

2004 ANNUAL REPORT

SECURITIES AND EXCHANGE COMMISSION

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Republic of the Philippines

Securities and Exchange Commission

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila



Message

I am pleased to present the Annual Report of the Securities and Exchange Commission for CY 2004 which summarizes our accomplishments for the year.

While I served as Chairman in the last four months only having assumed office on 01 September 2004, I feel honored in submitting this annual report which contains the total performance and accomplishments for the year, a significant portion of which were done under the leadership of my predecessor, Ms. Lilia R. Bautista who served as SEC Chairperson from March 2000 to August 2004.

Most notable achievements include the issuance of circulars enhancing the regulatory framework that mandated compliance with the International Accounting Standards (IASs) which are now known as the International Financial Reporting Standards in order to promote comparability of financial reports, and strengthening of capital market institutions through the diligent monitoring of the following:

- the demutualization of the Philippine Stock Exchange (PSE) to ensure that none of the shares being disposed revert to the brokers;
- the review of the PSE's structure to enhance the independence of its audit, compliance, and surveillance unit which resulted in the restructuring of its Compliance and Surveillance Group into the Market Regulatory Office and the establishment of the Market Integrity Board; and,
- the formulation of the new implementing rules of the Securities Investors Protection Fund, Inc. (SIPF) which, *inter alia*, improved the protection of investors in the equities market by expanding SIPF coverage and providing an earlier release of payment for covered claims.

These, among others, and the advancement in our capability to do real time monitoring of stock trading activities served as the catalyst for improved investor confidence which resulted in the stock market to grow by 26% and emerge as the second-best performing stock exchange in East Asia.



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Accordingly, we will continue to pursue initiatives that will enable our capital market institutions to attract more investors, both Filipinos and foreigners, through the appropriate regulatory framework that will require them to:

1. observe good corporate governance;
2. give truthful financial reporting and disclosures; and,
3. provide liquid capital in proportion to the risks they face.

We believe that these fundamentals are necessary to institute adequate risk management standards, prevent market abuse, stop financial crime, and protect the interest of the investing public, and in the process, foster a credible and robust financial system.

While we recognize that regulations are often perceived by most investors as constraints to business operations, that the participants in the financial system are in business to make money, and that business needs investors, we are fully cognizant of the need to balance the objectives of developing the capital market, promoting free enterprise, cultivating investor confidence, and protecting the public interest.

Finally, we share the view that business has to have social conscience; thus, business should not undermine the interest of the public in general and the investors in particular, as well as the regulators who are given the complex task of balancing all the competing interests.

Let us continue doing our share in advancing our quest for sustainable economic development for the betterment of all!


FE B. BARIN
Chairperson

MAJOR ACHIEVEMENTS

The Securities and Exchange Commission (SEC) accomplished what it set to do in 2004, on top of responding to unexpected developments within its regulatory sphere. Most of the activities of the SEC during the year were in pursuance of one of its mandates— to ensure the orderly development and efficient functioning of the securities market. Within this mandate is the overriding concern of the SEC to safeguard the interest of the public.

The broad regulatory scope of the SEC that includes market participants, market instruments, and the investing public arises from the provisions of the eight laws it is mandated to implement. Five of these laws are the Securities Regulation Code (RA 8799 or SRC), Financing Company Act (RA 8556), Investment Houses Law (RA 8366), Corporation Code of the Philippines (BP 68), and Investment Company Act (RA 2629).

The SEC is also being called upon to assist in the implementation of seven other laws, including the Anti-Money Laundering Act (RA 9160, as amended), Special Purpose Vehicle Act (RA 9182), and Retail Trade Liberalization Act of 2000 (RA 8762).

With such a broad scope and concerns, it is imperative upon the SEC to ensure that its services are delivered in an effective and timely manner while its resources are managed and utilized efficiently. Accordingly, an output-based performance measurement of its core functions has been established, consistent with the continuing reforms on public expenditure management (PEM) spearheaded by the Department of Budget and Management (DBM) and the National Economic and Development Authority (NEDA).

The accomplishments of the SEC in 2004 are, therefore, reported along its major final output (MFO) statements that were formulated in 2003, as follows:

<i>Short Statement</i>	<i>Full Statement</i>
MFO 1: Capital market development services	Formulation and implementation of policies, rules, regulations, guidelines, and standards to promote the development of a globally competitive Philippine capital market
MFO 2: Services for the generation and dissemination of capital market information	Generation and dissemination of capital market information through formulation of appropriate disclosure statements, reporting formats, as well as construction, development, and maintenance of appropriate information management systems for storing, retrieving, processing, and distribution of data and information
MFO 3: Capital market regulation, enforcement, and monitoring services	Capital market regulation services through registration, monitoring, and audit of registered entities, surveillance, enforcement actions, and imposition of penalties, sanctions

	<p>against violations to ensure adherence, observance, and/or compliance with policies and standards relative to the development and sustainability of the market</p>
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The following shows the major achievements of the SEC compared to what were planned during the year. While item J is not among the SEC’s MFOs, since revenue generation is not one of its mandates but is only incidental in the delivery of its services, it has been included in the interest of transparency, accountability, and fairness.

<i>Planned</i>	<i>Achieved</i>
MFO 1: Capital Market Development Services	
<p>A. Provide support in the enactment and implementation of new laws to enhance the legal framework</p>	<ul style="list-style-type: none"> ■ Supplied technical inputs and served as one of the resource agencies in the enactment of the Securitization Act ■ Provided technical assistance in drafting Implementing Rules and Regulations (IRR) of the Securitization Act ■ Participated in drafting IRR of the Philippine Accountancy Act of 2004

	<ul style="list-style-type: none"> ■ Promulgated amended IRR of the SRC ■ Drafted IRR of the Corporation Code of the Philippines ■ Prepared proposed amendments to the Corporation Code and SRC
<p>B. Formulate measures to establish a fair regulatory framework conducive to the development of the capital market and to foster effective coordination with other financial sector regulators, other government agencies, and securities regulators abroad</p>	<ul style="list-style-type: none"> ■ Promulgated new rules, circulars, and guidelines on, among others, corporate governance, adoption of Philippine Financial Reporting Standards, regulation of the Philippine Stock Exchange (PSE), new requirements for establishing foundations, and revocation of certificates of registration of corporations remiss in submission of reportorial requirements ■ Promulgated rules and regulations on the establishment of the alternative trading system (ATS), an electronic marketplace or facility which brings together buyers and sellers of innovative securities and securities of small, medium, growth and/or venture enterprises, and technology-based ventures ■ Spearheaded formulation of policy

	<p>blueprint for the long-term development of the non-bank financial sector (NBFS)</p> <ul style="list-style-type: none"> ■ Reviewed and approved <i>Implementing Guidelines on Companies under Corporate Rehabilitation</i> and amendments to PSE's <i>Listing Rules; Minimum Commission Rates of Broker Dealers; Customer First Policy</i>; and <i>Section 13</i> of PSE's disclosure rules ■ Implemented the shift from net capital regime to risk-based capital adequacy requirement ratio (RBCA) for securities brokers and dealers, through issuance of Memorandum Circular (MC) No. 16 s. 2004 ■ Strengthened further coordination with Bangko Sentral ng Pilipinas (BSP) by signing on 07 May 2004, a Supplemental Memorandum of Undertaking (MOU) which defined each agency's respective jurisdictional responsibilities, established procedures for conduct of joint onsite inspections of entities
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	<p>regulated by both agencies, and started process of standardizing regulatory and operational reports of subject entities</p> <ul style="list-style-type: none"> ■ Participated in the establishment of the Financial Sector Forum (FSF) which is composed of the BSP, Insurance Commission, Philippine Deposit Insurance Corporation, and SEC; the FSF provides the institutional framework for coordinating the supervision, monitoring, and regulation of financial institutions, as well as the venue for discussing developments in their respective jurisdictions and other concerns that may have repercussions on the Philippine financial system ■ Signed MOU between SEC and PSE on self-regulatory organization functions of PSE on 14 May 2004, and Memorandum of Agreement (MOA) on creation of PSE Market Integrity Board and restructuring of the Compliance and Surveillance Group into the Market Regulatory Office on 12 November 2004; these seek to improve PSE's self-
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	<p>regulatory organization (SRO) function and strengthen regulation of trading participants</p> <ul style="list-style-type: none"> ■ Established an electronic link between the database of registered SEC company names with that of business name registry database of the Department of Trade and Industry (DTI); the link reduces by one step procedure for corporations in starting their business: corporations no longer have to go to DTI to register their names to preclude their use by single proprietors; they need not renew the name after five years, while single proprietors need no longer worry that their business name may be unduly used in the establishment of new corporations ■ Signed MOU between SEC and Hong Kong Securities and Futures Commission on 25 November 2004, which establishes framework for coordinating the enforcement activities of the two agencies ■ Started process of establishing a database link with Bureau of
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	<p>Internal Revenue (BIR) by signing the SEC - BIR Implementing Guidelines for the Electronic Exchange of Information; link is expected to facilitate the acquisition by newly organized companies of Taxpayer Identification Number (TIN) since this will be pre-issued by BIR to SEC for issuance and printing on the Certificate of Incorporation or the Articles of Partnership; BIR will also have a facility to capture data of new corporations and partnerships which are essential in the registration of new companies for their TIN and inclusion in the database of taxpayers</p>
<p>C. Sustain corporate governance reforms</p>	<ul style="list-style-type: none"> ■ Prescribed through issuance of MC No. 8 s. 2004, certification requirements for compliance officers of financing companies, investment houses, fund managers, distributors and mutual fund/investment companies, and pre-need companies; these companies are required to have at least one officer or director certified

	<p>by examination as compliance officer to ensure that regulatory safeguards imposed on them are complied with, and that leading practices on corporate governance are duly observed</p> <ul style="list-style-type: none"> ■ Required companies listed with the First Board of PSE to have an audit committee with at least two independent directors, one of whom shall be its chairman (MC No. 6 s. 2004) ■ Amended SRC Rule 38 to incorporate certain requirement for the nomination and election of independent directors
<p>MFO 2: Services for the Generation and Dissemination of Capital Market Information</p>	
<p>D. Promote accountability and transparency through formulation of appropriate disclosure statements, reporting formats, and related activities</p>	<ul style="list-style-type: none"> ■ Embarked on improving the substance and practice of accounting and auditing in the Philippines by carrying out the following: <ul style="list-style-type: none"> - Developed financial disclosure checklist to guide companies in their compliance with disclosure

	<p>requirements in accordance with the International Accounting Standards (IAS) and the Statement of Financial Accounting Standards (SFAS)</p> <ul style="list-style-type: none"> - Continued the adoption of SFAS/IAS and the Philippine Standards on Auditing (PSA) through issuance of MC No. 2 s. 2004 concerning three SFAS; MC No. 3 s. 2004 regarding 11 PSAs; and, MC No. 19 s. 2004 for the adoption of the Philippine Financial Reporting Standards in keeping with SEC's efforts to conform to international accounting standards
<p>E. Pursue protection of investors and the general public through investor education and timely issuance of alerts</p>	<ul style="list-style-type: none"> ■ Designed and posted in the SEC website the <i>Investment Scams Checklist</i> that provides the public warning signs on fraudulent and/or pseudo investment opportunities and advises the public to report to the designated SEC office and/or seek assistance from law enforcers ■ Coordinated with other institutions

	<p>the placing of anti-scams posters and brochures in their offices</p> <ul style="list-style-type: none"> ■ Alerted and warned the public on the resurgence of “boiler room” operations and other “get-rich” quick scams; advisory was issued through print media and posted on the SEC website ■ Conducted two seminars on corporate governance and eight on IAS ■ Responded to queries through e-mail, 1,452; by phone, 83,499; and, in person 66,222 ■ Disseminated 75,525 <i>Citizen’s Manuals</i> and other relevant information materials for the guidance of investors and general public
<p>F. Improve further delivery of services to the public by streamlining internal processes</p>	<ul style="list-style-type: none"> ■ Shortened response time at the Public Reference Unit in delivering company records or documents requested by the public by upgrading information technology resources and installing additional digital storage capacity; 88% of the clients were served within 20

	<p>minutes on the average, an improvement over the 43% served within one hour in 2002 and less than 10% in 2001 prior to the IT upgrading project</p> <ul style="list-style-type: none">■ Continued implementation of computerization program to achieve objectives of the SRC and follow mandate of the E-Commerce Act (RA 8792); the computerization projects, particularly <i>SEC i-Register</i> which started in 2002 and recently approved <i>SEC i-Report</i>, are envisioned to harness information and communication technology as a tool to streamline processes, promote transparency, lessen human discretion, and reduce opportunities for corruption
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Effort to improve on the delivery of services has resulted in the following for the SEC:

- Sustained its exemplary ratings in public opinion surveys; SEC has been recognized in its sincerity in fighting corruption
- Ranked first among 24 government agencies in the Social Weather Station (SWS) 2003/2004 Transparent and Accountable Governance (TAG) Enterprises Survey in both the gross and net sincerity rating in fighting corruption

MFO 3: Capital Market Regulation, Enforcement, and Monitoring Services

G. Sustain process of registering corporations, partnerships, and capital market participants

- Registered 25,715 stock corporations, partnerships, and non-stock corporations
- Registered, licensed, and/or accredited 113,904 market participants
- Approved PSE's application for additional listing of 40% of its shares to broaden its non-broker investor base
- Approved registration of the Philippine Dealing and Exchange

	<p>Corporation (PDEX) as a fixed income exchange</p> <ul style="list-style-type: none"> ■ Approved registration of the first ATS application, specifically that of the Development Bank of the Philippines, dubbed as <i>M4SME - RP</i> (Market for SME Receivables and Purchases)
<p>H. Encourage and strengthen regulatory compliance</p>	<ul style="list-style-type: none"> ■ Continued process of revoking certificate of registration of inactive corporations including branches of foreign corporations that failed to submit annual reports required under Section 141 of the Corporation Code; and imposed fines on firms that failed to submit required reports on time ■ Monitored 50,790 inactive corporations that failed to submit reportorial obligations; penalized 5,997 corporations; revoked 28,656 certificates of registrations; and issued show cause orders to 384 branch offices of foreign corporations that failed to submit required reports ■ Monitored/reviewed 21,051

	<p>financial reports and disclosures of regulated entities</p> <ul style="list-style-type: none"> ■ Evaluated covered institutions' self-assessment forms to determine compliance with provisions of their respective manuals on corporate governance, specifically, designation of compliance officers, nomination and election of independent directors, creation of board committees, and rotation of external auditors ■ Monitored submission of 571 revised Anti-Monetary Laundering Law (AMLA) manuals by covered institutions ■ Drafted Guidelines on the Calling of Annual Stockholders/Membership Meetings
<p>I. Strengthen surveillance and enforcement</p>	<ul style="list-style-type: none"> ■ Continued monitoring of trading of securities, making use of real-time market surveillance software called <i>Advance Warning and Control System (AWACS)</i> ■ Developed compliance webpage in the SEC website that allows submission of complaints by e-mail;

