that SEC raised a total of PhP 610.41 Million in revenues last year, PhP 45.32 Million higher than the projected income at the beginning of the year. SEC's income was sourced from fees, fines, penalties and other payments for the delivery of its services.

The Commission spent a total of PhP 299 Million for its personnel, maintenance and other operations and for capital outlay, thus yielding a surplus of PhP 381 Million.

A more detailed discussion of SEC's financial performance in CY 2001 was presented previously in Section II.

ECONOMIC RESEARCH AND INFORMATION DEPARTMENT

FUNCTIONS

- Serves as technical lead for the Commission on software development, hardware procurement/establishment and maintenance of communications network
- Provides planning services
- Handles public affairs, investment research and investor education and public assistance

ACCOMPLISHMENTS

Management of Information Systems

Last year was a fruitful year for ERID in terms of its first core responsibility, the management of information systems. Most noteworthy among the major deliveries in this area were the following:

First, the adjustments in the schedule for the maintenance and back up of system files. In CY 2001, SEC has been able to deliver services to the public even on Fridays, specifically, the name verification and reservation function and the public research function, a convenience which was not available in previous years. In the past, Fridays had to be reserved for data management and inventory.

Second, the enhancements in SEC's website. Beginning early 2001, SEC's website was redeveloped to make it more responsive and updated on all matters pertaining to SEC, the capital market, and useful information, such as scams and swindles, for the investing public. These changes have transformed the SEC website into a more substantive and user-friendly facility for disseminating information and delivering services to the public.

Third, the improvement of SEC's Internet connection. This has significantly facilitated SEC's access to resources on the World Wide Web.

Fourth, the updating of SEC's Information Strategic Systems Plan (ISSP 2001-2005), which was approved by the National Computer Center (NCC) on 15 October 2001. Consistent with the provisions of R.A. 8792 or the Electronic Commerce Act, as well as R. A. 8799 or the Securities Regulation Code, the ISSP provides the framework for utilizing information and communication technologies (ICT), and in delivering public services related to the development of the Philippine capital market.

Fifth, the implementation of the approved ISSP to effect SEC's computerization. ERID facilitated the preparation of the terms of reference Online Name Verification and Reservation System (oNVRS) and Online Company Registration System (oCRS). These information systems are the core systems for the creation of the central database of company information for all business entities registered with SEC. Moreover, these are Web-enabled information systems that the public can conveniently utilize in transacting business with SEC. The Request for Proposal (RFP) was released for system integrators interested to participate in the bidding for the development these application systems. The application systems are expected to be operational within the 1st quarter of FY 2002.

ERID also prepared of the terms of reference (TOR) for the Compliance, Monitoring, and Evaluation System (CMES). The CMES will provide an automated facility to monitor the compliance of registered entities with government laws and regulations. Likewise, it will provide an online analytical processing of financial performance of registered entities, online submission of reportorial requirements, and feedback mechanism to monitor enforcement of actions against non-complying companies, e.g., serving of penalties. The TOR will be used in the system investigation preparatory to the issuance of the RFP for the development of this system scheduled within the 2nd quarter 2002.

Finally, ERID facilitated the testing of a mass storage equipment that could serve the need for additional storage for the document imaging system (DIS) being used by the Public Reference Unit (PRU). Significantly, the mass storage system could accommodate the growing needs of the PRU, which has currently 419 CDs equivalent to 224 GB of disk space, or approximately five (5) Million pages of digitized documents. Moreover, the period for retrieval has greatly improved from 10 seconds per document (using the CD Jukebox) to less than 1 second per document (using mass storage equipment).

Corporate Planning Services

Last year, ERID's corporate planning function focused on the following activities: a) bringing SEC's planning and budgeting process in line with government-wide reforms in Public Expenditure Management (PEM); b) providing ad hoc research assistance to SEC departments

and offices; and c) attending to requests for data and technical inputs from other government agencies, the private sector, and the donor community.

In line with developments in PEM, ERID took the lead in introducing the PEM reforms in SEC's own planning and budgeting process. Towards this end, a Corporate Planning Workshop, with the theme "Delivering SEC's Outputs in a New Planning Paradigm," was convened in April 2001. The workshop produced two major outputs, i.e., a draft Corporate Plan embodying the directions and operational plans of SEC in FY 2002, and a draft Medium-Term Public Investment Program for FY 2002-2004, which forecasts SEC's major priorities for the medium-term and the resources necessary to fund the same.

ERID provided research assistance to the Commission En Banc, through the Chairperson. Likewise, ERID continued to provide technical assistance and attend to the data requests of external clients. It coordinated with the Department of Finance (DOF), National Statistical Coordination Board (NSCB), Bangko Sentral ng Pilipinas (BSP), National Economic and Development Authority (NEDA) and other agencies, as well as private sector groups.

Investor Information and Assistance

Last year, inquiries and complaints addressed by ERID's Public Assistance Desk were as follows:

a.	Response to web-related issues/public inquiries coursed thru the SEC WebPage Email facility	354
	• No. of Emails received/responded to (231)	
	• No. of Emails forwarded to the concerned department/s (123)	
b.	Queries/inquiries attended to	50,221
	• Walk-in (42,953)	
	• Phoned-in (7,268)	
c.	Complaints handled	740
	• Complaints resolved (567)	
	• Complaints referred to other departments (173)	

Meanwhile, ERID's accomplishments with respect to information dissemination were as follows:

- a. Information materials disseminated
 - SEC Bulletin
 - SEC Annual Report
 - Corporation Code of the Philippines
 - Philippines 5000 Corporations
 - Securities Regulation Code
 - Implementing Rules and Regulations of the SRC
 - Basic Guide to SEC Registration
 - Press Releases and SEC Fact Sheets
 - Other laws, rules, and guidelines being administered by the SEC
- b. Formulated Fact Sheets and coordinated the holding of SEC's Weekly Press Conference
- c. Reference services/research request attended to 6,390
 - SEC management/employees (Variable)
 - Walk-in (3,470)
 - Phoned-in (2,899)

EXTENSION OFFICES

FUNCTIONS

SEC operates seven (7) Extension Offices (EO) at various strategic cities in the country: Baguio, Legazpi, Cebu, Iloilo, Davao, Cagayan de Oro, and Zamboanga. These Extension Offices:

- Support the Commission's enforcement and regulatory responsibilities and goals
- Perform enforcement investigations/inspections in coordination with the Compliance and Enforcement Department
- Support the work of the Company Registration and Monitoring Department

ACCOMPLISHMENTS

The following table shows the performance of these extension offices in 2001.

Output/Performance Indicator	BAGUIO		LEGASPI		ILOILO		CEBU		DAVAO		CAGAYAN DE ORO		ZAMBOANGA	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
1. Financial Highlights														
a. Total Collections/Income		1,997,009.11		758,106.10	4,280	4,162,898		10,884,023.19		5,609,545.51		2,352,238.00		990,728.63
i. Registration/Amendment	1,018	1,543,660.56	782	654,700.00	4,231	4,061,722		9,558,195.50		5,266,188.51		2,219,293.00		594,310.39
ii. Fines and Penalties	317	453,348.55	23	63,806.10	49	101,176		1,325,827.69		343,357.00		132,945.00	118	396,418.24
iii. Miscellaneous Income			462	39,600.00										
b. Total Expenses		2,166,957.22		2,448,189.18		4,847,406		6,501,404.00		5,485,875.58		2,614,710.11		3,300,090.10
c. Net Income (Loss)		-169,948.11		-1,690,083.00		-711,508.00		4,382,619.19		123,669.93		-262,472.11		-2,309,361.47
2. Investments Registered														
a. Stock Corporation (paid-up capital)	102		61	23,172,367.00	287	100,189,668	695	283,256,212.00	342	180,476,259.30	107	52,057,175.00	68	60,586,805.00
b. Partnerships (contribution)	66		28	7,293,750.00	82	37,035,453	140	34,036,000.00	106	28,509,208.45	36	9,705,000.00	14	14,984,000.00
3. Show Cause/Collection Letters Sent	2,889		357		85		1,254		1,234	-	759		1,405	
4. Orders Issued	346		23	63,806.10	52		332		24	-	69	118,460.00	180	
5. Audits Conducted	-		-		25		8		392	-	15		-	
6. Processes served	-		-		-		45		24	-	6		-	
7. Prosecution/Investigation Conducted	-		-		-		26		29	-	4		-	
8. Training/Seminar/Conference Attended	30		24	71,844.00	16		30		57	-	15		18	

