

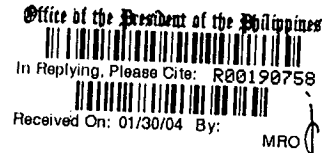


Republic of the Philippines  
SECURITIES AND EXCHANGE COMMISSION  
SEC Building, EDSA, Greenhills  
Mandaluyong City

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29 January 2004

HER EXCELLENCY  
President Gloria Macapagal-Arroyo  
Malacañang Palace  
Manila



Dear President Arroyo:

We are pleased to transmit herewith the Securities and Exchange Commission's Accomplishment Report for CY 2003.

This Accomplishment Report is a testament to our dedication to pursue programs and reforms notwithstanding the tide of uncertainties, change, and adjustments that swept the financial landscape in CY 2003. Given the formidable challenges of the past year and the year ahead, we remain steadfast in our resolve to deliver on our mandate to be the catalyst in the development of our capital market.

This Report is a precursor to our formal Annual Report which we hope to publish in April or earlier.

As we move towards the fulfillment of our vision and mission, we trust that the President would continue lending her gracious support, so that we could further undertake the necessary interventions that will bring about true and lasting reforms for the development of our capital market in general and our equities market in particular.

Mabuhay!

Very truly yours,

  
LILIA R. BAUTISTA  
Chairperson



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

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Received By:

*Rayk*

January 30, 2004

HON. JUANITA D. AMATONG  
Secretary of Finance  
DEPARTMENT OF FINANCE  
6<sup>TH</sup> Floor, DOF Building  
BSP Complex, Roxas Boulevard  
Manila

Dear Secretary Amatong,

Attached is a copy of the SEC 2003 Annual Report which we submitted to the President today.

Very truly yours,

*Lilia R. Bautista*  
LILIA R. BAUTISTA  
Chairperson

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**Message from the Chairperson**

There are good indications that the world economy will continue to improve in 2004 given that the business confidence has risen across the globe in the second half of 2003. The positive outlook and optimism, as we start the year, are in outright contrast with the uncertainties that pervaded at the start of 2003.

The increasing global business confidence in the second half of 2003 augured well for our country, with the 4.4 percent growth in third quarter GDP and a modest expansion in our Philippine capital market. In particular, we witnessed that the primary-market bond issuance by the private corporate sector increased by 107.7 percent, from PhP 5.2 billion in CY 2002 to PhP 10.8 billion in CY 2003. Moreover, we saw in the last quarter that the Phisix (Philippine Stock Exchange Index) continued to go through an uptrend.

These positive developments have increased our resolve to pursue policy development initiatives that will strengthen investor trust in our capital market, as we continue the difficult task of implementing reforms which we have started in CY 2000 aimed at restoring investor confidence. We will also sustain our momentum in implementing organizational reforms in order to build-up our capability and credibility as the corporate regulator.

We believe that the reforms we have introduced in CY 2003, namely: requiring adherence to the Code of Corporate Governance, strengthening disclosure requirements of publicly held corporations, and protecting the integrity of external audits, among others, will bring forward the development of the Philippine capital market so that it can be an alternative source of capital for the private sector through the issuance of various market instruments such as preferred shares of stocks, bonds, and short-term commercial papers. These instruments will make available to our people more options for investing their resources, a significant portion of which is placed in banks with limited risk and returns, and, in certain unfortunate instances, is lost to dubious business schemes that promised ludicrous return on investments but with infinite risks.

Finally, as there is now a better understanding that good regulation and good business go hand in hand; and that markets are efficient only when they are efficiently regulated, a certain degree of stability in the area of corporate governance has been achieved ushering the next stage for growth. Thus, we at the SEC remain committed to fulfill our mandate as we perform our share in helping our country move towards a strong republic as envisioned by the current Macapagal – Arroyo Administration.

Mabuhay!

  
LILIA R. BAUTISTA  
CHAIRPERSON

**2. SEC in 2003: Major Accomplishments at a Glance**

<b><u>WHAT WE PLANNED TO DO</u></b>	<b><u>WHAT WE ACHIEVED</u></b>
<p><b>1. Improve the public’s perception of SEC as an efficient, independent, and fair regulator; and in the process assist in establishing a culture of good governance.</b></p>	<ul style="list-style-type: none"> <li>▪ Sustained SEC’s exemplary ratings in public opinion surveys. SEC continues to rank as one of the top ten best performing government agencies, according to the Makati Business Club.</li> <li>▪ As a testament to its commitment to fight corruption, its standing in the Social Weather Station survey of enterprises on corruption improved in 2003. The SEC, along with the Supreme Court, ranked first among agencies considered sincere and effective in its fight against corruption.</li> <li>▪ SEC is among the top six agencies that enterprise managers considered as “can be trusted to complain to.”</li> <li>▪ The SEC has drastically reduced the public waiting time for the retrieval of company files requested by the public with the installation of appropriate IT resources. In 2003, 86% of clients were served in less than one hour from just 43% in 2002.</li> </ul>
<p><b>2. Support legislative action and pursue SEC rulemaking agenda</b></p>	<ul style="list-style-type: none"> <li>▪ Adopted the Implementing Rules and Regulations (IRR) of the Special Purpose Vehicle (SPV) Act of 2002, and assisted in the Inter-Agency effort of formulating the same.</li> <li>▪ Promulgated new rules and guidelines on corporate governance, adoption of accounting and auditing standards, accreditation of watchdogs such as external auditors and appraisal companies, regulation of the Philippine Stock Exchange (PSE), and the imposition of higher penalties on errant firms, and revocation of certificates of registration of corporations, among others.</li> </ul>

<b><u>WHAT WE PLANNED TO DO</u></b>	<b><u>WHAT WE ACHIEVED</u></b>
<p><b>3. Continue reforms in corporate governance</b></p>	<ul style="list-style-type: none"> <li>▪ Developed and implemented a self-rating system and disclosure process to measure companies' compliance with good corporate practices.</li> <li>▪ Adopted 32 Philippine Standards on Auditing (PSA) to harmonize local standards with those of the international community.</li> <li>▪ Adapted 6 additional statements of financial accounting standards based on International Accounting Standards (IAS)</li> <li>▪ Promulgated amendments in SRC Rules 68 and 68.1 (Rules and Regulations Covering Form and Content of Financial Statements, as amended).</li> <li>▪ Issued a memorandum circular setting forth the accreditation and reportorial requirements of external auditors of public companies and secondary licensees of the Commission.</li> </ul>
<p><b>4. Deepen the capital market</b></p>	<ul style="list-style-type: none"> <li>▪ Drafted rules to govern the trading of commodity futures, fixed-income instruments, and innovative securities with technical assistance from the Asian Development Bank (ADB), and in coordination with other government agencies.</li> <li>▪ Advocated the listing of the Top 5,000 Corporations and Small and Medium-sized enterprises in the PSE.</li> </ul>

<b><u>WHAT WE PLANNED TO DO</u></b>	<b><u>WHAT WE ACHIEVED</u></b>
<b>5. Strengthen prudential regulation of the pre-need industry</b>	<ul style="list-style-type: none"> <li>▪ Promulgated standards for the valuation of actuarial reserve liabilities for pre-need plans.</li> <li>▪ Prepared guidelines on the following:               <ul style="list-style-type: none"> <li>▪ Accreditation of external auditors of pre-need plan companies; and</li> <li>▪ Responsibilities of actuaries in plan pricing</li> </ul> </li> </ul>
<b>6. Intensify compliance monitoring including monitoring of inactive corporations</b>	<ul style="list-style-type: none"> <li>▪ Monitored 249,674 delinquent corporations penalized 5,215 firms and revoked the certificates of registration of 243,307 corporations for failing to submit annual reports as required under Sec. 141 of the Corporation Code.</li> </ul>
<b>7. Strengthen surveillance and enforcement actions</b>	<ul style="list-style-type: none"> <li>▪ With assistance from the ADB, installed the Advance Warning and Control System (AWACS), a real-time market surveillance engine aimed at protecting the integrity of the market from fraud and abusive trading practices, particularly price manipulation.</li> <li>▪ Issued permanent Cease and Desist Orders (CDOs) against H-Factor Trading and Marketing Corp.; Five Vision Consultancy, Inc. and its conduits; Intercontinental Services, Inc.; Servilink Cargo, Inc.; and Lead Lending Corp.</li> <li>▪ Signed a Memorandum of Agreement (MOA) with the BSP that defines each agency’s respective responsibilities and expedite the detection, investigation and prosecution of investment scams.</li> <li>▪ Continued to issue SEC Advisories informing the public about Ponzi and Pyramiding schemes, and identifying corporations and entities engaged in pseudo-investment activities.</li> </ul>

<b><u>WHAT WE PLANNED TO DO</u></b>	<b><u>WHAT WE ACHIEVED</u></b>
<p><b>8. Intensify and broaden the reach of investors' education and assistance</b></p>	<ul style="list-style-type: none"> <li>▪ In cooperation with the Philippine Long Distance Telephone Co. (PLDT), installed the first nationwide government hotline service, 1-908-1-ASKSEC.</li> <li>▪ In cooperation with the Department of Trade and Industry (DTI), launched an Anti-Scams awareness campaign: <ul style="list-style-type: none"> <li>▪ Disseminated 'Citizen's Manuals' and other relevant information materials for the guidance of investors and the general public.</li> <li>▪ Translated SEC's 'Citizen's Investment Alert' pamphlets into Cebuano, Ilocano, and Ilonggo.</li> <li>▪ Coordinated with certain government and private institutions for the placing of anti-scams posters and brochures in their offices.</li> </ul> </li> <li>▪ SEC infomercials were shown in major media outlets, including TV, radio, newspapers, cinemas and the lobbies of public offices.</li> </ul>
<p><b>9. Sustain SEC's financial performance and maintain expenditure efficiency</b></p>	<ul style="list-style-type: none"> <li>▪ Reduced SEC's expenditures by PhP 20 Million from the previous year in keeping with the overall thrust of the government to reduce expenditures.</li> <li>▪ Contributed to the government coffers with a surplus of PhP 381 Million, with total revenue from service fees and penalties amounting to PhP 695.86 Million, while keeping expenditures down to PhP 315 Million in FY 2003 from the PhP 335 Million in FY 2002.</li> </ul>

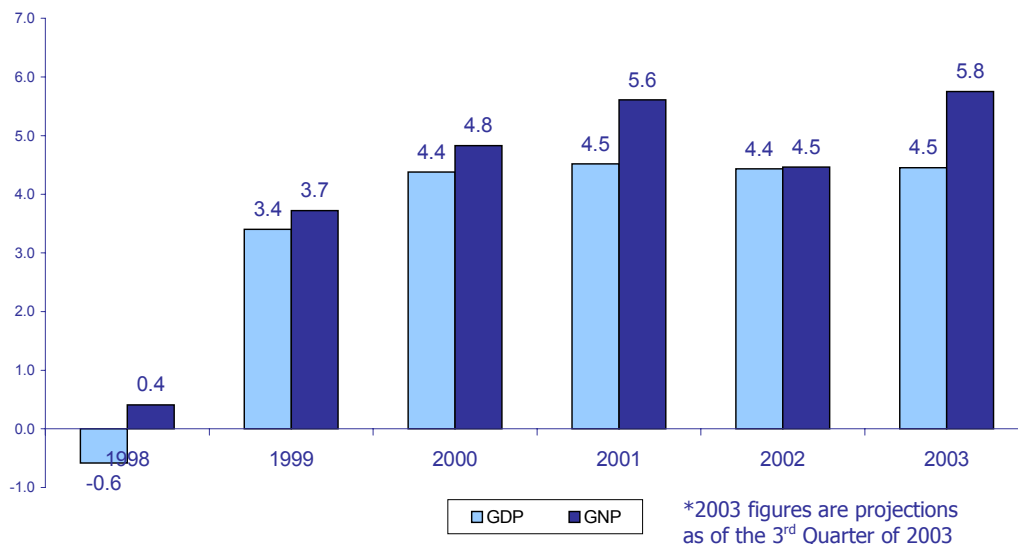


### **3. The Philippine Economy in CY 2003**

#### **Steady She Goes**

The Philippine economy experienced steady growth in 2003. Six years after the Asian Financial Crisis of 1997, the country seems to have recovered and is poised to move forward. In 2003, Gross Domestic Product (GDP) expanded faster than the 4.4 percent growth in 2002. More impressive is the Gross National Product (GNP), which was projected to have grown by between 5.6 and 6.0 percent compared with the previous year's 4.5 percent.

**Chart 1: Philippine Economic Growth (1998- 2003)**



This economic vigor was led by the strong performances of the telecommunications, food manufacturing, and retail trade industry. Emerging sectors are also contributing to Philippine growth. The Malampaya Natural Gas facility off the coast of Palawan is reviving the Mining and Quarrying sector. And with the emergence of the Internet and advances in telecommunications, the Philippines is becoming a major exporter of IT-enabled services to the world.

Favorable events in some sectors also contributed a lot to economic growth in 2003. Better than expected *palay* output because of favorable weather conditions and sustained efforts to modernize the agricultural sector pushed agricultural output past historical trends. Meanwhile, the more profitable banking system is now pulling itself back into shape.

Philippine growth is now private sector led. The economy is now starting to build a strong service sector base that will provide stability, while the industrial sector is starting to understand global competition and is moving to improve productivity.

**The Global Economic Upside**

The United States (US) economy appears to be on the path to recovery, growing by a very high 8.2 percent in the third quarter of 2003. Forecasters in the US are confident that the American economy will grow above the 3.3 percent average in the medium term. It seems that the threats of deflation and a double-dip recession have been diffused and the economy is now ready to rebound. Productivity is now at a high in the US, and consumer spending is expected to pick up pace soon.

The Japanese economy is also showing some signs of life. Japanese GDP grew by 2 to 3 percent in 2003 and is expected to expand by 0.5 to 1.5 percent in 2004. After a decade of almost zero-percent growth, a positive economic expansion is certainly a welcome sign.

The Philippines has a lot to gain. The economic recovery of the country's trading partners will propel export growth. Key export sectors are already anticipating a rebound in demand as indicated by the growing imports of electronic intermediate goods in the second half of 2003. Philippine food manufactures are now also making their way into the major global markets.

**Key Issues to be Addressed**

The stable economy can be pushed to grow faster through determined implementation of the required adjustments and reforms in key policy areas. Two key structural issues that have to be addressed are the low savings rate of the Philippines that restricts the supply of capital and the patchy fiscal position of the government, both of which drive up interest rates.

**A Vibrant Capital Market Will Push the Economy**

With Filipino firms poised to compete, investments must be made to improve productivity. The capital market is the main player in this game. A healthy banking system is vital for borrowers to get access to funds. Thus, banks should not be stifled by bad loans when viable projects come their way.

A broader capital market must also be developed to provide an alternative for raising funds. That is why the SEC is moving to revitalize the securities market to broaden opportunities for firms, while giving more choices to investors.

A healthy bourse will encourage firms to list shares to raise capital, which will, add vitality to the stock exchange. With more alternatives to tap investors, local firms will be able to adapt better to the changing global economy.

**4. Corporate Sector Performance In CY 2003**

**The Philippines 5000**

The top 5000 corporations of the Philippines are some of the more vital installations in the country. They operate in key industries, including oil, energy, food manufacturing and banking. Thus, their financial health is a good indicator of the country's economic health as a whole.

Included in the top Philippine firms are a mix of energy firms, leading exporters, multinationals and other manufacturers. The local power producers top the list, as it includes firms such as *MERALCO, Petron, Pilipinas Shell* and *Caltex*. The country's major exporters are also included in the list, including electronics producers, *Toshiba Information Equipment, Winstrom Infocomm*, and *Fujitsu*. The old guard is still represented, as *San Miguel Corp* and *PLDT* still rank as the country's larger firms. There are also several multinationals and major financial institutions.

**Table 1: Gross Revenue of Top 5000 Firms by Industry  
in million pesos  
(1992-2002)**

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Agriculture	19921	12211	12867	9030	25708	27960	28629	24978	38704	36039
Fishery	4444	5158	5593	4203	5608	6346	6771	4077	5407	4636
Mining	16651	13432	14440	13104	12373	12756	27398	11864	9310	10354
Manufacturing	634831	771737	895867	972636	1179864	1385841	1419944	1570357	1904142	1873163
Utilities	88793	121954	133002	161176	180291	226131	234050	290818	234508	229558
Construction	25464	29849	40831	55887	81013	74146	89810	84443	77035	57585
Trade Services	220490	273428	352883	343830	482745	520185	580508	530132	617179	652540
Hotel and Restaurants	18534	23911	28577	27080	41609	42433	44747	45568	50900	50465
Transport, Storage and Communication	81007	91772	106741	108871	140648	173623	173981	176536	212333	185791
Finance	168672	244874	301523	343272	427326	449898	429855	372657	439539	400352
Real Estate	25660	46707	81249	96518	145196	129173	107354	108762	111710	121600
Education	3435	3205	1504.1	1690	4364	6594	6986	6663	9036	7821
Others	30438	41684	34385.9	46022	41413	40617	52273	51584	39803	58345
<b>Total Revenues</b>	<b>1338340</b>	<b>1679922</b>	<b>2009463</b>	<b>2183319</b>	<b>2768158</b>	<b>3095703</b>	<b>3202306</b>	<b>3278439</b>	<b>3749606</b>	<b>3688249</b>

**The Philippines 5000 and the Economy**

In 2002, the Philippine economy produced over Php 4 trillion worth of goods and services. Over the last ten years, the largest segment of the Philippine economy has been the manufacturing sector, which comprised 24.9 percent of total output. This is followed by the trade services sector and the agriculture sectors that comprise 15.7 percent and 14.9 percent of the economy, respectively.

