

SECURITIES AND EXCHANGE COMMISSION

2002 ANNUAL REPORT

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Towards Good Governance and a Credible Capital Market

The year 2002 started on a high note with the euphoria from the change in administration in 2001 carried over to the first quarter of the year. This optimism was reflected in the stock market which hit a five month high in January 2003, as foreign investors scooped up shares.

The SEC, taking off from the President's commitments, vigorously pursued the necessary reforms to revitalize the capital market. Primarily, these reforms included new policies to strengthen the market and support for new legislation to install the suitable infrastructure. The focus of reforms were embodied in seventeen memorandum circulars, promulgating new rules and guidelines, in response to changing demands and the dynamics of the capital market in general. At the same time, the SEC continued to actively participate in Congressional deliberations on a number of capital market development oriented bills.

SEC, in coordination with other government agencies and the private sector, also led in the promotion of the Philippine capital market both in the country and other Asian capitals, citing reforms among which is the demutualization of the Philippine Stock Exchange, that have been undertaken to ensure a welcoming environment for investment.

The defining actions taken in 2002 were the issuances of Circulars promulgating the Code of Corporate Governance and the Accreditation and Reporting Requirements imposed on external auditors of public companies. The backlash of corporate scandals abroad towards the end of 2001 strengthened the regulator's resolve to ensure that Philippine companies, including their auditors, toe the line even as the SEC assured the public of its commitment in the fight against corruption.

Similarly, the SEC having been given by the SRC the oversight responsibility over pre-need companies, stepped up its initiatives to ensure and promote the viability of the industry through enhanced prudential regulation.

SEC's enforcement actions in 2002 were focused on stemming the proliferation of pseudo-investment firms, shutting down boiler rooms and combating pyramiding and ponzi schemes, in coordination with other agencies such as the DTI, NBI, and Bangko Sentral.

In recognition of its efforts to combat corruption and install a culture of good governance practice in the country, the SEC was cited in two well-known surveys as being perceived sincere and effective in its efforts to fight corruption in the public sector. The Commission was given a +51 net sincerity rating in a survey conducted by the Social Weather Station in the last quarter of 2001, placing the SEC third among government offices that were considered sincere in their efforts to combat corruption. Moreover, since July, 2001, the SEC has been listed by the Makati Business Club as one of the top ten performing agencies, and considered as fulfilling its role in regulating and promoting the development of the capital market. The latest MBC survey covering the period July to December 2002, and released just in January 2003, gave the SEC a net satisfied score of 22.6 with a rank of 7-8, up from a rank of 9 obtained in the mid-2002 survey.

While the year 2002 closed with some trepidation in the prospects of the overall economy arising from concerns over highly-publicized public allegations on corruption, problems in the peace and order situation in some parts of the country, and fears about the crisis in the Middle East, SEC has stayed its course in fulfilling its commitments for the enhancement of the Philippine capital market.

Thus, the SEC looks to the year 2003, armed with a resolve to bank on its efforts to promote good governance, as an even-handed regulator in the pursuit of its extensive policy reform agenda. This includes solidifying reforms in the pre-need industry, revitalizing the securities market and increasing investment options for market players as well as ensuring PSE compliance in broadening its ownership base, intensifying and lengthening the reach of investors education and assistance, and streamlining its own procedures and processes, with a view to maintaining an efficient financial performance in the coming year.

From the Desk of Chairperson Lilia R. Bautista

It is with modest pride that we present the SEC Annual Report for 2002 which gives an account of our achievements that have contributed significantly to the improvement of the Philippine capital market environment. The year, to be sure, was fraught with challenges emanating from within and without our country. We think we have weathered the difficulties that came our way and responded to the opportunities offered by a globalizing economy through the introduction and implementation of needed reforms.

The year 2002 was marked by cautious optimism, fueled by investor concerns about domestic peace and order conditions, the possibility of war in the Middle East, and a higher than programmed fiscal deficit. On the other hand, the economy showed continued growth momentum alongside subdued inflation, sustained export growth and a comfortable level of international reserves. On the whole, the Philippine investment environment remained stable, as the SEC continued to implement necessary reforms, promote good governance, encourage transparency and accountability, the better to attract fund flows into the capital and financial markets. We have likewise strengthened our regulatory capability, and similarly ensured vigilant and effective enforcement.

Along this line, the SEC issued a number of circulars promulgating new rules and guidelines in response to the changing demands and dynamics of the capital market in general and the equities market in particular. The defining circulars of the year pertained to the issuance of the Code of Corporate Governance and circulars strengthening accounting and auditing standards in accordance with international best practices. This year too, the SEC's enforcement actions were focused on stemming the proliferation of pseudo-investment firms, ponzi schemes, and combating pyramiding scams, in coordination with appropriate government agencies, and actions related to the Anti-Money Laundering Law.

As we step into the year 2003, we look to the opportunities that a new year brings, strengthening our resolve to restore investor faith in our markets and enjoining market participants to join hands with us in this endeavor. Only through our synergistic cooperation can we establish our capital market as a worthy investment haven and bring about a brighter future for the Philippines.

LILIA R. BAUTISTA

I. CORPORATE SECTOR PERFORMANCE

In this section:

- **New Equity Investments**
 - **Amendments in the Capital Stock of Existing Corporations**
 - **Foreign Direct Investments**
-

In CY 2002, SEC registered 11,435 new domestic stock corporations with total authorized capital stock amounting to PhP 67.81 Billion, and 2,327 new domestic partnerships with total contribution of PhP 1.10 Billion, posting slight declines of 0.21 percent and 0.90 percent, respectively, from CY 2001 figures.

While the amount of new equity investments in new domestic corporations and partnership remained almost constant vis-à-vis the CY 2001 levels, there was a significant increase in additional equity investments in existing domestic corporations. Indeed, CY 2002 may be considered propitious in view of the 102.89% increase in additional paid-up capital stock. Increases in authorized and subscribed capital stock likewise jumped 124.21% and 104.44%, respectively.

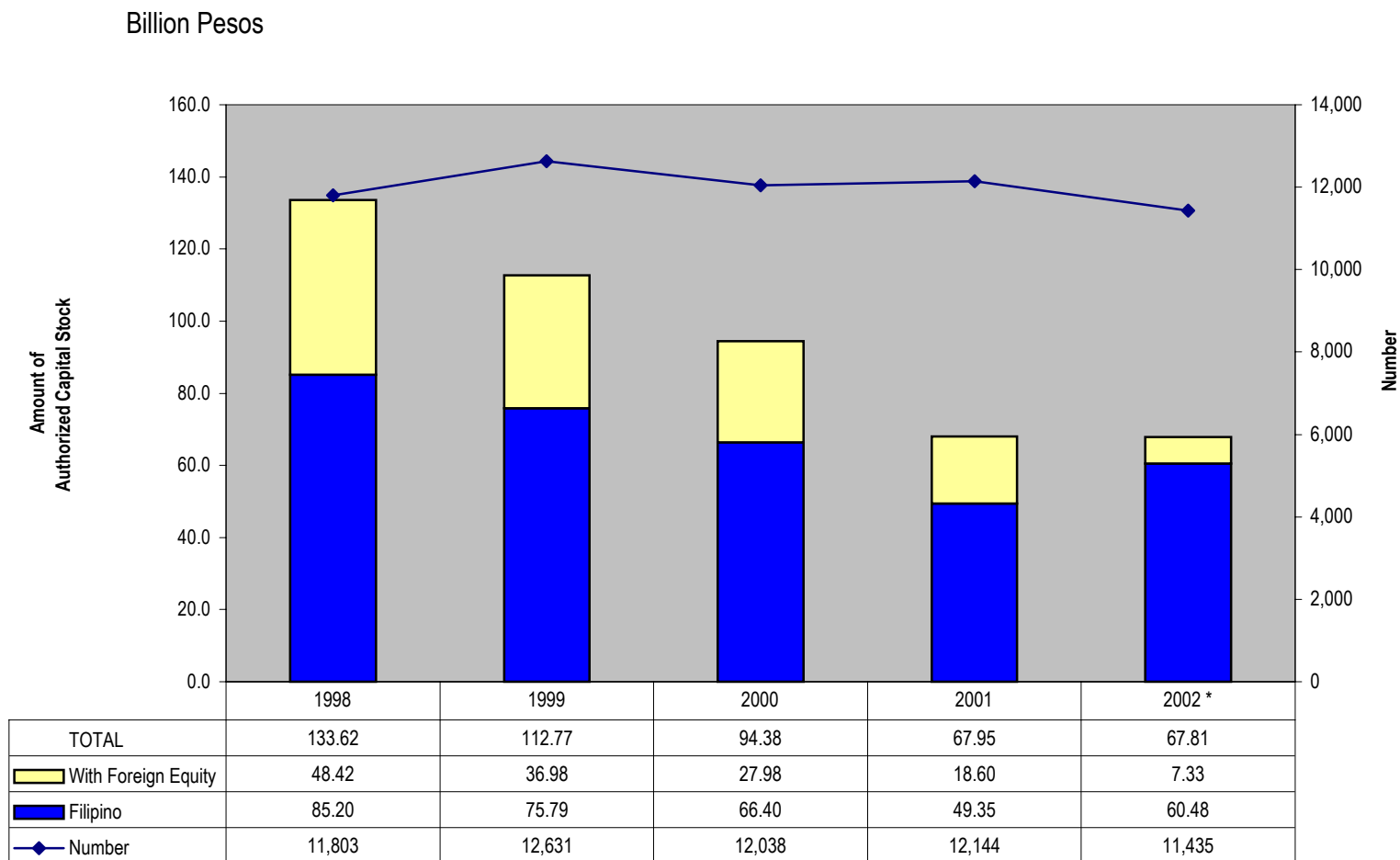
The marked increase in additional equity investments were registered as the Commission implemented in earnest its regulations intended to protect and promote the interests of the plan holders and investors in pre-need and financing corporations, respectively. In addition, the increase in subscribed and paid-up capital stock resulted from the significant equity infusion of a Japanese investor in a domestic corporation with overseas operations that is engaged in food and manufacturing, among other businesses.

Meanwhile, in terms of paid-up capital stock, total foreign direct investments (FDIs) in new and existing domestic stock corporations and partnerships reached PhP 5.2 Billion in CY 2002, a substantial increase of 27.13% from the previous years figure of PhP 4.09 Billion. This figure does not include the additional premium amounting to PhP 25.7 Billion paid by the aforementioned Japanese investor.

The mixed performance of the Philippine corporate sector for CY 2002 in terms of new and additional equity investments is readily visible following a quick review of Charts 1, 2, 3, and 4, respectively. The occurrence is not surprising as investors preferred to hold on to their liquid resources, given the worldwide instability and the aborted global economic recovery.

To recall, CY 2002 started on a generally positive global economic outlook, notwithstanding divergent opinions among economists on when the economic recovery will start and the magnitude of the recovery. The improved outlook, however, quickly dissipated as the successive corporate failures arising from corporate misdeeds came into light early in CY 2002. That the corporate failures neither resulted directly from the economic recession that started in March 2001 nor the 911 terrorist attacks, but from corporate malfeasance, further deepened investor distrust in the global financial system in general; thus, negatively affecting the already tenuous Philippine corporate environment.

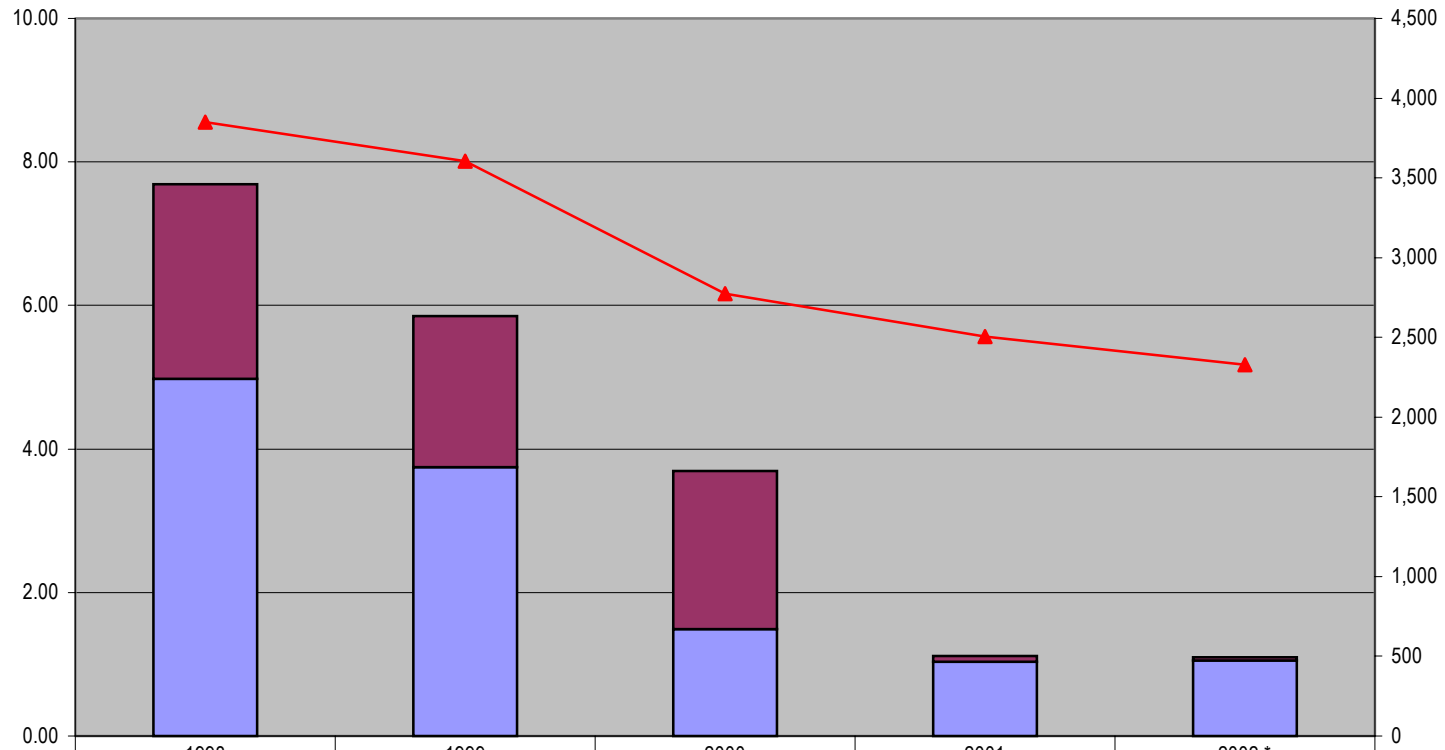
CHART 1
 NEW REGISTERED DOMESTIC CORPORATION, 1998 TO 2002
 AMOUNT OF AUTHORIZED CAPITAL STOCK AND NUMBER REGISTERED



* Preliminary (as of 31 January 2002)