VI. SEC'S PRIORITIES IN 2002

1. **Rulemaking.** With the Securities Regulation Code (SRC) in place, the challenge to SEC is ensuring that the reforms set out in the law actually bear fruit, and that further reforms in the legal and regulatory framework for capital market development are **pursued** as warranted by the dynamics of the world financial system. Towards this end, SEC will:
 - o Support the enactment of the following proposed legislations:
 - II. Corporate Recovery Act;
 - III. Securitization Act;
 - IV. Revised Investment Company Act;
 - V. Pre-Need Code; and
 - VI. Amendments to the SRC.
 - o Study possible amendments to the Corporation Code.
 - o Exercise fully its rule-making function and continue the formulation and promulgation of rules and procedures consistent with the SRC. This would include continuing the work that has been started with respect to incorporating International Accounting Standards, promulgating the Code of Corporate Governance, and accrediting external auditors.
2. **Simplified operating procedures.** To increase efficiency and facilitate the timely delivery of services to the public, SEC will continue to simplify its operating procedures by:
 - Implementing the various information systems identified in the NCC-approved SEC Information Strategic Systems Plan (ISSP 2001-2005). Among the information systems scheduled to be implemented in the year 2002 are the following:
 - a) Online Name Verification and Reservation System¹;
 - b) Online Company Registration System¹;
 - c) Acquisition of mass storage system²;
 - d) Compliance, Monitoring and Enforcement System³; and
 - e) Document Imaging and Retrieval System⁴.

¹ These information systems are the core systems that shall maintain the central database of the company information for all business entities registered with SEC. Moreover, these are web-enabled information systems that the public can conveniently utilize in transacting business with SEC.

² SEC is currently testing a mass storage equipment that could serve the need for storage requirement of the documents submitted to the SEC which are being used by the public and private sectors.

³ The CMES will provide an automated facility to monitor the compliance of registered entities with government laws and regulations. Likewise, it will provide an online analytical processing of financial performance of registered entities, online submission of reportorial requirements, and feedback mechanism to monitor enforcement of actions against non-complying companies, e.g., serving of penalties.

- o Developing a Manual of Procedures; and
 - o Designing a flowchart for company registration, secondary licensing of market participants as well as market instruments (securities), filing of complaints, and other related procedures.
3. **Full demutualization of the Philippine Stock Exchange.** Having begun the process of Demutualization, the challenge in 2002 is to ensure full compliance with SRC provisions on Demutualization. These include, among others:
- o Broadening PSE's Ownership Base. SEC shall oversee and ensure that PSE broadens its ownership base. PSE's ownership will be opened up to other investors in compliance with SRC 33.2 (c) thru private placements by institutional investors and initial public offering at a later date;
 - o Formulating "draft rules and procedures" on the election of PSE board of directors. This is to ensure that PSE will be governed by a majority of non-brokers; and
 - o Encouraging the PSE to institute measures to ensure that it is managed by professional and independent managers.
4. **Intensified compliance monitoring.** To support its enforcement actions, SEC will intensify compliance monitoring beginning 2002. Over and above the installation of the Compliance, Monitoring and Enforcement System (CMES), this will require finalization of the Integrated Monitoring Device (I-MoDe). I-MoDe tracks the extent to which corporations are complying with laws, policies, rules, and regulations, including the recently promulgated Anti-Money Laundering Law. It also reflects the risks involved as a result of non-compliance, the weight of the risks involved, and the monetary and non-monetary sanctions for non-compliance. I-MoDe will be complemented by a Handbook on SEC Reportorial Requirements
5. **Greater integrity in market enforcement.** SEC will continue to promote the registration of Self-Regulatory Organizations (SROs), impose sanctions on errant market participants/professionals, and push for the successful prosecution of cases. SEC will also work towards the issuance of a Memorandum Circular pursuant to Sec. 142 of the Corporation Code of the Philippines, re. visitorial powers of the State thru the SEC, in performing monitoring and enforcement.
6. **Zero-backlog of pending cases/items.** All pending cases and items will be disposed of by end-2002, by adopting a team approach in the prosecution or settlement of cases.
7. **Systematic complaints management.** SEC will look into the possibility of providing an electronic facility for filing complaints and tracking action taken to address the same.
8. **Improved access to reliable information on registered corporations.** SEC's company registration database will be updated and upgraded, via the Company Information System.

⁴ Currently, vital documents submitted by SEC-registered entities are stored in hard copies, microfilm, and digital image formats. The Document Imaging and Retrieval System will allow simultaneous viewing of the digital documents by SEC operating departments, as well as the general public on a pay-per-view basis.

9. **Intensified monitoring of inactive corporations.** As in the past, lists of delinquent corporations will continue to be published in broadsheets of general circulation. The licenses of inactive corporations will be revoked for continued non-compliance.
10. **Intensified monitoring of security deposits of branch offices of foreign corporations.** SEC will study the option of computerizing the monitoring of security deposits of branch offices of foreign corporations.
11. **Intensified investors' education/assistance.** SEC will continue to provide the public with the information and skills necessary for them to make intelligent investment decisions, by conducting seminars and dialogues and publishing 'investor alerts.' The disclosure statements of listed companies will continue to be posted on the SEC Website (www.sec.gov.ph).

A Citizen's Manual shall be disseminated that would provide basic, simplified information on SEC processes and schedule of fees, fines and penalties, among others. This Manual and other information materials will be made readily available to the public through pamphlets (in English and Pilipino) and the SEC Website.

12. **Continued capability building for SEC personnel.** The SEC recognizes that its most valuable asset is its staff. To enable the staff to carry out their functions with the highest standards of performance in a rapidly changing economic environment, SEC will continue to provide trainings for SEC personnel, based on periodic reviews of staff competencies.

RESTORING CREDIBILITY IN THE PHILIPPINE SECURITIES MARKET: WHERE ARE WE NOW?

“What you do speaks so loudly that I cannot hear what you say.”

Ralph Waldo Emerson

Credibility and trust are the cornerstones upon which all developed capital markets are built. Why are these qualities so important? Investors need assurance that our markets are strong, sound, and orderly, and that they can exercise their freedom to buy or sell without the threat of fraud, disservice, or abuse. The perception of credibility provides this assurance and ultimately builds trust. Like a beacon in a vast ocean of possibilities, credibility draws investors to safe and stable shores. In other words, to markets where they believe their hard-earned money maximize returns while minimizing risks. Thus, the extent to which we engender credibility in our markets will determine whether we are able to attract the investments necessary to boost our economic growth.

The BW Resources price manipulation scandal of 1999 dealt a huge blow to the credibility of the Philippine securities market, which was already reeling from poor liquidity and tepid investment as a result of the 1997 Asian financial crisis. The BW scandal underscored the susceptibility of not just the market, but the nation as a whole, to damaged trust and credibility resulting from fraud and manipulative practices. In this, the scandal wrought two very important lessons: first, that regulation through tougher laws, greater disclosure, and more vigilant enforcement was urgently needed to minimize and eliminate fraud and manipulation ; and second, that institutions needed to be made more competent, transparent, and accountable to the entities from which they derived their authority.

The reforms which have come in the wake of the BW scandal are directly addressed to these twin lessons. Ultimately these reforms seek to win back investor confidence via four entry points:

- Credible laws;
- Credible institutions;
- Credible information; and
- Credible enforcement actions.

CREDIBLE LAWS

Putting in place a solid and structured legal framework is a sine qua non for restoring credibility in the market. Our laws and rules lay out the fundamental principles on which market development is based, and establish and maintain the standards for fair, orderly, and efficient markets. More importantly, they enshrine and protect the rights of the public in general, and investors, in particular.

In the wake of the BW scandal, both the Senate and the House fast-tracked the enactment the Securities Regulation Code, which had been pending in the legislative mill for more than five years. The SRC sought to promote full and fair disclosure about public companies and public trading of securities, and uphold high standards of market conduct.