**Manufacturing Sector:** Although there are thousands of small-scale manufacturers, large firms still dictate the overall pace of the manufacturing sector. For one thing, large manufacturers have extensive backward and forward linkages that affect the performance of

## ***Philippine Securities and Exchange Commission***

subcontractors and other supply-chain agents. Major manufacturing firms in the Philippines are semiconductor and electronics exporters *Texas Instruments* and *Toshiba Information Equipment*, as well as food manufacturers like *Nestle* and *San Miguel Corp.*

**Trade Services:** There are thousands of wholesalers and retailers in the country and this makes the trade sector very vibrant. The types of businesses range from automotive retailing to large shopping malls. Among the major trading firms are *Zuellig Pharma Corp* (Wholesale of Medical and Pharmaceutical Products), *Mercury Drug* (Drugs and Pharmaceutical Retailing), *Telecommunications Distributors Specialists, Inc.* (Retail of Cellular Phones and Parts), *Shell Gas Trading* (Wholesale of Gasoline Fuels), *Supervalu, Inc* (Retail Selling in Supermarkets), *Pilipinas Makro* (Other Wholesaling) and *SM Mart, Inc.* (Department Stores)

**Agriculture and fisheries sector:** The structure of the agriculture and fisheries industry is very diversified, with plenty of small-scale farming and fishery operations dotted across the country. Agricultural lands are typically small and divided among a very broad range of the population. The same can be said for fish farms, and small scale fishing operations of the Philippine coastlines. Major players in the agriculture and fisheries sector are *San Miguel Foods* and *Vitarich Corp.* (Chicken Broiler Production) and *Monterey Foods* (Livestock Farming).

### **Revenue Performance**

From 1994 to 2002, the total revenues of the Philippines 5000 have been growing by an average of 12.3 percent annually. The more decentralized sub-sectors of Real Estate and Education led the growth by expanding by an average of 23.3 and 20.6 percents for the said period.

**Real Estate sector:** The real estate industry is comprised of a few major firms on top of thousands of small corporations. The major firms in this industry are *SM Prime*, *Ayala Land* and *Robinson's Land* (Real Estate Buying, Selling, Leasing and Operating), *Belle Corp.* and *Megaworld Corp.* (Real Estate Developing, Subdividing and Selling)

**Education:** For the past decade, the provision of education services has been a fast-growing segment of the economy. With the growing population, the demand for training and skills development is bound to grow. Since the public education system has been stagnant, it cannot keep up with the growing number of new pupils. Hence, the private sector has stepped in to fill the market gaps. Small schools, from the pre-school to the tertiary level and new operations are targeting niches in densely populated areas. There is also a new education phenomena that targets a new Philippine "migrant labor class". These schools specialize in very specific training for international IT professionals as well as the very lucrative health care workers that aim to relocate to more developed countries. These small operations vastly outnumber the larger educational institutions in the country that include

## ***Philippine Securities and Exchange Commission***

major universities like the *Mapua Institute of Technology*, *Centro Escolar University*, and the *University of the East*.

### **New Trend Towards the Small and Medium Scale Corporations**

Several large corporations still lead the Philippine economy. However, with a more liberalized environment, their share to total GDP has been diminishing. The relative size of these firms has decreased as more SMEs are emerging from the woodwork. With jobs still scarce, a lot of individuals are entering self-employment to generate income. This has created a vibrant and more stable domestic economy. It is now less vulnerable to international shocks that can affect bigger firms.

Furthermore, it can also be said that as larger firms start to grow, they create a vibrant body of suppliers and retailers that are based in the grassroots. This creates a multiplier effect across the country that enables the benefits of narrow corporate profit growth to be experienced by a broader segment of the economy.

Over the next few years, the structure of the Philippine economy will start to change. A sub-sector of small and medium scale industries will grow in relevance as producers and employers. Monitoring the financial health of these firms will grow increasingly important in the coming years. Thus, it is likely that the need for a larger ranking of top corporations will be needed for policy-makers to get a better handle of the economy.

## **5. Stock Market Performance and Trends in Registered Securities**

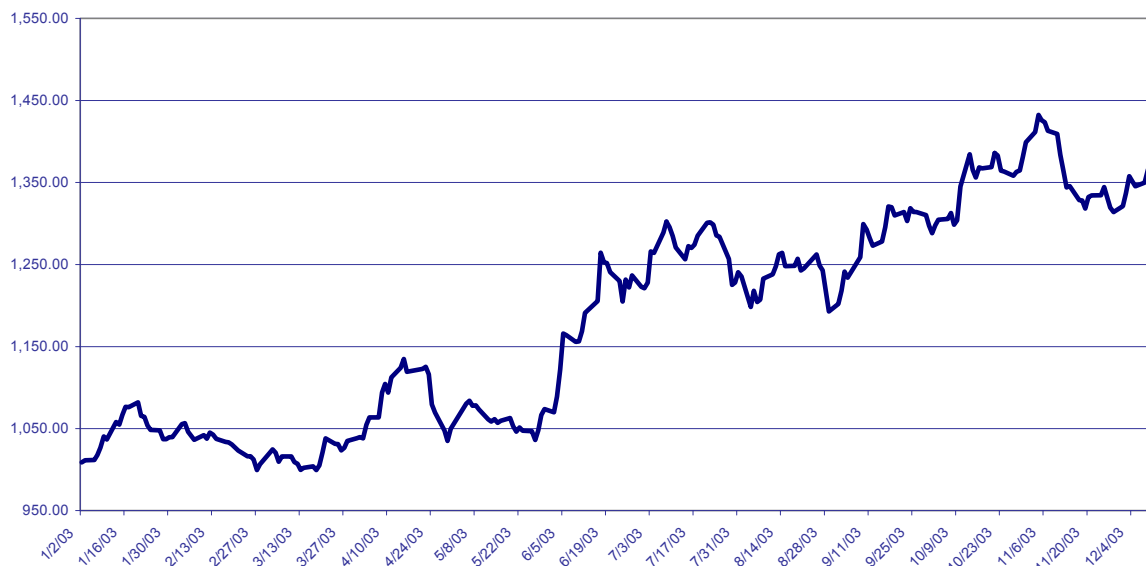
### **The Stock Market: Poised to Take-off**

After several dry years in the bourse, the stock exchange was on the upside in 2003. Despite the political uncertainty because of the coming elections, the good economic fundamentals coupled with private sector-led growth encouraged activity in the stock market.

Coming from a low point, in January, of just over 1000 points, the PHISIX rose to 1081.6 points, to attain a slight cyclical peak. However, the country hit some potholes in the middle of the year. In the end of July, a number of disgruntled soldiers took over the Oakwood Hotel in the central business district of Makati. Fortunately, the situation was diffused before the markets opened on Monday morning. The PHISIX dropped by 4.7 percent in the week following the coup but rebounded in the first half of August.

As the country started to shake off the effects of the coup, two controversies adversely affected the stock exchange. In August, the Court of Appeals suspended the Bangko Sentral Governor Rafael Buenaventura because of the controversy over the closure of Urban Bank, and towards the end of the month, the Jose Pidal scandal erupted. The PHISIX already hit a post Oakwood-peak of 1,264.3 points, but was held back by these external events.

**Chart 2: Philippine Stock Exchange Composite Index (PHISIX)  
January – December 2003**



From September to October, the bourse was on an upswing. The PHISIX hit a high of 1,386.09 points in the end of October, and it seemed that the drought was over. However,

## ***Philippine Securities and Exchange Commission***

negative shocks came in the month of November, as Congress and the Supreme Court got entangled in controversy over the impeachment of Chief Justice Hilario Davide relative to the Judicial Development Fund. Business confidence also dipped when Finance Secretary Jose Isidro Camacho resigned from his position, on top of heating election-related uncertainty. The PHISIX fell by 8.3 percent in November, to 1,313.87 points, despite the Supreme Court's decision to clear BSP Gov. Buenaventura.

Uncertainty clouded stock market activity in 2003, however, the country made the most of its opportunities. The 30-share Philippine Stock Exchange composite index (Phisix) ended at 1,442.37 with 423.96 points or a 41.63 percent upward trend from last year's 1,018.41, while the broader All Shares Index ended on a high note at 874.78 from the previous year's 608.78, an increase of 43.69 percent.

All the sectoral indices increased for the whole year. Banks and financial services, commercial-industrial, property, mining and oil indices gained by 67.76, 718.40, 153.83, 418.61, and 0.18 points or 18.29, 48.98, 36.84, 34.75 and 17.48 percents to 439.07, 2,185.23, 571.35, 1,623.18 and 1.21, respectively.

Total volume of transactions for the year decreased by 14.28 percent to 85.59 billion shares as compared to 99.85 billion shares last year. Value turnover also shed 9.44 percent registered at PhP 144.66 billion as compared from last year's PhP 159.73 billion.

The top three (3) gainers for the year 2003 were: *Filipino Fund, Inc. (FFI)* gaining 821.05 percent or PhP 3.12 from PhP 0.38 to close at PhP 3.50; followed by *Medco Holdings, Inc. (MED)*, which increased by 592.31 percent or PhP 0.1540 from PhP 0.026 to end at PhP 0.18. *Kuok Phil. Properties, Inc. (KPP)* rose by 580 percent or PhP 0.145 from PhP 0.025 to settle at PhP 0.1700. Others in the gainers list were: *Phil. Estates Corporation (PHES)*, *EIB Realty Developers, Inc. (EIBR)*, *Pryce Corporation (PPC)*, *Benpres Holdings Corporation (BPC)*, *Pilipino Telephone Corporation (PLTL)*, *Music Corporation (MUSX)* and *William Gothong & Aboitiz Pref., (WGAP)*.

The biggest losers were: *Swift Foods, Inc. (SFI)*, *Easycall Comm. Phils., Inc. (ECP)* and *Diversified Financial Network, Inc. (DFNN)* which slipped by 73.08, 70, and 46.67 percents, respectively. Other companies in the losing side were: *Cebu Property Venture and Dev't. Corp. "A" (CPV)*, *Acesite (Phils.) Hotel Corp. (DHC)*, *Boulevard Holdings, Inc. (BHI)*, *ATR Kim Eng Financial Corporation (ATRK)*, *Gotesco Land, Inc. "A" (GO)* and *Jardine Davies, Inc. (JDI)*.

### **Registered Securities: Mixed Results**

The registration of capital market instruments in CY 2003 suffered a huge decline from levels reached in CY 2002. In aggregate, securities amounting to PhP 26.91 Billion were registered in CY 2003, 6 percent less than the amount registered in the previous year. Registered equity securities amounted to PhP 11.92 Billion, a decline of 22.56 percent from the PhP 15.40 Billion registered last year. Commercial papers and bonds posted strong growth of 107.69 percent at PhP 10.8 Billion from PhP 5.2 Billion in CY 2002. Proprietary/non-proprietary shares

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registered the biggest drop at 48 percent, down to PhP 4.18 Billion from PhP 8.05 Billion in CY 2002.

**Table 2: Registered Securities  
CY 2002-2003  
in million pesos**

	<b>2003</b>	<b>2002</b>	<b>% Change</b>
Equity Securities	1,1924	15,397	- 22.56%
Commercial Papers	10,800	5,200	107.69%
Proprietary/Non-proprietary Shares	4,183	8,051	-48.04%
<b>TOTAL</b>	<b>26,907</b>	<b>28,648</b>	<b>- 6.00%</b>



**6. Performance of the Pre-Need Industry**

**Sales Performance**

In 2002, there was a slight decrease in pre-need plan sales. The industry recorded 612,572 plans sold worth PhP 37.9 billion or a decrease of 2.1 percent in peso sales compared to the previous year's level. Pension plan with PhP 22.5 billion sales accounted for a significant 59.5 percent share of the pre-need market. Of the three types of plan sold, only pension plan increased sales by 7.2 percent from the 2001 figures. On the other hand, sales of life and education plans decreased by 22.1 percent and 11.4 percent from last year, respectively.

For the year 2003 (Table 3), industry sales reached PhP 32.7 billion, down by 13.57 percent compared to 2002. Although pension plan with PhP 17.4 billion sales garnered 53.14 percent share of the industry sales, pension plan had the highest sales decline of 22.62 percent while life plan registered the highest growth rate of 40.67 percent compared to last year.

**Table 3: Number, Amount and Initial Collection of Pre-need Plans Sold  
CY 2002 and 2003**

Item	January - December 2003 <sup>P/</sup>		January - December 2002		Growth Rate (%)
	Number/Amount	Percent to Total	Number/Amount	Percent to Total	
Number of Plans Sold	<b>527,654</b>	<b>100</b>	<b>612,572</b>	<b>100</b>	<b>-13.86</b>
Education	140,701	26.67	195,176	31.86	-27.91
Life	108,776	20.62	73,776	12.04	47.44
Pension	278,177	52.72	343,620	56.09	-19.05
Gross Contract Price	<b>32,736,524,710</b>	<b>100</b>	<b>37,875,897,656</b>	<b>100</b>	<b>-13.57</b>
Education	12,394,486,769	37.86	13,300,681,918	35.12	-6.81
Life	2,944,544,760	8.99	2,093,163,627	5.53	40.67
Pension	17,397,493,181	53.14	22,482,052,111	59.36	-22.62
Initial Collection	<b>3,660,499,940</b>	<b>100</b>	<b>3,899,723,329</b>	<b>100</b>	<b>-6.13</b>
Education	1,251,056,162	34.18	1,297,193,114	33.26	-3.56
Life	357,337,748	9.76	252,952,119	6.49	41.27
Pension	2,052,106,031	56.06	2,349,578,096	60.25	-12.66

<sup>P/</sup> Preliminary figures.

**Financial Profile**

Based on financial statements covering 2002 operations of pre-need companies, preliminary figures showed that total revenues which included trust fund earnings, interest income, realized capital gains and other income reached PhP 18,125.1 million in 2002, or a growth of 15.0 percent from 2001 revenues. The industry's realized gross income of pre-need plans reached PhP 12,338.7 million.

The industry's total assets in 2002 reached PhP 148.7 billion, up by 10 percent from the 2001 figure of PhP 134.6 billion. A substantial portion of the total assets pertains to installment contracts receivables (ICR) equivalent to 47.4 percent. Trust Funds comprised 37.9 percent of

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the total assets. 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.

Of the total liabilities and stockholders' equity, estimated benefit provision (EBP) in the outstanding ICR of all plans sold in installment basis accounted for 26.4 percent; unrealized gross income (UGI), 19.8 percent; and actuarial reserve liabilities (ARL), 32.6 percent.

### **Trust Fund**

The industry, through duly licensed trust entities, pools the funds and channels them into desired productive areas of investments thereby contributing to the acceleration of the country's economic growth.

Based on the monthly trust fund statements submitted to the Commission as of 30 June 2003 (Table 4), total trust fund equity of the pre-need industry was P60.6 billion. Government securities amounting to PhP 33.9 billion accounted for 56.0 percent of the total. Equities with PhP 9.3 billion or 15.4 percentage share came as the second favorite investment vehicle. Real estate investments with PhP 7.8 billion took third place, representing 12.9 percent 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 4: Amount and Percent Distribution of Trust Funds Investment Portfolio of Pre-need Companies by Component Title as of June 2003**

<b>Component</b>	<b>Amount</b>	<b>Percent to Total</b>
<b><i>Total Trust Fund Equity</i></b>	<b><i>P60,620,603,303</i></b>	<b><i>100</i></b>
Cash	194,299,527	0.3
Foreign Account	816,944,496	1.3
Government Securities	33,938,400,841	56
Time Deposit	1,300,891,454	2.1
Commercial Papers/Promissory Notes	202,344,240	0.3
Private Bonds	7,420,230,884	12.2
Loans	898,618,579	1.5
Common Trust Fund	457,602,759	0.8
Mutual Fund	196,284,449	0.3
Equities	9,319,387,655	15.4
Real Estate	7,832,057,324	12.9
Other Investments	399,897,249	0.7
Receivables and other assets (Net)	-2,356,356,154	-3.9

**7. SEC's Financial Performance**

**REPORT OF INCOME**

SEC's income from service fees and penalties amounted to PhP 695.86 Million in CY 2003 which is lower by 19.25 percent compared with the PhP 861.76 Million in CY 2002.

With a share of 77.59 percent, registration, filing, and certification fees, which amounted to PhP 539.93 Million, continued to account for the bulk of total income in CY 2003. The license fees of securities brokers, and salesmen accounted for 8.43 percent of total income. (Table 5)

Our aggressive compliance monitoring and enforcement actions resulted in an increase of PhP 15.91 Million in revenues from fines and penalties. Consequently, the share of fines and penalties increased by 3.96 percent, from 7.2 percent in 2002 to 11.16 percent in 2003.