CHART 2
 NEW REGISTERED DOMESTIC PARTNERSHIP, 1998 TO 2002
 AMOUNT OF CONTRIBUTION AND NUMBER REGISTERED

Billion Pesos

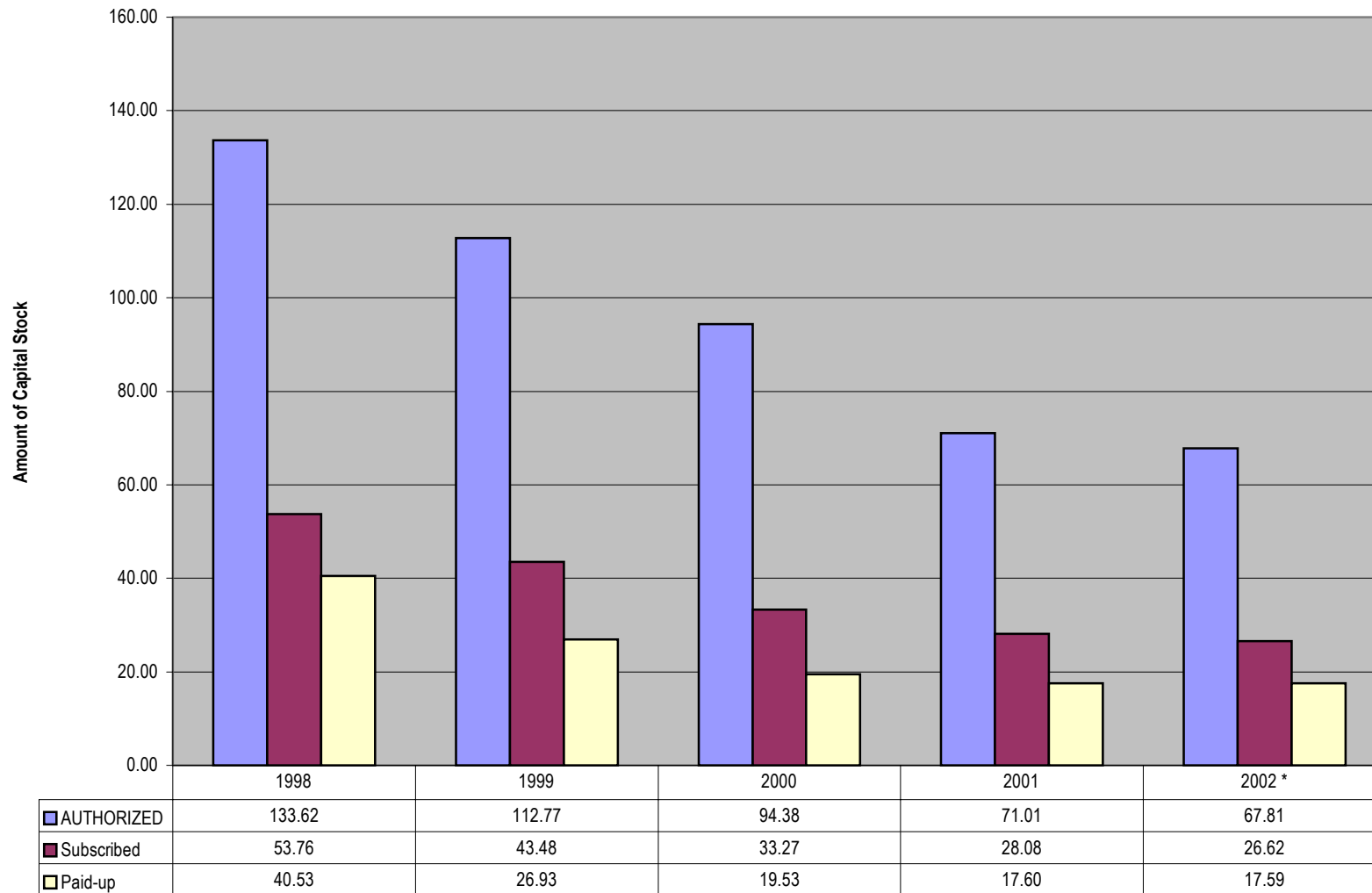


	1998	1999	2000	2001	2002 *
CONTRIBUTION	7.69	5.85	3.69	1.11	1.10
Foreign	2.71	2.11	2.20	0.08	0.04
Filipino	4.98	3.74	1.49	1.03	1.06
Number	3,849	3,603	2,772	2,505	2,327

* Preliminary (as of 31 January 2002)

CHART 3
 NEW REGISTERED DOMESTIC CORPORATION, 1998 TO 2002
 AMOUNT OF CAPITAL STOCK: AUTHORIZED, SUBSCRIBED, AND PAID-UP

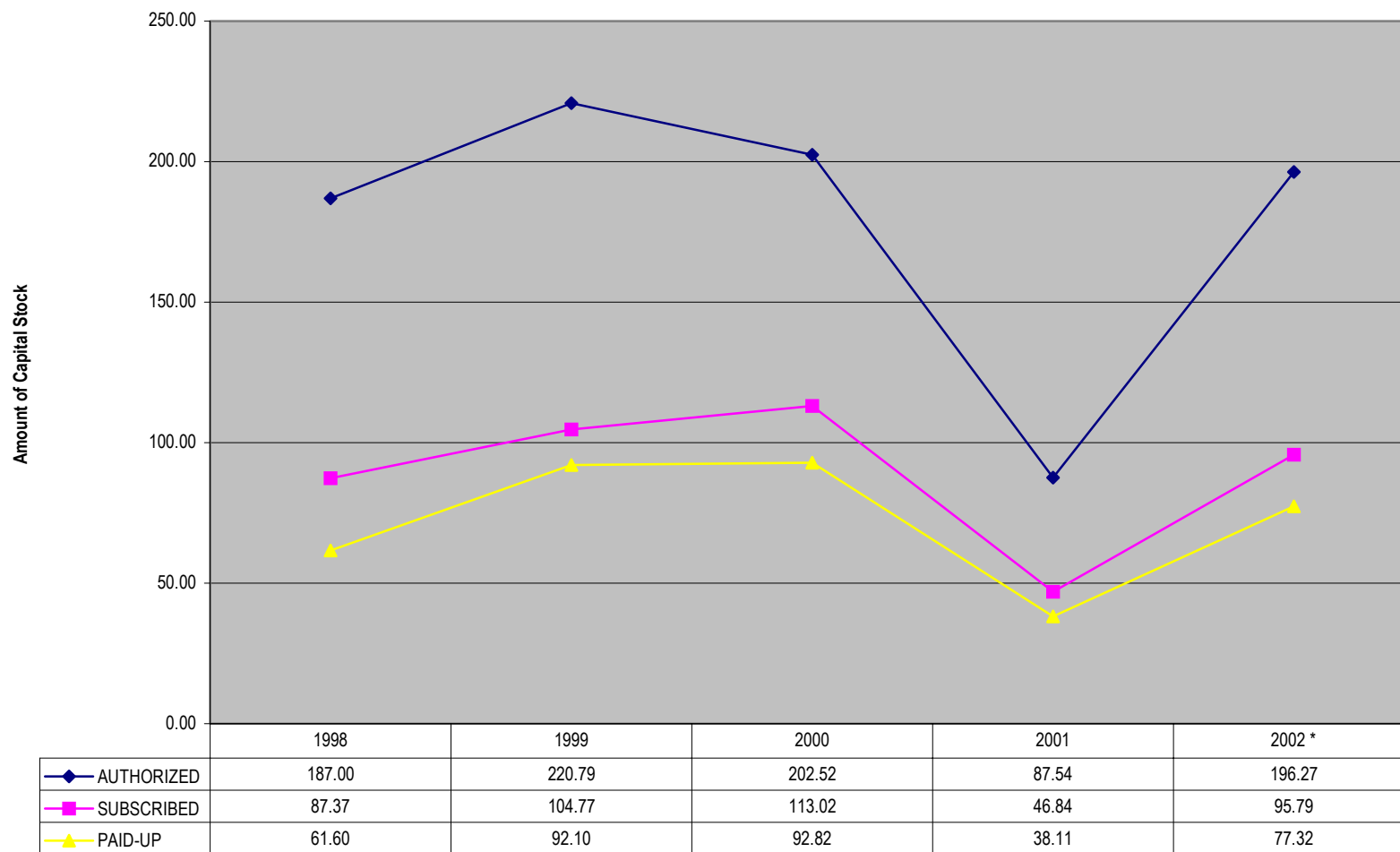
Billion Pesos



* Preliminary (as of 31 January 2002)

CHART 4
 INCREASES IN THE AMOUNT OF CAPITAL STOCK OF EXISTING DOMESTIC CORPORATION, CY 1998 TO 2002
 AUTHORIZED, SUBSCRIBED, AND PAID-UP

Billion Pesos



* Preliminary (as of 31 January 2002)

II. STOCK MARKET PERFORMANCE AND TRENDS IN SECURITIES

In this section:

- **Stock Market Performance**
- **Registered Securities**

STOCK MARKET PERFORMANCE

The Philippine stock market opened with a bang as it soared to its biggest monthly gain since April 1999, following the release of promising economic figures and increased buying interest among foreign investors. The market index posted two consecutive monthly gains and hit an intra-year high of 1,469.07 on 19 February 2002.

By March, however, the local equities market began to lose steam as some episodes of profit-taking tempered the market's upward trend. In subsequent months, the market index sank deeper into negative territory, unable to ward off the selling spree caused by a spate of adverse developments both at home and abroad.

Security concerns coupled with unfavorable economic developments largely influenced the market's movement. Fears over future terrorist attacks, news of a possible war between the United States (US) and Iraq, the release of unfavorable economic figures, and the peso's continued weakness soured investors' appetite. Government's burgeoning budget deficit was also a persistent concern among investors.

By year-end, the 30-stock composite Index had fallen by 12.81% or 149.67 points to 1,018.41, from its previous year's close of 1,168.08. The Index was at its lowest on 19 December 2002, when it breached the 1,000 level at 997.78. The broader All Shares Index also failed to finish higher as it dropped 10.85% or 74.09 points to 608.78 from 682.87.

Among the sub-indices, only the mining sector managed to post gains during the year. The mining sector rose by 19.11% or 193.28 points to 1,204.57 from its previous year's close of 1,011.29. On the other hand, the oil sector was the biggest loser, dropping 46.63% or 0.90 points to 1.03 from 1.93 last year. The Banks and Financial Services sector fell 26.46% to finish the year at 371.37,

down by 133.65 points from its previous close of 505.02. The Property sector lost by 16.71% or 83.78 points to land at 417.52 from its previous finish of 501.30. The Commercial-Industrial sector posted the lowest decrease for the year, slashing 7.13% or 112.56 points to 1,466.83 from 1,579.39.

Trading remained sluggish, with lean volume and value turnovers during the year. The total volume of transactions decreased by 39.3% to 99.8 billion shares compared to last year's output of 164.4 billion shares. Meanwhile, total value turnovers increased by a mere 0.107% to PhP159.7 Billion from PhP159.6 Billion the previous year. Daily average trade was PhP649.3 Million, down 4.92% from last year's level of PhP682.87 Million.

The most actively traded stocks for the year were Philippine Long Distance Telephone Co., (TEL) closing at PhP270.00 after 35,351,970 shares amounting to PhP13.08 Billion changed hands. Next was Ayala Land, Inc. (ALI) which closed at PhP 4.55 with volume reaching 1,985,733,000 shares amounting to PhP12.15 Billion. Bank of the Philippine Islands (BPI) came in third to close at PhP33.50 with volume reaching 209,200,240 amounting to PhP10.65 Billion.

The top three (3) gainers for the year were Negros Navigation Company, Inc. (NN), gaining 328.57% or PhP0.2300 from PhP0.0700 to close at PhP0.30, followed by Central Azucarera De Tarlac (CAT), which increased 236.21% or by PhP2.74 from PhP1.16 to PhP3.90. ISM Communications Corporation "B" (ISMB) rose 162.50% or PhP0.0325 from PhP 0.020 to settle at PhP0.0525. Others in the gainers list were Metro Alliance Holdings and Eqts. Corp. (MAHB); Interphil Laboratories, Inc. "B" (ILIB); Grand Plaza Hotel Corporation "Common" (GPH); F and J Prince Holdings Corp. "A" (FJP); Matsushita Electric Philippines Corp. (MEP) and City and Land Developers, Inc. (LAND).

The biggest losers were the following: Equitable Banking Corp. "Warrant" 200" (EBCW), East Asia Power Resources Corporation (PWR) and Mondagon Int'l. (Phils.), Inc. (MON) which all slipped by 91.28%, 87.50% and 87.01%, respectively. Other companies in the losing side were Ebecom Holdings, Inc., Omico Corporation "Warrant" 2000; Ionics, Inc. (ION), Uniwide Holdings, Inc. (UW), Steniel Manufacturing Corporation (STN), Apex Mining Company, Inc. "A" (APX) and United Paragon Mining Corporation (UPM).

REGISTERED SECURITIES

Notwithstanding the downtrend in the composite index of the PSE, capital market instruments amounting to PhP 28.65 Billion were registered in CY 2002, more than double the amount registered in the previous year (Table 1). Equity securities posted the biggest gain, increasing more than four-fold from PhP 3.54 Billion in 2001 to PhP 15.40 Billion in 2002. Commercial papers doubled from PhP 2.50 Billion to PhP 5.20 Billion, while proprietary/non-proprietary shares increased by more than half from PhP 5.26 Billion to PhP 8.05 Billion during the same period.

TABLE 1. REGISTERED SECURITIES, CY 2001-2002

	2001	2002	% Change
Equity Securities	PhP 3,537,050,335.00	PhP 15,397,575,474.94	435%
Commercial Papers	2,500,000,000.00	5,200,000,000.00	208%
Proprietary/Non-proprietary Shares	5,257,268,000.00	8,051,490,000.00	153%
TOTAL	PhP 11,294,318,335.00	PhP 28,649,065,474.94	254%

Meanwhile, initial public offerings (IPOs) amounting to a total of PhP 6.26 Billion were registered by five companies (Table 2). Highland Prime Leisure Properties, Inc. accounted for more than half of the total amount, registering close to 1.65 billion shares worth PhP 3.51 Billion.

TABLE 2. INITIAL PUBLIC OFFERINGS, CY 2002

Company	No. of Common Shares	Amount
Highland Prime Leisure Properties, Inc.	1,646,189,238	PhP 3,506,383,076.94
Banco de Oro Universal Bank	89,038,300	1,851,996,640.00
Salcon Power Corporation	313,900,000	565,020,000.00
Jolliville Holdings, Inc.	281,500,000	306,835,000.00
Makati Finance Corporation	14,560,000	26,992,800.00

III. PERFORMANCE OF THE PRE-NEED INDUSTRY

In this section:

- **Status of Pre-Need Companies**
 - **Sales Performance and Financial Status**
 - **Trust Fund Status**
-

STATUS OF PRE-NEED COMPANIES

a) Compliance with the Minimum Paid-Up Capital Requirement

In CY 2001, SEC started implementing New Rules on Registration and Sale of Pre-Need Plans which required, among others, a minimum paid-up capital of PhP 100 million for new pre-need companies. Existing companies were required to put up their own PhP 100 million paid up capital no later than April 30, 2002. Those who met the PhP 100 Million paid-up capital requirement were allowed to sell three plan types as well as traditional education plans. On the other hand, those that were unable to meet the capital requirements were limited to the types of plans they could sell.

In CY 2002, SEC issued dealer's licenses to 46 pre-need companies, of which 12 companies were licensed to sell three plan types and 11 companies were licensed to offer two plan types. Half of the total licensed companies in 2002 were limited to selling one plan type, as they were unable to meet the capital requirements as earlier stated.

Compliance with the minimum paid-up capital requirements has been high (Table 3). Of the 46 pre-need companies issued dealer's licenses in 2002, only two pre-need firms were unable to put up the PhP 50 million minimum requirement for one plan type. The Permits to Sell of these two firms were suspended for 2002, and both firms will no longer be allowed to renew their dealer's license for 2003.

TABLE 3. COMPLIANCE WITH MINIMUM PAID-UP CAPITAL REQUIREMENTS
FOR PRE-NEED PLAN COMPANIES, CY 2002

	Paid-Up Capital	No. of Firms	Compliance Rate
With traditional education plans or three plan types	PhP 100,000,000	12	100%
With two plan type	75,000,000	11	100%
With one plan type	50,000,000	23	92% (2 firms did not comply)

b) Pre-Need Branches

Pre-need companies continued to open or transfer branch offices to locations with better business prospects. In CY 2002, pre-need companies opened 38 new branches and transferred 65 branches nationwide. To date, there are 1,157 branches of licensed pre-need companies situated all over the country.

SALES PERFORMANCE AND FINANCIAL STATUS

a) Sales Performance

Total sales of pre-need companies posted a slight decline of 2.29%, from PhP 38.7 Billion in 2001 to PhP 37.78 Billion in 2002. The total number of plans sold likewise decreased by 9.25%, resulting to 612,736 plans. Pension plans made up a significant share of the pre-need market, accounting for PhP 22.38 Billion or 59.22% of total sales in 2002 (Table 4).