Under its rule-making authority, the SEC adopted the necessary implementing rules and regulations to effectively implement the SRC. The Commission adopted 94 new regulations, of which 45 amended the regulations previously adopted under the Revised Securities Act to conform to requirements under the Code; 35 implemented new reforms under the Code; five (5) addressed issues concerning the newly reorganized Commission; and nine (9) were definitional in nature. Both the SRC and its IRR adopt the best practices developed and observed in mature and credible markets as well as provide standards consistent with those considered as internationally accepted, or those set by the International Organization of Securities Commission (IOSCO).

The SEC is continuously seeking ways to update and improve on existing rules and regulations. The SEC has already taken steps in this direction through the provision of exemptive relief in some provisions of the SRC and their corresponding Rules.

More importantly, SEC is working closely with the Philippine Stock Exchange and the Legislature in amending provisions in the SRC which are considered too restrictive. This underscores SEC's willingness to arrive at a common position with the PSE and the Legislature, and its commitment to administer rules that are dynamic and responsive to the evolving needs of the market.

CREDIBLE INSTITUTIONS

The Corporate Regulator: Strengthening the SEC

Up until the enactment of the SRC, SEC's role in developing the Philippine capital market was much less than what was called for. Previously, the SEC concentrated on company registration and monitoring, and the performance of its quasi-judicial functions. In the process, not much attention was given to activities that would develop the capital market.

Recognizing that the decline in investor confidence needed a much stronger and more proactive SEC, a critical element of the SRC reforms was the redefinition of SEC's powers and functions.

The SRC provided the SEC with some amount of independence as shown by the fact that it was granted the authority to reorganize itself, streamline its structure and operations to enable it to effectively and efficiently perform its functions and exercise its powers, determine its own qualification standards and position classification system, and retain and utilize PhP 100 Million from its yearly income.

By December 2000, the SEC had successfully transformed itself into a leaner organization, staffed with vibrant and highly-qualified professionals, and governed by a structure more responsive to the changing demands of prudential regulation. A 50 percent reduction in its workforce brought its manpower complement down to 278 at the head office, and 60 in its seven extension offices.

Operating departments were also streamlined to execute the SEC's core functions of capital market development and regulation; company registration and monitoring; enforcement; and support services.

The SRC also institutionalized SEC's jurisdiction over the Philippine securities market as well as supervision over the activities of market participants including exchanges, clearing agencies, and self-regulatory organizations to ensure compliance with securities law and rules and regulations and impose sanctions for violation thereof.

In addition, the SRC enabled SEC to transfer some of its quasi-judicial functions to the regular courts. The functions that were transferred pertain to cases on intra-corporate disputes, suspension of payments, and rehabilitation. The SEC retains jurisdiction on cases relating to administrative sanctions for non-compliance of the SRC, the Corporation Code, and other laws. The SEC also has jurisdiction over investigation and referral to the Department of Justice of criminal cases in the securities field.

Shortly after the SRC was enacted, SEC started on the orderly transfer of over a thousand cases on intra-corporate disputes to the regional trial courts. The remaining 334 intra-corporate cases of record as of January 2001 have been resolved. This has allowed the SEC to set the tone and pace of capital market development, having unburdened itself of the tedious job of resolving intra-corporate disputes. As a result, SEC now has the full time task of determining policies necessary to address the changes arising from globalization, financial liberalization, and e-commerce.

Finally, the SRC and its implementing rules have set certain professional standards including the avoidance of conflicts of interest, the appropriate use of information obtained in the course of the exercise of powers and the discharge of duty, and the proper observance of confidentiality and secrecy. The rules also provide a code of conduct for the Commissioners and the staff, in addition to the code of ethics applicable to all government officials and employees. In its commitment to abide by these rules of conduct, SEC took in its own resident ombudsman, for the first time ever, in June 2001.

The Philippine Stock Exchange: Moving Forward with Demutualization

Even before the BW scandal unraveled, there was a recognition that the Philippine Stock exchange needed to institute reforms aimed at, among others, removing the club ownership and control of the bourse that has given rise to conflict-of-interest situations. Moving towards this direction, the SRC mandated the reorganization of the bourse into a stock corporation, a process known as demutualization. Under demutualization, the bourse's assets are converted into shares, and the members become stockholders with two separate rights: ownership and trading.

PSE's demutualization took on greater urgency as a result of the BW scandal and the need to dispel the negative "old boys' club" image of the PSE. The initial stage of demutualization was completed on 8 August 2001, when the PSE was converted to a stock corporation from a non-stock entity. The PSE has since completed formulating rules on trading and settlement, listing and disclosure, and compliance and surveillance.

With full demutualization, the PSE will become a publicly-held corporation with a diverse ownership, governed by a majority of non-brokers, and managed by an independent and professional group. Demutualization is expected to make the PSE more transparent as it is subject to rules on full disclosure.

Over and above the mandated demutualization of the bourse, the SEC has vigilantly pushed for compliance with a number of other provisions in the SRC which spell out the requirements for the registration of an exchange. These include:

- a) An undertaking to comply and enforce compliance by its members of the securities law, rules and regulations;
- b) An undertaking that in case of insolvency of a member firm, the Exchange shall, upon order of the SEC, take over its operations and settle its liabilities to its customers;
- c) That no person may beneficially own or control, directly or indirectly, more than 5% of the voting rights of the Exchange or in the case of an industry or of a business group, more than 20%;
- d) Provision for the expulsion, suspension or disciplining of a member and persons associated with a member for conduct inconsistent with just and equitable principles of fair trade;
- e) The brokers in the board of the exchange shall comprise not more than 49% of such board and shall represent the Exchange membership in terms of volume, value of trade and paid-up capital; and
- f) To include in the board of the Exchange the President of the Exchange, and no less than 51% of the remaining members of the board to be comprised of 3 independent directors who represent the interests of issuers, investors, and other market participants who are not associated with any broker/dealer or member of the Exchange for 2 years prior to his appointment.

Likewise, the SEC ensures compliance with SRC provisions relating to activities of SRO such as transparency of transactions on the Exchange; prevention of fraudulent and manipulative acts and practices, including insider trading (through the Broker-Director Prohibition), and front-running (through the Broker-Dealer Rule); promotion of just and equitable principles of trade; and in general, protection of investors and the public interest.

Last year, the PSE started implementing a new "Customer First Policy," which cleared the path for member brokers to trade and deal on their own account consistent with the exemptive relief granted to the Broker-Dealer Rule. The new system eliminates potential conflicts of interests between any PSE member firm and the public, by prioritizing orders classified as "C" or clients, instead of those flagged as "D" or dealers.

Other proposed reforms in the bourse's operations and performance include, among others, the extension of its trading hours using the trading floor as well as off-floor facilities, the establishment of a dollar-denominated trading facility, and the issuance of new rules and procedures on unusual trading conditions.

Publicly-Listed Companies: Blazing a Trail Towards Good Corporate Governance

The SRC's reforms with respect to publicly-listed companies seek to strengthen good corporate governance practices, and in so doing provide better protection to investors, particularly to small investors or minority stakeholders. This protection is essential to attract new investors to a stock market where ownership of the listed companies is highly concentrated.

The SEC has been unwavering in its commitment to implement the SRC provisions geared towards this end. The SRC requires publicly listed companies as well as other reporting companies that meet certain requirements as to amount of assets and number of stockholders, to file annual reports with financial statements certified by an independent accountant, as well as periodic and event-driven reports which must be made available to the investing public. They are also required to have at least 2 independent directors or at least 20% of the members of the board, whichever is less. For compliance purposes, the term independent director has been defined by the law and rules.

Under the SRC, the SEC has also the authority to make, amend and rescind or modify accounting rules for balance sheets and income statements to meet internationally accepted standards.

Existing provisions in the SRC will be complemented by a proposed Code of Corporate Governance for listed companies, the issuance of which should be done in early 2002, after doing the necessary consultations and public hearing.