**Table 5: SEC's Income by Source  
CY 2002-2003**

Source of Income	2003		2002	
	Amount	%	Amount	%
License fees of Securities brokers, dealers, salesmen	PhP 58,677,592.54	8.43%	PhP 73,686,880.15	8.6%
Registration, filing, & certification fees	539,928,225.62	77.59%	714,489,291.36	82.9%
Fines and penalties	77,652,576.69	11.16%	61,740,305.61	7.2%
Miscellaneous income	19,607,027.91	2.82%	11,839,163.08	1.4%
<b>TOTAL INCOME</b>	<b>PhP 695,865,422.76</b>	<b>100.0%</b>	<b>PhP 861,755,640.20</b>	<b>100.0%</b>

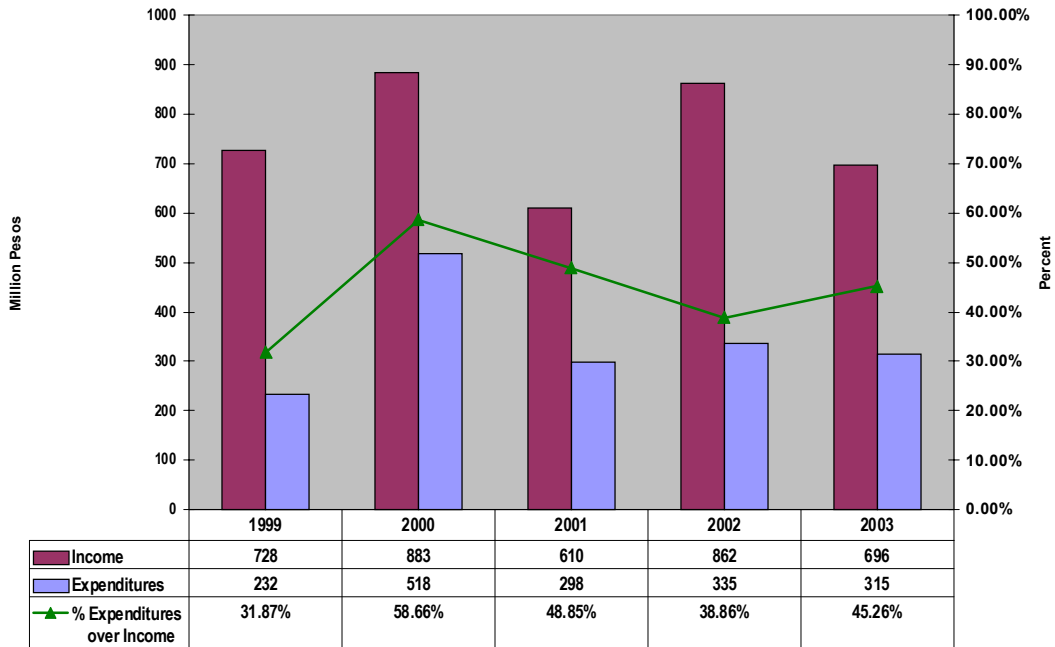
**SEC's EXPENDITURES**

SEC's expenditures reached PhP 315 Million in 2003, down by PhP 20 Million from that of the previous year in keeping with the overall thrust of the government to reduce expenditures. With its total revenue from service fees and penalties amounting to PhP 695.86 Million, the SEC realized a surplus amounting to PhP 381 Million. Thus, the SEC remitted to the government more than its disbursement to support the operations of the SEC. The SEC

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remains as one of the few agencies contributing positively to the national coffers. The ratio of expenditures over income stayed below 50 percent despite the reduced revenues (Chart 3).

**Chart 3: SEC's Income vis-à-vis Expenditure  
CY 1999-2003**



## **8. Accomplishments Of The Special Offices And Departments**

### **THE SPECIAL OFFICES**

The Commission has two 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 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 Extension Offices (EO) at the following strategic cities: Baguio, Legazpi, Cebu, Iloilo, Davao, Cagayan de Oro, and Zamboanga.

**8 i. Office of the General Counsel**

**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
- Renders opinion, oral or written, on legal matters affecting corporations and partnerships
- Conducts studies/ research on corporate and related problems submitted to the Commission.

**ACCOMPLISHMENTS**

1. Issued 309 orders and decisions and noted 1,702 decisions and resolutions from the Supreme Court (SC), the Court of Appeals, the Regional and Municipal Trial Court (RTC/MTC), the National Telecommunications Commission (NTC) and the Department of Transportation and Communications (DOTC);
2. Prepared 130 letters to the SC Administrator and various RTCs pertaining to cases remanded to the SEC;
3. Issued 301 various documents (Certified true copies of Orders, Resolutions, Decisions, Writs of Execution and Cease and Desist Orders);
4. Attended 137 hearings, meetings and conferences;
5. Reviewed 28 contracts;
6. Acted on 201 requests for certification of good standing;
7. Prepared 103 Memoranda inclusive of internal memos;
8. Released 72 opinions, which is a marked increase in opinions rendered from last year's 18 opinions ; and,
9. Answered a daily average of 20 telephone and walk- in inquiries/ requests for assistance.

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The summary of OGC's accomplishments is shown in Table 6:

**Table 6: Summary of the OGC's Accomplishments  
CY 2003**

<b>Cases Terminated:</b>	
Rehabilitation and Suspension of Payment Cases	3
Admin. Cases Ordinary/ Appeal on Penalties	16
Remanded Cases from RTC	2
Compliance and Enforcement Department Cases (CED) Cases	15
For Execution	17
Other Cases	5

<b>Orders/ Decisions Released</b>	
<b>RE:</b>	
Rehabilitation/Suspension of Payments	61
Admin. Cases from other operating departments	93
Writs of Execution	13
CED Cases	34
Appealed to En Banc	25
Administrative Appeal For Revocation of Certificate of Registration For Revocation of Certificate of Registration	14
Other Cases (SICD Cases)	69
<b>Total</b>	<b>309</b>

<b>Notices of Decisions/ Resolutions Originating from:</b>	
Supreme Court	259
Court of Appeals	710
RTC/ MTC	733
<b>Total</b>	<b>1,702</b>

<b>Communications To Judicial Administrator, etc.</b>	130
<b>CTC of Documents</b>	301
<b>Hearings/ Meetings/ Conferences Conducted</b>	
Rehabilitation/ Suspension of Payments	27
AC/ EB/ CED cases	70
Hearings/ Meetings/Seminars attended	40
Inter- Office Memoranda	103

<b>Contracts Reviewed</b>	28
<b>Request for certifications of good standing</b>	201
<b>Certification of Documents as True Copies</b>	301
<b>Opinions Released</b>	72
<b>Communications to Judicial Administrator, etc.</b>	130
<b>Letter Inquiries Acted Upon</b>	222

**8 ii. Office of the General Accountant**

**FUNCTIONS**

- Leads in the establishment of International Accounting Standards (IAS) 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 group to the Commission, SROs, and SEC departments in the area of accounting standards and treatment

**ACCOMPLISHMENTS**

1. In 2003, the Office of the General Accountant (OGA) drafted new rules including:
  - A framework to simplify the special accounting rules (Amendment of Rules 68 and 68.1)
  - The Implementing Rules and Regulations (IRR) of the Special Purpose Vehicle Act
  - The Adoption of International Accounting Standards (IASs) and International Standards on Auditing (ISAs)
  - The Consolidated accreditation rules for external auditors of public companies and secondary licensees of the Commission
  - Rules allowing the use of foreign currencies in financial statements filed with the Commission
  - Guidelines on the opinions rendered by external auditors
  - The OGA also provided technical assistance for the Corporate Reform Act (Lapus Bill), the Revised Accountancy Law and rules on the regulatory leeway given to the Preneed Industry
2. Improved the quality of financial information reported by public companies
  - With the help of the University of the Philippines – College of Business Administration, the OGA was able to send advisement letters and recommend



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sanctions on companies with material violations in 2001 and 2002 financial statements.

3. To facilitate faster information dissemination, the OGA also kept links with the following groups:
  - Philippine Institute of Certified Public Accountant (PICPA)
  - Accounting Standards Council (ASC)
  - Auditing Standards and Practices Council (ASPC)
  - Quality Assurance Board of PICPA
  - Association of CPAs in Public Practice (ACPAPP)
  - Government Association of CPAs (GACPA)
  - Association of CPAs in Commerce and Industry (ACPACCI)
  - Association of CPAs in Education (ACPAE)
  - Institute of Internal Auditors (IIA)
  - FINEX
  - Federation of Pre-need Companies
4. Implemented the IAS-based Disclosure Checklist for the review of 2002 Financial Statements and issued opinions on accounting and audit matters raised by public companies and SEC operating departments.
5. In addition, the OGA also
  - Provided comptrollership to pre-need companies in financial difficulties
  - Assisted NTD in dealing with accounting and financial issues affecting pre-need companies
  - Assisted CFD in handling external auditor accreditation and handling of complex issues regarding the review of financial reports submitted by public companies
  - Headed the Ad-hoc Committee on Leisure Clubs created by the Commission to come up with policy recommendations affecting sports and golf clubs.

**CORE FUNCTION: CAPITAL MARKET DEVELOPMENT AND REGULATION**

**8 iii. Market Regulation Department**

**FUNCTIONS**

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

**ACCOMPLISHMENTS**

1. Registered and processed renewal applications of various market participants as shown in Table 7:

**Table 7: Registration and Renewal of Market Participants  
CY 2003**

Market Participants	With Licenses for CY 2003	Filed Renewal Application for CY 2004	Percentage (CY '04/CY '03)
Investment Houses	36	35	97.20%
Underwriters of Securities	9	9	100%
IH Branch Offices	13	13	100%
IH Associated Persons	11	6	54.50%
Government Securities Eligible Dealers (GSEDs)	65	64	98.46%
Brokers Dealers-Trading Participant	136	132	97.05%
Broker Dealers- Non-trading participant	16	13	81.25%
Investment Company Advisers (ICA)	12	-	
BD Associated Persons	172	154	89%
BD Sales Agents	871	780	89%
ICA Certified Investment Solicitors	502	-	
Transfer Agents	31	31	100%

*Statistics of Renewal as of December 15, 2003.*

2. Strengthened the regulatory environment through the issuance of new rules and the formulation of policy guidelines. Of note are the following accomplishments:

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- Implemented a single license regime for Investment Houses or Underwriters of Securities that are also licensed/registered as Government Securities Eligible Dealers (GSED's) starting January 2003.
- In coordination with the Corporate Finance Department (CFD), reviewed and drafted the amendments to the Implementing Rules and Regulations of the Securities Regulation Code.
- Reviewed and drafted amendments to the SIPF Rules to harmonize them with the provisions of the SRC.
- Reviewed the Philippine Stock Exchange's (PSE) existing Listing and Disclosure Rules and its Trading and Settlement Rules.
- Recommended approval of the following PSE rules:
  - a. Proposed amendments to the PSE Disclosure Rules – Structured Continuing Disclosure Requirements for listed companies.
  - b. Proposed rules on:
    - Involuntary Delisting Rule
    - Continuing Listing Requirements
    - Scale of Fines and Penalties
    - Proposed amendments to the Rule on Rights Offering
    - Proposed Implementing Rules and Regulations on minimum percentage of public ownership
    - Negative stockholders' equity of the Listings and Disclosures Rules
    - Substitutional Listing
    - Policy on Electronic Release of Corporate Disclosures and Exchange Announcements and their Release After Trading Hours
    - Second draft of the conditionally-approved PSE Rules on IPO-Distribution of Initial Public Offering Shares Through the Exchange.
    - Listing By Way of Introduction
    - PSE Listing Rules
    - Rules on Day Trading
    - Agreement for Credit Line or Loan Facility and Pledge of Shares
    - Revised Rules of the SIPF
    - Proposed Rules and Operational Procedures on Dollar Denominated Trading (DDT)
    - Rules on the Alternative Trading Systems (ATS)

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- Proposed amendment to the Rules governing the Clearing and Trade Guarantee Fund
- Draft version of Listing Rules on Rights Offering and the proposal to relax the Minimum
- Market Capitalization requirement for Companies Listing on the Second Board
- Proposed Policy on Electronic Release of SEC forms and List of Stockholders
- Drafted SEC Memorandum Circular No. 5-A, series of 2003, "Addendum to SEC Memorandum Circular No. 5, series of 2003" broadening the coverage of market participants required to submit the Self-Rating Form on Good Governance.
- Reviewed the proposed Fixed Income Exchange Rules and communicated comments to the legal counsel of the Bankers Association of the Philippines (BAP).
- Recommended the Licensing of Broker Dealers as distributors of Mutual Funds
- Evaluated and enhanced the requirements for renewal of Investment Company Adviser license preparatory to effectively monitoring the mutual fund industry.
- To support the implementation of the Anti-Money Laundering Act (AMLA):
  - a. Issued legal opinions to market participants, consistent with the Commission's policy of promoting good governance and enforcement of the provisions of the AMLA;
  - b. Created the Task Force AMLA composed of representatives from the different associations and market participants, including PSE, to assist the Anti-Money Laundering Council (AMLC) in formulating operating and audit procedures needed in the implementation of AMLA which procedures have been acted upon positively by the AMLC; and
  - c. Participated in the consultative meetings with the Asia Pacific Group and the AMLC and reported on the SEC developments in the effective enforcement of the AMLA.
- Reviewed and assisted in the preparation of the final version of the MOU between SEC and PSE on the Listing of the PSE Shares on the PSE Trading Floor approved by the Commission on 4 November 2003 and signed by Chairpersons Lilia R. Bautista of the SEC and Alicia Arroyo of the PSE. PSE shares were eventually listed in December 2003.
- Assisted in the formulation and process documentation of the Application for Exemptive Relief which will be adopted by the Commission and will also be applicable to all regulated entities seeking exemption from the application of specific SRC provisions. Said procedure was incorporated in the Manual of Operations of the different Operating Departments.

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- Recommended the indefinite extension of the effectivity of SEC Special Resolution dated 12 September 2001 on SRC Rule 30.1 or the "Broker Director Rule."
- Reviewed the PSE's draft of the Government Securities Manual on Treasury Bills.
- Recommended the adoption of and subsequently implemented Commission Resolution No. 333, Series of 2003 dated 28 August 2003 regarding the reduction of the net capital requirement applicable to broker of proprietary shares and the treatment of investments in golf shares as allowable assets for purposes of net capital computation.

### 3. Led the preparation of the following studies or reports:

- Summary of Filings of 2003 Renewal Applications by registered market participants
- Analysis of Monthly FINOP of Broker Dealer Firms Termination Notices, Amendments and other disclosure related reports, applications for registration, Self-Rating Forms, Manuals on Corporate Governance and Anti-Money Laundering
- Assessment of Annual Audited Financial Statements of Broker Firms and their corresponding Early Warning Signals
- IOSCO Survey/Questionnaire, including three follow-up questionnaires which are required for the Philippine SEC to become a signatory to the IOSCO Memorandum of Understanding
- SEC response to the Asia Pacific Group's APG Questionnaire on the Anti-Money Laundering Act preparatory to the consultative meetings with the international group of APG
- Evaluation of the regulated firms' responses to the Corporate Governance Self-Rating Form per SEC Memorandum Circular No. 5 Series of 2003
- Study and review for possible adoption of a Risk Based Capital Adequacy Ratio Model applicable in the Philippine setting
- Daily as well as monthly stock market reports, copies of which were furnished the Office of the President and Department of Trade and Industry, and Bureau of Treasury during auction days

### 4. Advocated initiatives to deepen the capital market

- To broaden the quality and quantity of stocks traded at the PSE, MRD provided assistance to the Commission En Banc in encouraging the Top 5,000 corporations to list in the bourse, and companies with at least PhP 50 million in total assets and at least 100 stockholders to list in the PSE's Small and Medium-sized Enterprises (SME) Board. MRD likewise helped enjoin the PSE to enforce the free-float rule at the PSE, to bolster market liquidity.

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- The department continued to spearhead efforts towards the establishment of a fixed income exchange, which will provide a platform for the secondary trading of government securities, commercial papers and asset-backed securities issued by companies. The exchange will be the Philippines' first official electronic market for public and private debt instruments.
5. Monitored Compliance with the SRC, PD 129, the Omnibus Rules and Regulations for Investment Houses and Universal Banks Registered as Underwriters of Securities, and Other Related Rules
- MRD was instrumental in SEC's efforts to ensure the PSE's compliance with Section 33.2 (c) of the SRC, which mandates the PSE to broaden its ownership base. The PSE listed its shares by way of introduction in December 2003, to allow member-brokers to divest their shares in the bourse and comply with the SRC's provision that brokers as a group should own no more than 20 percent of the demutualized exchange.
  - Noting the occurrence of net capital deficiencies and the PSE's failure, on a number of occasions, to detect net capital and reportorial violations, the MRD improved its monitoring of net capital requirements by automating the computation of the adjusted net capital of broker firms. This freed up the man hours necessary for analyzing the FINOP results as well as developing the risk-based capital adequacy model.
  - The Department conducted a 100% thematic desk audit to check compliance with the Chinese Wall Rule and the independence of the compliance function. Firms were given until 29 August 2003 to resolve their violations of the Chinese Wall Rule. Out of 125 firms that were sent letters, 111 resolved the issue and corrected/cancelled the applications of persons with conflicting positions, while there are 15 remaining conflicting position issues left to be resolved before the issuance of the 2004 license.
  - Conducted a joint thematic audit together with the Philippine Stock Exchange's Compliance and Surveillance Group (PSE-CSG) of all 135 registered broker firms in the fourth quarter of 2003. The Thematic Audit focused on the Rules related to Customer Protection which include, among others, the following:
    - Securities Inventory Count;
    - Review of Reserve Requirement;
    - Review of Customer Accounts; and
    - Review of Books and Records.
  - Partnered with PSE in promoting compliance with SRC Rules and regulations through:
    - Close monitoring with PSE on developments in two financially distressed broker firms;
    - Issuance of a CDO and a Take Over Order on one broker in favor of PSE, in view of the deteriorating financial condition of the said company.