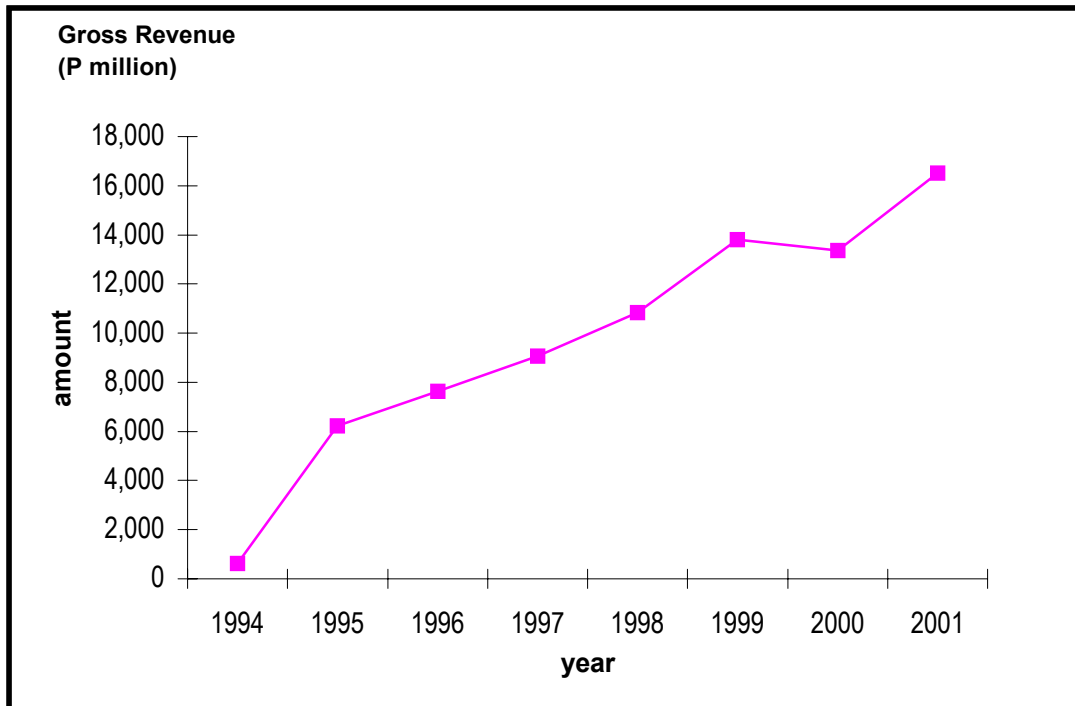
TABLE 4. NUMBER AND AMOUNT OF PLANS SOLD BY PRE-NEED COMPANIES,
CY 2001-2002

Item	2001	2002	Percent Increase/ (Decrease)
Number of Plans Sold	675,187	612,736	(9.25)%
Education	227,884	195,340	(14.28)%
Life	88,989	73,776	(17.10)%
Pension	358,314	343,620	(4.10)%
Amount of Plans Sold	P38,671,394,028	P37,785,959,439	(2.29)%
Education	15,013,448,887	13,314,368,812	(11.32)%
Life	2,687,072,635	2,095,676,813	(22.01)%
Pension	20,970,872,506	22,375,913,814	6.7%
Initial Collection	P3,509,055,077	P3,901,576,914	11.18%
Education	1,403,348,189	1,299,046,698	(7.43)%
Life	276,641,959	252,952,119	(8.58)%
Pension	1,829,064,929	2,349,578,096	28.46%

b) Gross Revenues and Realized Gross Income

Based on financial statements covering 2001 operations, which were submitted in 2002, gross revenues (including trust fund earnings, interest income, realized capital gains and other income) reached PhP17.78 Billion in 2001. Meanwhile, the industry's realized gross income of pre-need plans reached PhP14.05 Billion, a modest improvement of 31.35% from 2000 (Chart 5).

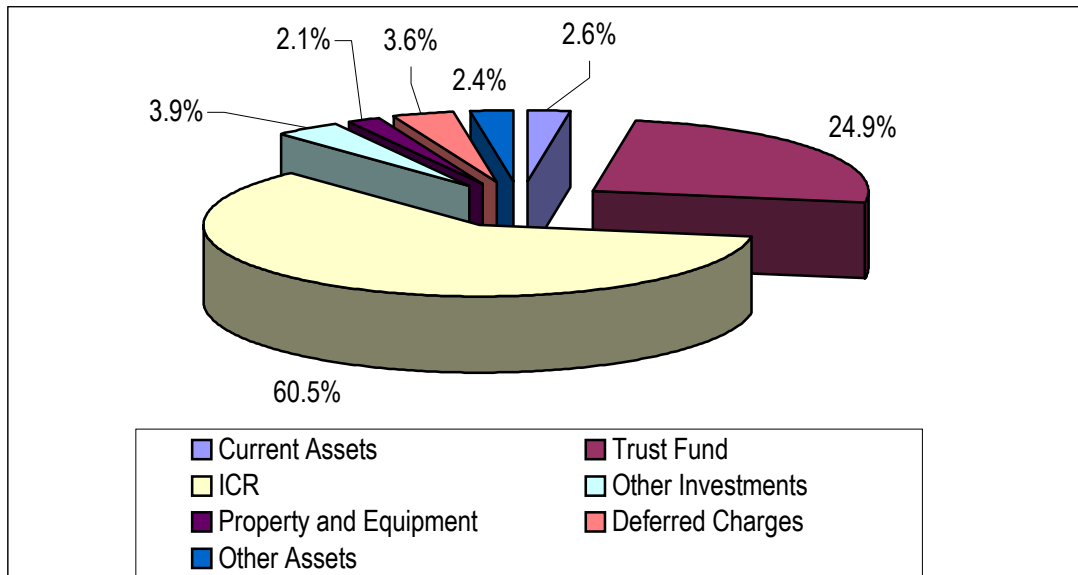
CHART 5 GROSS REVENUE OF PRE-NEED COMPANIES, 1994-2001



c) Total Assets

The industry's total assets reached PhP159.76 Billion in 2001, up by 10.44 percent from 2000. Majority of the total assets comprised of installment contracts receivables (ICR), which made up 60.5 percent of the total. ICR represents the outstanding account balances arising from the sale of pre-need plans on an installment basis while the trust fund refers to the net asset value in a trust set-up with a duly licensed trust entity to answer for benefits or services obligated. Meanwhile, the Trust Fund accounted for 24.9 percent of the total assets (Chart 6).

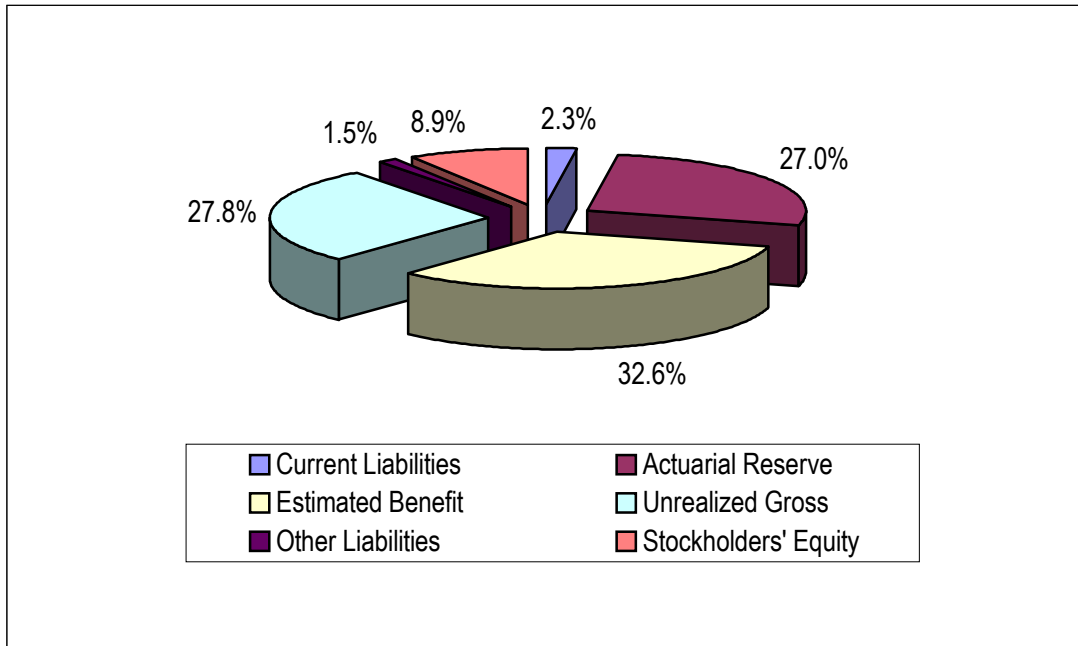
CHART 6. COMPOSITION OF TOTAL ASSETS, 2001



d) Total Liabilities

Of the total liabilities and stockholders' equity, 32.6% was accounted for by the estimated benefit provision (EBP) in the outstanding ICR of all plans sold in installment basis. Unrealized gross income (UGI) accounted for 27.8%, while actuarial reserve liabilities (ARL) made up 27.0 percent (Chart 7)

CHART 7. COMPOSITION OF TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY, 2001



TRUST FUND STATUS

The pre-need industry contributed to the development of the Philippine capital market through the investment of the trust fund in various instruments. As of 30 September 2002, the total trust fund equity of the pre-need industry was PhP 43.8 Billion. Government securities amounting to PhP20.0 Billion accounted for 45.7% of the total. With PhP 8.2 Billion or a 18.7 percentage share, equities came as the second favorite investment vehicle. Real estate investments came in third, with PhP 7.6 Billion or 17.3% of the total. The rest of the portfolio was in cash, foreign accounts, time deposits, common trust funds, commercial papers and promissory notes, and mutual funds (Table 5).

TABLE 5. AMOUNT AND PERCENT DISTRIBUTION OF TRUST FUNDS INVESTMENT PORTFOLIO OF PRE-NEED COMPANIES BY COMPONENT TYPE: AS OF SEPTEMBER 2002

Component	Amount *	Percent to Total
Total Trust Fund Equity	P43,801,860,801	<u>100.0</u>
Cash	146,906,406	0.3
Foreign Account	972,424,705	2.2
Government Securities	20,005,241,592	45.7
Time Deposit	956,795,610	2.2
Commercial Papers/Promissory Notes	161,602,443	0.4
Private Bonds	3,209,617,048	7.3
Loans	837,305,670	1.9
Common Trust Fund	429,285,645	1.0
Mutual Fund	150,780,856	0.3
Equities	8,210,388,836	18.7
Real Estate	7,577,310,931	17.3
Other Investments	122,922,049	0.3
Receivables and other assets (Net)	1,021,279,010	2.3

* Based on the infusion of MRT bonds worth P1,715,711,400 on August 2002 and other additional contributions to the trust fund, it is estimated to reach P44 billion by end of October 2002

IV. SEC'S FINANCIAL PERFORMANCE IN CY 2002

In this section:

- **Report of Income**
- **SEC's Expenditures**

REPORT OF INCOME

SEC's income from service fees and penalties amounted to PhP 861.76 Million in CY 2002, a hefty 42% increase from last year's income of PhP 610.41 Million. More significantly, as early as September, we managed to surpass our projected income of PhP 593.35 Million for the year.

With a share of 82.9 percent, registration, filing and certification fees, which reached PhP 714.49 Million, continued to account for the bulk of total income in CY 2002. The license fees of securities brokers, and salesmen accounted for 8.6 percent of total income.

Our aggressive compliance monitoring and enforcement actions doubled our revenues from fines and penalties. Consequently, the share of fines and penalties increased slightly from 4.9% in 2001 to 7.2 in 2002.

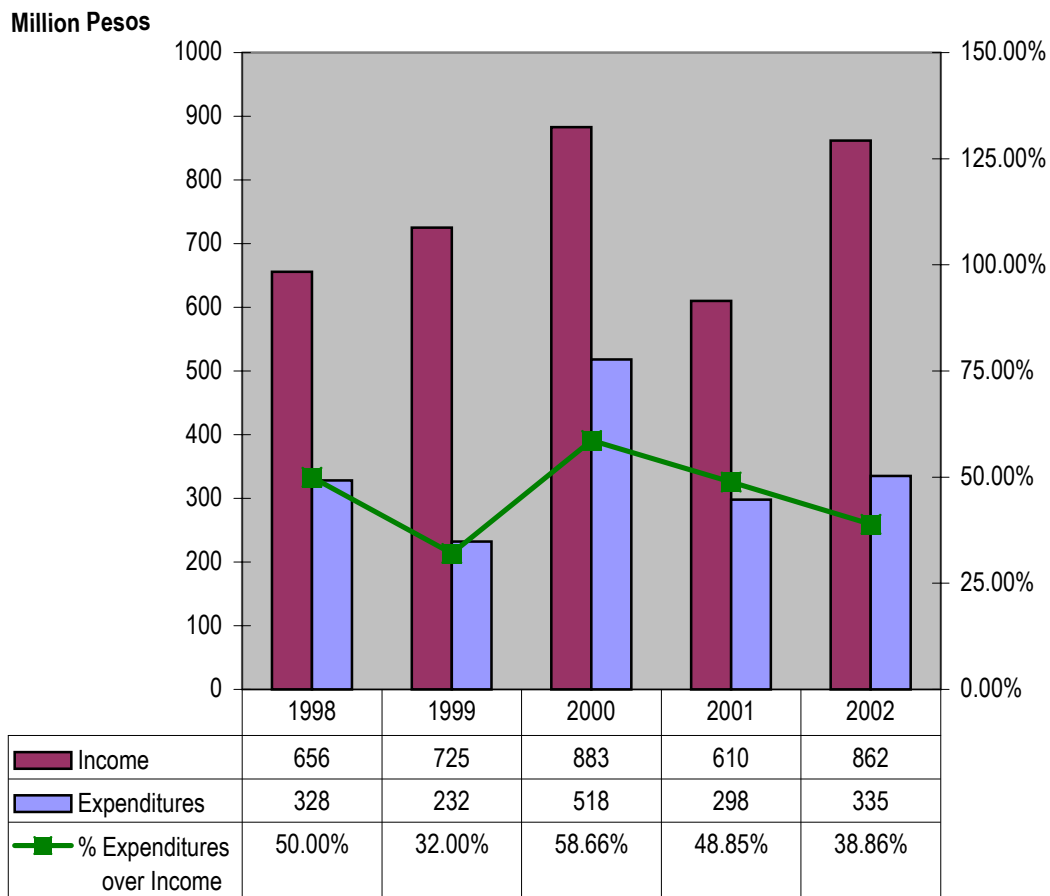
TABLE 6. SEC'S INCOME BY SOURCE, CY 2001-2002

Source of Income	2001		2002	
	Amount	% of Total	Amount	% of Total
License fees of Securities brokers, dealers, salesmen	PhP 48,453,374.50	7.9%	PhP 73,686,880.15	8.6%
Registration, filing, & certification fees	522,597,475.74	85.6%	714,489,291.36	82.9%
Fines and penalties	30,053,569.41	4.9%	61,740,305.61	7.2%
Miscellaneous income	9,303,195.35	1.5%	11,839,163.08	1.4%
TOTAL INCOME	PhP 610,407,615.00	100.0%	PhP 861,755,640.20	100.0%

SEC's EXPENDITURES

SEC's expenditures reached PhP 334.67 Million in 2002, up by PhP 36.78 Million from the previous year. This notwithstanding, our excess income over expenditures reached PhP 527.08 Million in 2002, compared to PhP 312.52 Million in 2001. The ratio of expenditures over income thus improved from 48.8% in CY 2001, to 38.8% in CY 2002 (Chart 8).

CHART 8. SEC'S INCOME VS. EXPENDITURES, CY 1998-2002



V. ACCOMPLISHMENTS OF THE SEC DEPARTMENTS AND OFFICES

In this section:

- **Functions of the SEC departments and offices, and their accomplishments relative to these functions**
-

THE 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.

THE DEPARTMENTS

SEC's eight (8) departments are distributed, in streamline fashion, to execute four core functions, namely:

- **Capital Market Development and Regulation.** Regulation and licensing of traditional and non-traditional securities, as well as the market participants such as exchanges, brokers, dealers, traders, and others. **Departments under this core function:** Corporation Finance Department, Market Regulation Department, and Non-Traditional Securities and Instruments Department.
- **Company Registration and Monitoring.** Registration of domestic and foreign corporations and partnerships, and monitoring of compliance of registered entities with provisions under the Corporation Code, Foreign Investments Act, and other related laws. **Department under this core function:** Company Registration and Monitoring Department.
- **Enforcement.** Protection of investors through timely and speedy enforcement of all pertinent laws, rules, regulations and policies administered by the SEC. **Department under this core function:** Compliance and Enforcement Department
- **Support Services.** 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. **Departments under this core function:** Human Resource and Administrative Department, Financial Management Department, and Economic Research and Information Department.