CREDIBLE INFORMATION

Nothing can damage credibility faster than withholding information until people are screaming for it. If investors are not satisfied with the level and quality of disclosure, or if our reporting standards are perceived as lax, funds will flow elsewhere. At the same time, providing access to credible information lessens the risk that investors will end up being defrauded or sustaining huge losses.

The SRC provides for the codification of the full disclosure approach to the regulation of public offerings. The objective of this particular reform is to inculcate higher standards of disclosure, due diligence and corporate governance by shareholders, thereby ensuring that vital information is available to investors to enable them to ascertain the risks and merits of their investments. It puts equal responsibilities on the shoulders of both shareholders and investors alike, by making them responsible for their own actions.

With full disclosure, the SEC's role in public offering is to define disclosure requirements, and review disclosure documents to make sure that these requirements are complied with. It will be the issuer corporate secretary, underwriters and directors who will be liable for the accuracy of such disclosure.

To improve the quality of information, SEC has started adopting international accounting and auditing standards and is working towards the accreditation of external auditors. SEC has also made greater use of technology for disseminating and storing information. Last year, SEC's Website was redeveloped to make it more responsive and updated on all matters pertaining to SEC, the capital market, and investor education, including useful information on scams and swindles. The data retrieval system at SEC's Public Reference Unit has likewise been upgraded.

CREDIBLE ENFORCEMENT ACTIONS

Of the four entry points for restoring credibility, enforcement plays the most critical and deciding role. Without a credible enforcement program, no real and lasting impact can be made on investor confidence, even with tougher laws, stronger institutions, and better access to quality information.

A credible enforcement program demands immediate and decisive action to redress any infraction, so that perpetrators of securities crime are prosecuted to the fullest extent of the law. Regulators should be able to respond with promptness at the first sign that a violation is taking place. Among other things, regulators must be able to effectively manage and plan investigations, and seek creative ways to gather evidence and information. They must also be quick to identify remedies and recourses, so that interim relief can be granted.

Along this line, the SRC provides the SEC with broad enforcement powers, including the power to undertake an investigation, and to issue injunction or cease and desist orders to enhance its credibility as a market regulator. The SEC has, likewise, the authority to issue subpoena and take testimony and after due notice and hearing; suspend or revoke the effectivity of a registration statement for the offering of securities; fine a respondent for each day of continuing violation; and disqualify a person from being an officer or member of a board of directors of issuing corporations. The SEC is also empowered to seek the assistance of civil or military authorities to enforce its orders and decisions.

The SRC provides for civil liabilities for market misconduct, such as making false registration statements, prospectuses, communications and reports, fraud in securities transactions, manipulation of security prices, and insider trading. In addition, the SRC empowers SEC to provide administrative sanctions of disgorgement of at least three times (3x) the profit gained or loss avoided as a result of the purchase, sale or communication proscribed under Section 34. These civil liabilities are considered as sufficient deterrents to market misconduct in the sense that where the would-be violator is made aware that he will, when found guilty, be deprived of such profits, he will think a hundred times before committing such misconduct.

Last year, the SEC was able to cause the issuance of cease and desist orders (CDOs) against 14 corporations engaged in fraudulent securities transactions. Two of the more notable CDOs were those issued against Prosperity.Com in January, and G.Cosmos Philippines in July of last year. In addition, the SEC filed 12 petitions for revocation/suspension of the primary franchise against errant corporations. Major violations involved fraud in securing Articles of Incorporation, and securities fraud.

The SEC likewise took aggressive enforcement action against 29 boiler rooms operating in the Philippines. The investigation of boiler room operations resulted in the filing of administrative and criminal proceedings, enabling SEC to shut down and disrupt the activities of these corporations.

For a complete list of erring companies, please see Table 15 and Boxes 1 and 2 of this Report.

SEC's determined enforcement actions resulted in the collection of **PhP 30.05 Million** in fines and penalties from the infraction of the SRC, the Corporation Code, and related laws.

By all indications, the SEC has undertaken bold steps to restore credibility in the Philippine securities market. To ensure that the groundwork it has laid for restoring credibility in the Philippine securities market actually bear fruit, the SEC is committed in further advancing the reform process in the years ahead. These reform initiatives are summarized in Section VI of this Report (Priorities for 2002).

SEC on 01 December 2001

Is 01 December 2001 relevant for the Philippine Securities and Exchange Commission? It is indeed, as it is the first anniversary of the SEC's reorganization following the provisions of RA 8799 or the Securities Regulation Code. Its relevance or significance of course, depends on the results of the reorganization, of which there have been many.

The Reorganized SEC: Building the Foundation for Effective Governance

Confidence in the Philippine securities market is important in order to attract investments and thus provide an alternative source of capital to fuel Philippine economic growth. One of the critical elements of the SRC reforms intended to generate the trust of both domestic and foreign investors was the mandated reorganization of the SEC, to strengthen its role in the development and regulation Philippine capital market. The reorganization enabled the SEC to retain and attract qualified individuals by giving it the flexibility to determine its own qualification standards and position classification system, and granted limited self-funding authority to the SEC by allowing it to retain and utilize PhP 100 Million from its yearly income.

The SRC also vested the SEC with powers to issue rules, impose sanctions, and regulate the securities market. To enable the SEC to carry out its functions with the highest standards of performance in a rapidly changing economic environment, the SRC granted the SEC continuing flexibility to review its compensation structure every two years.

The SEC lost no time in effecting the SRC's provisions for reorganization. A Reorganization Committee was established, headed by the Chairperson and consisting of the Commissioners. In order to ensure a conflict-free reorganization process, the SEC worked closely with the employees, the Civil Service Commission, and the Department of Budget and Management to facilitate the provision of a fair separation package. This allowed the SEC to streamline its operations with little disruption and loss of morale.

By December 2000, the SEC had successfully transformed itself into a leaner organization, staffed with vibrant and highly-qualified professionals, and governed by a structure more responsive to the changing demands of capital market regulation. A 50 percent reduction in its workforce brought its manpower complement down to 278 at the head office, and 60 in its seven extension offices. Operating departments were also streamlined to execute the SEC's core functions of capital market development and regulation; company registration and monitoring; enforcement; and support services.

Complementing the reorganization process were short- and long-term training programs to support and enhance the core competencies of the reorganized workforce.

The Rewards of the Reform Process

SEC's reorganization has borne fruit, as indicated by the improvement in SEC's ranking in the Executive Outlook Surveys conducted by the Makati Business Club over the past two years. Prior to its reorganization, the SEC had been widely perceived as one of the more unreliable agencies of the government. Not surprisingly, in the January 2000 MBC Survey, the SEC was nowhere in the list of 32 agencies that featured in the ranking of the performance of the various government agencies. This changed dramatically by the second half of 2000: in the July 2000 raking, SEC placed 21st in the MBC Survey. SEC inched up further to 12th place in the January 2001 survey, and in the (July 2001) survey, the SEC placed 6th in the list of best performing agencies, after the Supreme Court (1st); DTI (2nd); DBM (3rd); DoF (4th); and DECS (5th). SEC was likewise identified as one of the most improved agencies together with these agencies

Today, the SEC is an organization where majority of its personnel are highly qualified, vibrant, spirited, and self-motivated; rendering services even beyond the office hours regularly observed in most offices. Its officials and officers are performing dedicated public service, which is the apt performance expected from those who have received scholarships in pursuing graduate degrees in highly regarded foreign educational institutions, as well as fellowships and professional training related to the development and regulation of the capital market in general and the securities market in particular. As to the rank and file, it has been observed that those who received professional training abroad in recognition of their qualifications exhibited much-improved attitude in the performance of their duties and responsibilities.

Fostering Transparency

In reforming the organization, transparency has consistently been one of the virtues advocated, supported, and practiced by the SEC management, particularly, the manner with which its front line personnel delivers services to the public. Transparency and the observance of the highest ethical standards are practiced in addressing the issues arising from the implementation of the laws, rules, regulations, and procedures for developing the Philippine capital market. The management is fully aware that promoting and serving with transparency are essential as it strives to promote good corporate governance, which requires the officers of the corporate sector to be accountable not only to the majority stockholders, but also to the other stakeholders, particularly, the investing public.