	<p>compliance web page also provides information on SEC's enforcement actions</p> <ul style="list-style-type: none"> ■ Drafted guidelines on mediation of complaints ■ Conducted 37 investigations, issued cease and desist orders (CDOs) against three corporations, revoked certificates of registration of seven corporations, and filed criminal complaint against officers of one corporation ■ Penalized 98 listed/registered issuers of securities, ten mutual fund companies, nine public companies, 26 financing companies, and 24 other market participants for infraction of laws, rules, and regulations administered by SEC
<p>Other Activities Undertaken to Deliver on SEC's MFOs</p>	
<p>J. Observe prudence in administration of SEC's mandate and resources</p>	<ul style="list-style-type: none"> ■ Generated income of PhP 937 million and achieved a 39% ratio of expenditures to income, an improvement from the 46% in 2003

	<ul style="list-style-type: none"> ■ Implemented revised fees and charges for filing of application for registration, licensing application, and availment of SEC's public reference services ■ Supported government-wide austerity program through implementation of SEC's austerity plan
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The foregoing gives a brief account of the SEC's accomplishments as performed by its various departments and offices doing the following core functions, viz.:

Core function 1: Capital Market Development and Regulation;

Core function 2: Company Registration and Monitoring;

Core function 3: Enforcement; and,

Core function 4: Support Services

ACCOMPLISHMENTS BY CORE FUNCTION

CORE FUNCTION 1: CAPITAL MARKET DEVELOPMENT AND REGULATION

Contributions to enhance the legislative framework

In 2004, the SEC provided support in the enactment, amendment, and implementation of a number of laws affecting the capital market. These included:

Securities Regulation Code. The SEC reviewed House Bill No 124, “*An Act Amending Republic Act No. 8799, Otherwise Known as the Securities Regulation Code,*” and proposed the following additional amendments: (1) grant the SEC the power to prescribe and collect supervision and examination fees; (2) allow the publication of issuers’ financial statements other than in a newspaper of general circulation; (3) expand the tender offer rule; (4) strengthen the requirements on registration and responsibilities of broker dealers; (5) clarify the required ownership structure and composition of the board of directors of an exchange; and (6) set new qualifications on transactions of broker dealers for their own or their related party accounts.

Corporation Code of the Philippines. The SEC prepared the draft of the implementing rules and regulations (IRR) of the *Corporation Code of the Philippines (Batas Pambansa 68)* even as it proposed amendments to the Code. It has long recognized the need to amend the Code as developments in recent years have shown that apart from learning to reinvent themselves and their businesses, corporations have also come up with new ways to perpetrate fraudulent activities; thus, thwarting the regulators’ efforts of fostering good governance. With the SEC’s

finalization of its proposed amendments to the Code, it is expected that the corresponding bill will be filed in 2005 and would be enacted in the medium term consistent with the 2005-2010 Medium-Term Philippine Development Plan.

Securitization Act. The active participation of the SEC in the enactment of the *Securitization Act of 2004* (RA 9267) by way of technical assistance was followed by its leading in the drafting of its IRR. Said draft, which was prepared in cooperation with various government agencies such as the Bangko Sentral ng Pilipinas, the Department of Finance, and the Bureau of Internal Revenue, and in consultation with the industry leaders of the financial sector, has been submitted to the Congressional Oversight Committee.

Anti-Money Laundering Act, as amended. Pursuant to the mandate given by the amended *Anti-Money Laundering Act* (RA 9160, as amended), the SEC, as the supervising agency of several covered institutions under the Act, issued a circular containing the *Guidelines on the Preparation of Operating Manual on Anti-Money Laundering*, and directed the covered institutions to submit said manuals.

As a measure to verify compliance, the SEC (1) revised the *Anti-Money Laundering Compliance Forms*, which the covered institutions must accomplish to reflect the level of their compliance with the Act and its implementing rules; and (2) promulgated the *SEC Rules and Procedures of Examination on Anti-Money Laundering*, which shall be used for the conduct of onsite evaluation of compliance by covered institutions. Accordingly, in the last quarter of 2004, the SEC started to implement its examination plan on anti-money laundering compliance.

It also took part in drafting the *Rule of Procedures* in cases of civil forfeiture of money, instrument, property, or proceeds representing, involving, or relating to an unlawful activity or a money laundering offense

under the Act, as amended. The draft rule will be presented to the Anti-Money Laundering Council for its consideration. Afterwards, the same will be endorsed to the Supreme Court for appropriate action.

Philippine Accountancy Act of 2004. The accountancy law (RA 9298), approved on 13 May 2004, covers: (1) the standardization and regulation of accounting education; (2) the examination for registration of certified public accountants; and, (3) the supervision, control, and regulation of the practice of accountancy in the Philippines. With the enactment of said law, the professional growth of certified public accountants (CPAs) is now ensured through the continuing professional education (CPE) requirement it imposed. The implementing rules of the Accountancy Act, which were finalized with the SEC's participation, have mandated 60 CPE hours for three years, with at least 15 hours being earned on a yearly basis. The SEC has, however, set a higher bar for its accredited CPAs. Beginning 01 January 2005, CPAs are required to undergo at least 30 hours of CPE (MC No. 15 s. 2004).

Corporate Reform Act. The SEC gave its full support in the enactment of House Bill No. 286, "*An Act Providing For Corporate Accountability, Fixing the Penalties for Any Violation Thereof, Appropriating Funds therefore and For Other Purposes,*" authored by Congressman Jesli A. Lapus. It played a major role in drafting the final version of the bill, the salient features of which include:

- Banning of accounting firms from providing consulting services to companies they are auditing;
- Rotation of an accounting partner overseeing the audit of a specific company every five years;
- Requiring CEOs to certify the accuracy of their financial reports under pain of punishment;

- Prohibiting issuance of loans to executives of publicly listed companies or companies imbued with public interests such as pension and educational pre-need companies;
- Providing a 20-year-maximum jail term for securities fraud (defined as any “scheme or artifice” to defraud investors); and,
- Penalizing with imprisonment of up to 20 years the shredding or altering of records while investigation is ongoing.

Reforms to strengthen the policy and regulatory framework of the capital market

Formulation of the NBFS Blueprint. The SEC, in consultation with the other agencies regulating the financial sector and various stakeholders, drafted the strategic plan for the development of the Philippine capital market, entitled *Accelerating Development in the Non-Bank Financial Sector: Blueprint for Growth and Expanded Contribution to the Philippine Economy, 2004-2016* (NBFS Blueprint).

The NBFS Blueprint is designed to provide a macroeconomic framework and governance structure for the capital market in the long term to provide a stable policy and regulatory setting. Its main goal is to create an economic environment that fosters increased personal savings and the channeling of these savings into private sector investment via the capital market. Other objectives include:

- Provision of efficient and sustainable conduit for domestic companies to raise long-term capital at a reasonable and competitive cost, via public offerings of equity and debt instruments.

- Evolution of corporate governance structures and independent directors to provide more effective safeguards and legal remedies to enforce the rights of minority shareholders.
- Amplification of SEC's enforcement powers and added emphasis on the use of criminal referrals in egregious cases.
- Intensification of investor education programs on (1) benefits of increased personal savings and long-term investments; (2) availability of different retail investment products; and (3) investment scams.
- Strengthening of the disclosure-based regulation regime

Promulgation of the rules on alternative trading system. The SEC issued the *Rules and Regulations on Alternative Trading System* (ATS Rules) on 04 March 2004 in accordance with Section 37 of the SRC to facilitate the development of innovative securities trading and other trading markets in the local financial industry.

The alternative trading system (ATS) refers to any organization, association, person, or group of persons or system that constitutes, operates, maintains, or provides an electronic market place or facility for bringing together primary market issuers and investors or secondary market sellers and buyers of (1) securities of SEC-registered small, medium, growth, venture enterprises, and technology-based ventures, (2) innovative registered securities of any kind of SEC-registered enterprise, and (3) other securities as may be approved by the Commission. The ATS shall be registered/licensed with the Commission upon compliance with the registration requirements under the ATS Rules. All securities proposed to be offered and/or traded on the ATS must first be registered by the issuer with the Commission, unless exempt under the SRC and its IRR.

Promulgation of the Fixed Income Exchange Rules. The Commission closely coordinated with the Philippine Dealing System Holdings Corporation and its related companies, the Philippine Depository and Trust Company, and Philippine Securities Settlement Corporation in the development of the rules and regulations of the Fixed Income Exchange (FIE).

On 20 April 2004, the Commission approved the PDEX's (Philippine Dealing & Exchange Corporation) application for registration as an exchange. Expected to become operational in 2005, the FIE will provide and maintain a primary and secondary marketplace for buyers and sellers of fixed income instruments. It will serve as the venue for an efficient, stable, and secure market for fixed income instruments by providing a centralized trading system that will promote price discovery and transparency.

Adoption of the RBCA Rules. After conducting an in-depth review of compliance and monitoring regulatory practices within the Asian region, the Commission developed the rules for the *Risk Based Capital Adequacy Requirement/Ratio for Broker Dealers* (RBCA Rules). The promulgation of the RBCA Rules is designed to facilitate the shift from the net-capital to the risk-based supervision and regulation of broker dealers, as well as their adoption of minimum risk management standards. After consultation with the PSE and the broker dealers and the conduct of Quantitative Impact Study among broker dealers, the RBCA Rules were formally adopted through the issuance of MC No. 16 11 November 2004. The move is expected to further improve the system since broker dealers will have to price the risks they take, and accordingly, provide the capital needed for taking such risks.

Review and approval of PSE Rules. During the year, the Commission reviewed and approved the PSE's *Implementing Guidelines*

on Companies under Corporate Rehabilitation and the amendments to: (1) PSE Listing Rules, (2) Minimum Commission Rates of Broker Dealers; (3) Customer First Policy; and (3) Section 13 of the PSE Disclosure Rules.

Other proposed amendments and additions to the PSE Rules were also reviewed by the Commission but their approval was withheld pending further revision. These include:

- *Compliance and Surveillance Rules;*
- *Dollar Denominated Trading Facility Rules and Operational Procedures;*
- *Guidelines for Exemption of Securities Borrowing and Lending and Short Selling Transactions from the Imposition of Documentary Stamp Tax;*
- *Implementing Guidelines of the Rule on Minimum Public Ownership;*
- *Policies and Procedures on Quasi-Reorganization;*
- *Proposed Penalties in the Revised Listing and Disclosure Rules;*
- *Trading and Settlement Rules; and*
- *Trading Rights Rules.*

Aside from reviewing the PSE Rules, the Commission signed two memoranda with the PSE to improve the latter's functions as a self-regulatory organization (SRO) and to strengthen the regulation of trading participants. The *Memorandum of Understanding between the SEC and the PSE on the Self-Regulatory Organization Functions of the PSE*, dated 14 May 2004, provided for the review of PSE's structure to determine what was needed to enhance the independence of its audit, compliance, and surveillance unit. The *Memorandum of Agreement Between the SEC and*

the PSE on the Restructuring of the Compliance and Surveillance Group (CSG) into the Market Regulatory Office and the Creation of the Market Integrity Board, dated 12 November 2004, provided for the restructuring of the PSE's CSG into the Market Regulatory Office and the creation of the Market Integrity Board to address the needs identified in the review conducted under the 14 May 2004 MOU.

Review and approval of the SIPF by-laws and rules. The Commission was actively involved in the formulation of the new implementing rules of the Securities Investors Protection Fund, Inc. (SIPF). Further, it recommended the amendment of the SIPF by-laws so that it is consonant with the provisions of the SRC and the new SIPF Rules. The SIPF by-laws and rules were approved on 7 December 2004. The new provisions of the *SIPF Rules* enhanced the protection of investors in the equities market by expanding SIPF coverage and providing an earlier release of payment for covered claims. In the past, investors could only file claims with the fund when the broker has been declared insolvent. Under the new rules, investors/customers can now file claims against a broker or dealer *upon PSE's declaration* that the firm is 'in business failure' or is 'unable to meet its liabilities due to fraud and mismanagement'.

Initiatives in corporate governance. Under its continuing effort to sustain reforms on corporate governance, the Commission issued additional guidelines to promote certain leading practices particularly on the designation of at least two independent directors in the audit committee of listed companies in the First Board of the Philippine Stock Exchange. SRC Rule 38 was amended to incorporate the requirements on the procedures to ensure proper nomination and election of independent directors.

In 2004, the Commission implemented a nationwide training of compliance officers of financing companies, investment companies, brokers and dealers, and investment houses. To ensure their capacity to fully comply with the requirements on corporate governance, these compliance officers should take and pass a written examination in order to qualify for a certification from the Commission.

As a significant element of good corporate governance, the Commission furthered the promotion of the quality of financial disclosures and sustained its efforts in enhancing the substance and process of accounting and auditing through the following undertakings:

- Improvement of the disclosures in the periodic reports of listed companies and other issuers of registered securities to the public¹;
- Adoption of International Accounting Standards (IASs) (now, International Financial Reporting Standards) and International Standards on Auditing (ISAs) approved by the Accounting Standards Council (ASC)² and Auditing Standards and Practices Council (ASPC)³;
- Designed and finalized the Financial Disclosures Checklist which has been disseminated through publication or posting in the Commission's website;
- Prepared a checklist of Generally Accepted Accounting Principles based on existing accounting standards for internal use by the specialists of the Commission to facilitate their review and improve the quality thereof;

¹ Amendment to Annex C of Rule 12, SEC Memorandum Circular No. 14, s. 2004

² SEC Memorandum Circular Nos. 2 and 19, s. 2004

³ SEC Memorandum Circular No. 3, s. 2004

- Coordinated with the Philippine Financing Companies Association (PFA) and Philippine Institute of Certified Public Accountants (PICPA) in the conduct of seminars for external auditors of financing companies on the following topics:
 - Accreditation requirements, 7 seminars
 - International Accounting Standards (thru extension offices), 3 seminars
 - Corporate Governance, 7 seminars
- Reviewed interim (quarterly) financial statements filed in 2004, to ensure that these were prepared in accordance with the requirements of SRC Rule 68.1, SFAS No. 30 and the new requirements of SRC Rule 17, particularly the discussion of the key performance indicators of the companies;
- Evaluated the audited financial statements of regulatees for the period ending 31 December 2003, as to their compliance with the accounting standards and SRC Rule 68; and,
- Enhanced the *Guidelines on the Accreditation of External Auditors* by issuing an amended circular. Applications for accreditation of external auditors were strictly reviewed based on the requirements of the guidelines.