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- Calling PSE's attention to its non-detection of Net Capital and reportorial violations such as late filing and occurrence of net capital deficiencies.
  - Holding of consultative meetings with PSE auditors to align and harmonize interpretations of the Net capital rule applied in the regulation of the financial condition of broker dealer operations. All BDD specialists and PSE auditors met during the period from 12-15 August 2003. This procedure was undertaken in order to effectively regulate the brokers dealers and avoid duplication of regulatory functions. It was the intention of the Division to entrust to PSE, as an SRO, the monitoring of the firms' net capital and limit BDD's task to conducting oversight audit of PSE's monitoring activities.
  - Planning and conduct of the SEC-PSE Joint thematic audit held in October and November 2003; and
  - Approval of the PSE's Pledge Agreement with Brokers Dealers.
- With assistance from the Asian Development Bank (ADB) and technical support from the Economic Research and Information Department (ERID), MRD is now using the Advance Warning and Control System (AWACS) market surveillance engine which aims to protect the integrity of the market from fraud and abusive trading practices, particularly price manipulation associated to trades occurring in the financial market. A total of 187 letters were sent to various brokers/dealers who were required to submit the names of the beneficial owners in view of the sudden rise/drop in the price/volume of 32 listed issues.
  - Meanwhile, to determine compliance with PD 129, the Omnibus Rules and Regulations for Investment Houses and Universal Banks Registered as Underwriters of Securities, and other rules and regulations being implemented by the Commission, MRD's Investment Houses Division (IHD) held meetings with the compliance officers of investment houses (IH) on various dates in March 2003. In addition, IHD conducted routine audits on all Investment Houses (IH).

### 6. Monitored Compliance with the Code of Corporate Governance

- Monitored compliance by regulated entities on the submission of the Corporate Governance Self-Rating Form (CG-SRF).

**Table 8: Compliance with the Code of Corporate Governance  
CY 2003**

<b>Firms</b>	<b>Total registered</b>	<b>Total submitted</b>	<b>Percentage</b>
Exchange Member -BD	135	134	99%
Non exchange Member - BD	16	15	94%
ICA	12	11	92%
Investment Houses	36	36	100%
Underwriters of Securities	9	9	100%
Government Securities Eligible Dealers (GSEDs)	65	57	88%
Transfer Agents	31	31	100%
Other Market Participants	3	3	100%
<b>Total</b>	<b>307</b>	<b>293</b>	<b>95%</b>

- The Department also analyzed the responses of the market participants to the CG-SRF.

7. Provided investor assistance and information

- To complement SEC's enforcement actions and broaden the reach of SEC's investor information efforts, three thirty-second "infomercials" on how to avoid investment scams were produced for broadcast on television and radio, as well as in movie theaters and public transportation. MRD coordinated with the different market participants and the Philippine Information Authority (PIA) for the production of the infomercials.
- In addition, the data bases of registered market participants (i.e., brokers dealers, Associated Persons, Sales Agents, Investment Houses, Investment Company Advisers, Certified Investment Solicitors, GSED's) were constantly updated and upgraded in order to respond promptly to investor queries on whether companies and individuals are licensed to engage in the securities business.

8. MRD was designated as the lead department in charge of matters related to bilateral, regional, and multilateral cooperation in the field of financial services. In this capacity, MRD represented the SEC in the current negotiations with the Japanese Government on the on-going Japan Philippines Economic Partnership Agreement (JPEPA) twice held in the Philippines.



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### 9. Cooperated with other government regulatory agencies

- MRD worked closely with the Bangko Sentral ng Pilipinas (BSP) on matters of mutual regulatory concern, i.e., firms that are jointly regulated by BSP and SEC, and with the Bureau of Treasury (BTr) on matters relating to the public auction of T-Bills and T-Bonds and the flotation of other government securities. MRD likewise consulted with the Bureau of Internal Revenue (BIR) on matters relating to taxation.
- MRD coordinated with prosecutors of the Department of Justice (DOJ), city prosecutors as well as different law enforcement agencies like the National Bureau of Investigation and the Philippine National Police with respect to the Issuance of Certificates by the Department on unlicensed trading and solicitation and the offers of testimonies by MRD representatives on these Certifications.

### 10. Developed and streamlined internal procedures

- MRD pilot-tested a new set-up which called for the distribution of regulatory and monitoring activities by function and by teams (i.e., Licensing, Compliance and Audit, and Risk Management) rather than by company, thereby allowing for the uniform or consistent application of regulatory policies across the whole industry. The project which was implemented throughout the year 2003 revealed positive results by way of increased efficiency and specialization.

**CORE FUNCTION: CAPITAL MARKET DEVELOPMENT AND REGULATION**

**8 iv. Corporation Finance Department**

**FUNCTIONS**

- Registers securities before they are offered for sale or sold to the public and ensures that adequate information is available on said securities
- Ensures that investors have access to all material disclosures regarding the all reported securities as well as the businesses/operations of reporting companies
- Monitors compliance by issuers with the SRC and its implementing rules and regulations adopted and endorses infractions thereof to the Compliance and Enforcement Department

**ACCOMPLISHMENTS**

1. Participated in the drafting and/or finalization of several laws and regulations including:
  - Implementing Rules and Regulations of the Special Purpose Vehicle Act
  - Amended Implementing Rules and Regulation of the Securities Regulation Code
  - Circular/MOA on Special Purpose Vehicle Act
  - Alternative Trading Rules
  - Futures Trading Rules
  
2. The Department provided technical assistance for the drafting of the:
  - Amendments to the Securities Regulation Code
  - Revised Investment Company Act
  - Proposed Lending Investors Act
  - Revised Accountancy Law
  - Securitization Bill
  - Corporate Accountability and Responsibility Act of 2002

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3. Participated in the drafting of the following:
  - Self-Rating System on Corporate Governance, SEC Circular No. 5, Series of 2003;
  - Rotation of External Auditors, SEC Circular No.8, Series of 2003
  - Circular on Accreditation of External Auditors of Secondary Licensees.
  
4. Monitored strict compliance with the Manuals on Corporate Governance i.e. designation of compliance officers, independent directors, creation of board committees.
  - Reviewed interim (quarterly) financial statements, in accordance with the requirements of SRC Rule 68.1 and SFAS No. 30. Companies were required to amend their reports to incorporate the prescribed financial disclosures and presentation.
  - Improved and updated the checklist of financial reporting requirements vis-à-vis Statements of Financial Accounting Standards (SFASs)/ International Accounting Standards (IASs).

### **Performance for 2003**

#### **I. Revenues**

A 14.8 percent increase in the registration fees is due to the corresponding increase in the number of filings of registration statements in 2003. Exemption fees however, decreased by 70.7 percent brought about by the setting aside of the PSE of a requirement for a confirmation of exemption from transactions covered by Sec. 10 of the SRC.

The decline in the amount of penalties is due to requests for reconsideration/appeal of erring companies. Other filing fees were constituted payment by entities which conducted tender offers.

#### **II. Registration of Securities**

**Table 9: Registration of Securities  
CY 2002 & 2003**

	For The Year Ended 2003	For The Year Ended 2002	Increase (Decrease) in %
Registration Fees	P 26,312,061.50	P 22,929,524.35	14.75%
Exemption Fees	11,362,848.31	38,772,353.98	-70.69%
Penalties	7,597,333.00	10,280,986.23	-26.10%
Other Filing Fees	3,087,588.53	13,231,591.22	-76.67%
TOTAL	P 48,359,831.34	P 85,214,451.57	-43.24%

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Applications	Approved for the year 2003	Approved for the year 2002
Registration Statements	22	33
Applications for Confirmation of Exemption	406	630
Applications for Authority To Operate as Financing Companies	418	67
Applications for Accreditation as External Auditors and Auditing Firms	125	12
<b>TOTAL</b>	<b>971</b>	<b>742</b>

**Table 11: Types of Securities  
CY 2002 & 2003**

Type of Securities	Amount Registered for the year 2003	Amount Registered for the year 2002
Equity Securities	P 11,924,612,550.00	P 15,397,575,474.94
Debt Securities*	10,800,000.00	5,200,000,000.00
Proprietary & Non-Proprietary Shares/ Certificates	4,183,059,197.00	8,051,490,000.00
<b>TOTAL</b>	<b>P 26,907,671,747.00</b>	<b>P 28,649,065,474.94</b>

**Table 12: Submission of Corporate Reports  
CY 2003**

Reports	Total No. of Reports Due	Received*	Reviewed	% of
Annual Reports (17-A)	629	601	601	100%
Quarterly Reports (17-Q)	1,537	1,267	1,267	100%
Current Reports (17-C)	Variable	2,318	2,318	100%
Beneficial Ownership Reports (23/18)	Variable	1,175	1,175	100%
Information/Proxy Statements	Variable	566	566	100%
Commercial Paper Reports	Variable	1,004	1,004	100%
Self-Rating on Corporate Governance	664	522	522**	100%
Reports of Financing Companies	973	875	796	91%
<b>TOTAL</b>		<b>8,328</b>	<b>8,249</b>	<b>99%</b>

\*Including amended reports.

\*\*Preliminary evaluation.

**III. Monitoring Activities**

**Table 13: Monitoring Compliance with Code of Corporate Governance  
CY 2003**

Manual of Corporate Governance

Covered Companies	Submission		
	Total No. of Manuals Due	No. of Filings	Percent
Listed Companies	234	232	99%
Unlisted/Public Companies	133*	120**	90%
Mutual Fund Companies	26	26	100%
Financing Companies	263	239	91%

\* Excluding companies which manuals are not yet due.

\*\*Companies which failed to submit are inactive issuers.

Independent Directors

	No. of Required Companies	With Independent Directors	% of Compliance
Listed Companies	234	208	88%
Unlisted/Public Companies	135*	49**	36%
Mutual Fund Companies	23	19	83%

\*Excluding time share issuers.

\*\*Most of the companies which failed to comply are inactive issuers and those which have not yet conducted stockholders' meeting.

Designation and Disclosure of Compliance Officers

Requirements	No. of Companies Covered	Compliant	Percentage (%) To Total
Listed Companies	229*	220	96%
Unlisted/Public Companies	120	50	42%
Mutual Fund Companies	26	23	88%

\* Five (5) companies did not adopt the practice of designation of a compliance officer. Instead, the Chairman acts as such.

Submission of Self-Rating Forms on Corporate Governance

Covered Companies	Submission		
	Total No. of Rating Forms Due	No. of Filings	Percent
Listed Companies	234	222	97%
Unlisted/Public Companies	141	92	65%
Mutual Fund Companies	26	26	100%
Financing Companies	263	140	53%

Tabulation of Violations

	Listed and Registered Issuers of Securities	Investment or Mutual Fund Companies	Public Companies	Financing Companies
No. of violations committed	105	11	2	26
Amount of Penalties Collected	P 7,067,968	P 303,800	P 77,300	P 148,265
No. of Suspended/Revoked Licenses	6	1	-	2

**Table 14: Compliance with Commitment  
CY 2003**

Reports/Filings	Review Period	Actual
Registration Statements	W/in <u>7 days</u> from receipt	90% Complied With Receipt of other priority documents/ reports hindered the full compliance of this commitment by certain staff.
Annual Report (SEC Form 17-A)	W/in <u>75 days</u> from receipt	80% Complied With [Review period was adjusted to improve quality of review and to conform with date of submission of comments by UP.]
Quarterly Report (SEC Form 17-Q)	W/in <u>45 days</u> from receipt	90% Complied With Receipt of priority documents/ reports hindered the full compliance of this commitment by certain staff.
Current Report (SEC Form 17-C)	W/in <u>1 day</u> from receipt	Complied with. Current reports received were reviewed within one day from receipt.
Beneficial Ownership (SEC Form 23/18)	W/in <u>1 day</u> from receipt	Complied with.
Quarterly Report	W/in <u>30 days</u> from receipt	Complied With
Disclosure Statement	W/in <u>1 day</u> from receipt	Complied With
Information Statement	W/in <u>1 day</u> from receipt	Complied With
Application for Authority of Financing Companies	W/in <u>30 days</u> from receipt	Complied With

**CORE FUNCTION: CAPITAL MARKET DEVELOPMENT AND REGULATION**

**8 v. Non-Traditional Securities and Instruments  
Department**

**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**

1. Registered and granted licenses for non-traditional securities and instruments
  - Registered and licensed P31.8 billion worth of pre-need plans;
  - Renewed 43 dealer's licenses for 2003. In keeping with the rules on the minimum paid-up capital requirement, 12 of these companies were allowed to sell three plan types, 11 were allowed to offer two plan types while 20 were allowed to deal only in a single plan type;
  - Licensed 138,211 pre-need salesmen;
  - Approved the establishment of 73 new branch offices, transfer of 81 branch offices, and closure of 70 branch offices; and
  - Accredited 28 pre-need actuaries.
2. Participated in the drafting of rules for issues relating to the pre-need industry.
  - NTD continued to introduce reforms to strengthen the prudential regulation of the pre-need industry. SEC Memorandum Circular No. 6 Series of 2002 (now Memorandum Circular No. 6 Series of 2003) which requires pre-need firms to set up actuarial reserve liabilities for all pre-need benefits and/or insurance premium reserves for plan contracts that include insurance coverage was amended. The Circular which likewise sets the standards to be observed when using actuarial assumptions to ensure the integrity of the valuation of reserve was revised to include, among others, the setting up of a separate liability account for insurance premium reserves, a validated reinstatement factor for reinstated plan as determined by the actuary, conclusive proof of the actual net yield, justification for decrement rates of fully paid plans, and statement of validation procedure.

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- Prepared its own guidelines on the Accreditation of Pre-Need External Auditors which aim to raise the level of integrity of audited financial statements of pre-need firms. NTD sought the involvement of Pre-Need External Auditors in the process by requesting them to submit their inputs and comments on the draft guidelines. SEC Memorandum Circular No. 13 Series of 2003 (Re: Accreditation and Reportorial Requirements of External Auditors of Public Companies and Secondary Licensees of the Commission) incorporated NTD's guidelines with those of the other departments.

### 3. Conducted policy research on the Philippine futures market.

- The NTD served as lead department in doing a policy research on the Philippine futures market which resulted in the establishment of a Committee on Futures Trading. Among others, the Committee is tasked to draft the rules that would govern the trading of commodity futures. The Commission is in the process of securing technical assistance from multilateral organizations to help provide expert assistance in rule drafting.

### 4. Monitored Compliance to Pre-Need Rules

- To strengthen the protection of planholders, NTD's compliance monitoring efforts focused on two major activities, i.e. the conduct of on-site inspections for actuarial and accounting compliance, and the strict monitoring of compliance with reporting requirements.
- The major results of NTD's efforts in these areas were as follows:
  - Conducted 60 actuarial reviews and 52 financial reviews of applications for registration of pre-need plans;
  - Reviewed actuarial valuation reports of pre-need companies to check compliance with MC No. 6 series of 2003, and Nos. 7 and 8 series of 2002;
  - Conducted and prepared audit reports on 40 routine audits, 13 special audits and 16 trustee audits of pre-need companies;
  - Monitored 6,800 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.
- Evaluated trust fund statements as of 31 December 2002 and 30 June 2003 submitted by 43 pre-need companies in compliance with the investment portfolio prescribed limits;
- Reviewed and proposed revisions to 32 Trust Agreements between banks and pre-need companies in compliance with the New Pre-Need Rules;



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- Sent 1,801 conference/ show cause/compliance letters;
- Issued 36 orders of payments and charge slips for late or non-compliance with reportorial requirements.

### 5. Monitored Compliance with the Code of Corporate Governance

- Achieved a 98 percent compliance rate on the submission of accomplished self-rating system form on corporate governance.

### 6. Provided assistance to planholders

- Attained a 68 percent complaints' resolution rate for mediating between planholders' claims and complaints with the pre-need companies.
- Cleared the release of PhP 16,378,402.36 from the trust funds of inactive pre-need companies to pay benefit claims of planholders;
- Processed the claims amounting to PhP 5,237,130.55 of 877 planholders of two pre-need companies, namely: Guaranteed Education Systems, Inc. and University Plans, Inc. which are under liquidation.