By practicing good governance in running the affairs of the SEC, it is leading by example. Thus, it has the moral propriety to require everyone within its supervision, both natural and juridical persons, to adhere to internationally accepted norms of the conduct of the affairs of the securities market in particular to enhance the development of the Philippine capital market in general.

The Public Funds

As to the manner of handling its finances, the management has likewise observed utmost transparency and has followed all the rules and regulations related to the disbursement of government funds. It has exercised due diligence and prudence in handling the resources of the government. The current management has also endeavored to put to order the disallowances that have accumulated in previous years, which were clearly not within its watch.

Annex A

TABLE A.1 LIST OF INVESTMENT HOUSES AND UNDERWRITERS OF SECURITIES, CY 2001

Particulars	SEC Registration No.	Date of Reg.	Remarks
Investment Houses - (38)			
1. AB CAPITAL & INVESTMENT CORPORATION	91831	03/14/1980	w/ QBF and trust license
2. ABACUS CAPITAL & INVESTMENT CORPORATION	AS95000138	01/06/1995	
3. AMALGAMATED INVESTMENT BANCORPORATION	A199717569	09/16/1997	
4. ASIAN ALLIANCE INVESTMENT CORPORATION (Formerly:APX Devt. Corp.)	AS95011180	11/09/1995	w/ trust license
5. ATR-KIM ENG CAPITAL PARTNERS INC.	181021	09/04/1990	
6. BANCOMMERCE INVESTMENT CORPORATION	AS94003678	04/22/1994	
7. BDO CAPITAL & INVESTMENT CORPORATION	A199721903	09/08/1998	
8. BNP PARIBAS INVESTMENTS (PHILS.) INC.	133915	07/22/1986	
9. BPI CAPITAL CORPORATION	65872	02/05/1976	w/ QBF/FC/trust license
10. CITICORP CAPITAL PHILIPPINES, INC.	AS95008490	08/30/1995	
11. CONSOLIDATED ORIX METRO LEASING & FINANCE CORPORATION	74307	01/01/1977	w/ FC license
12. EBC INVESTMENTS INC.	AS950009903	10/04/1995	
13. FIRST METRO INVESTMENT CORPORATION (Merged w/ Solid Bank Corp. - 23269)	48432	01/01/1973	w/ QBF
14. INSULAR INVESTMENT & TRUST GROUP	167915	09/05/1989	w/ trust license
15. INTERNATIONAL CAPITAL CORPORATION	142880	07/28/1987	
16. INVESTMENT & CAPITAL CORPORATION OF THE PHILS.	147308	12/29/1987	
17. JARDINE FLEMING EXCHANGE CAPITAL GROUP	A199806745	05/26/1998	
18. KEPPEL IVI INVESTMENTS INC.	169182	10/05/1989	
19. MEDCO ASIA CAPITAL INVESTMENT CORPORATION (Formerly: Lippo Asia Inv. Corp.)	176556A	01/01/1990	
20. MULTINATIONAL INVESTMENT BANCORPORATION	46789	01/01/1972	w/ QBF
21. PBC CAPITAL INVESTMENT CORPORATION	AS96002371	03/01/1996	
22. PCI CAPITAL CORPORATION	104343	04/15/1982	
23. PENTACAPITAL INVESTMENT CORPORATION	AS93006947	09/08/1993	w/ trust license
24. PHILIPPINE COMMERCIAL CAPITAL INC.	63661	09/23/1975	w/ trust & FC license
25. PHILIPPINE REGIONAL INVESTMENT CORPORATION	88668A	01/01/1980	
26. PNB CAPITAL & INVESTMENT INC.	A199708720	07/30/1997	
27. PRUDENTIAL INVESTMENTS INC.	A199606334	05/16/1997	
28. PREMIER CAPITAL VENTURE CORPORATION (Formerly: DHB Capital Phils. Inv. Corp.)	AS95001982	02/28/1995	

29. RCBC CAPITAL CORPORATION	54446	01/01/1974	w/ QBF
30. RESOURCES AND INVESTMENT CORPORATE HOUSE INC.	A199601532	06/27/1996	
31. SB CAPITAL & INVESTMENT CORPORATION	AS95010317	10/13/1995	
32. STATE INVESTMENTS TRUST INC.	158560	01/01/1988	w/ QBF
33. SMBC METRO INVESTMENT CORPORATION (Formerly: Sumigin Metro Inv. Corp.)	AS95000168	01/09/1995	
34. THE HELENICA CAPITAL INC.	A199605422	10/23/1996	
35. UBP CAPITAL CORPORATION	169189	10/05/1989	
36. UNICAPITAL INC.	AS94005817	06/29/1994	
37. UNITED PACIFIC CAPITAL CORPORATION	AS94002997	03/30/1994	
38. WISE CAPITAL INVESTMENT & TRUST CORPORATION (Formerly: Dharmala Cap. Inv.)	47390	01/01/1973	w/ trust license

Underwriters of Securities - (8)	SEC Reg. No.	Date of Reg.	Remarks
1. ALLIED BANKING CORPORATION	72998	01/01/1977	
2. CHINA BANKING CORPORATION	PW00000443	07/19/1920	
3. DEVELOPMENT BANK OF THE PHILIPPINES	E.O. No. 81 s 1986	12/03/1986	
4. ING BANK (MANILA BRANCH)	F0000001324	08/31/1990	
5. LAND BANK OF THE PHILIPPINES	RA00003844	08/08/1963	
6. STANDARD CHARTERED BANK	F00000027A	01/01/1936	
7. THE HONGKONG & SHANGHAI BANKING CORPORATION	F000000155	07/20/1948	
8. UNITED COCONUT PLANTERS BANK	23009	05/10/1963	

Note:

QBF - Quasi-Banking Functions

FC - Financing Company

Investment Houses w/ QBF - 6

Investment Houses Non-QBF - 32

TABLE A.2 LIST OF LICENSED BROKER-DEALERS, CY 2001

	Name of Company	SEC Registration No.	Date of Incorporation
1	A&A SECURITIES, INC.	136529	03/10/1989
2	AAA Southeast Equities, Inc.	171457	11/09/1989
3	AB CAPITAL SECURITIES INC	365	04/29/1982
4	ABACUS SECURITIES CORPORATION	AS091-000966	12/27/1991
5	ABN Amro Hoare Govett Sec. Phils., Inc.	4444181887	09/27/1990
6	Alakor Securities Corp.	AS094-000966	02/24/1994
7	All Asia Sec Management Corp	171082	11/29/1989
8	Alpha Securities Corp.	168804	09/26/1989
9	ANGPING AND ASSOCIATES SEC INC	A1997-00475	01/17/1997
10	Ansaldo, Godinez & Co., Inc.	15090	03/09/1959
11	Apex Phils., Equities Corp.	A9610370	11/20/1995
12	Armstrong Securiites, Inc.	148527	02/10/1988
13	Asia Pacific Capital Equities & Securities Corp.	189539	04/19/1991
14	Asian Capital Equities, Inc.	161798	04/03/1989
15	Asiasec Equities Inc.	140885	11/21/1989
16	Astra Securities Corp.	14440	09/17/1987
17	AT De Castro Securities Corp	63881	03/21/1990
18	ATC Securities Corp.	83424	12/13/1978
19	ATR-Kim Eng Securities, Inc.	81479	08/21/1978
20	Aurora Securitites, Inc	AS093-007982	10/12/1993
21	B.A. Securities, Inc.	170669	11/09/1989
22	B.H. CHUA SECURITIES CORP.	168291	09/13/1989
23	Belson Securities, Inc.	38603	06/14/1969
24	BENJAMIN CO CA & CO INC	15175	06/01/1992
25	BERNAD SECURITIES, INC.	AS093-6463	08/18/1993
26	BNP Paribas Peregrine Securities, Inc	A1997-7502	04/30/1997
27	BPI Securities Corp.	94718	08/26/1980
28	CAMPOS, LANUZA & CO., INC.	39032	08/19/1969
29	Century Securities Corp.	165699	07/10/1989
30	Citesecurities, Inc	63824	06/26/1986
31	Citytrust Securities Corp.	148452	02/12/1998
32	COHERCO SECURITIES INC.	A199905210	04/07/1999
33	Credit Lyonnais Securities Phils., Inc.	A1997-3458	03/10/1997
34	Cualoping Securities Corp.	84870	03/07/1979
35	DA Market Securities, Inc.	146176	09/30/1987
36	David Go Securities Corp.	52405	08/10/1973
37	DBP-DAIWA SECURITIES SBCM PHILS. INC.	AS095-002652	03/16/1995
38	DBS VICKERS BALLAS SECURITIES	AS094-003888	11/04/1994
39	DIVERSIFIED SECURITIES INC	174269	02/22/1990
40	E*Trade Securities	A19980118982	12/23/1998
41	E. CHUA CHIACO SEC INC	142351	07/23/1987
42	Eagle Equities, Inc.	AS0095-010543	10/19/1995
43	East West Capital Corporation	141309	07/19/1987
44	EASTERN SEC DEV CORP	75952	10/04/1977
45	EBC Securities Corp	173174	01/29/1990
46	Equitiworld Securities, Inc.	1318062	12/10/1987
47	Evergreen Stockbrokerage & Securities, Inc.	171020	03/05/1992