Other reform initiatives. Other initiatives implemented by the Commission included reforms in the equities and pre-need markets, strengthening auditor independence, and enhanced coordination with the associations of market participant.

The *Rules Governing the Trading of PSE Shares* were promulgated to monitor PSE's shareholder composition and expand PSE's investor base beyond brokers and dealers. It prohibited broker dealers from buying

PSE shares for their own or their related parties' accounts and required them to submit daily reports on any transaction in PSE shares.

Meanwhile, the *Rules on the Pre-Need Uniform Chart of Accounts* were revisited to strengthen the policy and regulatory framework of the pre-need industry and to conform to the International Accounting Standards. Moreover, to uphold the integrity and professionalism in the business of selling pre-need plans, the SEC, in coordination with the Philippine Federation of Pre-Need Plan Companies, Inc., developed a standard course outline for training salesmen in preparation for the salesmen examination starting in 2005.

Also amended were the rules requiring registered companies to disclose the audit related fees, tax fees, and other fees paid to the external auditor, for purposes of promoting auditor independence.

Furthermore, the Commission utilized its links with various accounting, auditing, pre-need, investment, financing, and securities-related associations⁴ to facilitate information dissemination. Continued coordination and cooperation with these groups has led to an increased awareness and acceptance of new SEC rules and policies.

Moreover, the SEC encouraged several industry initiatives designed to improve the regulation of the capital market. These include:

- the acquisition of a new clearing and settlement system of the PSE, through its subsidiary, Securities Clearing Corporation of the Philippines (SCCP); and,

⁴ ASC, Association of CPAs in Commerce and Industry, Association of CPAs in Education, Association of CPAs in Public Practice, ASPC, Federation of Pre-need Companies, Financial Executives Institute of the Philippines, Government Association of CPAs, Institute of Internal Auditors, Investment Companies Association of the Philippines, Investment Houses Association of the Philippines, Money Market Association of the Philippines, Philippine Association of Broker Dealers, Inc., Philippine Association of Transfer Agents, Inc., PICPA, Quality Assurance Board of PICPA

- the development of the Electronic Direct Registration System by the Philippine Association of Transfer Agents, Inc. (PASTRA).

These innovations are expected to greatly facilitate the monitoring of the equities market. The name-on-registry capability of these systems provides a clearer audit trail for investigators and allows investors to electronically monitor the movement of their shares.

Finally, the Commission has approved the PSE's application for additional listing of 40 percent of its shares, which were sold to institutional non-broker investors. The entry of these investors into the PSE resulted in the dilution of the broker dealers' ownership and control.

Registration, licensing, and monitoring of capital market participants

Registration of market participants. Market participants granted licenses and/or accredited for 2004 totaled 113,904, down 19.5 percent from the previous year's total. This includes the accreditation of 59 external auditors, 30 pre-need actuaries, and one credit rating agency (Table 1).

Table 1. Registration and Accreditation of Market Participants, 2004 and 2003

<i>Type of Market Participant</i>	<i>2004</i>	<i>2003</i>	<i>Percent Increase/ (Decrease)</i>
Total	113,904	141,458	(19.5)
<i>Broker Dealer</i>			
Associated Person	151	154	(1.9)
Exchange Members	133	132	0.8
Non-Exchange Member	16	13	23.1
Sales Agent	812	780	4.1
<i>Financing Company</i>	319	418	(23.7)
<i>Government Securities Eligible Dealer</i>	64	64	-
<i>Investment Company</i>			
Adviser	12	12	-
Certified Investment Solicitor	732	783	(6.51)
<i>Investment House</i>	34	35	(2.9)
Associated Person	7	6	16.7
Branch Office	13	13	
<i>Issuer of Exempt Securities</i>	426	406	4.9
<i>Issuer of Registered Securities</i>	25	23	8.7
<i>Pre-Need Company</i>			
Branch Opening	35	72	(51.39)
Branch Transfer	38	91	(58.2)
Dealer	41	43	(4.65)
General Agent	9	8	12.50
Salesman	110,910	138,211	(19.8)

<i>Type of Market Participant</i>	<i>2004</i>	<i>2003</i>	<i>Percent Increase/ (Decrease)</i>
<i>Transfer Agent</i>	28	31	(9.7)
<i>Underwriter of Securities</i>	9	9	-
<i>Accreditation of Other Market Participants</i>			
Credit Rating Agency	1	-	-
External Auditor and Auditing Firm	59	125	(52.8)
Pre-Need Actuary	30	29	3.45

The Commission likewise approved: (1) the registration of the PDEX as a Fixed Income Exchange, which is expected to become fully operational in 2005, and, (2) the application of the Development Bank of the Philippines (DBP) for the registration and licensing of its Marketplace for SME Receivables Purchases (M4SME-RP) as an Alternative Trading System.

Compliance with the Reportorial Requirements. As part of its regular compliance monitoring functions, the SEC, through its departments involved in capital market development and regulation, monitored and reviewed a total of 21,051 reports submitted by market participants (Table 2).

Table 2. Number of Evaluated Reports of Market Participants and Other Regulated Entities, 2004

<i>Type of Report</i>	<i>Total for CY 2004</i>
Total	21,051
<i>Broker Dealers and Related Parties</i>	
Daily Report of Broker Dealers on Transaction on PSE Shares	482
Broker Dealer Report on SRC Rule 30.1 (Broker Director Rule)	1,019
FINOP Report	1,790
SEC Form 28 BDA/AP Amd/S Amd/30.1(Amendment of the General Information)	68
SEC Form 28 T (Termination Notice of Salesmen and Associated Person)	64
<i>Financing Companies</i>	
Report on Financing Company	2,102
<i>Investment Houses and Investment Companies</i>	
SEC Form ICA-IA (Amendment of General Information)	11
SEC Form IHU-A (Amendment of General Information)	53
IH-QPR with QFS (Quarterly Progress Report)	131
<i>Issuer of Registered Securities and Public Company</i>	
Annual Reports (17-A)	886
Quarterly Reports (17-Q)	2,212
Current Reports (17-C)	2,178
Beneficial Ownership Reports (23/18)	2,574
Information Statements	345
<i>Issuer of Exempt Commercial Paper</i>	
Commercial Paper Report	499

<i>Type of Report</i>	<i>Total for CY 2004</i>
<i>Pre-Need Company</i>	
Actuarial Valuation Report	42
Audited Financial Statements	50
Monthly Collection Report	1,020
Monthly List of Salesmen on Apprenticeship	216
Monthly List of Salesmen Terminated	233
Monthly Sales Report	1,015
Monthly Trust Fund Statements	3,000
Quarterly Report on Lapsed Cancelled and Surrendered Plans	139
Quarterly Trust Fund Statements	474
Quarterly Interim Financial Statements	200
<i>Other Entities</i>	
SCCP's Daily Delivery Versus Payment Settlement Report	248

Audit of market participants. The SEC conducted a total of 84 onsite audits in 2004, details of which are presented in Table 3.

Table 3. Number of Onsite Audits Conducted, 2004

<i>Type of Entity</i>	<i>Number of Audits</i>
Total	84
Investment Houses	4
Financing Company and Issuer of Proprietary and Non-Proprietary Shares	5
Pre-Need Company	56
Trustee Bank of Pre-Need Company	19

Compliance with the Revised Anti-Money Laundering Act Manual. In 2004, a compliance rate of 98 percent was obtained in terms of compliance with the revised Anti-money Laundering Act manual, as shown in Table 4.

Table 4. Submission of Revised AMLA Manual

<i>Firms</i>	<i>Total Registered</i>	<i>Revised Manual Submitted</i>	<i>Compliance Rate (Percent)</i>
Total	585	571	98.0
BD - Exchange Member	133	133	100.0
BD - Non-Exchange Member	16	16	100.0
Financing Company	222	222	100.0
GSEDs	64	61	95.3
IC Advisor	12	12	100.0
Investment Company	28	28	100.0
Investment House	34	34	100.0
Pre-Need Company	41	31	75.6
Transfer Agent	26	25	96.2
Underwriters of Securities	9	9	100.0

Compliance with the Code of Corporate Governance. The Commission evaluated compliance with the Manuals on Corporate Governance, e.g.: designation of compliance officers; nomination and election of independent directors; creation of board committees; and, rotation of external auditor through the self-assessment forms submitted by the covered institutions. The ratings indicated in the forms were

tabulated by a third party and a written report was generated containing various analyses of the ratings.

The monitoring of compliance with the Code of Corporate Governance includes the submission of certifications by: (1) the corporate secretary as to the attendance of directors in board meetings; and, (2) the compliance officers as to the level of compliance by the company with its Manual on Corporate Governance, and the conduct of seminars by accredited training providers on corporate governance (related details are shown in Table 5a).

The training and certification of compliance officers of broker dealers, financing companies, investment companies, and investment houses were also monitored. In 2004, 68 percent passed the certification exam for compliance officers for pre-need companies while 39 percent for financing companies. Likewise, 58 percent, 72 percent, 80 percent, and 77 percent passed the examinations for Modules 1, 2, 3, and 4, respectively, of compliance officers (*i.e.*, associated persons) for broker dealers (Table 5b).

Table 5a. Monitoring of Compliance with Corporate Governance

<i>Type of Participant</i>	<i>Complied</i>	<i>Compliance Rate (Percent)</i>
BD – Exchange Member		
Submission of Certification of Compliance Officer on the Level of Compliance with Leading Practices on Corporate Governance	132	100
Submission of Certification of Corporate Secretary on the Attendance of Directors During Board Meetings	132	100
BD - Non-Exchange Member		
Submission of Certification of Compliance Officer on	16	100

<i>Type of Participant</i>	<i>Complied</i>	<i>Compliance Rate (Percent)</i>
the Level of Compliance with Leading Practices on Corporate Governance		
Submission of Certification of Corporate Secretary on the Attendance of Directors During Board Meetings	16	100
GSEDs		
Submission of Certification of Compliance Officer on the Level of Compliance with Leading Practices on Corporate Governance	23	35
Submission of Certification of Corporate Secretary on the Attendance of Directors During Board Meetings	18	28
ICA		
Submission of Certification of Compliance Officer on the Level of Compliance with Leading Practices on Corporate Governance	0	0
Submission of Certification of Corporate Secretary on the Attendance of Directors During Board Meetings	4	33
Investment Houses		
Submission of Certification of Compliance Officer on the Level of Compliance with Leading Practices on Corporate Governance	14	42
Submission of Certification of Corporate Secretary on the Attendance of Directors During Board Meetings	10	30
Listed Companies and Mutual Funds/Investment Companies		
Submission of Certification of Compliance Officer on the Level of Compliance with Leading Practices on Corporate Governance	252	96
Submission of Certification of Corporate Secretary on the Attendance of Directors During Board Meetings	247	94

<i>Type of Participant</i>	<i>Complied</i>	<i>Compliance Rate (Percent)</i>
Creation of Audit, Compensation and Nomination Committees, Designation of Members, and Disclosure	220	84
Designation/Election and Disclosure of Independent Directors	252	96
Public Companies and Other Issuers of Securities to the Public		
Submission of Certification of Compliance Officer on the Level of Compliance with Leading Practices on Corporate Governance	108	94
Submission of Certification of Corporate Secretary on the Attendance of Directors During Board Meetings	90	78
Creation of Audit, Compensation and Nomination Committees, Designation of Members, and Disclosure	25	42
Designation/Election and Disclosure of Independent Directors	65	65
Pre-Need Companies		
Submission of Certification of Compliance Officer on the Level of Compliance with Leading Practices on Corporate Governance	41	100
Submission of Certification of Corporate Secretary on the Attendance of Directors During Board Meetings	31	76
Creation of Audit, Compensation and Nomination Committees, Designation of Members, and Disclosure	31	76
Designation/Election and Disclosure of Independent Directors	31	76
Transfer Agents		
Submission of Certification of Compliance Officer on the Level of Compliance with Leading Practices on Corporate Governance	21	75

<i>Type of Participant</i>	<i>Complied</i>	<i>Compliance Rate (Percent)</i>
Submission of Certification of Corporate Secretary on the Attendance of Directors During Board Meetings	16	57
Creation of Audit, Compensation and Nomination Committees, Designation of Members, and Disclosure	25	89
Underwriters of Securities		
Submission of Certification of Compliance Officer on the Level of Compliance with Leading Practices on Corporate Governance	4	44
Submission of Certification of Corporate Secretary on the Attendance of Directors During Board Meetings	2	22

Table 5b. Monitoring of Compliance with Corporate Governance – Certification Examination

<i>Type of Participant</i>	<i>No. of Examinees</i>	<i>No. Who Passed</i>
BD – Exchange Member		
– Compliance Officer/Associated Person Examination		
Module 1	135	79
Module 2	132	95
Module 3	137	110
Module 4	128	99
Financing Companies		
– Compliance Officer Examination	531	207
Pre-Need Companies		
– Compliance Officer Examination	28	19

CORE FUNCTION 2: COMPANY REGISTRATION AND MONITORING

This core function is handled by the SEC's Company Registration and Monitoring Department and the seven Extension Offices which are located in the cities of Baguio, Cagayan de Oro, Cebu, Davao, Iloilo, Legaspi, and Zamboanga.

Applications processed and/or approved

Table 6. Main Office

1. Registration of Corporations (Articles of Incorporation and By-laws)	
a. Stock	11,225
b. Non-Stock	5,771
2. Recording of Articles of Partnership	
2,404	
3. Other Applications	
a. Corporations	
– Amended Articles of Incorporation/ Amended By-laws	4,739
– Increase of Capital Stock	1,152
– Decrease of Capital Stock	21
– Merger	42
– Deed of Assignment	6,212
b. Amended Articles of Partnerships, Deed of Assignment, Affidavit of Withdrawal, and Dissolution of Partnership	776
c. FIA Applications (with more than 40% foreign equity)	

– Articles of Incorporation and By-laws, Branch Office, Representative Office of foreign corporation	342
– Regional Headquarters, Regional Operating Headquarters	14
– Increase in Foreign Equity, Amendments, Securities Deposit, Withdrawal of License	298
d. Request for Exemption, Voting Trust Agreement, Stock, Cash Dividend, Valuation of Properties, Articles of Consolidation, and other applications	555

Table 7. Extension Offices

Transactions/ Applications	Baguio	Legaspi	Cebu	Iloilo	Cagayan De Oro	Davao	Zam- boanga
Registration of Corporations							
a. Stock	163	90	803	325	171	484	74
b. Non-Stock	844	315	442	534	437	896	245
Recording of Articles of Partnership	94	46	140	55	32	111	14
Others	234	39	460	237	84	315	125

Table 8. Revenue from Transactions/Applications Approved

Office	Revenue (in PhP Million)
Main	554.30
Extension	70.94

Cebu	23.52
Davao	19.28
Iloilo	9.66
Cagayan de Oro	8.43
Baguio	4.61
Zamboanga	3.22
Legazpi	2.22

Monitoring of compliance with reportorial requirements

Apart from overseeing the registration of corporations and partnership in the Philippines, the SEC monitors corporations' compliance with their reportorial obligations under the Corporation Code of the Philippines. As such, the SEC revokes the registration of corporations that fail to submit their Annual Audited Financial Statements (AFS) and/or General Information Sheets (GIS) for at least five consecutive years.