THE EXTENSION OFFICES

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

THE SPECIAL OFFICES

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 continued to deliver on its mandate despite its limited manpower. In CY 2002, the OGC:

- Issued 265 orders and decisions and reviewed 1,545 decisions and resolutions from the Supreme Court (SC), the Court of Appeals (CA), the Regional and Municipal Trial Courts (RTC/MTC), the National Telecommunications Commission (NTC) and the Department of Transportation and Communications (DOTC);
- Prepared 88 letters to the SC Administrator and various RTCs pertaining to cases transferred to the RTCs and cases remanded to the SEC;
- Issued 149 Certified True Copies (CTCs) of various Orders, Resolutions, Decisions, Writs of Execution, and Cease and Desist Orders (CDOs);
- Issued 37 certifications on pending cases;
- Attended 110 hearings, meetings and conferences;
- Reviewed 48 contracts;
- Acted on 115 requests for clearance certification; and
- Released 18 opinions.

As of end-2002, 176 cases were pending with OGC.

Table 7 reports the cases under process by and major outputs of the OGC as of end-December 2002.

TABLE 7. SUMMARY OF OGC'S ACCOMPLISHMENTS, CY 2002

No. of Pending Cases Assigned	176
Rehabilitation and Suspension of Payments Cases	16
Admin. Cases (Ordinary/Appeal on Penalties)	36
Remanded Cases from RTC	41
Motion for Reconsideration	2
Compliance and Enforcement Department (CED) Cases	24
For Liquidation	23
For Execution	30
For Certificate of Finality (from SICD, predecessor department of CED)	1
Other Cases	3
Orders/Decisions Released	265
Rehabilitation/Suspension of Payments	74
Admin. Cases (Ordinary from other operating departments)	57
Writs of Execution	19
CED Cases	30
EB/AC Cases	29
Administrative Appeal Case	16
Other Cases (SICD Cases)	30
Remanded Cases from RTC	5
Disciplinary Case	1
Admin Cases (BW)	4
Notices of Decisions/Resolutions Originating From	1,545
Supreme Court	286
Court of Appeals	814
RTC/MTC	443
NTC/DOTC	2
Communications Prepared (Judicial Administrator, etc.)	88
CTCs of Various Documents	149
Certifications On Pending Cases	37
Hearings/Meetings/Conferences Conducted	119
Rehabilitation/Suspension of Payments	51
SICD Cases	17
Ordinary/Appeals on Penalties	19
CED	11
Disciplinary Case	6
Administrative Case (BW)	12
Administrative Case (Ordinary/Appeals on Penalties)	3
Contracts Reviewed	48
Request for certifications of good standing	115
Opinions Released	18

THE SPECIAL OFFICES

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

In keeping with the SEC's efforts to establish reliable and globally acceptable financial reporting structures that will promote full disclosure and transparency, the OGA continued to work 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 OGA's notable achievements in this regard were the following:

- **Reviewed the proposed rules and circulars amending SRC Rule 68, i.e., Special Accounting Rules, in conformity with International Accounting Standards (IAS).** SRC Rule 68 was amended in CY 2002 to incorporate the new IAS and the Statements of Financial Accounting Standards (SFAS) which were adopted by the Accounting Standards Council and the SEC. More specifically, Memorandum Circular No. 10 s. 2002 was issued on 4 July 2002, to implement the following IAS/SFAS:

SFAS/IAS	Title No.
16	Property, Plant and Equipment
24	Related Party Disclosures
27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
28	Accounting for Investments in Associates
31	Financial Reporting of Interests in Joint Ventures
35	Discontinuing Operations
36	Impairment of Assets

- **Participated in discussions with the Accounting Standards Council (ASC), Auditing Standards and Practices Council (ASPC), and the Board of Accountancy**, for updates on SEC requirements as well as developments in the practice of the local accounting and auditing profession.
- **Formed the SEC Audit Unit and Training Workshop on International Accounting Standards and Monitoring Systems**, to improve coordination among the departments with regard to the implementation of the IAS and the proposed departmental monitoring devices.
- **Provided various opinions** to the Commission regarding the financial statements of special cases.
- **Conducted trainings for the staff of SEC's operations departments** on the following:
 - a) Statements of Financial Accounting Standards (SFAS);
 - b) International Accounting Standards (IAS) effective January 1, 2001; and
 - d) Manual of Operations of OGA
- **Participated in several seminars on the attendant rules and regulations of the Anti-Money Laundering Law.**

CORE FUNCTION: CAPITAL MARKET DEVELOPMENT AND REGULATION

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

ACCOMPLISHMENTS

Registration of Market Participants

In CY 2002, the Market Regulation Department registered and processed renewal applications of various market participants as shown in the table below. In addition, the Department recommended the approval of the Philippine Central Depository's (PCD) permanent license as depository for equity and debt securities and of the Securities Clearing Corporation of the Philippines' (SCCP) permanent license as a clearing agency

TABLE 8. REGISTRATION/RENEWAL OF MARKET LICENSES, CY 2002

Market Participant	Total
Broker/Dealer	
PSE-member	138
Non-member	16
Salesmen	964
Associated Persons	188
Branch Offices	19
Dealer in Government Securities	59
Investment Company Advisers	13
Certified Investment Solicitors	501
Investment Houses	36
w/ Quasi-Banking (QB) Functions - 6	
w/ QB Functions - 30	
Underwriters of Securities	8
Branch Offices	13
Associated Persons	12
Transfer Agent	30
Exchange	1
Clearing House	2

Rulemaking and Formulation of Policy Guidelines

MRD contributed to the Commission's objective of strengthening the regulatory environment through the issuance of new rules and the formulation of policy guidelines. Of note would be the following accomplishments:

- Drafted and implemented the **“Omnibus Rules and Regulations for Investment Houses and Universal Banks Registered as Underwriters of Securities,”** issued on July 23, 2002.
- In coordination with CFD, **reviewed and drafted the amendments to the Implementing Rules and Regulations of the Securities Regulation Code.**
- **Reviewed the existing PSE's Listing and Disclosure Rules and its Trading and Settlement Rules**
- **Recommended approval of the following PSE rules:**
 - a) Rules for Filing using The Electronic Disclosure System
 - b) Rules on Substitutional Listing, and
 - c) Annual Listing Maintenance Fees
 - d) Distribution of Initial Public Offering Shares through the Exchange
 - e) Setting the minimum commission rate at one fourth of one percent(1/4 of 1%) of the total value transactions to be charged against every transaction except broker-to-broker transaction.
 - f) Extension of trading hours up to 2:30 p.m
 - g) Reverting the end of trading hours to 12:10 p.m.
- **Prepared a memorandum recommending the extension of the Special Resolution** regarding the 35% threshold limit for a single acquisition before a tender offer is required, and the relaxation of the prohibition under Sec. 30.1 of the SRC (the broker-issuer provision)
- **Recommended the lowering of filing fees of Certified Investment Solicitors** for the period 01 April 2002 to 15 March 2003;
- **Reviewed the Risk-Based Capital Adequacy Models of Malaysia and Singapore** for possible adoption in the Philippines for Broker Dealer firms
- **Reviewed and recommended changes in the proposed rules for Securities Borrowing and Lending Facility of SCCP**
- **Assisted in the preparation of the final draft of the Manual on Anti Money Laundering and Manual on Corporate Governance for the different market participants**

Policy Research

To support the policy agenda of the Commission and other government agencies, the Department also took the lead in preparing the following studies or reports:

- Summary of Filings of 2003 Renewal Applications by Broker/Dealer Firms
- Study on Broker Dealer Firms with (excess) adjusted net capital positions falling within the range of PhP5 Million and PhP6 Million.
- Analysis of Monthly FINOP of Broker Dealer Firms
- Assessment of Annual Audited Financial Statements of Broker Firms and their corresponding Early Warning Signals
- IOSCO Survey/Questionnaire
- Data/Information on non-bank financial institutions per BSP Requirement
- Study recommending approval of dropping the PCD's Broker Lodgement Counter Service
- Two hundred forty nine (249) stock market reports, copies of which were furnished the Office of the President and Department of Trade and Industry daily, and Bureau of Treasury during auction days.

Compliance Monitoring

MRD stepped up its monitoring of registered market participants through the conduct of special and oversight audits of broker dealer firms, a routine audit of the Compliance and Surveillance Group of the Philippine Stock Exchange, and a joint thematic audit (PSE and SEC) of broker dealer firms.

To monitor compliance with rules arising from the AMLA and the promulgation of the Code of Corporate Governance, the Department reviewed the Manual on Anti-Money Laundering and Manual on Corporate Governance submitted by the Transfer Agents.

MRD also assisted in the development of the databases for the different market participants to implement the requirement of the SRC for the maintenance of a Register of Market Participants.

Finally, the Department worked towards the liquidation of Connell Securities, Inc. and recommended approval of the liquidation of Marino Olondriz y Cia, a stockbrokerage firm.

Development and Streamlining of Internal Procedures

In keeping with the Commission's objective of further simplifying and streamlining internal procedures, MRD:

- Developed the Department's Manual of Operations;
- Designed the Department's Registration and Monitoring Checklist of Procedures/Standards; and
- Reviewed and re-designed Special Forms of Annual Audited Financial Statements for Broker Dealers and Investment Houses.

International Relations

MRD assisted in the preparation of a Memorandum of Understanding (MOU) between the Philippine Securities and Exchange Commission (SEC) and the Capital Market Supervisory Agency of Indonesia (BAPEPAM). The MOU, signed on 05 June 2002, provides the framework with respect to the mutual exchange of information relating to the administration and enforcement of the signatories' respective securities laws. It also covers technical assistance and commitment to give investigative support as may be permitted by their respective domestic laws necessary to protect investors and maintain integrity of the securities markets.

CORE FUNCTION: CAPITAL MARKET DEVELOPMENT AND REGULATION

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

In CY 2002, the Corporation Finance Department (CFD) registered capital market instruments amounting to PhP 28.65 Billion, disaggregated as follows: equity securities amounting to 15.40 Billion; commercial papers worth PhP 5.20 Billion; and proprietary/non-proprietary shares worth PhP 8.05 Billion. In addition, CFD approved the initial public offerings (IPOs) of five companies, amounting to a total of PhP 6.26 Billion (see Section II for more information on registered securities and IPOs).

Processing and Approval of Applications

Table 9 summarizes the number and type of applications processed and recommended for approval by the Department.

TABLE 9. APPLICATIONS REVIEWED/APPROVED BY CFD, CY 2002

Applications	Reviewed/Approved
Registration Statements	33
Application for confirmation of Exemption	630
Application for Authority To Operate as Financing Companies	67
Applications for Accreditation as External Auditors and Auditing Firms	12
TOTAL	742

Promotion of Good Corporate Governance

Since 2001, CFD has spearheaded the adoption of reforms to promote good corporate governance. Towards this end, CFD was instrumental in preparing and issuing the following rules and guidelines in 2002 (see Section VI for a detailed description of the Memorandum Circulars):

- **Memorandum Circular No. 2 s. 2002, promulgating the Code of Corporate Governance.**
All corporations affected by the Code were expected to promulgate and adopt their own manuals of corporate governance in accordance with the Code. CFD took the lead in drafting Model Manual of Corporate Governance to guide companies affected by the Code of Corporate Governance. A copy of the Model Manual was posted on SEC's website.
- **Memorandum Circular No. 5 s. 2002, requiring the accreditation and specifying reportorial requirements of external auditors of public companies.** Among others, the Memorandum Circular requires all external auditors being engaged by public companies to register with the SEC and notify the SEC of errors, fraud, or losses which their client-companies fail to disclose.
- **Memorandum Circular No. 10 s. 2002, amending SRC Rule 68 to incorporate the new IAS and the Statements of Financial Accounting Standards (SFAS) .** In coordination with the OGA, CFD continued to work towards amending the Special Accounting Rules (SRC Rule 68) which govern the financial disclosures of publicly-held corporations, bringing them in line with IAS.

- **Memorandum Circular No. 14 s. 2002, specifying the guidelines for accreditation of institutional training providers on Corporate Governance**, to ensure seminars/trainings for directors of corporations covered under the Code are given by institutional training providers that are duly recognized and accredited by the SEC.
- **SEC Memorandum Circular No. 15 s. 2002, creating the Accreditation Committee** responsible for accrediting qualified institutional training providers on corporate governance and for monitoring proper conduct of the same.
- **SEC Memorandum Circular No. s. 2002, providing the guidelines on the nomination and election of independent directors.** The Memorandum Circular sets out the definition of independence, the required number of independent directors, and the duties of the Nomination Committee in the process of screening the candidates.

Rulemaking

In addition to the various Memorandum Circulars prepared by the CFD to promote good corporate governance, the department was likewise instrumental in drafting the following:

- **Proposed Amendments to the Implementing Rules and Regulations of the Securities Regulation Code;**
- **SEC Memorandum Circular No. 11 s. 2002, extending the deadline for Lending Investors to convert to Financing Companies**, in compliance with SEC Memorandum Circular No. 13, Series of 2001 dated October 11,2001; and
- **Revised Scale of Fines.**

Compliance Monitoring

As part of its regular compliance monitoring function, CFD reviewed the following reports in 2002:

TABLE 10. REPORTORIAL REQUIREMENTS RECEIVED AND REVIEWED BY CFD, CY 2002

Reports	Received	Indexed/Reviewed	% of Completion
Annual Reports (17-A)	540	540	100%
Quarterly Reports (17-Q)	1,140	1,140	100%
Current Reports (17-C)	2,314	2,314	100%
Beneficial Ownership Reports (23/18)	1,061	1,061	100%
Information/Proxy Statements	613	613	100%
Commercial Paper Reports	1,161	1,161	100%
Manual on Corporate Governance	555	472	87%
Statement of Policies and Procedures on AMLA*	454	454	100%
Reports on Financing Companies	2,469	2,469	100%
TOTAL	10,307	10,224	99.19%

In the process of reviewing these reportorial requirements, the Department transmitted and released a total of 9,441 communications or documents during the year, disaggregated as follows:

- 1,356 comment letters;
- 6,534 show-cause/assessment letters;
- 784 advisement letters;
- 104 notices of conference/hearings; and
- 663 orders/resolutions/certificates.

Other regular monitoring activities conducted by the department include the following:

- 60 hearings;
- 44 conferences;
- 10 audit and on-site examinations; and 33 ocular inspections.

Apart from the CFD's regular compliance monitoring activities, the Department devoted a significant amount of time on monitoring compliance with Memorandum Circular Nos. 2 and 16. The following tables summarize the findings of the Department's monitoring activities.

TABLE 11. SUBMISSION OF MANUALS OF CORPORATE GOVERNANCE

Type of Company	Submission		Level of Adoption of SEC Manual	
	Filed	Failed to File	In Toto	With Modifications/ Incomplete
Listed Companies	231	5	26	205
Issuers of Registered Securities/Unlisted	114	25	47	67
Public Companies	4	9	4	-
Mutual Fund Companies	27	-	14	13
Financing Companies	179	41	63	33

TABLE 12. COMPLIANCE WITH KEY PROVISIONS OF THE CODE OF CORPORATE GOVERNANCE: LISTED COMPANIES

Requirements	Compliant	Percent (%) to Total
Submission of manual	231	97.88%
Appointment of Independent Directors	176	74.56%
Designation and Disclosure of Compliance Officers (As of January 10, 2003)	67	28.39%

TABLE 13. COMPLIANCE WITH PROVISIONS ON INDEPENDENT DIRECTORS

Type of Company	With Independent Directors	Without Independent Directors
Listed Companies	176	60
Issuers of Registered Securities/Unlisted	33	96
Public Companies	3	10
Mutual Fund Companies	18	9

Development and Streamlining of Internal Procedures

In 2002, the department committed to improve the timeliness of compliance monitoring. CFD's accomplishments vis-à-vis their commitments are summarized in the following table.