**CORE FUNCTION: COMPANY REGISTRATION AND MONITORING**

**8 vi. Company Registration and Monitoring Department**

**FUNCTIONS**

- Registers and revokes registration of domestic corporations and partnership, approves amendments to articles of incorporation/partnership, by-laws, increase in capital stock, merger 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.
- Conducts monitoring/supervision activities on compliance of corporations with the Corporation Code and complimentary laws.

**ACCOMPLISHMENTS**

1. Generated total revenue amounting to PhP 423,851,955.41.
2. Verified 76,726 corporate/partnership names, registered 18,430 corporations, 2,360 partnerships and acted on a total of 13,143 varying applications in CY 2003.
3. Drafted *and issued guidelines on*
  - Revocation of Certificate of Registration
  - Accreditation of Appraisal Companies
4. Proposed/drafted amendments to the Corporation Code of the Philippines
5. Monitored firms for compliance with the Corporation Code
  - With the issuance of revised Guidelines on Revocation of Certificate of Registration, CRMD published show cause orders five times from April to October 2003 in a newspaper of general circulation instead of mailing such orders to delinquent corporations. Based on the data provided by ERID, CRMD identified and monitored 243,897 corporations registered from 1936 to 2003. For failure to appear and

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comply with the reportorial requirements of the Corporation Code, the Certificates of Registration of around 242,545 corporations were revoked.

6. In the exercise of its function over issues involving among others, corporate names, dissolution of corporations, and revocation of licenses, the CRMD conducted 393 conferences/hearings and issued 54 orders/decisions/resolutions.
7. In response to the request of corporations for observers, CRMD lawyers attended 22 stockholders and members meetings.
8. As a member of the Investment Promotion Council, CRMD lawyers in coordination with the Board of Investments advised 47 foreign investors on SEC registration requirements.
9. CRMD drafted and issued guidelines on:
  - Revocation of Certificate of Registration
  - Accreditation of Appraisal Companies
  - Proposed amendments to the Corporation Code of the Philippines
10. CRMD encoded 24,467 new primary licenses and 8,646 amendments to primary licenses. In coordination with other divisions, it also issued 1,041 negative certifications, 1,830 corporate filing information certifications on status of corporations, 293 clearance certifications and encoded 183,022 updates on compliance with SEC reportorial requirements.
11. CRMD rendered advisory assistance or replies to 27,509 walk-in and telephone inquiries. Formal replies to 2,000 written inquiries were also sent by the department.

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### **CORE FUNCTION: ENFORCEMENT**

#### **8 vii. Compliance and Enforcement Department**

##### **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**

1. Secured and served search warrants on H-Factor Trading and Marketing Corp., and on Speed Credit and Collection Corp. Both corporations were engaged in unregistered offering and selling of securities similar to MULTITEL HOLDINGS CORPORATION, GLASGOW CREDIT AND COLLECTION SERVICES, MATEO MANAGEMENT GROUP and TIBAYAN GROUP INVESTMENT COMPANY, etc.
2. Actions filed before the Review Unit resulted in the revocation of the Certificate of Registrations of the following corporations: Multi-Growth Corp, revoked on March 12, 2003, for fraudulent bank certificate of deposit; Holiday Worldwide, Inc, revoked on 27 May 2003, for unlicensed selling of timeshares; and Tibayan Goup Investment Company, Inc., revoked on 21 October 2003 for use of spurious bank certificate of deposit.
3. The Department was able to secure Cease and Desist Orders from the Commission against:
  - 3 i. Five Vision Consultancy Inc.
  - 3 ii. Intercontinental Services Inc.
  - 3 iii. Conrad Group and Associates, Inc
  - 3 iv. Servlink Cargo Inc.
  - 3 v. H-Factor Trading and Marketing Corp.
  - 3 vi. Lead Lending Corporation
  - 3 vii. Asian Capital Equities, Inc.

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4. Continued work on the BWRC cases against Dante Tan et. al., before Branch 160, RTC, Pasig City, which cover violations of the provisions of the SRC, e.g. for wash sales, marking the close, improper match order, etc. On the BWRC case against Dante Tan, et.al. before Branch 153, RTC, Pasig City, which covers the violation of disclosure requirements, the case is now submitted for resolution.
5. Disposed of 90 cases which were filed in 2002, 2001, and the years prior to the reorganization.
6. Opened 34 investigations
7. Filed nine cases with the Review Unit of the OGC.
8. In addition to last year's cases filed before the Department of Justice, the following complaints were filed in 2003:
  - 8 i. SEC vs. Tibayan Group of Companies
  - 8 ii. SEC vs. Lead Lending Corporation
  - 8 iii. SEC vs. Speed Credit Collection Service Co.
  - 8 iv. People of the Philippines vs. Leo Andreu Hadi, et. al (2003)
9. With the acquisition of the Advance Warning and Control System (AWACS), the Department, through its Inspection and Surveillance Division monitored the PSE for alerts of possible insider trading and stock manipulation.
10. Referred the following cases to the Bangko Sentral ng Pilipinas (BSP) for their appropriate action:
  - 11 i. Cart Lending
  - 11 ii. First Prolife Credit Company
  - 11 iii. First Eurasian Management
  - 11 iv. Legacy Consolidated
  - 11 v. Manila's Finest (POSLAI)
  - 11 vi. OFW Net

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11. Requests were made to the Anti-Money Laundering Council on 5 Suspicious Transaction Reports with requests for freezing of bank accounts, which were made with the Council.

### **CORE FUNCTION: SUPPORT SERVICES**

#### **8 viii. Human Resource and Administrative Department**

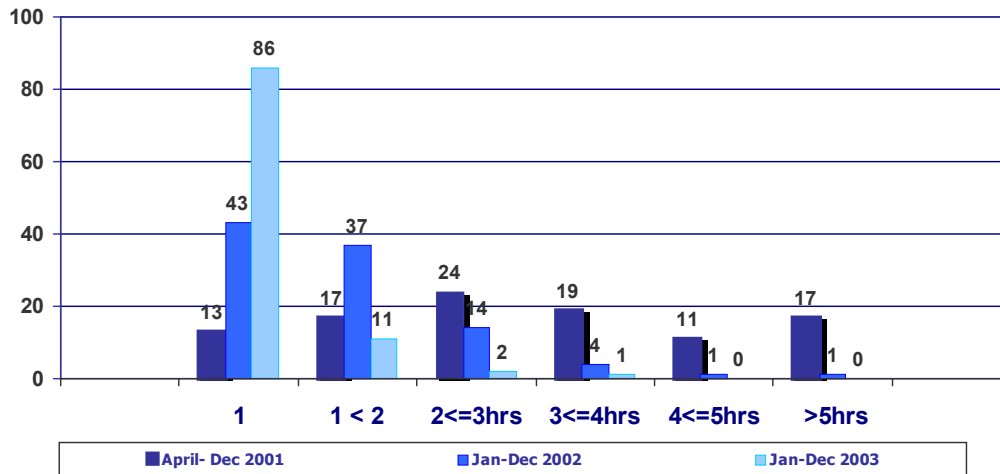
##### **FUNCTIONS**

- 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**

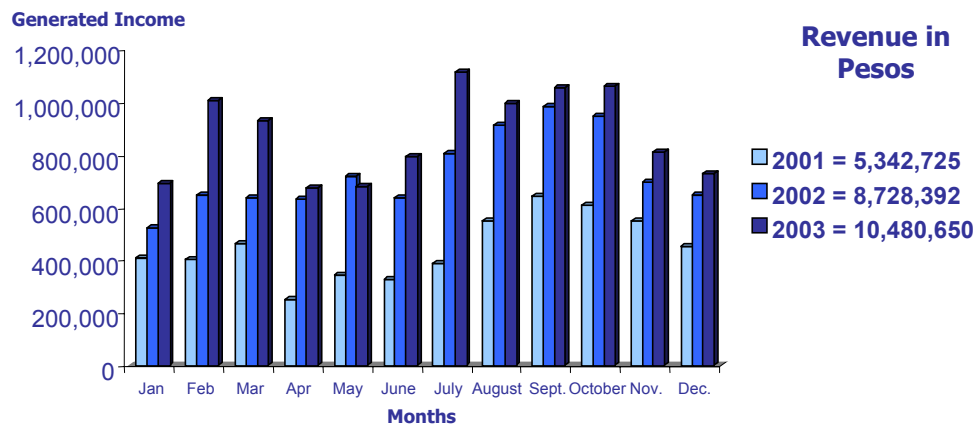
1. Converted current reports and back files into digitized forms
  - Upgraded the Document Imaging System (DIS) by installing a state-of-the-art storage area network device which significantly improved the delivery of corporate records to the public.
  - Modernized the computer and printing equipment at the Public Reference Unit [one unit microfilm reader printer, seven computers, and two high speed printers.

**Chart 4: Retrieval of Company Files  
Public Waiting Time (in hours served)  
(2001-2003)**



- Outsourced the data conversion of back file records to digitized format and the uploading of the same to the DIS by 08 July 2003. Since then, the time for retrieving corporate records was drastically shortened. Records showed that in 2001, only 13 percent of clients requesting for copies and authentication of corporate records were served in less than one hour. This improved to 43 percent in 2002 and jumped to 86 percent by December 2003.
- Generated more revenue for the government as more requests can be served daily. In CY 2002, the number of requests served was 88,530 and in CY 2003, the number increased to 99,807. The revenue generated for these years amounted to PhP 8.73 Million and PhP 10.480 Million, respectively.

**Chart 5: Income Generated from the Central Receiving and Records Division (2001-2003)**



**2. Implemented the SEC Strategic Training Plan 2003**

- Conducted public seminars to increase awareness on investor information, corporate governance, and company registration. Seminars on Corporate Governance were held in Bacolod, Cebu, Manila, and Davao;
- Facilitated the attendance of SEC employees in 11 foreign training programs with 17 participants and 40 local conferences and trainings with 108 participants;
- Facilitated SEC Special Events such as the launching of the 1-908-1 ASK SEC, the first nationwide government hotline, in coordination with Philippine Long Distance Telephone, Co.; turn over ceremonies for the SEC Manual of Operations; opening ceremony of the SEC SportsFest; and the roundtable discussion with the Energy Regulatory Commission on market surveillance: the SEC Experience;
- Conducted three of orientation programs on SEC for 3 schools with 255 students;
- Accepted and deployed 226 on-the-job trainees from 33 schools in Metro Manila and one from Tuguegarao;
- Revised the Manual on SEC Training Policies, now on its final draft, for approval of the Commission.



**Table 15: Trainings, Seminars and Programs Organized by the HRAD  
CY 2003**

<b>Programs</b>	<b>No. of Sessions</b>	<b>No. of Participants</b>
Organizational Development Programs	12	423
Skills Training	8	181
Technical Programs	9	297
Public Seminars (Corporate Governance)	4	987
Brown Bag Sessions	9	133
Echo Seminars	7	90
<b>TOTAL</b>	<b>49</b>	<b>2,111</b>

**3. Strengthened the SEC-Performance Evaluation System**

- A four-stage approach in target-setting was adopted in 2003, which resulted in the cascading of SEC overall goals and targets to departments/offices, to divisions, and to individual employee targets.
- Decentralized some administrative functions to SEC Extension Offices. This empowered EO Directors with more authority and flexibility in the technical and administrative management of their respective offices.
- Referred to DBM's Procurement Service the computerized attendance monitoring, leave, and payroll administration system along with the finger-scanning technology for bidding.
- Procured a new set of uniforms for SEC male and female employees. SEC Office Order No. 110 s. of 2003 was issued on the guidelines for the wearing of the prescribed office attire/uniform.
- Coordinated with the Financial Management Department on the transfer of our ATM Payroll Service to the Philippine Veterans Bank effective September 2003.
- Conducted free clinics on OB, Fat Analysis, Cholesterol, Bone Density, Flouride Therapy, as well as seminars on Weight Management and Obesity, and Maternal and Child Nutrition Care.

**4. Improved the procurement system of the SEC**

- Procurement of goods and services which include among others, office supplies and equipment, security and janitorial services, were continuously and carefully reviewed and evaluated to determine necessity and reasonableness of unit costs, rates, and quantity. The review resulted in lower expense for office supplies, less

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security guards and utility staff, reduction in rates for services such as photocopying, and deferment of increases in rent. Savings estimated from this activity amounted to PhP 8,170,000 from 2001 to 2003.

- Waiting time for purchases was reduced to 22 days or less, from more than a month in previous years.
- Negotiated with the security agency for the installation of 17 CCTV Cameras in strategic areas of the building at no extra cost to the Commission effective January 2004.

### 5. Other accomplishments

- Secured from the Philippine National Bank (PNB) the Condominium Certificates of Title (CCTs) for the 3rd to 8th floor, including the Release of Mortgage and cancellation of the annotation/ encumbrance on the CCTs with the office of the Registry of Deeds, Mandaluyong City;
- Coordinated with the SEC Building Condominium Corp. (SBCC) on the repainting of the SEC Building exterior. This was completed in June 2003. Office spaces were arranged for the SEC General Accountant, Office of General Counsel and the Commission Secretary. The division also attended to the repainting of the PRU records area;
- Upgraded equipment which included the arrangement for new cellular phones for SEC Officials and Directors, purchase of 60 PCs, 10 Notebooks, and 1 server, and an amplifier for the outdoor sound system. The division also procured 1 photocopying machine for the Cebu Extension Office;
- Accredited suppliers/service providers in the 2nd quarter of this year;
- Activated the IDD/NDD for SEC Call Center 1-908-1 ASK SEC;
- Rendered administrative support to 30 SEC training and other activities initiated by the Commission.

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### ▪ **CORE FUNCTION: SUPPORT SERVICES**

#### **8 ix. Financial Management Department**

##### **FUNCTIONS**

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

##### **ACCOMPLISHMENTS**

1. Earned recognition from the Association of Government Accountants of the Philippines, Inc. (AGAP) as **the MOST OUTSTANDING ACCOUNTING OFFICE– National Government Sector – Big Agency for CY 2002** for having met the criteria of Accuracy, Timeliness, Reliability and Compliance to accounting rules and regulations set by the Committee on Awards of the AGAP. The award is a recognition that the SEC through the FMD adheres strictly to the Commission on Audit (COA) rules and regulations in the disbursement of funds. Moreover, it is an acknowledgment that FMD submits the requisite reports in a manner.
2. Collected PhP 696 million from service fees, fines, and penalties which is PhP 381 million more than the total expenditures of PhP 315 million for its personnel, maintenance, and other operating expenses, and capital outlay. Its total revenue collection exceeded projected income by PhP 73 million in 2003.
3. Represented the Commission in a series of conferences with DBM officials to discuss SEC's remuneration and facilitate the release of SEC's budget requirements. FMD likewise attended discussions with DOF and BTR officials regarding the reconciliation of SEC and BTR records of fees collected in CY 2002.
4. Presented for approval the establishment of the SEC provident fund for the welfare of SEC officials and staff.

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The summary of FMD's accomplishments is shown in Table 16:

**Table 16: Accomplishments of the Financial Management Department  
CY 2003**

Total No. of Allotment and Obligations Slips (ALOBS) Issued	1,656
Total No. of Letters/Memos/Certifications Prepared/Released	1,000
Total No. of Disbursement Vouchers Received/Pre-audited/Released	3,242
Total No. of Paid Vouchers/ Checks Issued	3,472
Total No. of Communications/ Memos Received	1,907
Total No. Daily Teller's Reports/ Reports of Collection Prepared/ Reviewed/ Submitted	956
Total No. of Report of Disbursement Prepared/Checked/Submitted	132
Total No. of Summary Lists of Checks Issued/ Cancelled	36
Total No. of Remittances Advices Prepared/ Issued / Submitted	2,761
Total No. of Allotment Slips Processed	2,431
Total No. of Disbursements Reports of Extension Offices Post Audited	2,880
Total No. of Remittances Made to GSIS, Philhealth, PhilAm and PAG-IBIG	108
Total No. of BIR Forms 2307 and 2316 Prepared/ Submitted	776
Total No. of BIR Forms 1600, 1600 and 1600 CF Prepared/ Checked/ Submitted	36
Total No. of Tax Remittance Advices Prepared/ Checked / Submitted	36
Total No. of Trial Balances Prepared/Checked/Submitted	28
Total No. of Journal Entry Vouchers Prepared/Checked/ Submitted	626
Total No. of Bank Reconciliation Statements Prepared/Checked/Submitted	96
Total No. of Checks Issued/ Cancelled	3,696
Total No. of Check Disbursement Reports Prepared/Checked/Submitted	36
Total No. of Cash Disbursement Reports Prepared/Checked/Submitted	12
Total No. of Cash Receipts Journals Prepared/Checked/Submitted	24
Total No. of General Journals Prepared/Checked/Submitted	12
Total No. of Financial Statements Prepared/Checked/Submitted	12
Total No. of Collection Reports Reviewed/Verified	2,761

**CORE FUNCTION: SUPPORT SERVICES**

**8 x. Economic Research and Information Department**

**FUNCTIONS**

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

**ACCOMPLISHMENTS**

1. Worked towards the implementation of the information systems necessary to support the operations of the reorganized SEC to follow the IT roadmap set in the SEC's updated Information Strategic Systems Plan (ISSP).
  - Continued to administer the construction and development of the ***SEC-iRegister***, the SEC's Web-based company registration system. Since its official launching in June 2002 until 31 December 2003, the total number of name verification transactions is 477,336 and the total number of reservations has reached 132,957.
  - With the implementation of SEC's online company registration system, ***SEC-iRegister***, SEC has managed to earn two distinctions. The SEC has been identified by the NCC as one out of only 2 government agencies which have attained transactional web presence, or Stage Four of the five-stage classification model of e-government developed by the United Nations and American Society of Public Administration (UN-ASPA). Previously, despite the fact that the SEC-iRegister system had been in operations for 5 months on 20 November 2002, the SEC received, a Certificate of Recognition at the Philippine E-Government Awards in "recognition of its excellence in governance with the use of Information Technology."
2. Continued to facilitate the acquisition of IT resources, both at the head office and for the extension offices, 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.