To send the message that the Commission is bent on closing down firms that do not comply with regulations governing the submission of said reports, the SEC posts on its website the updated list of corporations whose certificates of incorporation have been revoked, and sends the corresponding show cause orders to the entities concerned.

Following the SEC's monitoring of 50,790 domestic corporations during the year, 28,656 certificates of incorporation were revoked and 5,997 corporations were imposed the appropriate fines. In a related development, 1,149 corporations that have been issued revocation orders submitted their respective petitions for the lifting of such orders together with the requisite reports so that they can continue their corporate existence.

The Commission has likewise started the process of identifying inactive branch offices of foreign corporations. In this connection, 384 such firms were issued the appropriate show cause orders.

Significant changes in corporate registration and reporting requirements

- Issued MC No. 1 s. 2004, re: Guidelines on Foundations, to discourage the practice of establishing organizations that are more focused on soliciting funds from donors instead of being the source of grants and endowments themselves.

In addition to the requirements for ordinary non-stock, non-profit corporations, a foundation applying for registration with the Commission shall now submit the following:

1. *Modus Operandi* or Plan of Operation, executed, under oath, by the President of such foundation, setting forth the mode of its operation, source of its funds, the proposed application of said funds, and the prospective beneficiaries of grants or endowments; and
 2. Certificate of bank deposit in the amount of not less than PhP 1,000,000, representing the funds to be used for extending grants or endowments.
- Prepared an updated list of registration requirements and published the same on the SEC website. Apart from promoting transparency in SEC's operations, it is expected that this will considerably reduce the volume of public queries on the SEC's registration requirements.

CORE FUNCTION 3: ENFORCEMENT

In keeping with its continuing efforts to promote the integrity of the capital market and to protect the investing public, the SEC undertakes compliance-monitoring activities and investigative and enforcement actions.

The Compliance and Enforcement Department (CED), which serves as the lead enforcement unit of the SEC, carries out investigative and enforcement activities, either by itself or in cooperation with other departments/offices or government and law enforcement agencies. Apart from performing these functions, the SEC, through its Office of the General Counsel (OGC), conducts certain administrative adjudication activities, and provides a variety of legal services relating to regulatory functions, as well as inputs for draft legislation which the two chambers of Congress refer to SEC for comments.

Outcome of Compliance Audits and Review of Corporate Reports and Disclosures

As a result of the compliance monitoring activities performed by the SEC, monetary and non-monetary sanctions were imposed on errant market participants. These include: 98 listed firms/registered issuers of securities, ten mutual fund companies, nine public companies, 26 financing companies, eight investment houses, 13 brokers/dealers, two broker/dealer salespersons, and one transfer agent.

Investigation, Surveillance, and Prosecution

Previous actions filed by the CED before the OGC resulted in the revocation of the Certificate of Registration of the following corporations:

TG Asset Management Corporation; Central Capital Intermarkets; Meldred International Manpower General Services Inc.; Union Films Exchange Inc.; New Democratic Press Media Inc.; K.E.R. Builders Inc.; and, Maru International Manpower Services Inc. In addition, it filed with the OGC administrative cases against four errant firms and various cases involving 20 corporations included in its prosecution list.

As part of its routine surveillance activities of the stock market, the CED uses the Advance Warning and Control System (AWACS) real-time market surveillance software. It then refers to the appropriate office (i.e., SEC's Market Regulation Department or PSE's Compliance and Surveillance Group) any unusual transaction that could be the subject of an inquiry or investigation.

Apart from handling the cases already mentioned, 37 investigations were opened in 2004, of which ten were completed by year-end. In addition, 64 pre-2004 cases were terminated within the same period. The investigations were done discreetly and swiftly so as to avoid any negative repercussions on the domestic business environment. The adoption of standardized forms and procedures for investigative interviews and gathering of documentary evidence helped facilitate the handling and resolution of cases involving errant firms and market participants.

Other proactive measures taken included the creation of an *Enforcement* page in the SEC website, and the establishment of a *Complaints Desk* manned by three CED personnel trained on the handling of complaints that were filed by e-mail (using the standard forms downloadable from the SEC website), by phone, and in person. The standard complaints form has made it easier for the public to inform the SEC about their concerns and grievances against perpetrators of "boiler room" operations and other fraudulent investment schemes and scams. Accordingly, the SEC delivered a response rate of 98 percent on public

queries and complaints, wherein it acted upon 131 of the 134 correspondences from the public within a period of 15 days.

The adoption of a systematic procedure for the processing of complaints/cases and the handling of investigations resulted in the issuance of cease and desist orders (CDOs) against these firms: *CitiCapital Inc.*; *Good Harvest Orchards Marketing Corporation*; and, *Village Sports Ventures, Inc.* Furthermore, a criminal complaint was filed before the Department of Justice (DOJ) against the president and other key officials of *Asian Capital Equities, Inc.*, a securities broker firm. Currently, there are 162 cases filed before the DOJ/Prosecutors Office while 175 are before the Regional Trial Court (RTCs). Some of these cases are listed in Table 9 and 10, respectively.

Table 9. Cases in the DOJ/Prosecutors Office, 2004

Prosecution List

Case No.	Name of Corporation
99-2318	Amephil Lending Corporation
20-2378	Westmont Investment Corporation
02-2661	Pryce Richardson Corporation
02-2718	Multitel International Holdings, Inc.
02-2719	Tibayan Holdings Group (155 complaint-affidavits filed)
02-2743	Lead Lending Corporation
03-2755	Speed Credit Collections Service Co./Speed Financial Management Services Technique, Inc.
03-2779	Asian Capital Equities, Inc.

Table 10. RTC Cases, 2004**Prosecution List**

Case No./Courts	Title of Case
Criminal Case Nos. 11928-29 Branch 268, RTC-Pasig City	PP vs. Jimmy Juan and Eduardo Lim, Jr.
Criminal Case Nos. 122796-99 Branch 160, RTC-Pasig City	PP vs. Dante Tan, et al.
Criminal Case Nos. 01-2140-45 Branch 147, RTC-Makati City	PP vs. Lorna Verano Yap, et al.
Criminal Case Nos. MC03-6766-6778 Branch 211, RTC-Mandaluyong City	PP vs. Vicente Afulgencia, et al.
Criminal Case Nos. 27326-27327 Branch 97, RTC-Quezon City	PP vs. Virgilio Acosta
Criminal Case No. 00-1525 Branch 147, RTC-Makati City	PP vs. Primo Puyo, et al.
Criminal Case No. 01-1856 Branch 58, RTC-Makati City	PP vs. George Martin, et al.
Criminal Case No. 03-1697 Branch 142, RTC-Makati City	PP vs. Iris Aquino
Criminal Case No. 12876-B Branch 25, RTC-Binan	PP vs. Haddi, et al.
Criminal Case Nos. 03-2092-93 Branch 139, RTC-Makati City	PP vs. Rosario Baladjay, et al.
Criminal Case Nos. 01-2094-98 Branch 59, RTC-Makati City	PP vs. Fernandez, et al.
Criminal Case Nos. 03-3304-3311 Branch 134, Makati City	PP vs. Pastrana, et al.
Criminal Case No. 03-6683 Branch 63, Makati City	PP vs. Lorna Verano Yap, et al.
Criminal Case Nos. 1354-1480 Branch 56, RTC-Makati City	PP vs. Rosario Baladjay, et al. (126 counts)

Meanwhile, the cases on *Fairmont Holdings, Inc.* (formerly known as BWRC) involving Dante Tan et al., are ongoing trial before Branches 160 and 268, Regional Trial Court, Pasig City, with the prosecution presenting its evidence.

A number of complaints filed before DOJ against the accountable officers of the *Tibayan Group of Investments* (including its affiliate companies) are pending resolution. Following the appointment of receivers for *Multitel* and *Tibayan Group of Investments* by the court, the CED has been providing assistance to investors/victims in drafting their complaint affidavit/supplemental affidavit.

Administrative Adjudication

For the year 2004, the SEC through its OGC issued 360 orders/notices and 13 decisions on cases where the Commission retained jurisdiction. These cases involve corporate names, dissolutions, revocation of certificates of registrations, and the calling of meetings; as well as those intra-corporate cases for final resolution prior to August 2000; and suspension of payment/rehabilitation cases filed as of 30 June 2000 until finally disposed.

Litigation and Legal Support Services

The OGC drafted the *Guidelines on the Calling of Annual Stockholders/Membership Meetings* in order to ensure that corporate meetings are conducted in accordance with law and the by-laws of corporations. Among others, these guidelines seek to ensure the conduct of fair, honest, and credible corporate elections which are held during regular annual meetings.

As the SEC is concerned about the influx of complaints pertaining to corporate election-meetings of non-stock corporations, particularly transport organizations, neighborhood associations, professional membership organizations, and similar organizations that collect substantial amounts of membership fees, it is expected that these guidelines will be useful to members of such organizations who are usually not knowledgeable on corporate procedures.

Through its OGC, the SEC issued 49 novel opinions on various legal issues. It likewise acted on 515 decisions and resolutions from the Supreme Court (SC); the Court of Appeals (CA); and the regional and municipal trial courts. Furthermore, it sent 406 letters to the SC Administrator and various RTCs relative to cases transferred to the judiciary and those that were remanded to the SEC. In addition, SEC lawyers coordinated with the Office of the Solicitor General on a number of cases on appeal with the CA and the SC.

Finally, SEC lawyers extended legal advisory assistance and responded to 2,337 walk-in public and telephone inquiries; and attended 27 stockholders and membership meetings, upon requests made by the entities concerned.

CORE FUNCTION 4: SUPPORT SERVICES

The functions and responsibilities of SEC arising from its broad authority to ensure the orderly development and the efficient functioning of the Philippine securities market while safeguarding the interest of the investing public likewise requires the provision of services necessary for obtaining the budget or the financial resources for its operations, the administration and development of its human resources, and the management of information system as well as the performance of related technical services. For these purposes, three SEC departments are assigned to perform this core function—support services— namely, Financial Management Department (FMD), Human Resource and Administration Department(HRAD), and Economic Research and Information Department (ERID). They have been working with the other SEC departments and offices so that they can deliver the outputs expected from them in their respective areas, *viz.*, capital market development and regulation, company registration and monitoring, and enforcement.

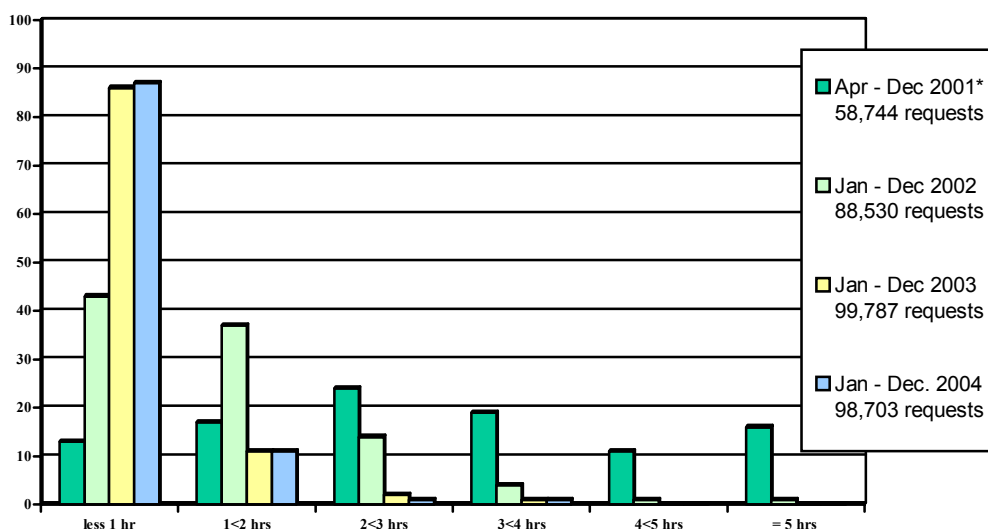
These include performing support services such as the preparation of accomplishment reports as input to the DBM's agency performance review so that the funds for SEC's operations can be released on time; accomplishment reports to the DOF, NEDA, and other oversight agencies; the preparation and dissemination of information materials; and, the conduct of seminars across the country in order to promote awareness and adherence to SEC-administered laws and regulations. The seminars are intended to enhance the public's understanding of SEC's processes, and emphasize the importance of informed investing.

Delivery of public reference services

The SEC has continuously exerted efforts in improving its records management capability so that company records, which ranges from registration documents, periodic or annual reports such as the Audited Financial Statements, and other corporate files, can be efficiently retrieved at the time these are needed by the public, the banks, other government agencies such as the courts, and researchers from both the academe and research institutions.

With the upgrading of the information technology resources for the storage and retrieval of digitized document and installing additional storage capacity at the Public Reference Unit (PRU), the response time in delivering company records or documents requested by the public has been reduced drastically. In 2004, 88 percent of the PRU clients were served within 20 minutes on the average. Comparatively, in 2002, only 43 percent were served within one hour which is three times longer than the 20-minute average recorded in 2004. In 2001, prior to the upgrading and installation of the appropriate storage equipment for digitized documents, the figure was barely more than 10 percent as shown in the following Chart 1.

Chart 1. Response Time for the Retrieval of Company Files at the PRU, 2001*– 2004



*April to December 2001

The dramatic reduction in waiting time and improvement in the delivery of documents to the public resulted from the optimal utilization of the SEC's document imaging system (DIS) through the provision of a suitable digital storage facility which, in turn, paved the way for the digitization of more corporate records.

While the DIS has been available since 1998, its utilization was severely constrained by its design of using CD jukebox for storing and retrieving digitized images. Thus, in 2000 and previous years, almost 100 percent of company documents were retrieved from microfilms, which method was, to a great extent, much slower than that of the DIS.