48	F. Yap Securities, Inc.	51205	05/10/1973
49	FEB Stockbrokers, Inc.	157165	11/16/1988
50	Fidelity Securities, Inc.	AS093-008633	11/05/1993
51	First Integregsted Capital Sec., Inc.	AS093-00606	01/27/1993
52	First Orient Sec., Inc.	169188	10/10/1990
53	Fortune Securities, Inc	55604	05/30/1974
54	Francisco Ortigas Securities, Inc.	339944	12/20/1967
55	G.D. TAN AND COMPANY	35164	03/02/1968
56	Globalinks Securities & Stockbroker, Inc.	AS091-196688	10/10/1991
57	Golden Tower Sec. And Handlings, Inc	AS-093-009528	04/14/1994
58	GOLDSTAR SECURITIES INC	167631	08/29/1989
59	Guild Securities, Inc.	84986	03/13/1979
60	Guoco Securities Corp.	745436	10/25/1987
61	H.E. Bennet Securities, Inc.	11165	05/10/1956
62	H.K. Securities, Inc	155-340	09/16/1988
63	HDI Securities, Inc.	AS092-003357	05/29/1992
64	Highland Securities Philippines, Inc.	173101	02/01/1990
65	I. Ackerman & Company, Inc.	57141	07/30/1974
66	I.B. Gimenez Securities, Inc.	69090	08/16/1976
67	IGC Securities, Inc.	AS093-009203	11/24/1993
68	Imperial De Guzman Abaslos & Co., Inc.	40340	02/17/1970
69	INDOSUEZ W.I. CARR SEC INC	AS095-8586	09/01/1995
70	ING Baring Securities (Phils.), Inc.	180496	08/21/1990
71	Intra-Invest Securities, Inc.	1746426	11/15/1987
72	Investors Securities, Inc.	38045	04/16/1969
73	J.M. Barcelon & Co., Inc.	99550	02/08/1955
74	J.P. Morgan Securities Philippines, Inc.	183517	11/09/1990
75	JAKA SECURITIES CORP.	AS095-000222	Sep-96
76	JOCRISON SECURITIES INC	A199901044	02/03/1999
77	JSG Securities, Inc.	AS095-005776	06/15/1995
78	Key Securities, Inc.	37379	01/29/1969
79	KGI Securities (Phils.), Inc.	AS0996-3820	04/11/1996
80	Larrgo Securities Co., Inc.	42406	10/08/1970
81	LITONJUA SECURITIES	39427	12/03/1969
82	LOPEZ, LOCSIN, LEDESMA and Co., Inc	25759	09/14/1964
83	LUCKY SECURITIES	166980	Sep-89
84	Luys Securities Co., Inc.	AS095-005776	09/24/1979
85	Mandarin Securities, Inc.	171489	12/01/1989
86	Marian Securities, Inc.	AS093-006713	08/31/1993
87	Mark Securities Corporation	143643	10/21/1987
88	MDR SECURITIES	149071	03/04/1988
89	Mercantile Securities Corp.	86450	06/01/1979
90	Meridian Securities, Inc.	170485	11/09/1989
91	Mount Peak Securities, Inc.	62755	08/05/1975
92	Multi-Grade Securities Corp.	145323	10/16/1987
93	New World Securities, Inc.	140527	08/06/1987
94	NIEVES SANCHEZ, INC	28044	11/03/1983
95	Nomura Securities, Inc	A199904630	05/26/1999
96	OCBC Securities Phils., Inc	AS0094-00960	02/02/1994
97	Optimum Securitioes Corp.	168165	Sep-89
98	PAN ASIA SECURITIES CORP.	90659	01/22/1980

99	Papa Securities Corp.	87873	08/15/1979
100	PCCI SECURITIES	114820	08/08/1993
101	PCIB Securities, Inc.	AS094-005814	06/29/1994
102	PHIL. Equity Partners Inc.	AZ00111507	08/06/2001
103	Phil. Progress Securities Corp.	AS094-003500	10/26/1994
104	Pierce Interlink Securities, Inc	138072	10/01/1986
105	PJB Securities, Inc.	A1997-7497	04/18/1997
106	Platinum Securities, Inc.	171819	12/27/1989
107	PNB Securities, Inc	185914	01/18/1991
108	Premium Securities, Inc.	159245	01/16/1989
109	Probitly Securities Mgmt., Inc	170573	11/15/1989
110	Pryce Securities, Inc.	136401	11/12/1986
111	Public Securities Corp.	122818	10/02/1984
112	QUALITY INVESTMENTS & SECURITIES	38648	06/20/1969
113	R&L INVESTMENTS, INC.	39093	08/15/1969
114	R. COYIUTO SECURITIES	39285	09/04/1969
115	R. Nubla Securities, Inc.	86264	05/21/1979
116	R.S. Lim and Co., Inc	85073	03/15/1979
117	Rashid Hussain Sec., Inc	AS094-009105	10/06/1994
118	RCBC SECURITIES, INC.	52457	08/23/1973
119	Regina Capital Development Corp.	169256	10/04/1989
120	Regis Partners, Inc.	161467	03/21/1989
121	RTG & Company, Inc.	39358	09/09/1969
122	S.J. Roxas & Co., Inc.	23208	06/14/1963
123	Santander Investment Securities Philippines, Inc.	AS095-009499	09/25/1995
124	Sarangani Securities Corp.	A1999703414	04/18/1994
125	SB Equities, Inc.	145043	10/07/1987
126	Securities Specialists, Inc.	42391	11/02/1970
127	SG SECURITIES (PHILIPPINES), INC.	AS94011785	Dec-94
128	Sincere Securities Corp.	168560	09/19/1989
129	SOLAR SECURITIES	AS-092-008231	12/07/1992
130	Standard Securities, Inc.	137700	01/15/1987
131	Strategic Securities, Inc.	AS093-08981	11/17/1993
132	Summit Securities, Inc.	171022	02/15/1990
133	Supreme Stockbrokers, Inc.	170206	11/02/1989
134	TANSENGCO AND CO., INC	13715	03/14/1958
135	The First Resources Mgt. & Sec. Corp.	89209	10/16/1979
136	THING ON SECURITIES LTD	A1997-8572	05/29/1997
137	Tower Securities, Inc.	171302	12/07/1989
138	Trans-Asia Securities, Inc.	172450	01/18/1990
139	TRI-STATE SECURITIES INC	180424	08/17/1990
140	Triton Securities, Corp.	1288	02/10/1994
141	UBS WARBURG SECURITIES PHILS., INC.	A-1996-06452	10/02/1996
142	UCPB SECURITIES INC	175073	03/20/1990
143	UNICAPITAL SECURITIES	A-1997-4742	04/04/1997
144	Venture Securities, Inc.	85544	04/05/1979
145	Vicsal Securities & Stockbrokerage, Inc.	174242	02/28/1990
146	Wealth Securities Philippines, Inc.	13603	Nov-86
147	Westlink Global Equities, Inc.	148260	02/08/1988
148	Wise Securities Philippines, Inc.	150611	04/26/1988
149	Wong Securities Corp.	105443	06/15/1982