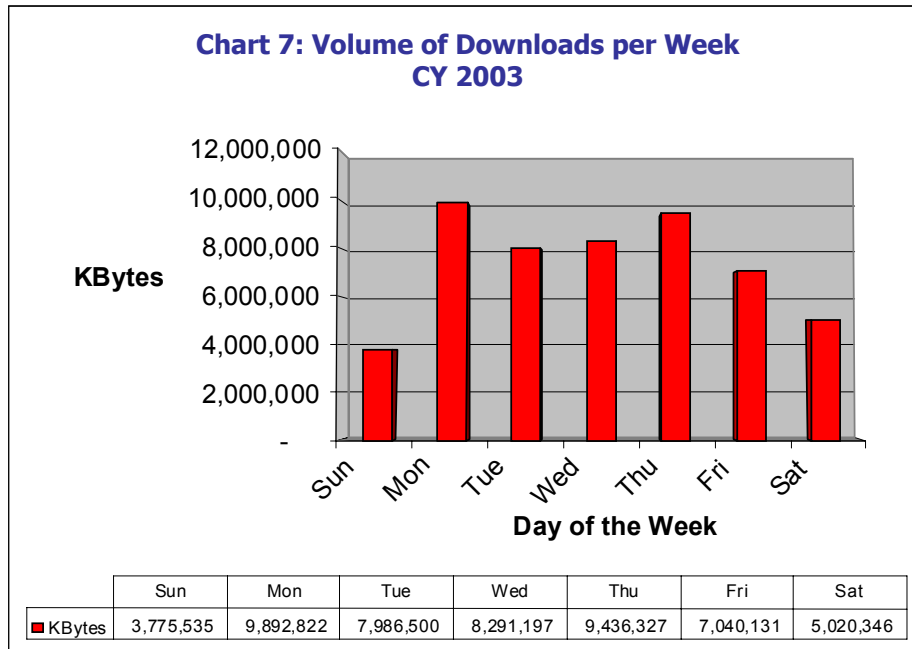
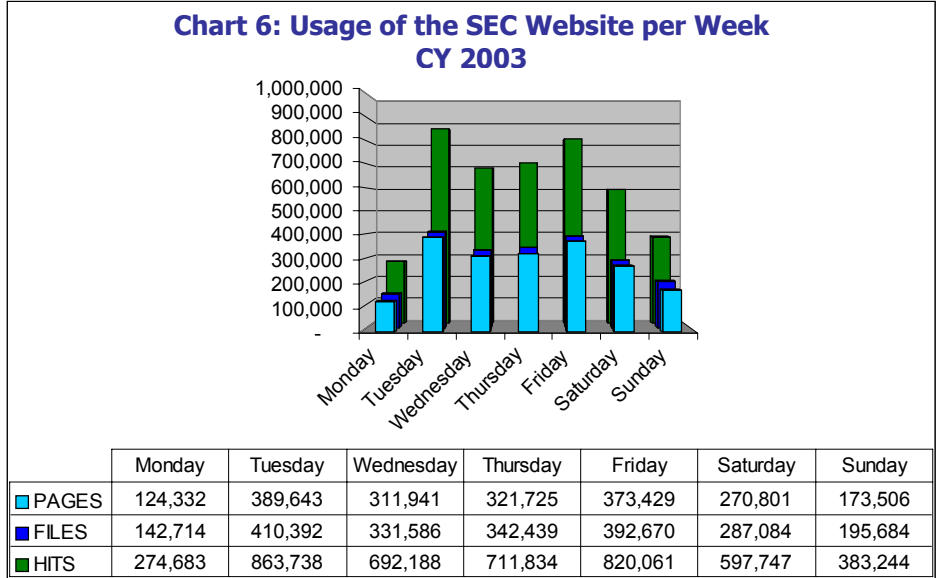
## ***Philippine Securities and Exchange Commission***

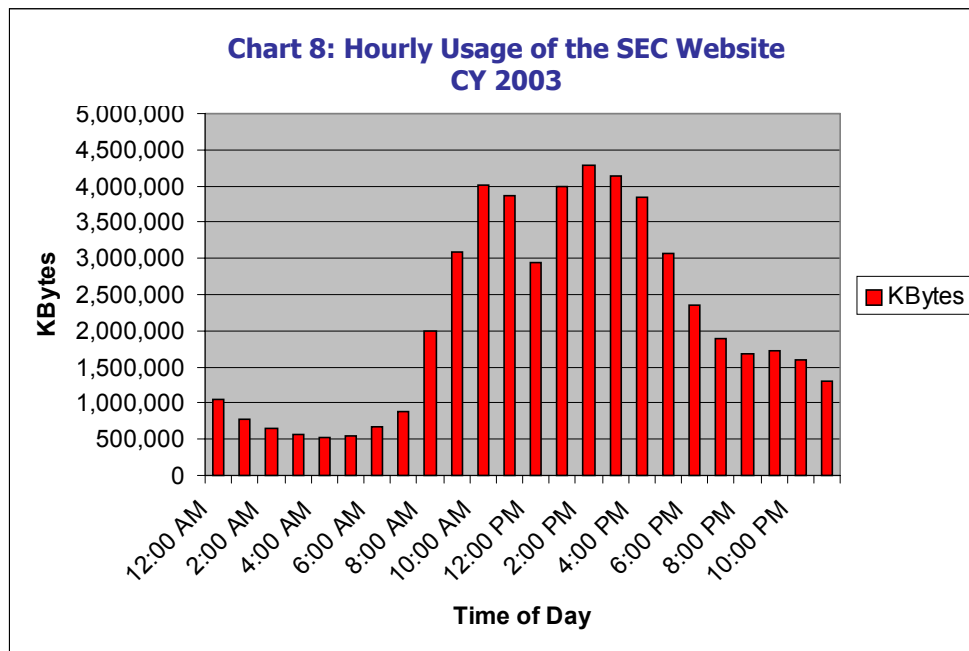
- More significantly, ERID extended the technical support in the acquisition of the additional 720 GB raw capacity of storage disks for the Hitachi HDS 9200 SAN, the storage equipment that is primarily used in the storage and retrieval of digitized incorporation and partnership documents, and reports such as the AFS and GIS.
  - ERID also undertook all the necessary activities for the implementation of the upgrading of the SEC LAN (Local Area Network). The upgrading is necessary considering the need to improve the active network components. Currently, the SEC LAN, which was installed in 1996 through a financial grant by USAID, is quite slow for the new and powerful PCs being connected to the system as the network hubs are limited to transmitting data packets at 10Mbps. The upgrading will entail, among others, the changing the network hubs to switches which are capable of transmitting data packets at the rate of 100Mbps, at the least, which is 10 times the rate of our existing network hubs.
  - ERID assisted in acquiring and installing the Advance Warning and Control System (AWACS), a market surveillance application package which aims to protect the integrity of the market from fraud and abusive trading practices, particularly price manipulation associated to trades occurring in the stock market.
  - AWACS is now being used by the MRD and the CED, while the ERID is continuously undertaking the maintenance of the system and coordinating with the supplier based in India so that the patches and upgrades are installed as appropriate.
  - Finally, ERID prepared and submitted all the requisite documents, and presented the general conceptual framework of the SEC-iReport to the ITECC E-Government Implementation Committee which resulted in the Committee's decision to endorse the SEC-iReport project to the DBM for the availment of the E-Government Fund facility in the amount of PhP 86.866 Million.
3. Since 2001, ERID has been implementing improvements in SEC's Home Page and the various Web Pages to ensure that the SEC Website is responsive, efficient, and that it contains up-to-date information on all matters pertaining to SEC and the issues of interest to the investing public. These changes have transformed the SEC Website into a dynamic, substantive, and user-friendly facility for disseminating information and delivering services to the public.
- In 2003, ERID posted 537 information materials on the SEC website consisting of Memorandum Circulars, Cease and Desist Orders, Stock Market Reports, the GFFS and Special forms for the Financial Statements of the Top 1,000 corporations, SEC Advisories, Notices, and other official pronouncements by the Commission. The number of information materials

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posted in 2003 increased by 63% from that of the previous year. As we enhance the appearance of our SEC Website, add to, and/or update its content, we expect that the number of access will continue to increase.

- Charts 6 to 8 provide data on the frequency of hits or visits to, and the volume of information materials downloaded from the SEC Website.





4. Performed corporate planning functions for the SEC
- Conducted SEC's 2003 Corporate Planning Workshop on 31 January – 1 February 2003, 2002, which sought to strengthen SEC's implementation of the following reforms in planning and M&E:
    - The prioritization of critical issues and strategic objectives for 2003, based on a careful consideration of SEC's capabilities, external environment, and resource constraints;
    - The identification of clear accountabilities for the delivery of these operational priorities; and
    - The identification of aggregate performance measures and targets for the year.
  - Conduct of a Mid-Year Assessment Workshop on 11-12 July 2003, 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 (DBM), and preparing the necessary planning documents and presentations for the FY 2004 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 (MFOs), another major initiative under the PEM



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reforms. The DBM has finally given its approval of the SEC's MFOs on 28 August 2003.

- ERID worked closely with the Human Resource Department to institutionalize a process that would instill a more solid performance-oriented culture in the Commission, consistent with the broader set of reforms being undertaken by government in PEM. In a series of workshops, the aggregate performance targets identified in the Corporate Planning Workshop were cascaded to the different departments and offices, and were used as basis for determining each employee's individual performance targets for the year. This process of cascading aggregate targets shall be done every year to ensure that each employee's output ultimately contributes to the attainment of the Commission's overall targets and MFOs.

### 5. Collected, processed, analyzed and disseminated data

- 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 and accompanying standardized formats were finalized in March 2003 and thenceforth, will constitute the core information that will be disseminated by the SEC in its accomplishment reports, statistical compendium, and the SEC Website.
- In addition to the development of the data shortlist, ERID assisted the operating departments in revising the existing templates for the submission of structured 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 compilation and 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.

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6. Served as the lead department for matters related to bilateral, regional, and multilateral cooperation, in agreements such as the Japan-Philippines Economic Partnership Agreement (JPEPA); the ASEAN Finance Work Program; the ASEAN Framework Agreement on Services (AFAS); and the General Agreement on Trade in Services (GATS). In this capacity, ERID assisted in the preparation and development of agency and country proposals. ERID likewise represented SEC in local and international meetings and dialogues. Following the establishment of the Committee, ERID's role will now be limited to the provision of secretariat support.
  
7. Performed investor information and assistance functions
  - ERID continued to support the Commission's anti-scams awareness campaign by disseminating information materials on how to recognize and avoid investment scams; and providing CED with the monthly reports on the frequently verified companies and related FAQs so that potentially fraudulent investment activities can be tracked and/or curbed in their early stages.
  
  - In coordination with the Compliance and Enforcement Department (CED) and the Company Registration and Monitoring Department (CRMD), ERID assisted in developing the content of 1-908-1-ASKSEC in May 2003. The Hotline provides automated responses to most frequently asked questions. Callers who wish to file a complaint or inquire about companies that have been closed down, have also the option to speak with an SEC representative during office hours.

The Hotline provides the following information to callers (at the cost of P10.00 per minute, including taxes and long distance call charges):

- How to register a corporation or partnership;
- SEC's requirements for corporate amendments;
- How to file a complaint against an investment scam or report a suspicious activity;
- Companies issued with Cease and Desist Orders (CDOs) and/or closed down by SEC; and
- Tips on how to avoid investment scams.

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### 8 xi. 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

1. In CY 2003, the SEC's extension offices registered 6,989 firms. Non-stock corporations accounted for 60 percent, stock corporations had 31 percent and the rest were partnerships.
2. Total capitalization amounted to PhP 1.9 billion which was broken down as follows:
  - Stock Partnership (72 percent)                      PhP 1.3 billion
  - Partnerships (14 percent)                              PhP 260 million
  - Non-stock Corporations (14 percent )              PhP 257 million
3. Total revenue collected amounted to PhP 63.7 million which was made up of:
  - Registration/ Amendment Fees              PhP 49.8 million
  - Fines, Penalties & Others                      PhP 13.1 million
  - Miscellaneous Income                          PhP 0.8 million

The summary of each of the seven Extension Offices is shown in Table 17:

**Table 17: Summary of the Performance of the SEC Extension Offices  
CY 2003**

Output Indicators	Baguio		Legaspi		Iloilo		Cebu		Davao		Cagayan de Oro		Zamboanga	
	QTY	Amount in millions	QTY	Amount in millions	QTY	Amount in millions	QTY	Amount in millions	QTY	Amount in millions	QTY	Amount in millions	QTY	Amount in millions
<b>Financial Indicators</b>														
<b>Total Collections/Income</b>		<b>4589.54</b>		<b>2549.2</b>		<b>10398.4</b>		<b>28742.98</b>		<b>9798.32</b>		<b>5153.25</b>		<b>2509.08</b>
Registration/ Ammendment		2726.18		1758.94		6263.44		24360.92		8645.76		4461		1576.11
Fines and Penalties		1489.05		660.66		4134.92		4382.06		1088.24		692.25		681.81
Miscellaneous Income		374.31		129.6						64.32				251.16
<b>Total Current Operating Expense</b>		<b>3374.32</b>		<b>2345.01</b>		<b>4879.41</b>		<b>7086.93</b>		<b>4993.31</b>		<b>2721.28</b>		<b>2805.67</b>
<b>Net Income</b>		<b>1215.22</b>		<b>204.19</b>		<b>5518.95</b>		<b>21656.05</b>		<b>4805.01</b>		<b>2431.97</b>		<b>-296.59</b>
<b>Companies Registered</b>														
Stock Corporation	166	109.37	79	40.3	398	183.85	868	585.17	443	269.8	166	78.12	55	71.38
Partnerships	113	40.55	52	13.84	131	23.84	165	62.26	132	47.19	40	63.97	14	8.72
Non-stock Corporations	811	36.77	432	20.05	608	29.1	541	68.88	964	66.04	580	26.82	231	9.81

**9. Memorandum Circulars Issued in CY 2003**

<b>Number</b>	<b>Title</b>	<b>Date of Promulgation</b>	<b>Salient Provisions</b>
1	Adoption of International Accounting Standards (IAS) Nos. 8A, 10, 20, 22, 37 and 38	13 February 2003	Requires that all data/information in Financial Statements be presented or restated to conform with the provisions of the applicable standard for comparability
2	Revised Scale of Fines	19 February 2003	Imposes stiffer penalties for violations committed by errant firms; includes other offenses/violations warranting the imposition of penalties
3	Guidelines for the Accreditation of Appraisal Companies	25 March 2003	Establishes the competency requirements for appraisers of property to be considered/used in issuing shares of stocks; provides that only institutional appraisers accredited by SEC shall be engaged by companies accepting property as consideration for the issuance of shares of stocks (and for other purposes where appraisal of property is considered or required); sets forth SEC's criteria for the accreditation of appraisers
4	Revocation of Certificate of Registration of Corporations	28 March 2003	Amends Rule II of the SEC Rules on Revocation of Certification of Registration of Corporations s. 1992; requires respondent corporations to (a) appear (within 30 days) before the Commission at the hearing on the date, time, and at the place specified in the order; or (b) show cause within 30 days why their certificate of registration should not be revoked; prescribes the period by which to file Motions for Reconsideration and the amount of filing fee therefore

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<b>Number</b>	<b>Title</b>	<b>Date of Promulgation</b>	<b>Salient Provisions</b>
5	Implementation of the Self-Rating System on Corporate Governance	03 April 2003	Requires covered corporations to rate themselves vis-à-vis leading practices and principles on good corporate governance and disclose the result to the SEC through their duly accomplished Corporate Governance Self-Rating Form (CG-SRF) not later than 31 July 2003
5 - A	Addendum to SEC MC No. 5 (Implementation of the Self-Rating System on Corporate Governance)	22 May 2003	Requires other market participants to submit their duly accomplished Corporate Governance Self-Rating Form (CG-SRF) not later than 31 July 2002
6	Standards for Valuation of Actuarial Reserve Liabilities for Pre-Need Plans	10 April 2003	Requires firms to set up actuarial liability reserves for all pre-need benefits and/or insurance premium reserves for plan contract that include insurance coverage; sets the standards to be observed by firms when making their actuarial assumptions
7	Dissemination of information related to the global effort against terrorism and money laundering	22 April 2003	Companies with secondary licenses granted by the Commission are provided with relevant documents on the subject for their information, guidance, and appropriate action
8	Rotation of External Auditors	05 May 2003	Further to the provisions of the Code of Corporate Governance, requires the rotation of external auditors and/or engagement partners who, as of 31 December 2002, have rendered services to the same company for at least five (5) consecutive years; covered institutions are given a transition period which ends on 31 December 2003 within which to change their external auditors and/or engagement partners
9	Adoption of the Philippine Standards on Auditing (PSA)	08 May 2003	Adopts 18 PSAs in SEC's rules and regulations
10	Adoption of the Philippine Standards on Auditing (PSA)	12 June 2003	Adopts 14 PSAs in SEC's rules and regulations