TABLE 14. REDUCTION IN REVIEW PERIOD, TARGET VS. ACTUAL, CY 2002

Review Period	% Compliance
Registration Statements; W/in 7 days from receipt	90%
Annual Report (17-A) ; W/in 45 days from receipt	90%
Quarterly Report (17-C) : W/in 45 days from receipt	90%
Current Report (17-C) : W/in 1 day from receipt	100%
Beneficial Ownership (23/18) : W/ in 1 day from receipt	100%
Quarterly Report : W/ in 30 days from receipt	100%
Disclosure Statement : W/ in 1 day from receipt	100%
Information Statement : W/ in 1 day from receipt	100%
Application for Authority of Financing Companies: W/ in 30 days from receipt	100%
Analyze a total of 967 reports of Lending Investors	100%
Penalize erring lending investors	A total of 5,485 lending investors or 93% of monitored companies were issued notices for conversion following the provisions of the Financing Company Act

CORE FUNCTION: CAPITAL MARKET DEVELOPMENT AND REGULATION

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 2002, the Non-Traditional Securities and Instruments Department (NTD):

- Evaluated, processed, and approved 22 applications of 13 pre-need companies for the registration/licensing of securities worth P34.17 Billion;
- Renewed 46 dealer's licenses for 2002. In keeping with the rules on the minimum paid-up capital requirement, twelve of these companies were allowed to sell three plan types, eleven were allowed to offer two plan types while twenty-three¹ were allowed to deal only in a single plan type;
- Licensed 168,882 pre-need salesmen; and
- Approved 65 branch offices that transferred and opened 38 branches.

¹ Including two pre-need companies with paid-up capital below the minimum requirement. These companies were subsequently issued Orders suspending them from selling pre-need plans.

Rulemaking

Most of NTD's efforts in 2002 were geared towards rulemaking to introduce reforms in the prudential regulation of the pre-need industry. In particular, the Department was actively involved in crafting and implementing the following:

- **Memorandum Circular No. 3, Documentary Requirements for Price Increase by Pre-Need Plan Issuers**, which intends to protect plan holders from unjustifiable price increases by identifying the documentary requirements that should support any application for price increase by pre-need plan issuers.

- **Memorandum Circular No. 4, Guidelines on the Minimum Paid-Up Capital Requirement for Existing Pre-Need Companies**, which requires existing pre-need companies to put up PhP 100 million in paid up capital as a buffer for trust fund performance fluctuation and to weed out fly by night operations.

- **Memorandum Circulars 6, 7, and 8**, issued in June 2002, which supplement the SEC's Pre-Need Rules on Registration and Sale of Pre-Need Plans, and provide sufficient guidelines to actuaries in coming up with reasonable and attainable actuarial assumptions to ensure the integrity of the valuation of reserves.

The Department contributed valuable technical support to the enactment of priority bills affecting the pre-need industry. NTD submitted comments and studies and attended meetings/public hearings on the Pre-Need Plan Code and PERA Bill.

Policy Research

NTD's policy research activities focused on the development of the Philippine futures market. The Department reviewed the existing SEC Rules on Futures Trading, as well as the rules of foreign countries such as the US, Singapore and Hong Kong. The staff likewise attended four (4) seminars on futures trading, conducted by a former commodity futures broker and consultant.

Compliance Monitoring

To strengthen the protection of planholders, NTD's compliance monitoring efforts focused on two major activities, i.e.: the conduct on-site inspections for actuarial and accounting compliance, and strict monitoring of compliance with reporting requirements. The major results of NTD's efforts in these areas are as follows:

- Conducted 17 on-site inspections, 12 special audits and table audit of all pre-need companies;
- Monitored 6,513 reports in compliance with the New Pre-Need Rules;
- Monitored monthly deposits to the trust fund;
- Monitored funding of the deficiencies in the trust fund of pre-need companies, which stood at PhP 5.8 Billion as of December 2001;
- Evaluated 199 trust fund statements submitted by 46 pre-need companies in compliance with the investment portfolio mix prescribed limits;
- Reviewed and proposed revisions to fifteen (15) Trust Agreements between banks and pre-need companies to conform with the New Pre-Need Rules;
- Monitored compliance with the Pre-Need Rules such as the Pre-Need Uniform Chart of Accounts;
- Evaluated 46 Actuarial Valuation Reports submitted by pre-need companies;
- Required actuaries to ensure that their valuation report conform with the Actuarial Standards in Pre-Need Plans of the ASP and the New Pre-Need Rules;
- Required submission of Corporate Governance Manual and Anti-Money Laundering Law Manual of Operations.
- Sent 77 show cause letters/charge slips for late or non-compliance with reportorial requirements;
- Issued Orders of Suspension to two pre-need companies;
- Recommended the issuance of CDO to one pre-need company; and
- Withdrew the accreditation of one pre-need actuary and placed two on 'on-hold accreditation status.'

Development and Streamlining of Internal Procedures

NTD's adoption of streamlined registration procedures for licensing applications and applications for price increases reduced processing time by 50%, due mainly to the reduction of signatories for the registration and licensing application. As a result, the Department received commendation letters from the Federation of Pre-Need Companies as well as pre-need planholders. Further improvements in processing time are expected once the Department is able to implement the electronic filing system for licensing salesmen, an innovation designed by the Department in 2002.

NTD developed its own Manual of Operations, and training was provided to the staff to ensure proper implementation.

Procedure for Handling Complaints

On 10 October 2002, the Department prescribed procedures governing complaints filed against pre-need plan companies. Standard complaint forms were designed and disseminated. The procedures and standard complaint forms have received favorable feedback from users.

As of December 2002, the Department had resolved 72% of complaints received or pending during the year.

Information Dissemination

In order to ensure a more accurate accounting and reporting of financial condition of pre-need companies, the Department required strict compliance with the Pre-Need Uniform Chart of Accounts. A Financial Statement Template for Pre-Need Companies using the Pre-Need Uniform Chart of Accounts was prepared and posted on the SEC website to facilitate compliance.

NTD prepared a directory of licensed pre-need companies and released a 2001 Situational Report on the Pre-Need Industry.

CORE FUNCTION: COMPANY REGISTRATION AND MONITORING

FUNCTIONS

- Registers and revokes the registration of domestic corporations and partnerships, approves amendments to articles of incorporation/partnerships, by-laws, increase in capital stock, mergers and acquisitions
- Grants and revokes licenses of foreign corporations doing business in the Philippines under the Foreign Investments Act of 1991
- Grants and revokes licenses of 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

Company Registration

In the exercise of its registration function, the Company Registration and Monitoring Department (CRMD) verified 80,953 corporate/partnership names and acted on a total of 33,741 varying applications in CY 2002.

CRMD coordinated with the Economic Research and Information Department (ERID) for the implementation of SEC-iRegister, the Commission's on-line company registration system. CRMD was instrumental in preparing the corporate/partnership forms and other related mechanics concerning SEC I-Register project.

Rulemaking

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

- Imposition of Fines or Penalties For Non-Compliance with Reportorial Requirements dated July 31, 2002.
- Proposed amendments to the Corporation Code of the Philippines.

Compliance Monitoring

CRMD was able to significantly improve its performance in the area of compliance monitoring. This marked improvement was made possible by maximizing the productivity of the current personnel. Originally, only seven (7) personnel from Law and Regulation Division (LRD) were assigned to undertake compliance monitoring. In 2002, the examiners and processors of the Financial Analysis and Audit Division (FAAD) and Corporate and Partnership Registration Division (CPRD) were directed to simultaneously monitor corporations in the course of examining or processing corporate applications. Moreover, CRMD made it a policy not to release certificates until the latest reportorial requirements have been submitted and fines or penalties for non-compliance have been paid. The policy generated an increase in revenue for SEC and greater compliance with the Commission's reportorial requirements.

In coordination with ERID, CRMD was able to identify and monitor 6,783 delinquent corporations. Revocation letters were sent to 27,982 corporations after the publication of the list of delinquent corporations.

Opinion Making

The CRMD thru its LRD rendered 70 opinions as compared to only 30 opinions last year.

Administrative Adjudication

In the exercise of its function over issues involving among others, corporate names, dissolution of corporations, and revocation of licenses, the CRMD conducted 581 conferences/hearings, issued 89 orders, promulgated 45 decisions/resolutions, and 38 amicable settlements.

Attendance in Corporate Meetings

From time to time, CRMD lawyers are requested to attend corporate meetings to act as observers upon request of parties. In 2002, CRMD attended 18 stockholders and membership meetings.

Database Generation

CRMD encoded 27,848 new primary licenses and 7,606 amendments to primary licenses. In coordination with other divisions, it also issued 1,045 negative certifications, 2,752 corporate filing information certifications on status of corporations, 293 clearance certifications, and encoded 221,29 updates on compliance with SEC reportorial requirements.

Information Dissemination/Advisory Assistance

CRMD rendered advisory assistance or replies to 13,058 walk-in queries and telephone inquiries. Formal replies to 1,634 written inquiries were also sent by the Department.

CORE FUNCTION: ENFORCEMENT

FUNCTIONS

- Investigates possible violations of the Corporation Code, Financing Company Act, Investment Act, Securities Regulation Code, and all other laws administered by the Commission
- When appropriate, takes administrative action or files criminal cases before the proper forum.

ACCOMPLISHMENTS

In 2001 the Department focused its resources in combating “boiler room” operations and succeeded in raiding, disrupting, and filing criminal complaints against twenty-nine (29) corporations and a number of foreign nationals. During the same year, the Department investigated a number pseudo investment firms such as **Multitel Telecoms Inc, Prosperity.Com, G. Cosmos, Powerhomes Unlimited**. All four investigations resulted in the issuance of Cease and Desist Orders (CDOs) and the closing down of their operations. (Excluding Powerhomes which secured an injunction from the Court of Appeals, retraining the Commission from enforcing its CDO. The Commission subsequently filed a motion for reconsideration of the injunction). The Department also focused on FOREX scams and was involved in the investigation of such corporations as **Belkins, Performance Foreign Exchange Inc., Kendeigh Foreign Exchange, and GEI Trading**. Unfortunately, the Court of Appeals has ruled that the Commission has no jurisdiction over FOREX cases. The Commission awaits resolution of its pending motion for reconsideration filed through the Office of the Solicitor General.

In CY 2002, the Department re-focused its resources on pseudo investment firms after noticing the rise of such corporations. In connection with this, the staff investigated **Multitel Holdings Corporation** (an off-shoot of Multitel Telecoms) and a number of its conduits, and on November 21, 2002, CED filed the appropriate criminal complaint against Rosario Baladjay, et. al. In addition, CED also investigated **MMG Holdings** and **Glasgow Credit and Collection Services**. On November 26, 2002, the Commission, with the aid of the Anti-Money Laundering Council, commenced the return of frozen funds to investors in the Glasgow case (See Box 1 for a summary

of actions taken against Glasgow). The Department also made inquiries regarding the operations of **ICS Exports** (in coordination with the PNP) and **MTST Holdings** (in coordination with the BSP and PAF).

Likewise, the Department issued a CDO, initiated revocation proceedings, and filed a criminal case against the president and other responsible officers of Phil-Asia Care Plans, Inc., an unlicensed pre-need company.

With the filing of criminal cases against key suspects in the **BWRC** case, officials and staff have been actively participating and assisting prosecutors of the Department of Justice in the preparation and prosecution of cases that evolved out of the BWRC transactions. Moreover, officials and staff of the Department were instrumental in the settlement agreements entered into by seventy-seven (77) broker firms and around eighty (80) individuals which resulted in the collection of settlement offers amounting to over twenty million (PhP 20,000,000.00) pesos.

Summary of Actions Taken

On October 24, 2001 the Department had a total of eight hundred forty-six (846) cases which were carried-over from the pre-reorganized Commission. As of November 5, 2002 the figure had been reduced to one hundred fifteen (115) cases.

For 2001, the Department opened a total of eighty (80) investigations and as of November 5, 2002, had completed (prosecuted, revoked, closed down the operations, no violation findings) forty-three (43) investigations.

For 2002, the Department opened a total of eighty six (86) investigations and as of November 5, 2002, has completed (prosecuted, revoked, closed down the operations, no violation findings) fifty (50) investigations.

BOX 1. SUMMARY OF ACTIONS TAKEN AGAINST GLASGOW

On June 20, 2002, the CED received an anonymous typewritten letter from a "Concerned Citizen" calling attention to possible illegal investment-taking being conducted at the Citystate Savings Bank Building (along Shaw Boulevard) by a company called **GLASGOW CREDIT & COLLECTION SERVICES, INC.** Under the alleged scheme, investors were promised 15% interest per month, for not more than six (6) months. Within a week thereafter, the CED began receiving verbal queries concerning the legality of **GLASGOW CREDIT & COLLECTION SERVICES, INC.**

Verification with Commission records revealed that the company's primary purpose was to make business of credit and collection services, but no secondary license had been obtained for the offering of investment contracts.

An investigation of the premises was discreetly conducted on **July 3, 2002**. It was learned that between 100 to 200 potential **Glasgow** investors visited the premises daily. The CED also received the sworn affidavits of two individuals who had invested their money with **Glasgow**. The SEC issued a Cease and Desist Order (CDO) against Glasgow on **July 9, 2002**; the same was served on **July 12, 2002**. Through the informants, the numbers of several accounts used by **Glasgow** were obtained, and a Freeze Order was issued by the Anti-Money Laundering Council (AMLC) and served on **July 11, 2002**.

Glasgow filed a Motion to Lift the CDO, which was set for hearing on **July 24, 2002**. However, that same day, the company filed an **Ex-Abundanti Cautela Offer to Settle with Manifestation**, the terms of which stated essentially that Glasgow (the "Proposer") would refund to the investors all their placements; pay the SEC a fine of PhP150,000; and close all its operations. The company, through counsel, also manifested that it would submit its list of investors within a week's time. The Motion to lift the CDO was withdrawn, and the CDO made permanent on **July 30, 2002**.

The Master List of Investors was submitted almost a month later, on August 19, 2002. The Master List was compared with the SEC's unofficial list culled from documents submitted by investors. After comparing the total amount frozen and deducting therefrom the interest payments received by the investors, it was determined that the frozen funds, totaling **PhP 696,297,488.17***, were sufficient enough for each investor to receive 79.376808% less interest payments already received.

The return of investments was made on November 26 to December 10, 2002, January 14 to 17, 2003, and finally on February 6 and 10, 2003. The settlement offer is still pending approval.

* The total amount of investments was PhP 939,284,503.95

Criminal Enforcement Action

Below is the list of criminal cases initiated by the CED and which are currently pending before various courts.

Title of Cases

1. People of the Philippines vs. Dante Tan, et. al (Branch 153)
2. People of the Philippines vs. Dante Tan (Branch 160)
3. People of the Philippines vs. Adam McGlashan, et. al.
4. People of the Philippines vs. George Martin, et. al.
5. People of the Philippines vs. Lorna Verano Yap
6. People of the Philippine vs. Rolando S. Fernandez, et. al.
7. People of the Philippines vs. Enrico Lopez, Reynaldo Patacsil, et. al.
8. People of the Philippines vs. Bong Sub Sim
9. People of the Philippines vs. Alfonso Bello, et. al
10. People of the Philippines vs. Romeo S. Movido
11. People of the Philippines vs. Song Min Suk, et. al (Arirang Transportation)
12. People of the Philippines vs. G & R Construction Dev. & Trading
13. People of the Philippines vs. Jovencio D. Lim
14. People of the Philippines vs. Manolito D. Martin
15. People of the Philippines vs. Katherine Ong, et. al.
16. People of the Philippines vs. Avelino B. Monansala, et. al.
17. People of the Philippine vs. Paulita Mulamion, et. al.
18. People of the Philippines vs. Vicente Menil and Adriana Menil (SEC Cebu Office)
19. People of the Philippines vs. Jose S. Ocampo
20. People of the Philippines vs. Spouses Teodoro & Violeta Lat, et. al.
21. People of the Philippines vs. Teofilo Ceralde, et. al.

Below is the list of cases pending before the Department of Justice and other prosecution offices.