In 2004, additional corporate records were made available for retrieval through the DIS since more than 1.625 million pages of documents last year and 315 thousand pages from prior years' filings were digitized.

The digitization and provision of storage facility is not without cost. Nevertheless, the cost to the government which is actually an investment is fully justified by considering not only the income derived therein as shown in Chart 2, but more importantly, the benefit of enhanced delivery of services to the public, as shown in the previous chart.

Chart 2. Income Generated by the PRU, 2001– 2004

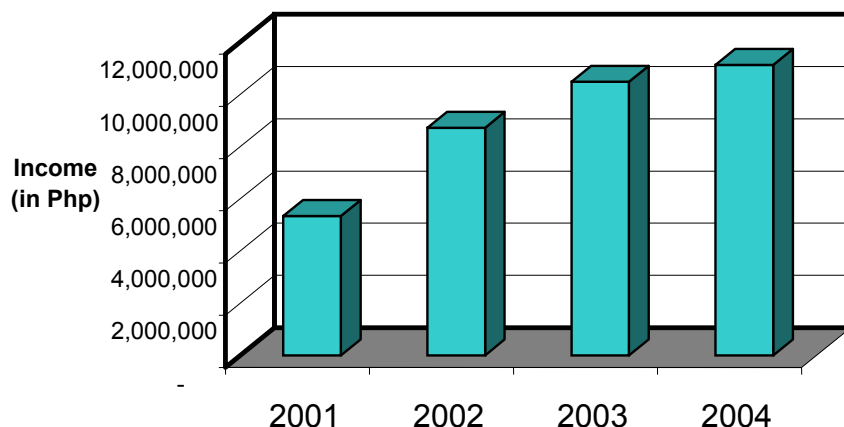


Chart 2 shows that the 2004 income generated by the PRU is more than twice that of the 2001 revenue as additional storage capacity was made available for storing digitized records

Provision of information and assistance to the public

It has been recognized that a well developed and properly functioning capital market, which is a good source of long term investments, is not only the product of appropriately structured laws, regulations, and institutions, but also vigilant enforcement empowered by, among others, adequate information and monitoring facilities. As for the equities market, economists consider it efficient when information is widely and cheaply available to the investing public and that the prices of security reflect all the relevant and ascertainable information.

For these reasons, the SEC, aside from delivering services for capital market development, regulation, enforcement, and monitoring, is likewise performing services related to the generation and dissemination of market information as well as information on fraudulent investment schemes. Consequently, the SEC undertook the following in 2004:

- Designed and posted in the SEC website an *Investment Scams Checklist* that provides the public warning signs on fraudulent and/or pseudo investment opportunities and gives advice to report to the designated SEC office and/or seek assistance from law enforcers as may be appropriate.
- Coordinated with other institutions for the placing of anti-scams posters and brochures in their respective offices.
- Alerted and warned the public on the resurgence of “boiler room” operations and other “get-rich” quick scams. The

advisory was issued through the print media and posted on the SEC Website.

- Responded to various queries which were made as follows: by e-mail, 1,452; by phone, 83,499; and in person, 66,222.
- Disseminated 75,525 citizen's manuals and other relevant information materials for the guidance of investors and the general public. These include the SEC *Citizen's Manuals* explaining in simple and understandable terms the SEC's registration procedures, scale of fees and fines, reportorial requirements, basics of how to detect and avoid investment scams, among others.
- Attended to various information requests from capital market participants, local and foreign investors, local government agencies, multilateral lending institutions, donor institutions, and the academe, among others.
- Tabulated the FAQs (Frequently Asked Questions) on firms that are subject of inquiries from the public. The information serves as one of the tools for detecting potentially harmful or illegal investment schemes and scams.
- Assisted in organizing public seminars across the country, particularly, two on corporate governance; eight on International Accounting Standards; and eleven seminars for those who wish to take the examination for certification as compliance officers.
- Accommodated the request of nine business schools to visit and receive a briefing on SEC's mandate and activities.
- Supported on-the-job training programs of 27 partner-schools through the deployment of 245 students to the different

departments and SEC offices. For the SEC's effort, the Institute of Accounts, Business, and Finance of the Far Eastern University on 23 April 2004, awarded the SEC a Certificate of Recognition as the *"Most Outstanding Student Apprenticeship Program Cooperating Company"*.

In addition to the foregoing initiatives, SEC has transformed its website into a more dynamic, substantive and user-friendly facility for disseminating updated information and delivering services to the public. Since 2002, the SEC has been using its website in providing up-to-date information on issues of interest to the public. As a result of the improvements introduced in 2004, the number of hits or visits to the website reached a daily average of 35,452, which was 198 percent higher than that recorded the previous year. The following charts provide statistics relating to the volume of downloads and the frequency of hits/visits to the SEC website.

Chart 3. Volume of Downloads per Day–Hour, 2004

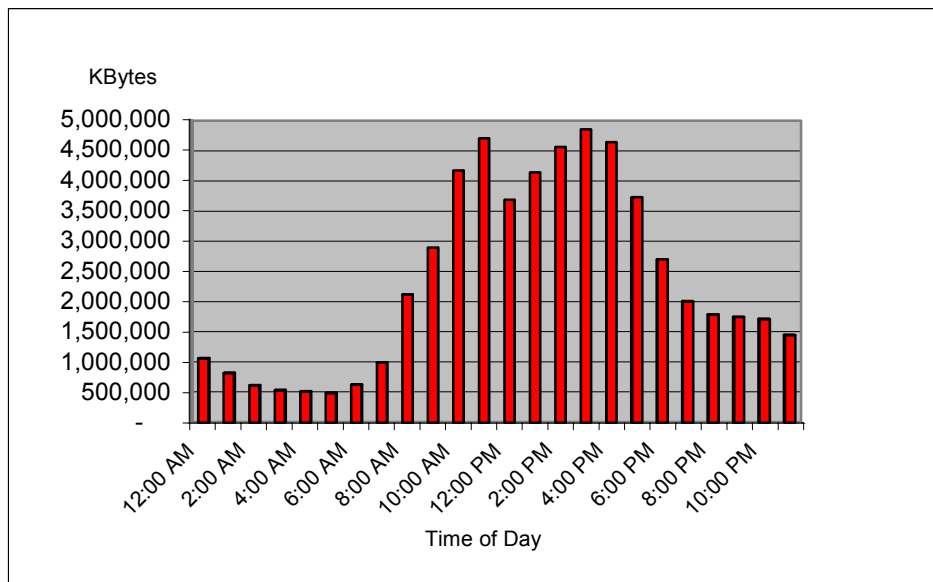


Chart 4. Volume of Downloads per Week–Day, 2004

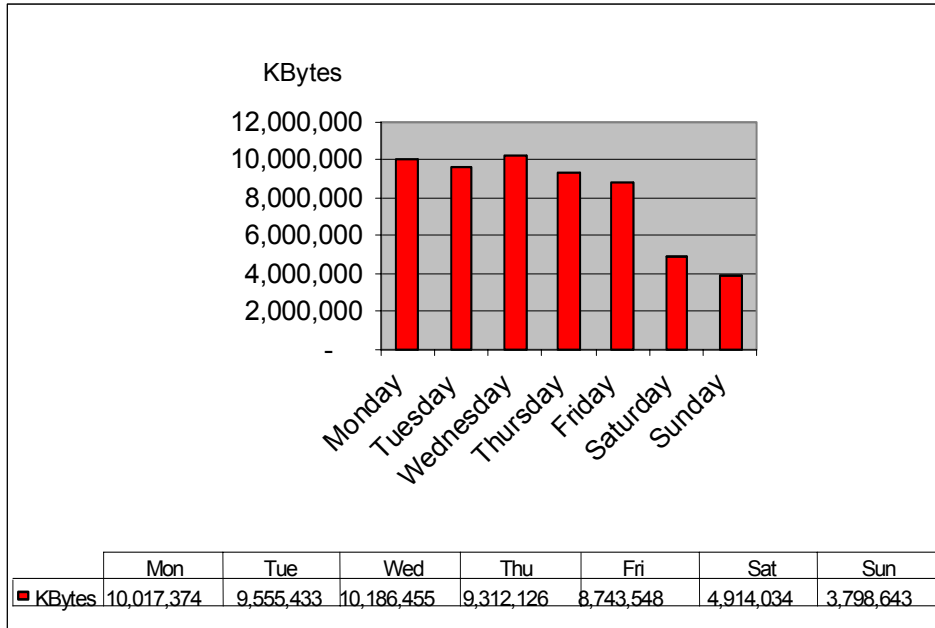
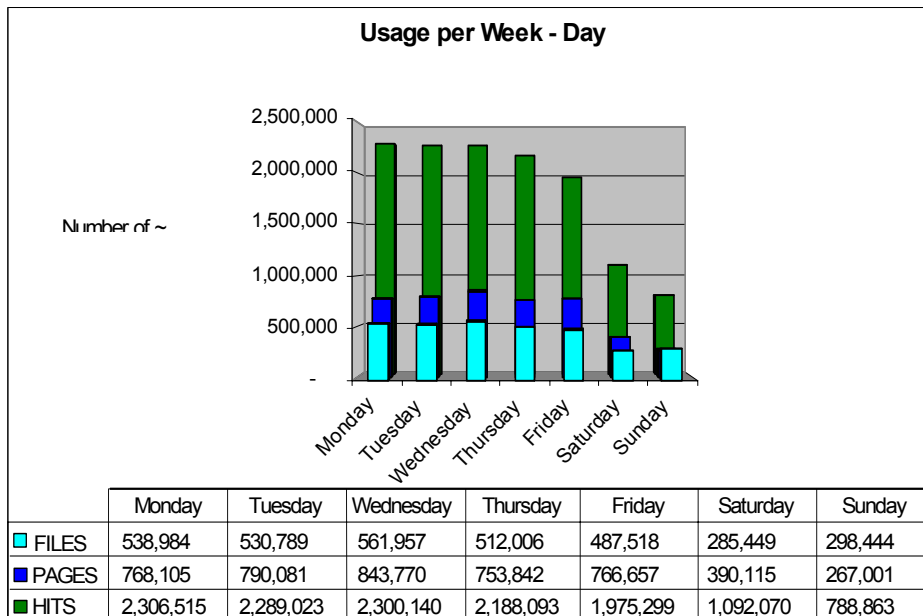


Chart 5. Usage per Week–Day, 2004



Management of Information Systems

As its own contribution to the government's efforts to establish a culture of good governance in both the public and private sectors, the SEC has, in the last four years, sought every means possible in removing the public's perception that government offices are corrupt and inefficient.

Moreover, ensuring regulatory compliance in a world rocked by corporate malfeasance and misfeasance is one of the key strategies for restoring confidence and maintaining faith in the capital market. Thus, recognizing that unscrupulous entities take advantage of advances in information and communications technology (ICT) to facilitate and widen the scope of their illegal operations, the SEC has likewise seen the merits of making use of innovations in ICT in implementing far-reaching reforms as it seeks to continuously evolve into a credible and responsive institution capable of overcoming the changing demands of the times.

Accordingly, the SEC is in the process of implementing its computerization project following the blueprint contained in the SEC Updated Information Systems Strategic Plan (ISSP) 2001 to 2005 which was submitted to the National Computer Center (NCC) for review and approval. The NCC gave its approval on 15 October 2001, after all its suggestions and inputs had been incorporated in the updated ISSP of the SEC (Related article is on page 119).

Internal planning and performance assessment

As part of its continuing efforts to ensure a priority-focused and performance-based organizational culture, the SEC has been convening an Annual Corporate Planning Workshop and a Mid-Year Assessment Workshop (MYA) since the year 2002.

The SEC usually convenes its Annual Corporate Planning Workshop in January of each year. This event gives the heads of the different departments and offices the opportunity to report on their respective achievements vis-à-vis their targets. After having discussed their respective outputs, the SEC officials work together in formulating the SEC's aggregate performance commitments for the next year. Thereafter, the outputs of the workshop are cascaded down to all concerned so that the same can be translated into individual targets and commitments. Accordingly, employee performance appraisals are undertaken after each semester to determine whether all concerned did their respective roles towards the attainment of SEC's performance commitments.

As a follow-up activity to the annual planning exercise, the SEC organizes a Mid-Year Assessment Workshop. A significant part of SEC's internal performance assessment process, the MYA Workshop serves as the venue for evaluating the SEC's performance for the first half of the year, and identifying the measures to be undertaken so that the agency can achieve its targets for the year. Moreover, it gives SEC officials the chance to address emerging priorities which were not seen at the start of the year, yet have gained importance in the work of the SEC.

In formulating its annual performance commitments, the SEC accords the highest priority to the programs, activities, and projects that will lead towards the attainment of the country's economic growth agenda and the SEC's Major Final Outputs (MFO). In drafting its operational plans for 2005, the SEC has taken into consideration the priority objectives in the financial sector chapter of the 2005-2010 Medium-Term Philippine Development Plan (MTPDP).

Starting in 2005, the MYA Workshop (for 2005) and the Annual Corporate Planning Workshop (for 2006) will be held back-to-back midway into the year. Aside from reducing workshop-related expenses, the new

set-up is seen as a more proactive approach in SEC's planning and budgeting activities, since it will coincide with the annual government-wide budgeting exercise being coordinated by the various oversight agencies and committees.

Initiatives to promote human resource development and employee morale

The SEC has always advocated the principle of employee empowerment, through initiatives aimed at building staff competency, professionalism, and productivity. With the formulation and implementation of the SEC Strategic Training Plan, relevant programs were conducted in response to the immediate training needs of the SEC workforce. These were undertaken through various in-house trainings and exposures to external local and foreign trainings (Table 11).

In addition to initiatives for enhancing the employees' technical competency, other organizational development programs were likewise conducted to inculcate the spirit of camaraderie and unity among SEC employees. To support the government-wide austerity measures, some of the trainings, capability-building initiatives, and team-building activities undertaken in 2004 were carried out with the assistance from local and foreign institutions.

Table 11. Trainings and Seminars, 2004

<i>Trainings and Seminars</i>	<i>Number of Sessions/Programs</i>	<i>Number of Participants</i>
In-House Training	28	1,041
Technical training	8	194

Organizational development training	11	655
Skills training	2	61
Echo sessions	4	71
Brown bag sessions	3	60
External Training	46	125
Foreign	16	29
Local	30	96

In addition to the training component, the SEC has also embarked on programs aimed at providing expanded benefit packages for its employees, which include, among others, measures to ensure the physical wellbeing of its staff through the conduct of annual medical check-ups and related initiatives, and the establishment of a provident fund. Moreover, a proposal for a day-care program is likewise being studied for the benefit of working mothers employed with the Commission.