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<b>Number</b>	<b>Title</b>	<b>Date of Promulgation</b>	<b>Salient Provisions</b>
11	Supervision Over Registered Corporations	05 August 2003	<p>Clarifies the extent of SEC's supervisory powers over regulated entities on matters relating to among others, the following:</p> <ul style="list-style-type: none"> <li>- submission of Financial Statements, General Information Sheets, and other reportorial requirements;</li> <li>- compliance with the provisions of the Corporation Code, including provisions requiring the submission of documents to effect compliance;</li> <li>- constitution of Management Committees, appointment of receivers, issuance of CDOs to prevent fraud or injury to the public; and</li> <li>- implementation of measures necessary to carry out SEC's role as a regulator</li> </ul>
12	Suspension of the Thresholds on Tender Offer Under Section 19 of the Securities Regulation Code	09 September 2003	Indefinitely extends the period for the suspension of thresholds on the tender offer rule as provided under Section 19 of the SRC as warranted by the prevailing economic conditions
13	Accreditation and Reportorial Requirements of External Auditors of Public Companies, and Secondary Licensees of the Commission	23 October 2003	Sets forth the policy on the accreditation of external auditors and their reporting requirements; sets higher qualification standards and strict reporting obligations for external auditors of public companies and secondary licensees
14	Guidelines on the Preparation of Functional Currency Financial Statements	11 December 2003	Allows a qualified entity to prepare its FS using the functional currency of the primary economic environment in which it operates. The Memorandum Circular sets the eligibility criteria, the guidelines for the determination of the functional currency and disclosure requirements, among others
15	Guidelines in Submitting Request for Legal Opinions.	16 December 2003	Prescribes the procedures in submitting requests for legal opinion and specifies the submission of all required documents and information needed in processing the request

**10. Priorities in 2004**

**1. Pursue SEC's policy reform agenda**

- a. Formulate the Implementing Rules and Regulations for the Corporation Code of the Philippines
- b. Finalize and submit amendments to the Corporation Code of the Philippines

**2. Support the country's legislative agenda**

- a. Propose implementing new rules on asset-backed securities in preparation for the possible approval of the Securitization Bill
- b. Support the proposed legislation on lending investors.

**3. Sustain reforms in corporate governance**

- a. Continue enforcing the provisions of the Code of Corporate Governance
  - i. Evaluate and implement the Self Rating System of Corporate Governance that affects firms with assets of at least PhP 50 million, having at least 200 shareholders holding not less than 100 shares of a class of the company's equity securities (Including finance companies, investment houses, brokers and dealers of securities, investment companies, pre-need companies, Philippine-listed subsidiaries or branches of foreign corporations operating in the Philippines, and stock and other securities exchanges.)
  - ii. Verify general practice vis-à-vis the self-rating system
  - iii. Hold clinics and seminars for corporations whose practice of corporate governance is not in line with the prescriptions of the Code.
  - iv. Conduct a study on the Tabulation and Assessment of the Ratings on Corporate Governance.
- b. Improve the substance and process of accounting and auditing in the Philippines
  - i. Draft a Self-Assessment Form to be issued to companies for them to pre-evaluate their compliance with the disclosure requirements of the International Accounting Standards (IAS), which will be adopted by the Commission by 2005.
- c. Issue Staff Bulletins to tackle issues on material fraud and error in financial reporting.

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- d. Develop and Implement of the Risk Based Capital Adequacy Model for all corporations.
- e. Strengthen the regulatory function of the Philippine Stock Exchange as an SRO by conducting oversight and, when appropriate, thematic audits.
- f. Conduct extensive reviews of financial statements filed by listed companies and secondary licensees. FS reviews may require companies to submit documents to support their FS balances and disclosures.
- g. Undertake limited inspections of external auditors to ensure their quality assurance processes and other accreditation rules.
- h. Draft guidelines on mediation and conciliation on securities transactions

### **4. Ensure the Philippine Stock Exchange's compliance with the SRC's provision on lessening control by the bourse brokers.**

Continuously monitor the shares of the PSE, which were listed in the Stock Exchange in December 2003. The Commission will ensure that no person may beneficially own or control directly or indirectly more than 5 percent of the PSE's voting rights, and no industry or business group may beneficially own or control, directly or indirectly more than 20 percent. Exceptions to these limitations may be subject to certain guidelines.

### **5. Revitalize the securities market and broaden investment options for market players**

- a. Encourage more large firms to list their shares in the Philippine Stock Exchange (PSE)
- b. Promote the establishment of an alternative electronic trading platform for small and medium enterprises.
- c. Develop a Five-year and ten-year Development Plan for Philippine Capital Markets to encourage the registration of other types of exchanges such as the Fixed Income Exchange, ATS, and other related markets.
- d. Adopt and implement new rules for alternative securities trading.

### **6. Sustain reforms in the pre-need industry**

- a. Review Pre-Need Rules, specifically the following:
  - i. Pre-Need Uniform Chart of Accounts for Pre-Need Plans
  - ii. Trust fund investment of pre-need companies
  - iii. Determination of actuarial reserve liabilities
- b. Computerize the licensing of pre-need salesmen to ensure better regulation



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- c. Develop a software to facilitate the evaluation and monitoring of pre-need companies
- d. Study the delegation of some of the monitoring functions to the Federation

### **7. Strengthening of Regulation over Financing Companies**

- a. Maintain a database of the following information:
  - i. List of financing companies according to the status of their Certificates of Authority;
  - ii. External auditors of financing companies;
  - iii. Capital stock of each financing company;
  - iv. Compliance officers;
  - v. Activities of financing companies including discounting, factoring, financial leasing, direct leasing.
- b. Study possible amendments to the Finance Company Act
- c. Coordinate with the Philippine Finance Association (PFA) and the Philippine Institute of Certified Public Accountants (PICPA) to conduct seminars for external auditors of financing companies covering the following topics:
  - i. Accreditation requirements;
  - ii. International Accounting Standards (IASs);
  - iii. International Auditing Standards (ISAs);
- d. Develop and implement a systematic and thorough monitoring system on the following:
  - i. Compliance with the commitment on capital build-up;
  - ii. Engagement of different external auditors of financing companies with common directors/ officers;
  - iii. Non-solicitation of placements or investments from the public.

### **8. Continue the monitoring of domestic companies and streamlining of registration processes**

- a. Monitor all domestic corporations and undertake the revocation of Certificates of Registration of inactive corporations registered from 1996 to 1997
- b. Monitor all foreign corporations, branch and representative offices, regional headquarters and regional operating headquarters of multinationals
- c. Revoke licenses of inactive foreign corporations
- d. Archive and dispose of corporate records

**9. Strengthen enforcement actions and significantly increase the public's confidence in SEC enforcement**

Continue to be vigilant in promoting the rights of the investing public with efforts to investigate and prosecute violators of the rules on capital markets and investment scams.

**10. Intensify and broaden the reach of investor's education/ assistance**

- a. Step up efforts to provide the public with information necessary to make intelligent investment decisions.
- b. Organize public seminars across the country to heighten investor awareness.
- c. Improve and maintain the web page [www.sec.gov.ph](http://www.sec.gov.ph) that will be used as a tool to update the public on the latest developments within the SEC. The site will serve as a portal for the clients to download documents and information that they need to transact more efficiently with the Commission.

**11. Sustain SEC's financial performance by meeting the revenue target for 2004 and maintaining expenditure efficiency**

**11. Special Report ---**

**THE SECURITIES AND EXCHANGE COMMISSION AT 67:  
REAPING THE BENEFITS OF REORGANIZATION**

November 2003 marks the 67<sup>th</sup> anniversary of the Securities and Exchange Commission (SEC). The Philippine SEC was the first of its kind established in Asia, and through nearly seven decades, the SEC has succeeded not only in withstanding change, but more so in anticipating and managing it. Nowhere is this more evident than in the Commission's extraordinary success in reorganizing itself three years ago, following the enactment on 19 July 2000, of R.A. 8799 which is also known as the Securities Regulation Code (SRC).

This year's celebration is therefore more than just an anniversary --- it is also a testament to SEC's dynamism and visionary spirit that have enabled it to flourish in the midst of great transformation.

**History of the Securities and Exchange Commission**

The SEC was created on 26 October 1936 by virtue of Commonwealth Act No. 83 entitled the Securities Act. Its establishment was prompted by the need to safeguard public interest in view of the local stock market boom at that time. Operations began on 11 November 1936 under the leadership of Commissioner Ricardo Nepomuceno. At that time, while the SEC took care of registering corporations and recording partnerships, the Commission's major functions included the registration of securities, analysis of every registered security, evaluation of the financial condition and operations of applicants for security issue, screening of applications for broker's or dealer's license, and supervision of stock and bond brokers as well as the stock exchanges.

The agency was abolished during the Japanese occupation and was replaced with the Philippine Executive Commission. It was reactivated in 1947 with the restoration of the Philippine Commonwealth.

Due to the changes in the business environment under then President Ferdinand Marcos, the agency was reorganized on 29 September 1975 as a collegial body with three commissioners and was given quasi-judicial powers over intra-corporate disputes and exclusive jurisdiction and control over all corporations under PD902-A.

In 1981, the Commission was expanded to include two additional commissioners and two departments, one for prosecution and enforcement and the other for supervision and monitoring. No significant changes in the Commission's structure and powers were made thereafter.

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### **The Securities Regulation Code and SEC's Mandated Reorganization**

In 1999, the BWRC stock manipulation scandal attracted worldwide criticism, prompting legislators to fast-track the passage of R. A. 8799 or the SRC. The passage of the SRC in 2000 resulted in a fundamental shift in the Commission's mandate, towards one focused on developing a fair, efficient, and transparent capital market. Up until the enactment of the SRC, SEC's role in developing the Philippine capital market was much less than what was called for. Previously, the SEC concentrated on company registration and monitoring, and the performance of its quasi-judicial functions. In the process, not much attention was given to activities that would develop the capital market.

The new demands placed by the SRC on the Commission underscored the importance of strengthening the SEC's role in capital market development and regulation, and highlighted the need to retool the Commission's regulatory and administrative structure. For this reason, a critical element of the SRC reforms was the mandated reorganization of the Commission. Towards this end, the SRC:

- Transferred the SEC's quasi-judicial functions, particularly the resolution of intra-corporate disputes and corporate recovery cases, to the regular courts;
- Authorized the Commission to undertake a reorganization, streamline its structures and operations, and upgrade its human resource component;
- Allowed the Commission to determine its own qualification standards and position classification system, and granted the Commission continuing flexibility to review its compensation structure every two years, thus enabling it to retain and attract qualified individuals for its staff; and
- Granted limited self-funding authority by allowing the Commission to retain and utilize PHP 100 Million from its yearly income.

In effect, SEC no longer has absolute control over corporations, which have no secondary license from SEC. It only receives the financial statements and GIS of corporations with no secondary licenses.

### **The Reorganization Process**

The SEC lost no time in effecting the SRC's provisions for reorganization. Shortly after the SRC was enacted, the Commission started to work on the orderly transfer of over a thousand cases on intra-corporate disputes to the regional trial courts. The SEC retained jurisdiction on cases relating to administrative sanctions for non-compliance of the SRC, the Corporation Code, and other laws it is tasked to implement, as well as authority to investigate apparent as well as reported violations of said laws and to refer the same for criminal prosecution to the Department of Justice.

Meanwhile, to facilitate and oversee the streamlining of SEC's organizational structure, a Reorganization Committee was established, headed by the Chairperson and consisting of the Commissioners as members.

With technical assistance from the Asian Development Bank, the Commission conducted an organizational study and drew up the recommended organizational structure, position and job descriptions and qualification standards for the reorganized SEC. These

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recommendations were taken up by the Reorganization Committee, in consultation with the employees. Taking off from these recommendations, the streamlining proceeded as follows:

- A new organizational chart for the SEC was produced, along with the supporting function and job descriptions;
- SEC's operating departments were streamlined to execute the SEC's core functions of capital market development and regulation; company registration and monitoring; enforcement; and support services. The number of regular departments was reduced from ten to eight, and all ad hoc departments were abolished. The number of divisions was reduced from 36 to 26, and extension offices were brought down from eleven to seven. Meanwhile, two special offices were created in the Head Office, specifically, the Office of the General Counsel and the Office of the General Accountant, to enable the Commission to perform expanded and specialized functions requiring expertise in law and in accounting principles and practices, respectively;
- The Commission's manpower complement was reduced. In order to ensure a conflict-free separation process, the SEC worked closely with the employees, the Civil Service Commission (CSC), and the Department of Budget and Management (DBM) to facilitate the provision of a fair separation package. In particular, the following steps were taken by management:
  - In September 2000, the employees were informed that the Commission would soon issue letters of redundancy, thus preparing the employees for the eventuality. The employees were likewise informed that the SEC had already requested DBM to release the necessary funds for the payment of retirement or separation benefits.
  - A final list was submitted to the DBM. The date for termination of services was made operative upon the availability of funds and submission of clearances. The separation plan consisted of a "golden handshake," the amount of which was computed based on two months for every year of service, in addition to other entitlements under existing laws. Casual and temporary employees were included. As a result, the manpower complement was reduced by 50 percent, bringing the total actual number of employees down from 708 to 350.
  - The Commission provided an Assistance Program to exiting employees, to help them decide on their future career options. Seminars on investing, entrepreneurship, and new job opportunities were conducted.
  - Employees who were retained were matched with positions in the new organizational chart. A Placement Committee screened and recommended the candidates for new appointments. Training programs were lined up to support and enhance the core competencies of the reorganized workforce.

To support the SEC's new mandate and its reorganized structure, the Commission updated its five-year Information Strategic Systems Plan (ISSP) to provide the framework for utilizing IT (Information Technology) in delivering public services related to capital market

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development. Although SEC had an existing computer system at that time, it could not have handled the demands of the new law and SEC's reorganized structure. The updated ISSP was therefore designed to allow SEC to do more under the law, and carry out its functions with less people. More importantly, it was designed to allow the SEC to concentrate on developing the capital market by freeing up the staff from routine transactions and duties.

The first major step towards reorganization was therefore successfully completed in just five months after the SRC took effect in August 2000. By December 2000, the SEC had successfully transformed itself into a leaner organization, governed by a structure more responsive to the changing demands of capital market regulation, staffed with vibrant and highly-qualified professionals, and supported by a computerization program that would both modernize and transform the SEC and its services.

### **The Rewards of Reorganization**

Three years hence, the SEC has clearly prospered under the reorganized structure. The transfer of jurisdiction over intra-corporate cases to the regular courts has allowed the SEC to set the tone and pace of capital market development, having unburdened the Commission of the tedious job of resolving intra-corporate disputes. As such, the SEC is now able to devote more of its time, energy, and resources to policymaking, compliance monitoring, enforcement, and investor education.

More importantly, today, the SEC is an organization where the employees are highly qualified, vibrant, spirited, and self-motivated, rendering services even beyond the office hours regularly observed in most offices. Complemented by the Commission's computerization program, this has resulted in a dramatic and noticeable improvement in the timely and courteous delivery of services to the public.

Some of the Commission's more notable accomplishments since its reorganization are as follows:

**Rulemaking.** Consistent with its new mandate under the SRC, the SEC now has the full time task of pursuing policy reforms necessary to address the changes arising from globalization, financial liberalization, and e-commerce. Towards this end, the SEC has actively participated in Congressional deliberations on a number of capital market development-oriented bills.

The SEC was extensively involved in the deliberations on the Anti-Money Laundering Act and the Special Purpose Vehicle (SPV) Act. Following their enactment, the SEC swiftly issued rules and guidelines to support their implementation. To implement AMLA, two Memorandum Circulars were issued in 2002 requiring covered institutions to comply with the procedural guidelines on the implementation of the AMLA; and submit reports on Covered and Suspicious transactions following the AMLC-prescribed format. In addition, the SEC took the lead in preparing the Implementing Rules and Regulations of the SPV Act, the final version of which was approved by the Congressional Oversight Committee on 19 March 2003.

SEC issued several memorandum circulars and new rules and guidelines in response to changing demands and the dynamics of the capital market. The more recent defining actions taken by the Commission in this regard include the issuance of circulars

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promoting corporate governance principles, including the promulgation of the Code of Corporate Governance, and adoption of international accounting and auditing standards.

With regard to regulating the pre-need industry, the SEC has stepped up its initiatives to ensure and promote the viability of the industry through enhanced prudential regulation. Prior to the SRC, the pre-need industry was managed by the SEC on an ad-hoc basis, which led to a lack of continuity and weak enforcement of policies. After the reorganization, a department was created to focus solely on the regulation of the industry. The issuance of new Pre-Need Rules and the implementation of prudential reforms have contributed substantially to strengthening the industry.