Title of Cases

1. SEC vs Amephil Lending Investors & Credit Corp (IS No. 2001-541)
2. SEC vs. Westmond Investments (IS No. 2000-1732)
3. SEC vs. Renato de Leon, et. al (99-15806)
4. SEC vs. Cabrini Gree and Ross, et. al. (IS No. 2002-226)
5. SEC vs. Dukes and Co. (IS No. 2001-1181)
6. SEC vs. Price Richardson
7. SEC vs. Chen Chung, et. al. (92-791)
8. SEC vs. Dominador Lopez (93-8-4000)
9. SEC vs. Fortunator Moran Sr. (IS No. 902750)
10. SEC vs. Nicasion G. Chung (92-12240)
11. SEC vs. Kyng Soo Lee, et. al. (97-D-24323)
12. SEC vs. Anthony Roldan (94-A-02139)
13. SEC vs. Romeo Villanueva (89-607 SF Pampanga)
14. SEC vs. Efren Ferrer (89-698 Nueva Viscaya)
15. SEC vs. Samuel Baranga (89-128 Isabela)
16. SEC vs. Knut Deteren, et. al. (93-2315 Rizal)
17. SEC vs. Ramon F. Angcao (89-91 Iligan City)
18. SEC vs. Rosario Baladjay (filed on November 21, 2002, Makati City)

Administrative Enforcement Action

CED's administrative enforcement involved actions against market participants and against errant corporations. As in the previous year, the Department channeled its resources in combating boiler room operations and pseudo-investment schemes or those engaged in the sale of unregistered investment contracts.

Below is a breakdown of the major cases initiated by the Department before the Review Unit, exclusive of the thirty-four (34) cases filed in relation to the BW investigation.

TABLE 15. MAJOR ADMINISTRATIVE CASES INITIATED BY CED, CY 2002

Names and Details	Status
1. Planas Construction Corporation	REVOKED on 13 May 2002
2. Newstart Realty Development & Construction Corporation	REVOKED on 30 January 2002
3. Bradford Kempner MGT. Services, Inc.	REVOKED on 20 February 2002
4. Newport Pacific Securities & Mgt., Inc.	REVOKED on 6 November 2001
5. LSR Trading Export & Import Corporation	REVOKED on 25 September 2002
6. East Pacific AAA Foundation, Inc. / West Pacific AAA Foundation, Inc.	REVOKED on 14 October 2002
7. Victory Scuba Diving Center, Inc.	REVOKED on 14 June 2002
8. EmilyVille Development Corporation	REVOKED on 8 August 2002
9. Sure Job International Management Co. Inc.	REVOKED on 10 September 2002
10. Red Sea Bar & Restaurant Inc.	
11. Hiba International Inc.	
12. Sherman Brothers Mgt. Ltd. Inc.	
13. Oxford International Management Inc.	
14. Chitty & June International Inc.	
15. American Automobile International	
16. Primelink Properties & Devt. Corp.	
17. Union Films Exchange Inc.	
18. Holiday Worldwide Inc.	
19. Xing Li International Corporation	
20. Fufu International Corporation	
21. K.E.R. Builders, Inc.	
22. Multi Growth Corporation	
23. New Millenium Era Travel & Tours Inc.	
24. Meldred International Manpower Generals Services, Inc.	
25. Maru International Manpower Services Inc.	
26. Malumpanti Mineral Water Systems Technology Inc.	
27. Jasa Electronics Corporation	
28. Fil-American Humanitarian Foundation Inc.	
29. Sarsate Assorted Int'l Foundation Pilipinas Inc.	

Complaints and Queries Received

Based on phone calls tabulated from the Economic Research and Information Department (ERID) and from CED, the Commission received approximately one thousand nine hundred sixty-one (1961) phoned-in queries covering the months of April to November 2002.

SEC Warnings/Advisories and Investor Alerts

In 2002, eight (8) SEC Warnings/Advisories were issued informing the public about Ponzi and Pyramiding Schemes, and identifying corporations and entities engaged in pseudo investment activities, namely:

1. Access Credit & Development Group
2. AVG Group Of Companies
3. MMC Investment and Finance Corporation
4. Multitel Investment Corporation
5. Multitel Investors Corporation
6. Multitel Lending Corporation
7. Phil-Asia Lending Investors, Inc.
8. Zurich Investment Group
9. AVG Lending Investors, Inc
10. BGA Lending Investors, Inc.
11. Coin's Account Lending Services, Inc.
12. Red Dragon Lending Corporation
13. Mateo Management Group
14. Portfolio Management Services
15. Overseas Workers Stock Capital
16. Glasgow Credit and Collection Services, Inc
17. Multitel International Holdings, Inc.,
18. Mmc Investment and Financial Management Corporation
19. Everflow Group of Companies, Inc
20. MTST Holdings

Coordination with the Department of Trade And Industry

Realizing the fact that a number of pseudo investment activities straddle the jurisdictions of both the Commission and the Department of Trade and Industry (“DTI”), both agencies signed in 2002 a Memorandum of Agreement (“MOA”) laying the groundwork for inter-agency cooperation in combating pyramiding and ponzi schemes.

For the period December 2001 to November 2002, the Commission investigated and referred to the DTI for parallel investigation twenty-eight (28) corporations and entities as they also involved issues concerning sales through multilevel networking.

Coordination with the National Bureau of Investigation

In April 2001, the Commission signed a Memorandum of Agreement (MOA) with the National Bureau of Investigation (NBI) whereby both agencies agreed to cooperate and coordinate their efforts in combating securities related violations.

Since the signing of the MOA, CED has directly participated in nine (9) operations, service of search warrants, and raids, involving nineteen (19) corporations.

The notable corporations targeted by the Department and the NBI were Prosperity.Com, G. Cosmos Philippines, Multitel International Holdings, Glasgow Credit and Collection Services, and Evergreen Consulting Corporation.

Requests Made to the Anti-Money Laundering Council

With the passage of the Anti-Money Laundering Law, the Department has been in the forefront in testing the law and has made eleven (11) requests for freezing of bank accounts with the Anti-Money Laundering Council, which resulted in the issuance of freeze orders for the deposit accounts with around eight hundred million (PhP 800,000,000.00) pesos.

CORE FUNCTION: SUPPORT SERVICES

FUNCTIONS

- Oversees all human resource and administrative support functions for the SEC, including personnel management, procurement and security services
- Provides information to the public on registered corporations and other entities
- Coordinates and/or conducts training to enhance the competencies of employees and assists in the dissemination of information to investors

ACCOMPLISHMENTS

Information Dissemination

In 2002 the Human Resource and Administrative Department's (HRAD) efforts in information dissemination focused on satisfying the public's desire to have fast, easy, and accurate access to corporate records. For this reason, funds in 2002 were used for the conversion and the uploading of documents into the Document Imaging System (DIS).

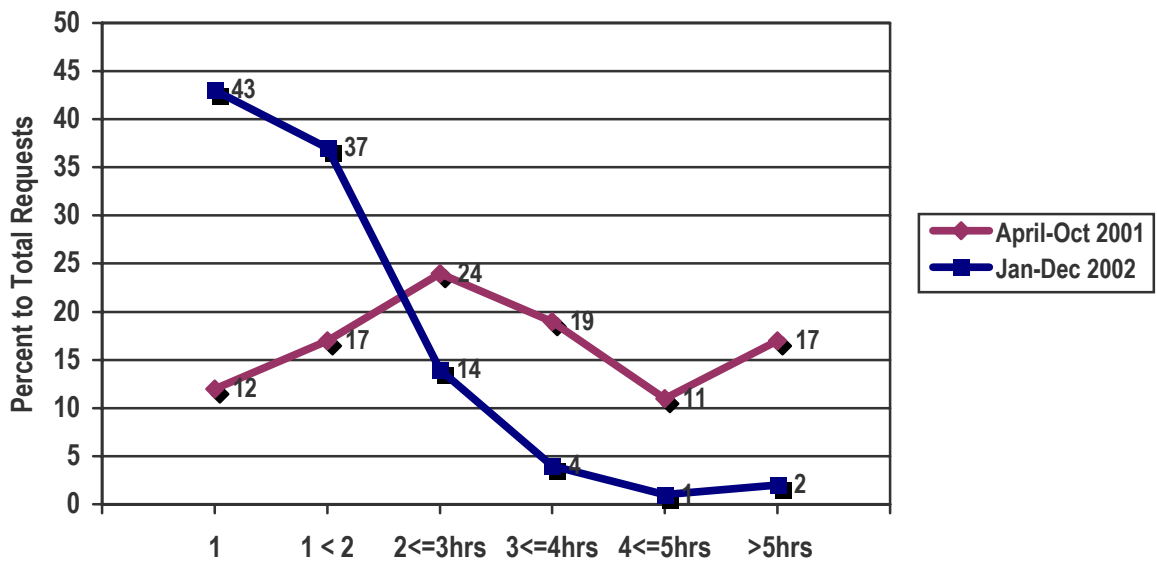
In coordination with the Economic Research and Information Department, HRAD was able to complete the digitization of an estimated 3,082,400 pages of corporate records. These include AFS and other reports which were filed in April of 2002 and backfiles for 1998 and 1999. Approval of the Commission was likewise sought and obtained for the conversion of 1997 microfilmed documents to CDs.

With ERID's support, HRAD's Public Reference Unit (PRU) was likewise able to improve data retrieval through the acquisition of a **State-of-the-Art Mass Storage System** and the installation of four (4) additional computers and two (2) high speed printers. As a result, waiting time has been shortened to 10 minutes on the average. In addition, out of the 88,530 requests received in 2002, PRU was able to serve 80% of the total requests within two hours, a significant improvement from the 30% recorded in 2001.

Chart 9 shows the decrease in public waiting time.

By year-end, HRAD had received various commendations from the public. PRU was likewise able to increase its income to PhP 8.7 million for 2002, 63% higher than the previous year's PhP 5.3 million.

CHART 9. REDUCTION IN WAITING TIME FOR PUBLIC REQUESTS



Training and Development

HRAD facilitated various training and other training related events like public seminars, investor information seminars, staff development. HRAD likewise assisted ERID in the conduct of both the corporate planning and mid-year assessment workshops.

In 2002, about 2,796 people benefited from the 54 various sessions conducted by the Commission. Out of this figure, 1,454 were employees of the SEC and 1,342 were attendees from other government agencies as well as the private sector (Table15) .

TABLE 16. TRAINING PROGRAMS FACILITATED BY HRAD, 2002

Programs	Number of Sessions	Number of Participants
Corporate Planning/Mid-Year Assessment	2	46
Staff Development		
Organizational Development	9	404
Technical Training	25	741
CSC Rules and Regulations	8	236
Gender and Development	1	27
Public Seminars	5	501
Investor Information Seminars	4	841
TOTAL (Jan-Dec 2002)	54	2,796

HRAD's other major accomplishments in the area of training were as follows:

- Processed 42 foreign training invitations and facilitated scholarships for 39 employees;
- Coordinated SEC's On-the-Job Training Program. HRAD placed 198 students in various SEC offices, out of 214 applications received from January to December 2002;
- Administered and evaluated psychological examinations of 54 applicants;
- Established the Learning Resource Center, where small group learning sessions and other group discussions can be held. So far, the first formal session held at the LRC was on the Premise Research Software turned-over by AGILE; and
- Installed the Training Records Information System (TRIS), an MS Project based software that maintains training records of employees. The software was donated by the Australian Agency for International Development (AusAID) after the request was made by the HRAD. The TRIS can provide information about the training history of the employees.

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.

HRAD facilitated the hiring of 29 applicants and the promotion of 16 employees, out of 91 candidates screened for the various positions.

In keeping with efforts to improve performance management, HRAD convened the SEC-Performance Evaluation Committee (SEC PERC) for the first time. The SEC-PERC provided the appropriate venue for confirming the 2001 and 1st half 2002 Performance Ratings, which were used as basis for granting the Productivity Incentive Bonus. The SEC-PERC was likewise actively involved in the development of Performance Standards on Quality, Timeliness, and some Professional Attributes.

HRAD conducted orientations on SEC's Performance Evaluation System (PES), as well as separate workshops for 1st and 2nd level employees, and Assistant Directors on the simplification of PES rating forms.

HRAD improved the existing system for monitoring employee attendance and leave credits and created an Investigating Committee on Administrative Cases. These twin measures have resulted in the following:

- Substantial improvement in employee attendance. Habitual tardiness among employees declined from 72 employees (21%) in 2001 to 24 employees (7%) as of 31 December 2002;
- Commendation given to seven (7) employees for perfect attendance for the 1st Semester 2002;
- Suspension of one (1) employee for unauthorized absenteeism; and
- Filing of formal charges against 10 employees for habitual tardiness.

Finally, HRAD initiated studies on Employee Benefits, specifically the creation of an SEC Provident Fund and HMO Facility. The recommendations on the HMO have been referred to the SEC Credit Union for implementation.

General Services

In keeping with the SEC's objective of ensuring the proper and efficient allocation and use of the Commission's resources, HRAD implemented the following improvements in administrative systems and procedures:

- Reconstituted the SEC Bids and Awards Committee (SEC BAC) to comply with EO 40 dated 8 October 2001, and fully implemented posting of bids through the DBM's Electronic Procurement System (EPS);
- Submitted Monthly Reports on Consumption of Office Supplies, Gasoline and Photocopying Services;
- Prepared "Model Contracts" for security and janitorial services, and lease contracts for implementation in 2003; and
- Undertook cost saving measures to optimize resources, which generated savings of PhP 1.760 Million from the Main and Extension Offices. The savings came from the review of contract rates and the reduction in janitorial and security personnel in Head Office as well as in Extension Offices. HRAD also negotiated for the deferment of the 5% rental increase for the SEC Annex Building.

CORE FUNCTION: SUPPORT SERVICES

FUNCTIONS

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

ACCOMPLISHMENTS

The Financial Management Department (FMD) continued to take the lead in formulating the basic policies and guidelines for the preparation of the budget of the Commission. FMD introduced improvements in the maintenance and administration of the accounting systems pertaining to the accounts of the Commission. More specifically, in line with the government-wide adoption of the New Government Accounting System (NGAS), FMD converted from the old Trial Balance to the NGAS effective January 1, 2002. As a result, FMD received from the Commission on Audit (COA) a commendation letter dated December 26, 2002.

FMD reported that in CY 2002, SEC's total revenue collection from service fees, fines, and penalties amounted to PhP 861.76 Million which is PhP 527.09 Million greater than its total expenditures of PhP 334.67 Million for its personnel, maintenance and other operating expenses, and capital outlay. Its total revenue collection of PhP 861.76 Million exceeded by PhP 268.42 Million, the projected income of PhP 593.34 Million. A more detailed discussion of SEC's financial performance in CY 2002 was presented previously in Part IV.

In handling the resources of the SEC and the government, FMD has been observing prudence, exercising due diligence, and promoting transparency.

Conferences with DBM and COA Officials

FMD represented the Commission in a series of conferences with DBM officials to discuss SEC's remuneration system and facilitate the release of SEC's budgetary requirements. FMD likewise attended discussions with COA regarding the issuance of the appropriate Accounting Procedure for the implementation of Sec. 75 of the SRC, which authorized the SEC to retain

and utilize the amount of PhP100 Million per year from its income, and the conversion of the SEC Accounting System from the old trial balance to NGAS.

Other Accomplishments

The other accomplishments of FMD are summarized in the following table.

TABLE 17. OTHER ACCOMPLISHMENTS OF FMD, CY 2002

Total No. of Allotment and Obligations Slips (ALOBS) Issued	2,113
Total No. of Letters/Memos/Certifications Prepared/Released	935
Total No. of Disbursement Vouchers Received/Pre-audited/Processed/Released	3,589
Total No. of Communications/Memos Received	1,974
Total No. of Daily Teller's Reports/Report of Collections Prepared/Received for the year 2002	1,088
Total No. of Report of Disbursements Prepared for the year 2002	12
Total No. of Summary Lists of Checks Issued and Cancelled for the year 2002	36
Total No. of Remittance Advices Issued	255
Total No. of Allotment Slips Processed	1,541
Total No. of Disbursement Reports of Extension Offices Reviewed	84
Total No. of Remittances Made to GSIS, Philhealth, and PAG-IBIG	1,328
Total No. of BIR forms 2307 and 2316 Prepared/Submitted	60
Total No. of BIR Forms 1600, 1600E and 1600 CF Prepared/Submitted	36
Total No. of Tax Remittance Advices Prepared/Filed with the BIR	36
Total No. of Trial balances Prepared/Submitted	24
Total No. of Journal Entry Vouchers Prepared	525
Total No. of Bank Statements Reconciled	36

CORE FUNCTION: SUPPORT SERVICES

FUNCTIONS

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

ACCOMPLISHMENTS

Management of Information Systems

Following the IT roadmap set in the SEC's Updated Information Strategic Systems Plan (ISSP), the Economic Research and Information Department (ERID) worked towards the implementation of various information systems necessary to support the operations of the reorganized SEC. ERID facilitated the modular approach in implementing two mission-critical systems in CY 2002, namely:

- **SEC i-Register, the Commission's on-line company registration system.** On 7 June 2002, following the provisions of the E-Commerce Act, SEC officially launched the SEC-iRegister. With the implementation of SEC-iRegister, SEC's website is now capable of business-to-government transactions. SEC-iRegister allows clients to do the following online:
 - a) Verify and reserve their proposed company name;
 - b) File their application for registration;
 - c) Pay the appropriate registration fees; and
 - d) Receive same-day approval on-line.