150	Worldsec International Securities (Phils.), Inc.	AS094-7479	08/19/1994
151	YAO AND ZIALCITA INC	10442	Nov-55
152	Yu & Co., Inc.	14137	Jul-58
	NON MEMBER BROKER		
1	Ang Tan Golf Club & Shares, Inc	A1998-10573	09/15/1998
2	All Suwerte Securities Corp.	A200113392	09/27/2001
3	Basic Capital Investment Corp.	A200105420	06/07/2001
4	Century Sport, Inc	AS094-002445	03/15/1994
5	Citicorp Financial Services Phils., Inc.	A1998-08664	07/06/1998
6	Citicorp Sec Intl (Phils), Inc	139654	04/06/1987
7	Citiseconline. Com, Inc	A199910065	08/16/1999
8	Equitable Securities	80495	10/05/1981
9	Francisco Del Rosario Holdings, Inc	16679	02/26/1960
10	G & W Clubshares, Inc	8200017597	02/22/2001
11	Golfers Club Shares, Inc	06/22/1998	A1998-2129
12	Legacy equities, Inc	A1997-11966	07/15/1997
13	MFS Markets, Inc	A1996-00179	06/04/1996
14	Mondragon Securities Corp.	36656	10/22/1968
15	Multinational Bancorporation Finance & Dev't. Inc	196807	10/14/1991
16	Prudentialife Securities, Inc	A1997-2234	01/05/1998
17	Shareexchange Brokers, Inc	A200006187	05/26/2000
18	Time Share Realty Corp.	AS095-009403	09/21/1995
19	Vantage Securities Corp.	1999738	09/15/1987
20	Yapster E Trade	A200001328	05/18/2000

**TABLE A.3 LIST OF TRANSFER AGENTS
(AS OF JANUARY 2002)**

	Name of Transfer Agent	SEC Registration No.	Date of Registration
1.	Arsel Development Corporation	0000067329	Jan. 1, 1976
2.	Allied Banking Corporation	0000072998	Jan. 1, 1977
3.	Asian Transfer & Registry Corp.	0000156834	Nov. 4, 1988
4.	Atok Big-Wedge Co., Inc.	PW0000427A	Sept. 4, 1931
5.	BPI Stock Transfer Inc. (merge with Far East)	PW0000121	January 4, 1943
6.	China Banking Corp.	PW00000443	July 19, 1920
7.	Development Bank of the Philippines *		
8.	Emerald Registry & Transfers	0000144313	Sept. 14, 1987
9.	Equitable-PCI Bank Corporation	0000005223	June 17, 1950
10.	Fast Stock Transfers, Inc.	0000168155	Sept. 11, 1989
11.	Fidelity Stock Transfers, Inc.	0000102511	December 28, 1981
12.	Investment Planning Corporation of the Phils.	0000013231	October 30, 1951
13.	Jardine Davies, Inc.	0000001746	June 25, 1946
14.	Metropolitan Bank & Trust Co.	0000020573	April 6, 1962
15.	N. DU & Company, CPA's	P000019723	Jan. 1, 1936
16.	Omnibus Transfer Corporation	0000089104	Jan 1, 1980
17.	Philippine National Bank	AS96005555	May 27, 1996
18.	Phil. Savings Bank	0000015552	Jan. 1, 1959
19.	Professional Stock Transfer, Inc.	AS09303609	May 12, 1993
20.	Philippine Home Development Finance	AS94011537	Dec. 20, 1994
21.	Prudential Bank	0000006893	June 23, 1952
22.	Rizal Commercial Banking Corp.	0000017514	Sept. 23, 1960
23.	Security Bank	0000006030	May 8, 1951
24.	Securities Transfer Servcies, Inc.	AS92008453	Dec. 15, 1992
25.	SMC Stock Transfer Service Corp.	AS09309912	Dec. 22, 1993
26.	Stock Transfer Service, Inc.	0000012167	Jan. 1, 1957
27.	Sun Life Asset Management Company, Inc.	A199918034	Jan. 18, 2000
28.	The Hongkong & Shanghai Banking Corp., Ltd.	F000000155	July 20, 1948
29.	Union Bank of the Philippines	0000036073	Aug. 16, 1968
30.	United Coconut Planters Bank	0000023009	May 10, 1963
31.	Vera Stock Transfer	A20011484	Oct. 11, 2001
	(Formerly Valera Reyes, Mogarte, Inc.)		

Note:* Executive Order No. 81 provided at the 1986 revised Charter of the DBP dated Dec. 3, 1986

Annex B

TABLE B.1 LIST OF REGISTERED ISSUERS OF SECURITIES (Listed/unlisted), CY 2001

NAME OF COMPANY	REG. NO. (Primary License)	DATE OF APPROVAL (Registration of Securities)	ORDER NO.	TYPE/AMOUNT OF SECURITIES
Y-I WINE CLUB, INC.		02-Jan-01	001	1,500 Class "B" common shares
THE PALMS COUNTRY CLUB, INC.	A199611772	05-Jan-01	002	2,300 no par value common shares
RIVIERA GOLF CLUB, INC.	AS096002388	05-Jan-01	003	1,522 no par value common shares
GLOBAL BUSINESS BANK, INC.	0000005830	27-Feb-01	45	31,872,554 common shares
TOWER CLUB, INC.	A200011536	12-Mar-01	049	600 user rights
CLUB VISAYAS CORPORATION	A199919807	02-Jul-01	077	728 timeshares or vacation weeks
SQL WIZARD, INC.	A199610620	7-5-01	078	20,000,000 common shares
PRIMEX CORPORATION	0000133828	17-Jul-01	83	300,000,000 common shares
SUN LIFE OF CANADA PROSPERITY BOND FUND, INC.	A19990815	20-Aug-01	088	500,000,000 common shares
PHILAM DOLLAR BOND FUND, INC.	A200108098	9-6-01	091	5,000,000 common shares
VANTAGE PSE INDEX FUND, INC.	A199816221	06-Sep-01	092	100,000,000 common shares
VANTAGE DOLLAR INCOME FUND, INC.	A199816216	06-Sep-01	094	100,000,000 common shares
TIBAYAN GROUP INVESTMENT CO., INC.	A200109934	20-Sep-01	099	1,000,000 common shares
VANTAGE MONEY MARKET FUND, INC.	A199816219	01-Oct-01	107	100,000,000 common shares
KIDZ WORLD THEME PARK, AMUSEMENT AND RECREATIONAL CLUB, INC.	A200002264	05-Oct-01	113	13,888 Regular Proprietary membership certificates
MEDICAL ARTS TOWER INC.	A200112231	12-Oct-01	114	35,000 Class "B" common shares
MANILA JOCKEY CLUB, INC.	PW00000803	19-Oct-01	129	48,190,515 common shares
CASINO ESPAÑOL DE CEBU	PW00000762	07-Nov-01	147	1,500 non-voting proprietary certificates
THE SPA AND LODGE AT TAGAYTAY HIGHLANDS, INC.	A199918323	26-Nov-01	156	429 non-voting proprietary membership certificates
FEDERAL CHEMICAL, INC.	AS93005277	28-Nov-01	158	37,505,000 common shares
CITYSTATE SAVINGS BANK	A199709587	29-Nov-01	160	11,100,000 common shares
PHILAM STRATEGIC GROWTH FUND INC.	A199805277	20-Dec-01	168	2,000,000 common shares

TABLE B.2 LIST OF COMPANIES WITH SECONDARY LICENSES, CY 2001

I. INVESTMENT COMPANIES -MUTUAL FUNDS

Name of Company	REG. NO. (Primary License)	DATE OF APPROVAL (Registration as an Investment Co.)	Order No.	Location Type/Class
PHILAM DOLLAR BOND FUND, INC.	A2001-8098	06-Sep-01	091	Open-End
VANTAGE PSE INDEX FUND, INC.	A1998-16221	06-Sep-01	093	Open-End
VANTAGE DOLLAR INCOME FUND, INC.	A1998-16216	06-Sep-01	095	Open-End
TIBAYAN GROUP INVESTMENT CO., INC.	A2001-9934	20-Sep-01	099	Open-End
VANTAGE MONEY MARKET FUND, INC.	A1998-16219	01-Oct-01	108	Open-End