Finally, in the interest of promoting fairness in its internal administrative proceedings, the SEC revisited and accordingly updated its grievance machinery in 2004. Consistent with Civil Service regulations, the same was submitted for the approval of the Civil Service Commission.

Management of government resources

In support of the government's austerity program, the SEC undertook the necessary measures to optimize the utilization of its resources. Among others, it prepared and implemented its Austerity Plan embodied in Office Order No. 178 s. 2004 dated 07 October 2004; undertook a review of existing contracts on security services and

preventive maintenance of office equipment; and purchased the office spaces being rented by certain SEC departments and offices so as to save on annual rental expenses. These cost-saving measures have resulted in corresponding reductions in the Commission's operating expenses in 2004, as shown in the following table.

Table 12. Savings Generated in 2004

Savings from Office Rentals due to the acquisition of units/offices not owned by SEC	PhP 3,033,592
Reduction in payments for Security Services (from 12 hours @ Php 19,831.72 to 8 hours @ Php 14,000 for 28 guards)	1,483,497
Reduction in costs for preventive maintenance services and lease contracts for various office equipment (e.g. air-conditioning units, typewriters, adding machines, calculators, and photocopiers)	590,139
Total Savings	PhP 5,107,228

In addition to the foregoing efforts, the safety and security of SEC employees as well as that of the transacting public is expected to be enhanced, due to the building repair work to be carried out starting 2005, and the implementation of the Finger Scan Security Access Control System. Apart from facilitating the processing and monitoring of

employees' attendance and time records, this system is expected to improve the monitoring of the flow of people into the various SEC offices and departments.

As in previous years, the SEC has exerted every effort to conform to the same ideals that it has been trying to inculcate in the corporate sector. Thus, in handling its finances, the SEC makes sure that it complies with the rules and regulations governing procurement and the disbursement of funds.

While it has been collecting significant registration and filing fees which far exceed its expenditures, the SEC exercises prudence in managing its resources since it is one way of enhancing both the public and private sectors' confidence in the SEC as a corporate regulator.

Finally, despite the enormity of the tasks and responsibilities being undertaken by the SEC, for the past five years, it has given net contributions to the national coffers and at the same time, managed to keep its ratio of expenditures over income at less than 50 percent. The SEC has maintained its expenditure efficiency in 2004 by keeping its ratio of expenditures over income at only 39 percent, which was an improvement compared with the 46 percent level reached in 2003. (Related figures are given in Table 13 and Chart 6).

INTER-AGENCY COOPERATION

As part of its conscious efforts to advance not only the development of the capital market but also to participate actively in the country's economic development agenda, the SEC in 2004 cooperated with and supported the following activities of various entities.

Cooperation within the Financial Sector Forum (FSF)

The Financial Sector Forum was collectively organized by the Bangko Sentral ng Pilipinas, Securities Exchange Commission, Philippine Deposit Insurance Corporation and the Insurance Commission. It aims to provide an institutionalized framework for coordinating the supervision and regulation of the financial system while preserving each agency's mandate.

The enhanced inter-agency coordination is expected to improve supervision over the activities of financial conglomerates as well as coverage of entities that operate in the gray areas of supervisory boundaries.

The work of the FSF focuses on three broad areas, the first of which is harmonization and coordination of supervisory and regulatory methods and policies. The Forum is committed to identifying and filling in the gaps and eliminating overlapping functions in the current supervisory regime. It is likewise concerned with adopting a common supervisory approach to similar activities in order to reduce regulatory arbitrage.

The second thrust of the FSF is reporting and information exchange and dissemination. Efforts towards this end include developing comprehensive rules on disclosure to enhance transparency of firms,

harmonizing regulatory reporting requirements to lighten the load of supervised institutions, and creating database linkages between the agencies to enhance the accuracy and transfer of information among agencies in the FSF.

Finally, the FSF will undertake initiatives on consumer protection and education in order to curb the proliferation of unlawful and unethical business practices as well as various financial scams.

Cooperation with BSP

In addition to their collaborative efforts in the FSF, the SEC and the BSP also came up with a Supplemental Memorandum of Understanding on 7 May 2004. Among others, the MOU delineated the jurisdictional responsibilities of each agency, established the procedures for joint conduct of onsite inspection of entities supervised by both agencies, and provided for the standardization of regulatory and operational reports (e.g. General Information Sheet, Audited Financial Statements) being required from subject entities.

Coordination with the Professional Regulation Commission and professional organizations

The SEC coordinated regularly with the PRC on the following concerns:

- Application for SEC registration by auditing firms and other partnerships engaged in the practice of professions within the PRC's regulatory jurisdiction;
- Articles of incorporation and by-laws and any proposed amendment thereto, of PRC-regulated entities to ensure their

compliance with the *PRC Modernization Act of 2000* (R.A. No. 8981);

- Issuance of SEC circulars or memoranda that would have an impact on the practice of professions, especially the practice of accountancy; and
- The provision of information related to SEC-decided cases, including the penalties imposed, on PRC-regulated entities so that the PRC could likewise mete out the appropriate sanctions on errant entities as it deems necessary.

Aside from coordinating on the foregoing concerns, SEC participated in the drafting and finalization of the PRC-approved *Professional Code of Ethics for CPAs* (Code), which took effect on 01 January 2004. Patterned after the guidelines issued by the International Federation of Accountants, the Code sets the standards concerning CPAs' professional attributes, independence, and competence. Moreover, it deals with issues related to advertising and conflicts of interest.

Cooperation with other law enforcement agencies

The Commission continued its coordination with the Office of the Solicitor General relative to cases on appeal with the Court of Appeals and the Supreme Court.

Furthermore, SEC's lawyers have been representing the Commission in Department of Justice hearings involving "boiler room" operations, pseudo-investment scams, and infractions of capital market-related laws and regulations. As such, the lawyers in the Compliance and Enforcement Department have been designated by the DOJ as special prosecutors pursuant to its Department Order No. 97 dated 15 March 2004.

Likewise, the Commission continued coordinating its enforcement activities with local and international law enforcement agencies. Apart from undertaking joint efforts with the National Bureau of Investigation and the Philippine National Police, SEC lawyers have regularly attended the various meetings convened by the National Law Enforcement Coordinating Committee and its different sub-committees (e.g., Anti-Money Laundering and Combating Financial Terrorism; Intelligence; and Interpol).

Finally, as part of its contribution to the international effort against perpetrators of cross-border financial crimes, the SEC has started to work on an MLAT (Mutual Legal Assistance Treaty) request as well as that from other foreign authorities seeking assistance in order to recover substantial funds from a promoter of boiler room operations.

Database linkage between SEC and DTI

Launched on 28 April 2004, the database linkage is considered as a first in terms of sharing IT resources between government agencies. Envisioned as one of the means to reduce the cost of doing business in the Philippines, the database linkage reduced by one step the procedure for starting a business. Now, corporations need not go to the DTI to register their name to preclude single proprietorships from using the same. Likewise, single proprietorships need no longer worry that their good business name may be unduly used by big business.

The determined efforts of then SEC Chairperson Lilia R. Bautista and then DTI Secretary Cesar V. Purisima enabled their respective agencies to overcome the technical obstacles in making the linkage operational. As a result, the database linkage was implemented in a very

short period of time and at the least cost to both agencies— without sacrificing the security and integrity of their respective databases.

Electronic exchange of information between SEC and BIR

As with the database linkage with DTI, the SEC-BIR electronic link will help reduce the process of going to another government agency in order to obtain the needed service for the registration of new corporations and partnerships.

On 19 November 2004, SEC Chairperson Fe B. Barin and BIR Commissioner Guillermo L. Parayno, Jr. signed the Implementing Guidelines which set the stage for formulating the technical terms and conditions of the electronic link.

The electronic linkage which is envisioned to be operation in 2005, will give SEC's new registered-firms the convenience of having pre-generated Taxpayer Identification Numbers (TINs) issued to them at the time their SEC Certificate of Incorporation or Partnership is issued, thus, speeding up the TIN registration processing with the BIR.

Apart from facilitating the issuance of TINs to registrant-firms, the collaborative effort will expand the database of registered tax payers and give the much-needed boost to the BIR's mandate of stepping up the government's revenue collections. By making use of the information to be supplied by the SEC, including among others the copies of annual corporate reports such as Audited Financial Statements and General Information Sheets, it will now be easier for BIR to pinpoint and run after tax cheats. Likewise, the BIR will be able to assess and hopefully, collect the correct amount from corporate taxpayers.

Moreover, the improved cooperation between the two regulators is seen as a major stride towards attaining their shared goal of uplifting the

quality and truthfulness of business firms' financial reports— to wipe out the long-standing perception that they maintain two sets of financial reports, i.e., one intended for BIR (giving an understated picture in order to pay lower taxes), and another for SEC (painting a bright picture to attract potential investors and/or facilitate its transaction with its creditors), which consequently undermines not only the reliability of said reports but also the credibility of the corporate sector in general.

Other inter-agency cooperation activities

The SEC also extended its cooperation in the following inter-agency activities:

- a. Global and regional economic agreement
 - i. Compliance with the Philippine commitments as a Member of the World Trade Organization, particularly, in the area of the formulation of the Philippine position in the financial services negotiation. In addition, other activities related to the ratification of the 5th Protocol on Financial Services where NEDA, the DTI, and/or the Department of Foreign Affairs act as the lead agencies;
 - ii. Activities related to the drafting of the proposed Japan –Philippine Economic Agreement (JPEPA), particularly on the regulation of the non-bank financial sector, with NEDA and the DTI as the lead agencies;
 - iii. Activities related to the drafting of the proposed economic cooperation between ASEAN and China, particularly on the definition of juridical person, where NEDA acts as the lead agency; and,

- iv. Activities related to the adoption of the 1994 PSIC (Philippine Standard Industry Classification Code) as amended, and the harmonization of the recording of new investments in corporations and partnerships, foreign direct investments , and investments related to mergers and acquisition where the National Statistical Coordination Board acts as the lead agency.
- b. Facilitation of business registration processes in coordination with the DTI, the BIR, and the Commission on Information and Communication Technology.
- c. Drafting of the capital market segment, particularly for the non-bank financial sector of the Medium Term Philippine Development Plan for CY 2004 to 2010, in cooperation with NEDA.
- d. Evaluation and review of SEC's performance and the delivery of its MFOs which the DBM conducts regularly.

International Cooperation on Securities Regulation

Continuing advancements in ICT, ironically, also aid perpetrators of cross-border crimes in pulling off new tricks and widening their base of operations. Thus, in keeping with the concerted efforts of regulators to combat cross-border crimes involving boiler room operations and other deceptive investment schemes that seek to defraud investors, SEC inked an MOU with its Hong Kong counterpart, the Securities and Futures Commission (SFC).

Signed on 25 November by Chairperson Fe B. Barin and SFC Chairman Andrew Sheng, the MOU establishes the framework for coordinating the enforcement activities of the two agencies.

As with similar undertakings, the MOU between SEC and SFC seeks to strengthen the two regulators' capability to stem the proliferation of cross-border fraud through enhanced consultations, cooperation, and the sharing of information crucial in investigating and prosecuting errant firms and individuals.

FINANCIAL PERFORMANCE

Income

Although its primary function is the development of the capital market, the SEC has been striving to be one of the few agencies that give positive contributions to the National Treasury. In 2004, it contributed to the National Treasury a total of PhP 799.7 million and recorded in its books a total of PhP 137.2 million or a total income of PhP 936.9 million. This was 35 percent higher than last year's income of PhP 695.9 million (Table 13).

Total budget appropriated by Congress to SEC for CY 2004 amounted to PhP 239.2 million but the allotment it received from the DBM reached only PhP 221.5 million. Thus, the SEC's contribution of PhP 799.7 million to the National Treasury exceeded by PhP 578.2 million the allotment of PhP 221.5 million from the DBM.

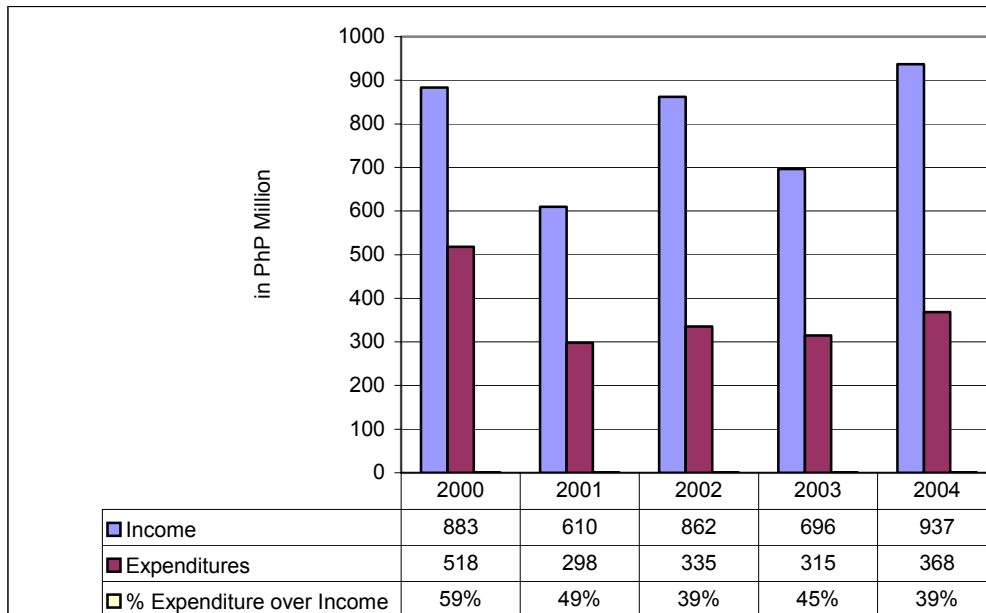
Table 13. SEC's Income by Source, 2004 and 2003

<i>Source of Income</i>	<i>2004</i>		<i>2003</i>	
	<i>Amount (PhP)</i>	<i>Percent to total</i>	<i>Amount (PhP)</i>	<i>Percent to total</i>
License Fees	60,459,068.52	6.5%	58,677,592.54	8.4%
Registration Fees	742,449,191.24	79.2%	539,928,225.62	77.6%
Fines and Penalties	96,040,469.76	10.3%	77,652,576.69	11.2%
Miscellaneous Income	37,964,282.18	4.1%	19,607,027.91	2.8%
Total Income	936,913,011.70	100.0%	695,865,422.76	100.0%

Expenditures

Total expenditures of the SEC reached PhP 368.4 million in 2004, up by PhP 53.4 million from the previous year's level. This notwithstanding, excess income over expenditures reached PhP 568.6 million in 2004, compared to PhP 380.9 million in 2003. For the last four years, the SEC has kept its ratio of expenditures to income at less than 50 percent (Chart 6).