**Compliance Monitoring.** To protect the integrity of the capital market and ensure compliance with the laws and regulations implemented by the Commission, the SEC has intensified its compliance monitoring efforts. Some of the Commission's major accomplishments in this respect include the following:

- SEC has made its audit of the Philippine Stock Exchange (PSE) more focused through the conduct of Thematic Audits. Last year, the SEC conducted a 100 percent thematic desk audit to check broker compliance with the Chinese Wall Rule and the independence of the compliance function of the Exchange. SEC has likewise conducted joint thematic audits with the PSE to check compliance with SRC implementing rules. Audits of other market participants such as investment houses and pre-need companies have also been conducted, in cooperation with their compliance officers and associated persons.
- In 2003, with the assistance of the ADB, SEC installed the Advance Warning and Control System (AWACS) market surveillance software designed to protect the integrity of the market from fraud and abusive trading practices, particularly price manipulation associated to trades occurring in the financial market.
- Realizing that the enforcement of accounting rules has been lacking in the past, the SEC has started to strictly monitor compliance with accounting rules to ensure the development of a credible and transparent capital market. In coordination with the UP College of Business Administration, the SEC reviewed the 2001 financial statements (FS) of 131 listed companies. The results clearly showed that compliance with accounting standards required improvement. A number of listed companies had significant violations that made their FS materially misleading while many listed companies committed disclosure violations. There is an ongoing review of the 2002 FS filings, this time including samples not only from listed companies but also from other public companies such as pre-need, investment houses, and finance companies. The results for the portion completed thus far indicate that compliance with accounting rules has improved.
- With regard to compliance with full and fair disclosure rules, there has been a great improvement in the level of compliance by publicly held companies. Previously, disclosures submitted to the Commission were largely incomplete, but this has been turned around through the stricter monitoring of compliance with requirements and the imposition of appropriate penalties.

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- As a result of the intensified monitoring of corporations, SEC is set to publish the names of more than 240,000 corporations registered between 1936-1995, for failing to submit annual reports such as the General Information Sheet (GIS) and Financial Statements as required under Sec. 141 of the Corporation Code. In connection with this, show cause orders have been published in the Philippine Daily Inquirer on a staggered basis. Corporations which persist in ignoring the show cause orders will have their certificate of registration revoked after the period given in the publication.

**Enforcement.** Faced with the proliferation of pseudo-investment scams in recent years, SEC has put in place an effective enforcement mechanism that deals with transgressions quickly and determinedly. Since 2001, the Commission has been more visible in its campaign against boiler room operators in the Philippines engaged in offering foreign penny stocks to foreigners. Moreover, enforcement actions have led to the closure of several big operators engaged in pseudo-investment schemes and fraudulent securities transactions. Some of the more notable enforcement actions were those involving G. Cosmos Philippines, Multitel, Glasgow, Tibayan, and MMG. In the case of Glasgow, the Commission was able to work for the return of around PhP 650 Million to investors.

The Commission has also actively pursued investigative and enforcement actions against issuers and brokers for possible insider trading violations. In the BWRC case, various complaints filed by the Commission were eventually filed in court, while other brokers and dealers filed settlement offers with the Commission amounting to around PhP 20 Million.

To strengthen coordination with other government regulatory and enforcement agencies, SEC has signed MOAs (Memorandum of Agreement) with the National Bureau of Investigation (NBI), the Department of Trade and Industry (DTI), and the Bangko Sentral ng Pilipinas (BSP). The Integrated Bar of the Philippines (IBP) has also agreed to provide free legal aid to overseas Filipino workers and retirees who wish to recover their placements from pseudo-investment schemes. This partnership will complement the work of the taskforce of prosecutors formed by the Department of Justice (DOJ) to speed up the disposition of cases filed against pseudo-investment firms.

**Investor Education.** Along with determined enforcement, SEC has intensified efforts to provide the public with the information necessary for them to make intelligent investment decisions. Last year, a series of Investor Information Seminars was held in key cities nationwide. 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.

A Citizen's Manual has been prepared and is being disseminated in English, setting out in simple, understandable terms, SEC's processes and other most-sought after information. A 'Citizen's Investment Alert' is also being disseminated in English and Pilipino, Cebuano, Ilocano, and Ilonggo.



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In May 2003, the SEC launched 1-908-1-ASKSEC, a Hotline service which provides automated responses to most frequently asked questions. Callers who wish to file a complaint or inquire about companies that have been closed down, also have the option to speak with an SEC representative during office hours. The Hotline Service, which can accommodate up to 12,000 calls daily, is a convenient facility that can be accessed from anywhere in the Philippines, anytime of the day.

A nationwide Anti-Scams Awareness Campaign has likewise been launched in coordination with the DTI. Anti-scams posters and brochures were provided to partners in government and the private sector, for dissemination to the public.

Finally, to broaden the reach of the Commission's investor information campaign, the SEC has launched three 30-second infomercials on how to avoid investment scams. A radio version of these infomercials shall be launched shortly.

**Delivery of Services to the Public.** The past three years have seen a dramatic and noticeable improvement in the timely and courteous delivery of services to the public. Registration procedures have been simplified, processing time has been reduced, and access to corporate records has been improved dramatically.

### **Major Areas of Improvement in the Delivery of Services to the Public**

<b>Areas of Improvement</b>	<b>Before Reorganization</b>	<b>After Reorganization</b>
Registration of corporations and partnerships, and amendments of articles of incorporation and by-laws.	<p>Over-the-counter processing and approval of applications took 3 – 5 days.</p> <p>Verification of proposed corporate and partnership names could only be done at the SEC Records Division.</p>	<p>Over-the-counter processing and approval has been reduced to 1 – 2 days.</p> <p>Moreover, since the launching of SEC-iRegister, the Commission's on-line company registration system, the SEC has been able to provide its clients the convenience of transacting with the Commission from the comfort of their respective offices or homes.</p> <p>With SEC-iRegister, the public can now do the following online:</p> <ol style="list-style-type: none"><li>a. Verify the availability of the proposed corporate or partnership name;</li></ol>

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<b>Areas of Improvement</b>	<b>Before Reorganization</b>	<b>After Reorganization</b>
		<ul style="list-style-type: none"> <li>b. Receive approval for the desired name after the system has determined that the proposed name is still available for use and will not result in any confusion;</li> <li>c. Reserve the available name;</li> <li>d. Accomplish the Articles of Incorporation or Articles of Partnership, using the electronic template for the purpose. This means that the applicant does not have to buy the pre-printed forms, which have to be filled up manually;</li> <li>e. Submit the duly accomplished electronic form;</li> <li>f. Pay the reservation and/or registration fees online; and finally,</li> <li>g. Receive same-day approval for the application.</li> </ul>
Procedures for registration, licensing, and applications and petitions for price increase by pre-need firms	Processing and approval took anywhere between 3 – 6 months on average.	Processing time has been reduced by 50 percent due to: <ul style="list-style-type: none"> <li>▪ Careful screening of compliance with the checklist of requirements prior to the acceptance of application papers; and</li> <li>▪ Reduction of signatories for approval.</li> </ul>
Procedures for licensing	Applications for	A single licensing regime has been

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<b>Areas of Improvement</b>	<b>Before Reorganization</b>	<b>After Reorganization</b>
investment houses or underwriters of securities that are also licensed as Government Securities Eligible Dealers (GSEDs)	registration had to be filed separately	implemented since the beginning of the year.
Release of comment letters on registration statements submitted to the Commission	Release of comment letters took more than 15 days and the unstructured list of comments made it difficult for companies to comply with requirements.	Comment letters are released on or before the 7 <sup>th</sup> day from submission. The use of structured comment letters has made the process more systematic and timely.
Access to Corporate Records at the Public Reference Unit	Waiting time for requests for corporate records was not monitored prior to reorganization. However, records for April 2001 showed that 71 percent of requests had to wait from 2 to 5 hours before being served at the Public Reference Unit (PRU). Aside from verbal complaints, written complaints for the long waiting time averaged around two (2) letters per week.	By September 2003, 88 percent of clients requesting for corporate records during the month were served in <i>less than one hour</i> . This major turnaround can be attributed to the following: <ul style="list-style-type: none"> <li>▪ The acquisition of additional and upgrading of certain equipment for document retrieval;</li> <li>▪ The outsourcing of document conversion of the Annual Audited Financial Statements (AFS) and General Information Sheets (GIS) filed in April 2002 and 2003, which allowed document conversion to digitized format within 30</li> </ul>

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<b>Areas of Improvement</b>	<b>Before Reorganization</b>	<b>After Reorganization</b>
		<p>days; and</p> <ul style="list-style-type: none"> <li>▪ The conversion of 1996 to 1999 back files to digitized format which enabled retrieval through the Document Imaging System.</li> </ul>
<p>Microfilming of Corporate Records</p>	<p>In January 2001, the Micrographics Unit had a backlog of 66,000 documents or around a million pages. Microfilming of documents took 60 days from receipt. This required retention of corporate records in hard copies within six months to one year of receipt for the use of the public. For Audited Financial Statements and General Information Sheets, it took 6 to 7 months before these could be retrieved through the DIS.</p>	<p>By the end of 2001, the Micrographics Unit (with 5 regular SEC personnel and 4 haulers) was able to convert corporate records to microfilm/digitized format within 30 days from receipt. In September of 2003, the Unit was able to convert documents into microfilm and digitized format within 7 days from receipt, making them immediately available for public use through the DIS.</p>
<p>Optimization of Resources – Review of contracts for goods and services</p>	<p>Before the reorganization, contracts for lease, maintenance and their services were never reviewed. They were just renewed.</p>	<p>Starting 2001, all contracts were reviewed and request for increases in rentals and other services were carefully evaluated. The review resulted in less security guards and utility staff, reduction in rates for</p>

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<b>Areas of Improvement</b>	<b>Before Reorganization</b>	<b>After Reorganization</b>
	Requests for increases in rentals were readily granted.	services such as photocopying and printing and deferment of increases in rent. Likewise, requisitions for office supplies and equipment were reviewed to check prices and volume. Estimated savings from these activities amounted to PhP 8,170,000 from 2001 to 2003.

**Financial Performance.** Since SEC's reorganization, the Commission's net contribution to the National Treasury has increased, from an average of PhP 395 Million a year for the period 1998-2000, to PhP 420 Million for the years 2001-2002. The ratio of expenditures over income has likewise improved; in 1998, expenditures amounted to half of SEC's income; in 2002, the ratio had declined to 38.86 percent, enabling the SEC to contribute more to the government coffers.

**Standing in Public Opinion Surveys.** SEC's accomplishments and the improvement in the delivery of services over the past three years have not gone unnoticed by the public. Prior to its reorganization, the SEC had been widely perceived as one of the more unreliable agencies of the government. This perception has changed dramatically in the last three years, with the SEC's responsiveness and customer-service levels consistently garnering praise in public opinion surveys.

In the January 2000 Executive Outlook Survey conducted by the Makati Business Club, and all its previous surveys, the SEC was nowhere in the list of 32 agencies that featured in the performance ranking of various government agencies. SEC, however, first entered the survey in July 2000, by placing 21<sup>st</sup>.

Since 2001, the SEC has consistently made it to the list of top ten performing government agencies.

Moreover, as a testament to SEC's commitment to fight corruption, its standing in the Social Weather Station's survey of enterprises on corruption has improved. In the latest survey conducted in October 2002 - February 2003, the SEC ranked second, garnering a rating of "very good", among agencies considered sincere and effective in their efforts to fight corruption. The survey likewise placed SEC as:

- Among the agencies less corrupt now than five years ago; and
- Among the top six agencies that enterprise managers considered as "can be trusted to complain to."

### **Factors Behind the Success of SEC's Reorganization**

The success of SEC's reorganization may be attributed to four critical factors:

- First of all, an intensive organizational study was undertaken before proceeding with the reorganization itself, taking into consideration the new demands of the SRC.

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Meanwhile, regular consultations with employees and others concerned allowed the SEC to streamline its structure and reduce its manpower complement with little disruption and loss of morale.

- Second, following the streamlined structure and functions of the reorganized SEC, there was an earnest effort to improve internal procedures and enable the Commission to function more efficiently and effectively. This year, SEC departments and offices took this effort one step further by developing and adopting their respective Manual of Operations. The Manuals were developed to reflect streamlined or automated processes, set reduced processing times, and limit the number of processors. The Manuals now serve as benchmarks for performance, measuring how well the SEC responds and delivers services to the public.
- Third, the development and implementation of SEC's ISSP was critical to modernizing SEC's delivery of services. The significant shortening of the waiting time for the delivery of requests for corporate records was made possible through the acquisition of a state-of-the-art mass storage system, among others, for the document imaging and retrieval system being used by the PRU. The storage system is scalable to accommodate the increasing demand for storage capacity resulting from the growing corporate documents.
- More significantly, with the implementation of SEC's online company registration system, SEC-iRegister, SEC has managed to earn two distinctions. First, in November 2002, the SEC received a Certificate of Recognition at the Philippine E-Government Awards in "recognition of its Excellence in Governance with the use of Information Technology." More recently, the SEC was identified by the National Computer Center as one out of only two government agencies which have attained transactional web presence, or Stage Four of the five-stage classification model of e-government developed by the United Nations and American Society of Public Administration (UN-ASPA).
- Fourth and most importantly, the reorganized Commission was fortunate to have attracted a cadre of highly-qualified professionals committed to serving the public with excellence and hard work. This in turn was driven by four defining changes:
  - The hiring and selection process of the Commission was improved. Under the old SEC structure, selection of candidates was based on the minimum Qualification Standards set by CSC. Post-reorganization, higher Qualification Standards were set for the employees of SEC. Employees appointed to positions must possess a higher educational attainment, longer years of relevant experience, more substantial training, and higher eligibilities, particularly in the case of lawyers and accountants. To select the most qualified applicants, in 2001 the Personnel Selection Board developed a more rational procedure and system for hiring, promotion and appointment;
    - The SEC Performance Evaluation System was institutionalized and strengthened in 2001. This resulted in a more objective assessment of employee performance and an increased awareness among SEC employees of the importance of the PES;
    - A more strategic approach to the provision of training and capacity building programs was developed. Prior to reorganization, training activities were conducted on an ad hoc basis, as requested by the departments and offices. In 2002, the Commission initiated the development of the SEC Strategic Training Plan for 2003. Institutional training needs analysis was conducted at the Head and Extension Offices to determine the actual competencies of the employees' vis-à-vis their job requirements. An SEC Training Calendar was adopted to formalize the schedule for the training programs and to

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ensure that training priorities are met. As a result, training activities are now aligned with the vision of SEC, making them more responsive and relevant to the needs of the employees; and

- The compensation package was substantially improved, allowing the SEC to meet private sector competition for the talents of lawyers and accountants, and pay salaries at a sum commensurate to job responsibilities.

### **The Reorganized SEC at 67: Looking Towards a Brighter and More Productive Future**

The dynamism and vision which enabled the SEC to successfully reinvent itself and accomplish so much in a span of only three years are still very much alive and well today. Proof of this is the fact that the SEC's efforts to reinvent itself has entered a new phase, one that will take the process of institutional strengthening and reorganization several steps further. This new phase will involve the following major initiatives:

First of all, the SEC will continue to take measures to rationalize the distribution of functions and responsibilities between the Head Office and SEC's Extension Offices, a process which it started in the beginning of the year. Cognizant that the Extension Offices should serve as a microcosm of the Head Office, the Head Office has started to devolve more of its monitoring, investigative and investor information functions to the Extension Offices. This initiative is expected to strengthen the Extension Offices by broadening their responsibilities beyond corporate registration.

Second, the SEC will continue to pursue reforms that will instill a more solid performance-oriented culture in the Commission, consistent with the broader set of reforms being undertaken by government in Public Expenditure Management. Every year, as part of its annual corporate planning exercise, the SEC commits to the attainment of certain performance targets. These aggregate performance targets are cascaded to the different departments and offices, and are used as basis for determining each employee's individual performance targets for the year. In this manner, the SEC strives to ensure that each employee's output ultimately contributes to the attainment of the Commission's overall targets and objectives for the year.

Third and finally, the SEC will continue to implement its ISSP, and thus strengthen the Commission's ability to integrate and take advantage of new technologies quickly. SEC is currently working towards the implementation of the Compliance Monitoring and Evaluation System (CMES), which will provide an automated facility for monitoring the compliance of registered entities with government laws and regulations. CMES, which has been dubbed the SEC-iReport will provide, among others, a mechanism for monitoring enforcement of actions against non-complying companies, as well as enable online analytical processing of the financial performance of registered entities. The first of this two-phased project, which is called the SEC-iView, will allow decentralized access to the SEC corporate files, i.e., web-based document retrieval of reports submitted to SEC such as the AFS and the GIS (General Information Sheet). It will also provide a facility for the on-line submission of reports.

As it celebrates its 67<sup>th</sup> anniversary, the SEC remains steadfast in its commitment to pursue reforms that are responsive to the new realities of the marketplace. And without a doubt, at 67, the SEC stands ready to meet future challenges and opportunities with the same dynamism and visionary spirit that have guaranteed its success over the years.