With SEC-iRegister, SEC has become fully compliant with the E-Commerce Act, which called on government agencies to deliver services to the public on-line by 30 June 2002, two (2) years after its enactment. SEC-iRegister has enabled SEC to attain the

government's goal for *E-Gobierno*, particularly the transition in the delivery of government services from citizens waiting in line, to citizens going on-line.

Since the official launching in June until 31 December, SEC-iRegister on-line transactions for name verification reached 146,203, while transactions for actual name reservation reached 70,254.

- **State-of-the-Art Mass Storage System/Document Imaging and Retrieval System.** To further deliver efficient public service, ERID undertook all the processes that resulted in the acquisition of a mass storage equipment scalable to accommodate the growing storage capacity of the document imaging system (DIS) being used by the Public Reference Unit (PRU). The equipment improved the turn-around time for clients requesting to obtain corporate documents, i.e., audited financial statements, general information sheet, and articles of incorporation, among others. To complement the storage equipment's efficiency for retrieving corporate documents, two (2) high-speed laser printers were installed at the PRU. Both the storage equipment and printers have helped not only in increasing PRU's productivity and revenue collections, but more importantly, improving the delivery of prompt services to the public.

Acquisition of IT Resources

ERID continued to facilitate the acquisition of IT resources ranging from PC workstations, servers, network equipment, and other computer peripherals such as high speed printers and scanners. Likewise, software packages were acquired in accordance with required specifications in the development of the information systems such as operating system, relational database management system, development tools and utilities.

ERID facilitated the acquisition of the basic servers required to operationalize SEC's web-based company registration system (or SEC-iRegister), namely: Web server, Application server, and Database server. These servers and network equipment are installed and configured to provide high-availability and sufficient transaction processing needed in a 24x7 online transaction processing application system such as the SEC-iRegister. These entry-level

servers are scalable so that these can be utilized in the succeeding system applications to be developed as we continue to implement our updated ISSP.

Enhancements in SEC's Website

Since 2001, ERID has been implementing improvements in SEC's Website to make it more responsive and updated on all matters pertaining to SEC and the issues of interest to the investing public. These changes have transformed the Website into a more dynamic, substantive, and user-friendly facility for disseminating information and delivering services to the public. The increased content resulted from the cooperation given by the various departments.

Improvements in SEC's Corporate Planning and Monitoring and Evaluation Processes

Since 2001, ERID has spearheaded improvements in SEC's planning and monitoring and evaluation (M&E) processes, to bring these in line with broader reforms in Public Expenditure Management (PEM). These improvements were sustained in 2002, through the following initiatives:

- Conception and dissemination of SEC's Standard Guidelines for the Preparation of Operational Plans, which translate the broader spectrum of reforms in PEM into a set of requirements tailor-suited to the needs and functions of the SEC.
- Conduct of SEC's 2002 Corporate Planning Workshop on 18-19 January 2002, which introduced the following improvements in planning and M&E:
 - a) A prioritization process to identify the critical issues or strategic priorities for 2002, based on a careful consideration of SEC's capabilities, external environment, and resource constraints;
 - b) Identification of clear accountabilities for the delivery of these operational priorities; and
 - c) Identification of aggregate performance measures and targets for the year.
- Conduct of a Mid-Year Assessment Workshop in June 2002, in keeping with efforts to implement an enhanced performance assessment system for the SEC.

- Provision of support to the Financial Management Department (FMD) in monitoring and reporting SEC's accomplishments vis-à-vis its stated performance targets to the Department of Budget and Management, and preparing the necessary planning documents and presentations for the FY 2003 budget deliberations. This was in keeping with the PEM objective of strengthening the linkage between planning and budgeting.
- Coordination with the DBM and NEDA with respect to the formulation of SEC's Major Final Outputs, another major initiative under the PEM reforms.

Standard-Setting to Improve Regular Data Collection, Processing, Analysis and Dissemination

In 2002, ERID conducted a review of the data being generated by the SEC in the performance of its mandate, in order to organize and improve regular data collection, processing, analysis and dissemination. As a result of the review, ERID developed a list of a shortlist of data that summarizes the information most often requested by both internal and external users for policy analysis, economic research, and performance assessment. ERID likewise prepared proposed standardized formats/templates for reporting the data contained in the shortlist.

The data shortlist will constitute the core information that will be disseminated by the SEC in its accomplishment reports, statistical compendium, and Website. The shortlist is slated for implementation in 2003.

In addition to the development of the data shortlist, ERID assisted the operating departments in revising the existing templates for the submission of Financial Statements (FS) in electronic format, in compliance with Section 27 of the E-Commerce Act, and in support of the Commission's drive towards harmonizing the Special Accounting Rules (SRC Rule 68) with International Accounting Standards (IAS),

ERID's efforts towards standardizing the FS templates are aimed at facilitating the processing of data. The same would be used as inputs to the envisioned Compliance Monitoring and Enforcement System (CMES), which would provide information that would support SEC's initiatives towards improving its M&E activities, promoting Good Corporate Governance, and providing timely access to information on the financial condition of SEC-registered companies.

Research Assistance

ERID provided research assistance in the drafting of policy papers/speeches. In addition, the Department continued to attend to the data requests of external clients.

Investor Information and Assistance

As of Oct 2001, inquiries and complaints addressed by ERID were as follows:

	2001	Oct 2002
a. Response to web-related issues/public inquiries coursed thru the SEC WebPage Email facility	354	851
• No. of Emails received/responded to (428)		
• No. of Emails forwarded to the concerned department/s (423)		
b. Queries/inquiries attended to	50,221	67,244
• Walk-in (42,953 in FY 2001)	43,281	
• Phoned-in (7,268 in FY 2001)	23,112	
c. Complaints handled	740	407
• Complaints resolved (131)		
• Complaints referred to other depts. (276)		

Among the mode of communicating inquiries to the SEC, telephone calls from the public increased by three-fold in ten months of 2002 as compared to the whole of 2001. About a third of the frequently asked questions pertained to requirements for registration of companies, another one third had to do with verifying the SEC registrations of certain companies, while the rest concerned general queries. After a series of published SEC advisories against pseudo-investment activities and high-profile SEC crack down on such companies like Multitel, Glasgow, and MMG, the volume of telephone inquiries and complaints on these cases and similar fraudulent activities increased dramatically. The list of frequently verified firms and the business activities the public relate about them are regularly reported to the CED for detection of potential violations against laws and regulations that SEC administers.

In 2002, the SEC stepped up measures to stem the proliferation of pseudo-investment scams. With ERID as the lead coordinator, SEC strengthened its investor education and assistance efforts to increase public awareness regarding safe investing, SEC's initiatives to protect investors, and avoiding different types of investment fraud.

A Citizen's Manual has been prepared and is being disseminated in English and one in Filipino, setting out in simple, understandable terms, SEC's processes and other most-sought after information.

Web-based information materials and education tools for investors have been made available on SEC's website, www.sec.gov.ph, covering all matters pertaining to SEC and the capital market, as well as useful information on scams and swindles.

In addition, ERID coordinated the organization of a series of Investor Information Seminars held in key cities. The Seminars were intended to promote the importance of informed investing and motivate the public to take personal responsibility for their investment decisions and financial security. These seminars were very well received based on the attendance and feedback.

THE EXTENSION OFFICES

FUNCTIONS

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

ACCOMPLISHMENTS

Company Registration

In CY 2002, the SEC Extension Offices registered a total of 6,102 firms, of which 3,695 (61%) were non-stock corporations, 1,856 (30%) were stock corporations, and 551 (9%) were partnerships. Total capitalization and contribution amounted to PhP 1.216 Billion, disaggregated as follows:

- Stock Corporations – PhP881.68 Million (72%)
- Non-Stock Corporations – PhP 205.89 Million (17%)
- Partnerships – PhP 128.80 Million (11%)

Financial Performance

In the aggregate, the SEC Extension Offices posted a net income of PhP 12.638 Million in CY 2002. Total revenues reached PhP 39.358 Million, while total expenses reached PhP 26.720 Million.

By revenue source, registration, filing, and certification fees accounted for PhP 33.054 Million, or 84% of the total. Fines and penalties were the second major income source with PhP 5.970 Million (15.2%). Miscellaneous Income accounted for less than one percent of the total with PhP 334,000.

The following table summarizes the individual performance of SEC's extension offices in 2002.

TABLE 18. SUMMARY ACCOMPLISHMENT REPORT, EXTENSION OFFICES, 2002

Output/Performance Indicator	BAGUIO		LEGASPI		ILOILO		CEBU		DAVAO		CAGAYAN DE ORO		ZAMBOANGA	
	QUANTITY	AMOUNT (PhP)	QUANTITY	AMOUNT (PhP)	QUANTITY	AMOUNT (PhP)	QUANTITY	AMOUNT (PhP)	QUANTITY	AMOUNT (PhP)	QUANTITY	AMOUNT (PhP)	QUANTITY	AMOUNT (PhP)
1. Financial Highlights														
a. Total Collections/Income		3,600,268.45		1,500,299.80		4,448,043.00		15,790,397.00		9,452,492.41		3,010,046.21		1,556,588.96
i. Registration/Amendment		2,440,787.00		1,235,759.80		3,687,140.00		13,257,155.00		8,778,728.40		2,718,245.82		935,948.96
ii. Fines and Penalties		928,080.50		161,900.00		760,903.00		2,533,242.00		673,764.01		291,800.39		620,640.00
iii. Miscellaneous Income		231,400.95		102,640.00										
b. Total Expenses		1,737,461.92		2,252,669.90		4,847,406.00		7,628,590.00		5,223,326.94		2,207,274.77		2,823,490.15
c. Net Income (Loss)		1,862,682.53		-752,370.10		-711,508.00		8,161,807.00		4,229,165.47		802,771.24		-1,266,901.19
2. Companies Registered														
a. Stock Corporation (paid-up capital)	128	154,459,349.00	68	76,528,602.89	299	94,971,001.00	739	262,226,545.00	412	462,053,644.00	156	74,580,178.00	54	19,090,550.00
b. Partnerships (contribution)	94	32,530,970.00	31	10,780,000.00	79	20,942,000.00	159	38,664,332.00	129	39,256,498.00	36	16,295,000.00	23	8,993,900.09
c. Non-Stock Corporation (contribution)	717	46,621,576.00	350	7,778,037.00	481	13,124,256.00	590	43,298,507.00	859	54,112,714.00	469	16,862,281.00	229	67,395,381.00
3. Show Cause/Collection Letters Sent	2,798		218		85		2,167		1,661	-	600		526	
4. Orders Issued	345		40	-	52		553		31	-	92		120	
5. Audits Conducted	-		7		25		8		432	-	-		-	
6. Processes served	-		-		-		3		24	-	4		-	
7. Prosecution/Investigation Conducted	1		-		-		73		53	-	5		-	
8. Training/Seminar/Conference Attended	9		30		16		21		50	-	6		7	

VI. MEMORANDUM CIRCULARS ISSUED IN CY 2002

In this section:

■ **Rules or guidelines formulated and promulgated by the SEC through the issuance of Memorandum Circulars**

In 2002, SEC issued seventeen (17) memorandum circulars, promulgating new rules and guidelines, in keeping with its mandate to establish a fair and transparent regulatory system and its regulatory function founded on the principles of market integrity and investor protection.

1. **SEC Memorandum Circular No. 1 -- Anti-Money Laundering Operating Manual for Covered Institutions** (issued on 22 January 2002). The Circular directs all covered institutions to comply with the Manual's procedural guidelines on the implementation of the Anti-Money Laundering Act of 2001, which defines and criminalizes money laundering and establishes a forfeiture system for confiscating assets acquired with the proceeds of specific predicate criminal offences.

More specifically, the guidelines cover the following:

- Filing of Covered Transaction Report
- Filing of Suspicious Transaction Report
- Establishment of Customer Identification System
- Maintenance and Retention of Record of Transactions
- Institution of Reporting Procedures and Compliance Manuals
- Establishment of Training and Internal Control Procedures

Covered institutions were required to submit their Statements of Policies and Procedures in accordance with the Operating Manual for review and approval by the Commission, on or before 01 July 2002.

The enactment and implementation of AMLA bodes well for the protection of investors since money of doubtful origin can no longer be used to speculate against legitimate

investors trading in domestic market instruments, such as equity shares and short-term debt instruments, both public and private.

2. **SEC Memorandum Circular No. 2 -- Code of Corporate Governance** (issued on 5 April 2002). The Code of Corporate Governance establishes practical reform measures that address classic corporate governance problems, namely: conflicts of interest; asymmetric access to information; weak professional competence in management, investment and administration; and weak, incomplete, or unclear mechanisms for accountability and transparency.

The Code prescribes, among others, higher qualification standards for directors, higher ethical standards for directors and committees, accountabilities of the board, the management, and the company's external auditors, 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.

The Code is applicable to listed/public companies and corporations whose securities are either registered or listed. Generally, those corporations are grantees of permits/licenses or secondary franchise from the Commission. More specifically, the licensed market participants and those corporations that are licensed to sell securities and other market instruments. The Code also applies to branches or subsidiaries of foreign corporations operating in the Philippines whose securities are registered or listed.

All corporations affected by the Code were expected to promulgate and adopt their own manuals of corporate governance in accordance with the Code. A Model Manual of Corporate Governance was issued to guide covered companies. The Code required covered corporations to submit their manuals by 01 September 2002 which should take effect on 01 January 2003.

3. **SEC Memorandum Circular No. 3 – Documentary Requirements for Price Increase by Pre-Need Plan Issuers** (issued on 29 April 2002). The Circular is intended to protect plan holders from unjustifiable price increases, by identifying the documentary requirements that should support any application for price increase by pre-need plan issuers. Among others,

the requirements seek to establish whether changes have been made in the underlying actuarial assumptions, ensure that no violations have been made with respect to the trust fund, and provide the new price schedule.

4. **SEC Memorandum Circular No. 4 – Guidelines on the Minimum Paid-Up Capital Requirement for Existing Pre-Need Companies** (issued on 30 April 2002). The Circular requires existing pre-need companies to put up PhP 100 million in paid up capital no later than 30 April 2002. The new requirement is part of prudential reforms which seek to ensure that the companies are able to service their obligations to the plan holders as they fall due.

Those who meet the PhP 100 Million paid up capital requirement are allowed to sell three plan types as well as traditional education plans. On the other hand, those unable to meet the capital requirements must limit the types of plan that they sell, as follows:

With traditional education plans	PhP 100,000,000
With three plan types	100,000,000
With two plan types	75,000,000
With one plan type	50,000,000

5. **SEC Memorandum Circular No. 5 – Accreditation and Reportorial Requirements of External Auditors of Public Companies** (issued in June 2002). The Circular institutes reforms to safeguard the independence and integrity of external audits. Among others, it requires all external auditors being engaged by public companies to register with the SEC. The Circular also requires external auditors to notify the SEC of errors, fraud, or losses which their client-companies fail to disclose.

As a supplement to the SEC’s Pre-Need Rules on Registration and Sale of Pre-Need Plans, three memorandum circulars were issued in June of this year, namely:

6. **SEC Memorandum Circular No. 6 – Standards For Valuation of Actuarial Reserve Liabilities for Pre-Need Plans** (issued on 27 June 2002)

7. **SEC Memorandum Circular No. 7 – Required Information to Accompany the Actuarial Reserve Valuation Report of Pre-Need Companies** (issued on 27 June 2002).
8. **SEC Memorandum Circular No. 8 – Responsibilities of Actuaries in Pre - Need Actuarial Reserve Valuation** (issued on 27 June 2002).