Chart 6. SEC's Income vs. Expenditures, CY 2000 – 2004



PRIORITIES OF THE SEC IN 2005

1. Provide support in the enactment and implementation of new laws to enhance the legal framework

- a. Legislation amending the Corporation Code of the Philippines (BP 68)
- b. Legislation amending the Securities Regulation Code (R.A. 8799)
- c. Legislation designating the regulator of Pension Funds
- d. Enactment of the Pre-Need Plan Code of the Philippines

2. Formulate measures for establishing a fair regulatory framework to foster capital market development

- a. Amendments in SRC Rule 68 and 68.1 to include the adoption of International Accounting Standards and International Financial Reporting Standards
- b. Revised rules on futures trading
- c. Rules on fixed income exchange
- d. Circulars on the Securitization Law
- e. Interpretations of accounting or audit issues
- f. Other rules and regulations, guidelines, circulars, and/or orders to institute the necessary reforms or measures

3. Promote liquidity and stability of the capital market

- a. Strengthen the consolidated supervision mechanism by enhancing cooperation and coordination among financial services regulatory agencies, i.e., members of the Financial Sector Forum, to harmonize and promote the consistency of rules and regulations, and address the gaps or overlaps in supervision
 - Harmonize the content, format, and frequency of filing or report by entities dually regulated by the SEC and BSP
 - Rationalize accreditation requirements of external auditors, credit-rating agencies, and other capital market participants
 - Support the establishment of a financial governance council (composed of senior officials with legal distinction and standards of accountability)
 - Coordinate the preparation of a disaster recovery plan (DRP) for financial sector institutions
- b. Finalize and implement the policy blueprint for the long-term development of the non-bank financial sector (NBFS)
- c. Implement the shift to the risk-based capital adequacy (RBCA) regime for securities brokers and dealers by calibrating capital requirements vis-à-vis their risk exposures
- d. Develop the RBCA model for investment houses, investment companies, financing companies, and pre-need companies
- e. Support the establishment of a fixed income exchange to enhance market liquidity, and the establishment of

alternative trading systems to broaden investment options for both market players and investors

- f. Revisit the Uniform Chart of Accounts and trust fund investment regulations for the pre-need industry
- g. Assist in government efforts to remove tax distortions, i.e., non-uniform tax treatment, among competitive financial products and/or financial services, as well as their respective providers

4. Pursue the protection of investors and the general public through investor education and timely issuance of alerts

- a. Organize at least eight public seminars on the “Basics of Investing” in major cities across the country to heighten investor awareness and encourage citizens’ participation in the capital formation process
- b. Undertake capability-building activities on the basics of innovative securities
- c. Prepare videos on the “Basics of Investing” for distribution to schools/universities
- d. Continue enhancing the appearance and content of SEC’s website (www.sec.gov.ph) and make available web-based investor education and information materials 24x7
- e. Sustain the conduct of public seminars across the country to promote awareness and adherence to SEC-administered laws and regulations

5. Sustain corporate governance reforms

- a. Formulate rules to promote covered institutions' adherence to leading corporate governance practices, among others, the:
 - Rules on the use of stock and transfer books;
 - Rules on the regulation and accreditation of corporate secretaries; and,
 - Rules on the regulation and accreditation of transfer agents
- b. Introduce regulations that seek to strengthen corporate governance structure and compliance by covered institutions with regard to the requirement on independent directors, creation of board committees, and improvement of corporate transparency
- c. Improve the substance and process of accounting and auditing, specifically, the:
 - Issuance of circulars for the adoption of international standards in accounting, auditing, and financial reporting (i.e., IAS, ISA and IFRS, respectively);
 - Formulation of revisions to the IAS disclosure checklist for covered institutions;
 - Sustainment of the process of accrediting auditors of public companies and secondary licensees, and actuaries for pre-need companies;
 - Continuance of the requirement for compliance officers to undergo certification procedures; and,

- Organization of public seminars across the country to promote awareness and adherence to SEC-administered laws and regulations

6. Encourage and strengthen regulatory compliance

- a. Sustain the process of monitoring delinquencies in the submission of corporate reports or disclosures, and revoking the registration/licenses of inactive corporations and errant firms
- b. Perform compliance audits and/or on-site investigations on targeted firms, including trust entities handling pre-need trust funds
- c. Issue bulletins on the disclosure flaws or deficiencies committed by regulated entities
- d. Implement an effective system for monitoring financing companies' compliance with regulations on capital build-up, engagement of external auditors, and non-solicitation of investments/placements from the public

7. Strengthen surveillance and enforcement

- a. Support efforts against money laundering and investment scams
- b. Maintain a real-time market surveillance system to detect fraudulent and abusive trading practices
- c. Investigate and penalize errant firms including promoters of pseudo-investment scams and other fraudulent investment schemes

- d. Raise the quality of investigation and prosecution against infractions of securities laws by:
- Sustaining conduct of joint surveillance and enforcement activities with local and foreign law enforcement agencies; and
 - Providing trainers' training for commercial court judges and prosecutors to enhance their capability to investigate and prosecute securities fraud cases
- e. Promote the transparency of SEC's enforcement actions by disseminating up-to-date advisories or alerts, including the penalties imposed by SEC against errant firms and/or capital market participants
- f. Maintain a compliance webpage that allows the electronic submission of complaints

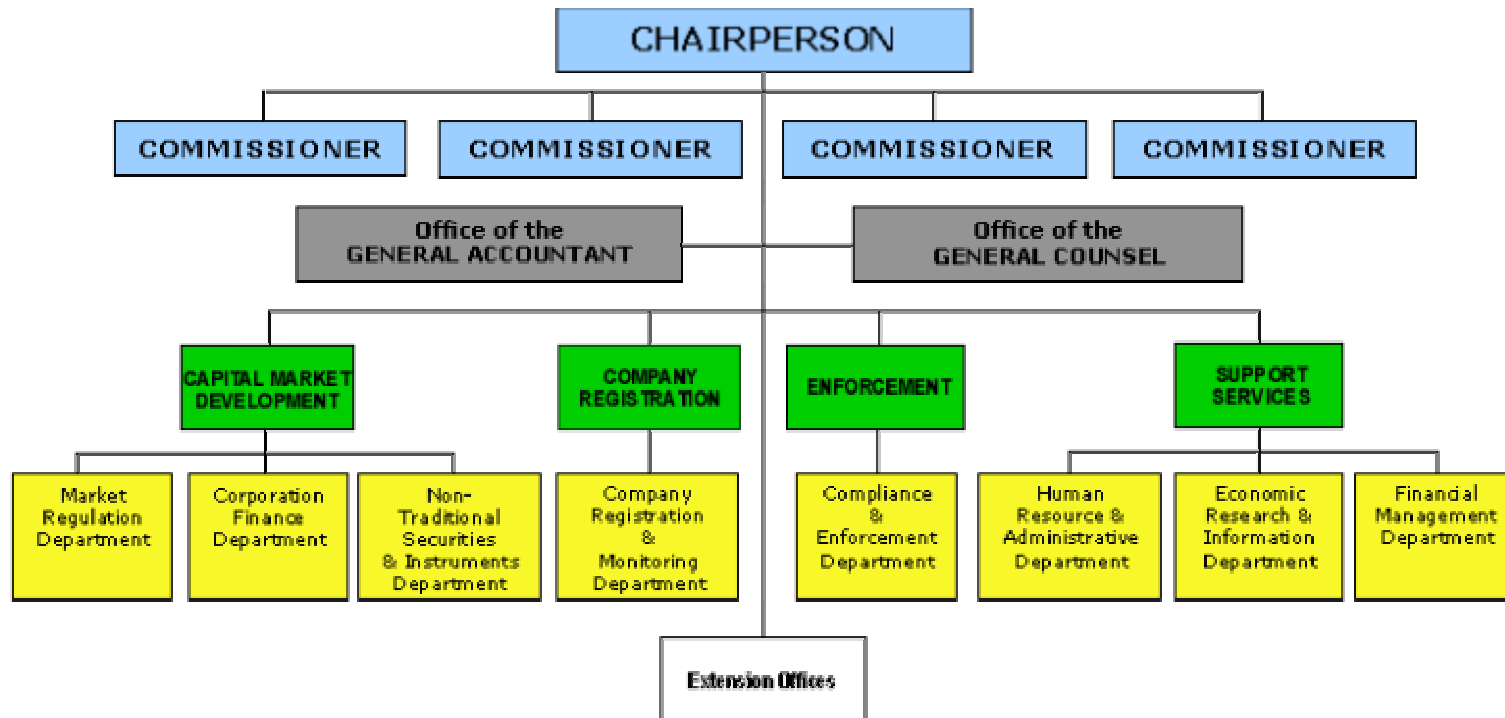
8. Maintain a culture of integrity and efficiency in SEC operations

- a. Maintain the public's perception of SEC as a credible and efficient regulator
- Harness ICT as a tool to promote transparency, streamline processes, facilitate registration procedures, and improve delivery of services to the public
 - Formulate a policy to ensure that SEC's ICT resources are used for official purposes only
 - Maintain expenditure efficiency by adhering to government-wide reforms in Public Expenditure Management

- Continue adhering to the government's austerity measures and SEC's Austerity Plan, as stipulated in Administrative Order No. 103 and Office Order 178 s. 2004, respectively

ABOUT THE SEC

ORGANIZATIONAL CHART



SEC OFFICIALS



Hon. Fe B. Barin
Chairperson ^{1/}



Hon. Fe Eloisa C. Gloria
Commissioner



Hon. Joselia J. Poblador
Commissioner



Hon. Ma. Juanita E. Cueto
Commissioner



Hon. Jesus E. G. Martinez
Commissioner



Erlinda R. Sapera
Commission Secretary ^{2/}



Roberto G. Manabat
General Accountant



Vernetta G. Umali-Paco
General Counsel



Jose P. Aquino
Director
Market Regulation Dept.



Justina F. Callangan
Director
Corporation Finance Dept.



Emilio B. Aquino
Director
Non-Traditional Securities
and Instruments Dept.



Benito A. Cataran
Director
Company Registration and
Monitoring Dept.



Hubert Dominic B. Guevara
Director
Compliance and Enforcement
Dept ^{3/}



Ludy R. So
Director
Human Resources and
Administrative Dept.



Adelaida C. Navarro-Banaria
Director
Financial Management Dept.



Arturo M. San Gil
Director
Economic Research and
Information Dept.

^{1/} Starting 01 September 2004

^{2/} Until 05 November 2004

^{3/} Starting 25 August 2004

SEC DEPARTMENTS AND OFFICES

THE SPECIAL OFFICES

Office of the General Counsel

Functions

- Provides legal counsel to the Commission and its various departments
- Assists in the preparation of the SEC 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
- Ensures that the rulings and opinions of the Commission are consistent with Philippine laws and jurisprudence

Office of the General Accountant

Functions

- Leads in the establishment of international accounting standards to improve the transparency of the Philippine capital market
- Works closely with the Accounting Standards Council, the Philippine Institute of CPAs, the Actuarial Society of the Philippines, self-regulatory organizations (SROs), and industry associations on the adoption of accounting and auditing standards, and the related rules and regulations
- Provides technical support to the SEC's operations departments on issues of accounting treatment for public offerings and disclosures

- Acts as resource person to the Commission and its departments and SEC-regulated entities in the area of accounting standards and treatment

CORE FUNCTION 1: CAPITAL MARKET DEVELOPMENT AND REGULATION

Market Regulation Department

Functions

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

Corporation Finance Department

Functions

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

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 shares or membership certificates and other similar instruments,
- Monitors compliance with related rules and transmits infractions thereof to the Compliance and Enforcement Department

CORE FUNCTION 2: COMPANY REGISTRATION AND MONITORING

Company Registration and Monitoring Department

Functions

- Registers domestic corporations and partnerships, approves amendments to articles of incorporation/partnership, by-laws, increase in capital stock, and merger and acquisitions, among others
- Grants licenses of foreign corporations doing business in the Philippines under the Foreign Investments Act of 1991
- Grants 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
- Revokes registration of domestic corporations and partnerships, licenses of foreign corporations doing business in the Philippines, and licenses of multinational companies establishing regional headquarters or regional operating headquarters in the Philippines

CORE FUNCTION 3: ENFORCEMENT

Compliance and Enforcement Department

Functions

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

CORE FUNCTION 4: SUPPORT SERVICES

Human Resources 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

Financial Management Department

Functions

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

Economic Research and Information Department

Functions

- Serves as the technical lead for the Commission on: application program development operation, and maintenance; hardware and software specification and configuration; and, the establishment and maintenance of communications network
- Provides corporate planning services
- Handles investment research, investor education, and public assistance

Extension Offices

The SEC has seven extension offices in various strategic cities in the country, particularly: Baguio, Legaspi, Cebu, Iloilo, Davao, Cagayan de Oro, and Zamboanga.