II. FINANCING COMPANIES

NAME OF COMPANY	REG. NO. (Primary License)	DATE OF APPROVAL (Certificate of Authority to Operate as FC)	Order No.	Type /Class
GLOBAL ONE FINANCE & INVESTMENT CORP	A200117802	20-Dec-01	228	2ND CLASS
INFINITE INVESTMENT & FINANCE CORP.	A200109438	30-Jul-01	225	1ST CLASS
RBO GROUP FINANCING CORP.	A2001108074	19-Jul-01	224	1ST CLASS
RURAL ELECTRIFICATION FINANCE CORP.	A200100734	29-Aug-01	226	1ST CLASS

Note:

OPEN-END

AN INVESTMENT COMPANY WHICH CONTINUOUSLY ISSUES NEW SHARES AND STANDS READY TO REDEEM SUCH SHARES FROM INVESTORS AT THE PREVAILING NET ASSET VALUE PER SHARE

1st Class Cities

w/ Paid-Up Capital of P10,000,000.00

2nd Class

w/ Paid-Up Capital of P5,000,000.00

3rd Class

w/ Paid-Up Capital of P2,500,000.00

Annex C

TABLE C.1 LIST OF LICENSED PRE-NEED COMPANIES IN CY 2001

	Name of Pre-Need Company	SEC Registration No.	Date of Incorporation
1	All Asia Plans Corporation	A199608182	10/16/96
2	AMA Plans, Inc.	AS949011454	12/16/1994
3	Asian Diamond Plans, Inc. (THE)	AS93008341	10/22/93
4	Ayala Plans, Inc.	AS94010665	11/23/1994
5	Berkley International Plans, Inc.	A199713953	07/24/1997
6	Celestial Memorial Life Plan, Inc.	0000037891	03/28/1969
7	CityPlans, Inc.	0000156675	10/27/1988
8	CMG Plans, Inc.	0000177248	5/21/90
9	Cocoplans, Inc.	AS93005070	07/05/1993
10	College Assurance Plan Phils., Inc.	0000091213	2/14/80
11	Comprehensive Annuity Plans & Pension Corporation	0000104597	05/03/1982
12	Consolidated Plans, Inc.	00000159918	02/10/1989
13	East Asia Plans, Inc.	AS94009405	10/13/1994
14	Eduplan (Phils.) Inc.	0000144408	09/17/1987
15	Eternal Plans, Inc.	0000142145	07/03/1987
16	Equitable Plans, Inc.	0000131777	03/31/1986

17	Excel Memorial Life Plan, Inc.	A199903332	03/23/1999
18	First Union Plans, Inc.	A200000936	02/24/2000
19	First Country Plans, Inc. (formerly: Future Planners, Inc.)	0000136956	12/10/1986
20	Gillamac Life & Pension Plan, Inc.	CE00002436	07/31/1989
21	Garden of Memories Memorial Park & Life Plan, Inc.	0000078569	03/29/1993
22	Global Family (Protection) Plan Phils., Inc.	0000079120	04/13/1978
23	Grayline Plans, Inc.	AS95007435	08/02/1995
24	Himlayang Pilipino Plans, Inc.	0000087450	07/20/1979
25	Ideal Pension Plans Corporation	0000176085	04/17/1990
26	Legacy Scholarship Pensio Plan, Inc.	0000148826	02/26/1988
27	Loyola Education System, Inc.	0000131655	03/19/1986
28	Loyola Plans, Inc.	0000036471	10/02/1968
29	Manulife Financial Plans, Inc.	A200004404	04/05/2000
30	Mercantile Care Plans, Inc. (formerly: Care Plans, Inc.)	0000183983	11/23/1990
31	Millennium Education & Pension Plans, Inc.	AS95006736	07/14/1995
32	Pacific Plans, Inc.	0000030883	11/05/1966
33	Paz Memorial Services, Inc.	0000038061	04/17/1969

34	Pension and Retirement Plans Corp.	0000155685	09/27/1988
35	Permanent Plans, Inc.	0000160474	02/23/1989
36	PEt Plans, Inc.	0000153999	08/08/1988
37	Philam Plans, Inc.	0000162533	04/19/1989
38	Platinum Plans Philippines, Inc.	0000115852	09/12/1983
39	Primanila Plans, Inc.	0000156350	10/17/1988
40	Primeplan International Corporation	0000104358	04/16/1982
41	Provident Plans International Corp.	0000056467	06/19/1974
42	Prudentialife Plan, Inc.	0000142565	09/17/1987
43	Pryce Plans, Inc.	0000147788	01/25/1988
44	Rhine Plans Corporation	CS92000236	06/18/1992
45	Samson Memorial Plan, Inc.	AS95010061	10/09/1995
46	Scholarship Plan Phils., Inc.	0000154576	08/23/1988
47	St. Peter Life Plan, Inc.	0000042542	09/23/1970
48	Sun Life Financial Plans, Inc.	A200014495	09/18/2000
49	TPG Corporation	0000136631	12/29/1976
50	Transnational Plans, Inc.	0000183212	10/31/1990
51	Trusteeship Education & Pension Plans, Inc.	0000150153	04/12/1988
52	United System Plans, Inc.	0000086812	06/18/1979

TABLE C.2 TOP TEN PRE-NEED COMPANIES BASED ON GROSS SALES BY TYPE OF PLAN, CY 2001

Name of Pre-need Company	No. of plans sold	Gross contract price	Initial collection
Education			
COLLEGE ASSURANCE PLANS PHILS., INC.	81,189	3,119,783,773	312,539,510
PHILAM PLANS, INC.	18,529	2,412,095,966	192,497,580
BERKLEY INT'L. PLANS, INC.	25,533	2,175,381,296	231,539,563
PRUDENTIALIFE EDUC. PLANS, INC.	13,226	1,344,436,675	144,313,074
LOYOLA EDUCATION SYSTEMS, INC.	13,627	1,217,390,685	34,556,007
TPG CORPORATION	6,616	455,190,369	30,660,282
AYALA PLANS, INC.	3,963	349,504,125	62,659,792
CMG PLANS, INC.	1,609	226,038,678	18,703,555
ETERNAL PLANS, INC.	2,755	180,768,672	24,976,958
PRYCE PLANS, INC.	510	155,049,330	16,734,042
Life			
PACIFIC PLANS, INC.	22,935	745,192,355	130,930,473
PHILAM PLANS, INC.	7,986	398,039,300	22,911,583
ETERNAL PLANS, INC.	7,141	362,099,980	22,782,354
PRUDENTIAL LIFE PLAN, INC.	8,319	334,414,959	32,370,525
LOYOLA PLANS, INC.	9,879	223,065,315	12,114,096
ST. PETER LIFE PLANS, INC.	10,273	170,043,500	4,844,702
HIMLAYANG PILIPINO PLANS, INC.	6,798	160,324,720	13,019,452
PROVIDENT PLANS INT'L. CORP.	4,612	116,970,405	11,648,195
EXCEL MEMORIAL LIFE PLAN, INC.	4,296	72,651,247	2,498,530
CONSOLIDATED PLANS, INC.	954	44,290,000	4,307,132
Pension			
PHILAM PLANS	38,743	3,297,479,184	166,717,098
COMPREHENSIVE ANNUITY PLANS & PENSION CORP.	61,186	3,075,148,399	308,359,557
PACIFIC PLANS, INC.	33,707	2,815,862,256	270,795,138
PRUDENTIALIFE PENSION PLANS, INC.	29,672	2,600,207,042	321,501,049
LOYOLA PLANS, INC.	26,778	2,180,805,751	44,897,753
TPG CORPORATION	31,325	1,993,874,066	297,113,262
PET PLANS, INC.	22,127	883,269,668	73,867,384
AYALA PLANS, INC.	7,144	620,273,152	111,611,116
CMG PLANS, INC.	3,068	415,288,052	36,107,480
PLATINUM PLANS PHILS., INC.	17,473	394,673,627	16,641,550
CMG PLANS, INC.	3,068	415,288,052	36,107,480