Circular Nos. 6, 7, and 8 provide supplementary regulatory measures and prudential regulation on the treatment of trust funds and their investments, to ensure plan holders' protection. More specifically, they provide for interest rate assumption benchmarks and minimum termination values, and prescribe the net level reserve method.

9. **SEC Memorandum Circular No. 9 – AMLC Forms For Covered Transaction Reports and Suspicious Transaction Reports For Covered Institutions** (issued on 27 June 2002). The Circular provides the common forms for covered transaction reports and suspicious transaction reports for all covered institutions, which supersede the forms prescribed in the Anti-Money Laundering Model Operating Manual for Covered Institutions under SEC Memorandum Circular No. 1.
10. **SEC Memorandum Circular No. 10 - SFAS Adoption** (issued on 4 July 2002). Approves the adoption in its rules and regulations of the following Statements of Financial Accounting Standards, as approved in March 2002 by the Professional Regulation Commission through the Board of Accountancy after they were approved by the Accounting Standards Council. The Memorandum Circular becomes effective for audited financial statements covering the period beginning 01 January 2002 and for interim financial statements starting 2003. All data/information shall be presented or restated to conform with the provisions of the aforementioned new accounting standards for comparability.
11. **SEC Memorandum Circular No. 11 - Lending Investors** (issued on 8 August 2002). Extends to six (6) months or up to May 2, 2003 within which to comply with the requirements of SEC Memorandum Circular No. 13, Series of 2001 dated 11 October 2001.
12. **SEC Memorandum Circular No. 12 - Submission of Special Forms for Financial Statements and Quarterly Reports** (issued on 14 August 2002).

13. **SEC Memorandum Circular No. 13** - Submission of Special Forms for Financial Statements and Quarterly Reports (issued on 29 August 2002). Revokes MC No. 12 and requires each financing company to submit the following:

(1) Four (4) hard copies of Annual Audited Financial Statements (AAFS) duly stamped "Received" by the Bureau of Internal Revenue within 120 days from the end of the fiscal year specified in the corporation's By-Laws (or 105 days from the end of the fiscal year for a corporation whose securities are registered under the Revised Securities Act or the Securities Regulation Code);

(2) A hard copy each of the following Special Forms of Annual Audited Financial Statements:

- [FCFS1](#) for every company and each branch
- [FCFS2](#) - Consolidated (head office and all branches) within the period prescribed in item (1) above and accompanied by a Certification under oath by the Treasurer that the Special Forms contain the basic data as those in the hard copies of the AAFS. A corporation with Gross Sales or Revenue of at least Ten Million Pesos (PhP10,000,000) is required to submit a diskette containing the electronic copy(ies) of FCFS1 and FCFS2, together with a Certification under oath by the Treasurer that the diskette contains the same substance or data as those in the hard copies of the AAFS.

(3) Two (2) hard copies of the following Special Forms of Quarterly Financial Statements (QFS) in lieu of the current form of quarterly reports:

- [FCQF1](#) for every company and each branch
- [FCQF2](#) - Consolidated (head office and all branches) within forty-five (45) days from the end of every quarter.

14. **SEC Memorandum Circular No. 14** - Guidelines for Accreditation of Institutional Training Providers on Corporate Governance (issued on 30 August 2002). To ensure that quality training on good corporate governance principles and standards is provided for the directors of corporations covered under the Code of Corporate Governance, the conduct of

seminars/trainings on said topics shall be made by institutional training providers that are duly recognized and accredited by the SEC.

15. **SEC Memorandum Circular No. 15** – Creation of the Accreditation Committee (issued on 30 August 2002). Creates the Accreditation Committee which shall be responsible for accrediting qualified institutional training providers on corporate governance and for monitoring proper conduct of the same.

16. **SEC Memorandum Circular No. 16** - Guidelines on the Nomination and Election of Independent Directors (issued on 28 November 2002). Sets out the definition of independence, the required number of independent directors, and the duties of the Nomination Committee in the process of screening the candidates.

While Sec. 38 of the SRC only applies to listed/public companies, MC No. 16 is applicable to listed/public companies and those granted secondary licenses by the Commission. MC No. 16 also encourages all other companies to have independent directors as well.

17. **SEC Memorandum Circular No. 17** - Schedule of Fees, Fines and Penalties (issued on 29 November 2002).Adopts the schedule of fees, fines and penalties for Government Securities Eligible Dealers (GSED), pursuant to Rule 13.3.1 (c) of the Amended Rules Governing Secondary Market Trade of Government Securities.

VII. PRIORITIES IN CY 2003

In this section:

■ **Strategic objectives and activities lined up for the year**

1. Pursue SEC's extensive policy agenda

SEC will continue to push for policy reforms to finally bring back confidence in and spur the growth of the Philippine capital market. In particular, we will continue to lobby for legislation that will strengthen the country's legal investment framework; pursue our rulemaking agenda through the promulgation of new rules or rule amendments; and spearhead the development of a new strategic plan for the development of the capital market.

We will continue to push for reforms that will realign existing legislation with current industry practices and the provisions of the Securities Regulation Code. These include the *Revised Investment Company Act*, the *Corporate Recovery Act*, the *Pre-Need Code*, and *legislation to increase corporate responsibility and accountability*, consistent with reforms in corporate governance.

We will work towards the much-needed *amendments in the SRC*, and we will continue to liaise with the Philippine Stock Exchange on this initiative. We will also continue to draft the proposed *amendments in the Corporation Code*, in coordination with such esteemed partners as the UP Law Center.

The *Special Purpose Vehicle Act (SPVA)* has been approved by Congress and signed by the President, and we are fully committed to its implementation.

With regard to our rule-making agenda, topping the list of our priorities are the following:

- a) IRR of SPVA to be submitted to the Congressional Oversight Committee;
- b) amendments in the SRC's IRR, a process which we have already started;

- c) promulgation of revised rules on Futures Trading, in preparation for the proposed reopening of the country's Futures Exchange; and
- d) adoption of the risk-based model for brokers/dealers.

Finally, we will begin developing a new Five-Year Strategic Plan for the Development of the Philippine Capital Market.

2. Sustain reforms in corporate governance

In 2002, SEC issued several circulars to promote the efficient working of the capital market, covering corporate governance practices; harmonizing accounting rules and regulations with international best practices; and strengthening the independence of external auditors.

Currently, there are initiatives in both the House of Representatives and the Senate to pass legislation that would increase corporate responsibility and accountability and codify many of the corporate governance reforms adopted by the SEC last year². We will therefore work closely with the House and the Senate, to ensure that these proposed legislation will be of the form and substance necessary to bring about true and lasting corporate governance reform.

In addition to providing technical support for legislation, we will continue to pursue further reforms in corporate governance by *aggressively monitoring compliance with existing circulars; imposing the appropriate sanctions against errant firms or individuals; and promulgating new rules when necessary.*

Leading our list of priorities in this area are the following:

- a) Developing procedures for monitoring compliance with the Code of Corporate Governance, Memorandum Circular No. 5 s. 2002, and other related circulars. This would include:

²These are, namely: HB No. 5260 (An Act Providing for Corporate Accountability, Fixing the Penalties for Any Violation Thereof and Appropriating Funds Therefore and For Other Purposes) and Senate Bill 2407 (Corporate Responsibility Act of 2002)

- Designing a self-assessment system and disclosure process to be utilized by covered companies;
 - Conducting on-site evaluation of actual corporate governance practices, vis-à-vis international best practices and the provisions of the Code of Corporate Governance; and
 - Formulating additional guidelines for proper implementation of corporate governance principles.
- b) Ensuring compliance with the requirements on board directors, especially independent directors. The appointment of independent directors is included in the Code of Corporate Governance, and is mandatory for listed/public companies, consistent with Section 38 of the SRC. Despite the minimum requirement set in Sec. 38, we have consistently encouraged companies to go beyond this provision and appoint more independent directors to the board.

In addition, on 28 November 2002, we issued Memorandum Circular No. 16 s. 2002, or the Guidelines on the Nomination and Election of Independent Directors. MC No. 16 was issued with the aim of finally resolving disputes among shareholders over who should be independent directors. Among others, it sets out the definition of independence, the required number of independent directors, and the duties of the Nomination Committee in the process of screening the candidates.

While Sec. 38 of the SRC only applies to listed/public companies, MC No. 16 is applicable to listed/public companies and those granted secondary licenses by the Commission. MC No. 16 also encourages all other companies to have independent directors as well.

Section 38 of the SRC, the Code of Corporate Governance, and MC No. 16 provide a solid groundwork for ensuring that the Board is able to function in an independent and competent manner. Building on this foundation, the challenge for 2003 is to work towards amending the Corporation Code and SRC Sec. 38 to integrate key corporate governance reforms in this area. Chief among these would be allowing independent directors to comprise at least one-third of the board of listed firms. We would also like

to include the fit-and-proper rule for directors or officers, to provide more stringent criteria for qualifications and disqualifications of persons nominated for these positions.

c) Sustaining efforts to improve the *substance* and *process* of accounting and auditing.

This would include:

- Continuing phased amendments in SRC Rules to incorporate accounting and auditing standards, until these standards are fully adopted in 2005. The global convergence towards IAS has been gaining momentum, so much so that even the US Financial Accounting Standards Board, which for years insisted on sticking to the US GAAP, has declared a willingness to move towards IAS. The 2005 timetable should provide us with enough incentive and momentum to secure improved accounting standards.
- Strictly enforcing the provisions on auditor independence in the Code of Corporate Governance and MC No. 5, while at the same time determining whether additional SEC rules are required. For instance, since MC No. 5 only covers the auditors of listed/public corporations, we are looking into the possibility of requiring the accreditation of auditors reviewing the financial statements of Non-Bank Financial Institutions. We will also study whether new rules are needed to bring existing ones in line with emerging international best practices, including the latest principles of Auditor Oversight and Auditor Independence as stated by IOSCO.
- Encouraging the accounting industry to be more proactive in developing standards and best practice measures, and ensuring compliance with those standards. This will maximize the flexibility afforded by the current principles-based approach to regulation.
- Working with the Board of Accountancy (BoA), the Philippine Institute of Certified Public Accountants (PICPA) and the Professional Regulation Commission (PRC) to promote professional leadership in, and strengthen oversight of, the accounting industry. In lieu of an oversight committee on accounting similar to the US Oversight Board, the BoA, PICPA, PRC and SEC must collectively meet the need for a strong investigatory and disciplinary body that will establish standards,

oversee the profession, and impose substantive penalties to encourage quality work and ethics.

One emerging area where coordination among these institutions is needed, involves the updating of the Code of Ethics for Certified Public Accountants, to bring it in line with the International Federation of Accountants (IFAC) standard.

3. Ensure the Philippine Stock Exchange's compliance with the SRC's provisions on lessening control by the brokers

Pursuant to Section 33.2 (c) of the SRC which mandates the PSE to broaden its ownership base, we will *enjoin the PSE to list its shares as soon as possible*, even without undergoing an initial public offering (IPO), to allow member-brokers to divest their shares in the PSE. By divesting their shares, brokers can already abide by the provision that brokers as a group should own no more than 20 percent of the demutualized exchange. As for the IPO, the latest the PSE can do this is December 2003, but we will encourage the PSE to do so by August of this year.

4. Revitalize the securities market and broaden investment options for market players

SEC will continue to support the PSE's efforts to broaden the quality and quantity of stocks traded at the bourse. WE have already started encouraging Top 5,000 corporations and the major BOI-registered entities to list their shares. We are likewise encouraging companies with at least PhP 50 million in total assets and at least 100 stockholders to list in the PSE's SME Board.

In addition, we will continue to advocate the enforcement of the free-float rule at the PSE, to bolster market liquidity.

5. Sustain reforms in the regulation of the pre-need industry

The imminent passage of the Pre-Need Code bodes well for the pre-need industry, since the law will codify many of the existing rules and regulations and provide the framework for the adoption of prudential measures that are in the pipeline. We also welcome the prospect

of transferring the regulation of the pre-need industry to the Insurance Commission; this will allow us to focus on laying the groundwork for reopening the Futures Exchange.

The passage of the Code is expected to take place early next year; in the interim, we will continue to study proposed measures that will improve the regulation of the Pre-Need industry. Some of the measures currently under review are the following:

- a) Establishing a pre-need planholder's protection plan, a reform included in the proposed Pre-Need Code;
- b) Setting standards for the accrediting the auditors of pre-need companies, similar to but not as stringent as the existing standards for the auditors of listed companies; and
- c) Requiring actuaries and compliance officers to undergo stricter accreditation processes; and
- d) Setting up a liquidity fund out of a portion of the trust fund under study by the trustee banks.

6. Continue streamlining registration procedures and processes

We will further simplify and streamline our procedures and processes for registration by, among others:

- a) Further reducing the number of registration requirements;
- b) Developing a single license regime for investment houses, underwriters of securities and government securities dealers; and
- c) Developing systems for the on-line licensing of market participants and market instruments.

We will continue cleaning-up our registration file, by deleting corporations who are not complying with reporting requirements.

7. Strengthen enforcement actions and significantly increase public confidence in SEC enforcement.

We will continue to aggressively investigate and prosecute capital market violations and pseudo-investment scams. In support of this objective, we will implement a standard complaints receiving and tracking system, to improve our response and decrease our response time to complaints and calls for investigation.

We will dispose of all our remaining pre-2000 cases by the first quarter of this year, and 75% of 2001 pending cases by the second quarter.

We will also install an appropriate market surveillance system to build up our capability for market surveillance, regulation and enforcement.

8. Intensify compliance monitoring activities.

To support our enforcement actions, *we will intensify compliance monitoring in 2003*. Our priorities in this area include the following:

- a) Implementing the Compliance Monitoring and Evaluation System, which will provide an automated facility to monitor the compliance of registered entities with government laws and regulations. CMES will enable online analytical processing of the financial performance of registered entities, as well as provide a mechanism to monitor enforcement of actions against non-complying companies. The first two phases of this project, called SEC-i-Report, will allow decentralized access to the SEC corporate files, i.e., web-based document imaging and retrieval and on-line submission of reports;
- b) Strengthening on-site compliance audits and on-site investigations to verify suspected or alleged violations of SEC rules and regulations. Among others, we will continue to conduct thematic audits and implement joint SEC-BSP and SEC-PSE audits; and
- c) Intensifying the 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.

9. Intensify and broaden the reach of investors' education/assistance.

Along with determined enforcement, we will continue to generate confidence in the Philippine capital market through investor education and assistance. We will *step up our efforts to provide the public with the information and skills necessary for them to make intelligent investment decisions.*

In 2002, we disseminated a Citizen's Manual in English and Filipino, providing basic information on SEC processes and schedule of fees, fines and penalties, among others. To expand the reach and popularity of the Citizens Manual, in 2003 we will have the Manual translated into popular Filipino, Cebuano, Hiligaynon, Ilocano and Bicolano. In addition, we will continue to issue "Investor Alerts" and advisories regarding investment scams and fraud.

Web-based information materials and education tools for investors will continue to be made available on SEC's website, www.sec.gov.ph, covering all matters pertaining to SEC and the capital market, as well as useful information on scams and swindles. The implementation of SEC-i-Report will also facilitate the dissemination of corporate document to the public. This will make available on the Internet all corporate records that have been digitized. Thus, parties needing these records can access the same 24 hours a day seven (7) days a week.

We will continue the conduct of the provincial Investor Information Seminars which we started this year, taking into consideration the lessons learned and suggestions of this year's seminar participants.

Finally, since we have yet to fully capitalize on broadcast media to disseminate information with maximum coverage and efficiency, we are looking at the possibility of producing educational videos, and movie/TV-ready investor alert infomercials that would focus on the prevention of investment scams and fraud. We are hopeful that our partners in the private sector would take part in this initiative.

10. Sustain SEC's financial performance by meeting the revenue target for 2003 and maintaining expenditure efficiency.

For the past five years, SEC has been a net contributor to the Philippine treasury. We intend to sustain this track record in 2003, and do our share in reaching the broader goal of taming the budget deficit.

On the revenue side, we project an increase in our revenue by fifteen percent (15 %). This conservative estimate takes into account the prevailing economic uncertainties, and the mixed expectations on the global economy's performance next year.

On the expenditure side, we expect that the implementation of the New Government Accounting System (NGAS) will help us maintain, if not surpass, our recent levels of expenditure efficiency.