Functions

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

DIRECTORY OF OFFICIALS

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APPENDICES

MEMORANDUM CIRCULARS ISSUED IN 2004

<i>Number</i>	<i>Title</i>	<i>Date of Issuance</i>	<i>Salient Provisions</i>
1	Guidelines on foundations	20 January	<p>Sets new registration and reporting requirements for foundations to ensure that donations are utilized according to the purposes stated in the articles of incorporation. Foundations applying for registration with the Commission shall submit their (1) modus operandi or plan of action, executed under oath by their president, and (2) certificate of bank deposit in the amount not less than PhP 1,000,000.</p> <p>Foundations shall likewise submit, together with their financial statements, a statement of funds application executed under oath by the president of the foundation, setting forth in detail the sources and amount of funds established, and the beneficiaries and amount</p>

<i>Number</i>	<i>Title</i>	<i>Date of Issuance</i>	<i>Salient Provisions</i>
			of funds granted or endowed thereto.
2	Adoption of the Statements of Financial Accounting Standards	22 January	Includes into the SEC's rules and regulations the following Financial Accounting Standards (SFAS): <i>SFAS/IAS No. and Title:</i> <ul style="list-style-type: none"> ▪ 12 - Income taxes ▪ 17 - Leases ▪ 26 - Accounting and reporting by retirement benefit plan
3	Adoption of the Philippine Standards on Auditing	22 January	Adopts into the SEC's rules and regulations the following Philippine Standards on Auditing: <i>PSA No. and Title:</i> <ul style="list-style-type: none"> ▪ 501 - Audit evidence-additional considerations on specific items

<i>Number</i>	<i>Title</i>	<i>Date of Issuance</i>	<i>Salient Provisions</i>
			<ul style="list-style-type: none"> ▪ 930 - Engagements to compile financial information ▪ 530 - Audit sampling and other selective testing procedures ▪ 550 - Related parties ▪ 1004 - Relationship between BSP and bank's external auditors ▪ 260 - Communications of audit matters with those charged with governance violations ▪ 1013 - Electronic commerce effect on the audit of financial statements ▪ 540 - Audit of accounting estimates ▪ 810 - Examination of

<i>Number</i>	<i>Title</i>	<i>Date of Issuance</i>	<i>Salient Provisions</i>
			<p>prospective financial information</p> <ul style="list-style-type: none"> ▪ 580 - Management representations ▪ 1006 - Audits of financial statements of banks
4	Voting by mail and one share-one vote policy	17 March	Enumerates the relevant procedure and criteria relating to voting by mail, one share-one vote policy, and the voting rights for preferred shares in relation with Sections 16, 24, and 52, respectively, of the Corporation Code of the Philippines
5	Revised schedule of fees and charges	25 March	Outlines the revised fees and charges for the filing of applications for registration/licensing and availment of SEC's public reference services

<i>Number</i>	<i>Title</i>	<i>Date of Issuance</i>	<i>Salient Provisions</i>
6	Audit committees	01 April	Mandates all companies listed with the First Board of the Exchange to form an audit committee, composed of among others, at least two independent directors, one of whom shall be its head or chairman.
7	Guidelines on pre-need advertisements	29 April	Sets forth the guidelines to be observed in the advertising of pre-need plans to promote the truthfulness, accuracy, and relevance of the information in order to prevent unfair, deceptive, and misleading advertising.
8	Certification requirements for compliance officers	13 May	Gives the procedures and requirements for the accreditation of compliance officers of financing companies, investment houses, fund managers, distributors and mutual fund/investment companies, and pre-need companies. Said companies should have at least one officer or

<i>Number</i>	<i>Title</i>	<i>Date of Issuance</i>	<i>Salient Provisions</i>
			director certified by examination as compliance officer to ensure that regulatory safeguards imposed on said entities are complied with and that leading practices on corporate governance are observed by them.
9	Consolidated schedule of fees and charges	20 May	Lists all fees and charges to be imposed and collected by the SEC as approved by the Commission en banc.
10	Shift to and eventual adoption of the Risk Based Capital Adequacy (RBCA) ratio requirement for brokers dealers	13 July	Sets the key principles in developing the RBCA model, with RBCA as defined under the SRC Rule 28.1 referring to the minimum levels of capital that has to be maintained by firms which are licensed, or securing a broker dealer license, taking into consideration the firm size, complexity and “business risk”
11	Submission of reports to the	23 July	Directs the covered institutions to submit to the AMLC reports of any

<i>Number</i>	<i>Title</i>	<i>Date of Issuance</i>	<i>Salient Provisions</i>
	Anti-Money Laundering Council (AMLC)		<i>covered and suspicious transactions</i> involving the subject of the three letters circulated by the US government
12	Guidelines in the preparation of the Revised Anti-Money Laundering Operating Manual for covered institutions	29 July	Requires the updating and/or revision of regulated intermediaries' Anti-Money Laundering Operating Manuals to keep their manuals and procedures at par with the changes brought by the enactment of R.A. 9194 which amended R.A. 9160, or the Anti-Money Laundering Act of 2001
13	Amendments to Rule 34.1 and Rule 38 of the Implementing Rules and Regulations of the SRC	21 October	Amends SRC Rule 34.1 and Rule 38 which govern the <i>Segregation and Limitation of Functions of Members, Brokers, and Dealers</i> ; and the <i>Requirements on Nomination and Election of Independent Directors</i> , respectively

<i>Number</i>	<i>Title</i>	<i>Date of Issuance</i>	<i>Salient Provisions</i>
14	Amendments to Annex “C” of Rule 12	29 October	<p>Seeks to enhance the quality of disclosures in the periodic reports of listed companies and other issuers of registered securities to the public by requiring, among others, the following:</p> <ul style="list-style-type: none"> ▪ information on the amount of fees paid to independent auditors, including the description of the nature of services comprising the fees disclosed in specific categories; and, ▪ additional disclosures on related party transactions concerning the business purpose and economic substance of the arrangement, its effect on the financial statements, and the special risks or contingencies that may arise from said transactions

<i>Number</i>	<i>Title</i>	<i>Date of Issuance</i>	<i>Salient Provisions</i>
15	Amendments to the accreditation and reportorial requirements of external auditors of public companies and secondary licensees of the Commission	29 October	Amends certain provisions of MC No. 13 s. 2003 to further raise the bar on external auditors (i.e., single practitioners or signing partners of auditing firms) seeking SEC accreditation. Apart from requiring at least five years of experience on external audits, the MC sets the reportorial obligations of accredited external auditors. Moreover, beginning 01 January 2005, external auditors seeking to renew their accreditation shall be required to present proof that they have attended at least 30 hours of relevant accounting and auditing training
16	Adoption of the Risk Based Capital Adequacy (RBCA) ratio requirement for securities brokers and dealers	11 November	Prescribes the guidelines to implement the shift from the net capital regime to RBCA. Among others, securities brokers and dealers shall be required to prepare their respective "Risk Management Manuals" and

<i>Number</i>	<i>Title</i>	<i>Date of Issuance</i>	<i>Salient Provisions</i>
			<p>assess their exposures to the following:</p> <ul style="list-style-type: none"> ▪ position or market risks; ▪ credit risks (e.g. counterparty, settlement, and margin financing risks); and, ▪ operational risks
17	Recording of deeds of assignment of shares of stock	04 November	States that deeds of assignment of shares of stock shall only be accepted by SEC for acknowledgement and recording purposes when the same are submitted as supporting documents to applications for registration
18	Required paid-up capital of head office	18 November	Sets forth the guidelines on the required minimum capital and the capital build-up program to be followed by financing companies (FCs) that establish branch offices in locations accorded with higher minimum capital requirements.

<i>Number</i>	<i>Title</i>	<i>Date of Issuance</i>	<i>Salient Provisions</i>
			FCs that fail to meet the required level of capital in accordance with the said program shall be imposed a basic penalty of PhP 10,000 plus PhP 100 for every day of delay
19	Philippine Financial Reporting Standards	22 December	Enumerates the accounting standards to be adopted for the financial reporting period beginning 01 January 2005 and for interim or quarterly reports beginning 01 January 2006

PERFORMANCE OF THE CORPORATE SECTOR

The Philippines Top 5,000 Corporations¹

All-time leader: *manufacturing*

The manufacturing industry, which has the highest number of companies, continued to post the highest value of sales at PhP 2,293,444 million or half of the aggregate sales of the top 5,000 corporations in FY 2003 (Table 14). This sales level marked an annual increase of 22 percent.

The wholesale and retail trade industry was a far second, with total sales of PhP 817,646 million or 18 percent of aggregate sales. Total sales of the industry exceeded its previous year's level by 25 percent.

Meanwhile, the financial intermediation industry landed third with total sales of PhP 398,672 million, despite a negative growth of 0.4 percent

The mining and quarrying industry registered the highest year-on-year growth despite ranking only 9th in terms of sales. Composed of only 23 firms, the mining and quarrying industry expanded at a staggering 372 percent.

Profit leader: *financial intermediation industry*

The financial intermediation industry occupied the top slot in terms of profitability, accounting for a third of total profits of the top 5,000 corporations (Table 14). Financial intermediaries' profits reached PhP 78,765 million in 2003.

¹ Source: FY 2003 Annual Audited Financial Statements

Table 14. Performance in terms of Sales and Profits, FY 2003 and FY 2002

MAJOR INDUSTRY GROUP	No. of Companies	SALES				PROFITS			
		2003 (Millions)	%TO TOTAL	2002 (Millions)	% Change	2003 (Millions)	%TO TOTAL	2002 (Millions)	% Change
TOTAL	5,000	4,504,714	100.00	3,688,249	22.14	253,509	100.00	152,724	65.99
AGRICULTURE, HUNTING & FORESTRY	60	47,330	1.05	36,039	31.33	1,582	0.62	387	308.76
FISHING	16	6,306	0.14	4,636	36.02	(18)	(0.01)	36	(150.00)
MINING & QUARRYING	23	48,859	1.08	10,354	371.88	3,825	1.51	784	387.83
MANUFACTURING	1,822	2,293,444	50.91	1,873,163	22.44	68,029	26.83	28,936	135.10
ELECTRICITY, GAS & WATER SUPPLY	61	272,388	6.05	229,558	18.66	29,574	11.67	25,020	18.20
CONSTRUCTION	188	78,679	1.75	57,585	36.63	1,100	0.43	3,273	(66.40)
WHOLESALE & RETAIL TRADE	1,412	817,646	18.15	652,540	25.30	12,849	5.07	10,458	22.87
HOTELS & RESTAURANTS	138	55,000	1.22	50,465	8.99	1,550	0.61	857	80.86
TRANSPORT, STORAGE & COMMUNICATIONS	249	286,602	6.36	185,791	54.26	32,860	12.96	(14,485)	326.86
FINANCIAL INTERMEDIATION	385	398,672	8.85	400,352	(0.42)	78,765	31.07	69,108	13.97
REAL ESTATE, RENTING & BUSINESS ACTIVITIES	479	150,806	3.35	121,600	24.02	20,472	8.08	15,519	31.91
EDUCATION	36	7,459	0.17	7,821	(4.62)	1,022	0.40	1,366	(25.18)
HEALTH & SOCIAL WORK	42	12,179	0.27	13,746	(11.40)	78	0.03	65	20.00
OTHER COMMUNITY, SOCIAL & PERSONAL SVCS.	89	29,344	0.65	44,599	(34.21)	1,822	0.72	11,400	(84.02)
PUBLIC ADMINISTRATION AND DEFENSE	0	0	0.00	0	0.00	0	0.00	0	0.00
EXTRA-TERRITORIAL ORGANIZATIONS & BODIES	0	0	0.00	0	0.00	0	0.00	0	0.00

Source: *Philippines 5000 Corporations (2004 Edition)*

The 14 percent growth rate in profits of the financial intermediation industry, however, paled in comparison with that of the mining and quarrying which soared to 388 percent. Indeed, 2003 was a very good year for mining and quarrying as it achieved the highest growth rate in both sales and profits.

Profit-wise, the industries that scored an upset are: fishing; other community, social & personal services; construction; and education on account of their negative year-on-year growth of 150 percent, 84 percent 66 percent, and 25 percent, respectively.

Tail-enders: *fishing, health & social work, and education*

The fishing industry continued to remain at the bottom of the list with total sales amounting to only PhP 6,306 million. However, it recorded the 4th highest growth rate in sales, at 36 percent. Other tail-enders in terms of sales include health & social work and education industries as their respective sales decreased by 11 percent and 5 percent. This brought their total sales during the year to PhP 12,179 million for health & social work and PhP 7,459 million, for education.

Table 15 shows another profitability picture of the country's top 5,000 corporations in fiscal year 2003, grouped by industry, where profits are related to assets, liabilities, and equity. On the other hand, the top ten corporations in terms of sales are listed in Table 16 while Table 17 shows their ranking by profit.

Table 15. Performance in terms of Profits as Percent of Assets, Liabilities and Equity, FY 2003 and FY 2002

MAJOR INDUSTRY GROUP	No. of Companies	ASSETS			LIABILITIES			EQUITY		
		2003 (Millions)	2002 (Millions)	Profit as % of Assets	2003 (Millions)	2002 (Millions)	Profit as % of Liabs	2003 (Millions)	2002 (Millions)	Profit as % of Equity
TOTAL	5,000	8,128,192	7,597,962	3.12	5,551,207	5,070,729	4.57	2,576,985	2,527,233	9.84
AGRICULTURE, HUNTING & FORESTRY	69	53,631	38,644	2.95	27,288	19,843	5.80	26,342	18,801	6.01
FISHING	21	4,076	3,380	(0.45)	3,396	2,388	(0.54)	680	992	(2.65)
MINING & QUARRYING	20	180,656	26,683	2.12	162,861	11,668	2.35	17,794	15,015	21.49
MANUFACTURING	1,767	1,631,443	1,470,370	4.17	925,641	843,728	7.35	705,802	626,642	9.64
ELECTRICITY, GAS & WATER SUPPLY	74	553,683	466,497	5.34	352,616	289,804	8.39	201,067	176,692	14.71
CONSTRUCTION	169	92,674	63,809	1.19	60,354	44,746	1.82	32,320	19,063	3.40
WHOLESALE & RETAIL TRADE	1,548	418,545	370,154	3.07	298,399	256,858	4.31	120,145	113,296	10.69
HOTELS & RESTAURANTS	123	57,669	53,459	2.69	28,057	27,525	5.52	29,612	25,934	5.23
TRANSPORT, STORAGE & COMMUNICATIONS	246	719,522	603,791	4.57	471,381	425,179	6.97	248,141	178,612	13.24
FINANCIAL INTERMEDIATION	346	3,701,718	3,882,670	2.13	2,886,750	2,883,908	2.73	814,968	998,762	9.66
REAL ESTATE, RENTING & BUSINESS ACTIVITIES	465	622,376	521,199	3.29	293,668	218,834	6.97	328,707	302,365	6.23
EDUCATION	32	13,703	13,582	7.46	5,639	5,190	18.13	8,064	8,392	12.68
HEALTH & SOCIAL WORK	36	20,784	23,660	0.37	10,535	15,145	0.74	10,249	8,516	0.76
OTHER COMMUNITY, SOCIAL & PERSONAL SVCS.	84	57,714	60,064	3.16	24,619	25,913	7.40	33,095	34,151	5.51
PUBLIC ADMINISTRATION AND DEFENSE	0	0	0	0.00	0	0	0.00	0	0	0.00
EXTRA-TERRITORIAL ORGANIZATIONS & BODIES	0	0	0	0.00	0	0	0.00	0	0	0.00

Source: *Philippines 5000 Corporations (2004 Edition)*

Table 16. Top Ten Corporations in terms of Sales, FY 2003

Rank	Company	Sales (in PhP'000)
1	TI Philippines, Inc.	159,410,433
2	Manila Electric Company	132,401,000
3	Toshiba Information Equipment Phils., Inc.	129,172,761
4	Petron Corporation	111,122,268
5	Pilipinas Shell Petroleum Corp.	101,139,514
6	Philippine Long Distance Telephone Company	58,599,000
7	Caltex (Phils.), Inc.	58,443,001
8	Nestle Philippines, Inc.	53,373,397
9	Globe Telecom, Inc.	50,658,368
10	Smart Communications, Inc.	49,824,400

Table 17. Top Ten Corporations in Terms of Profits, FY 2003

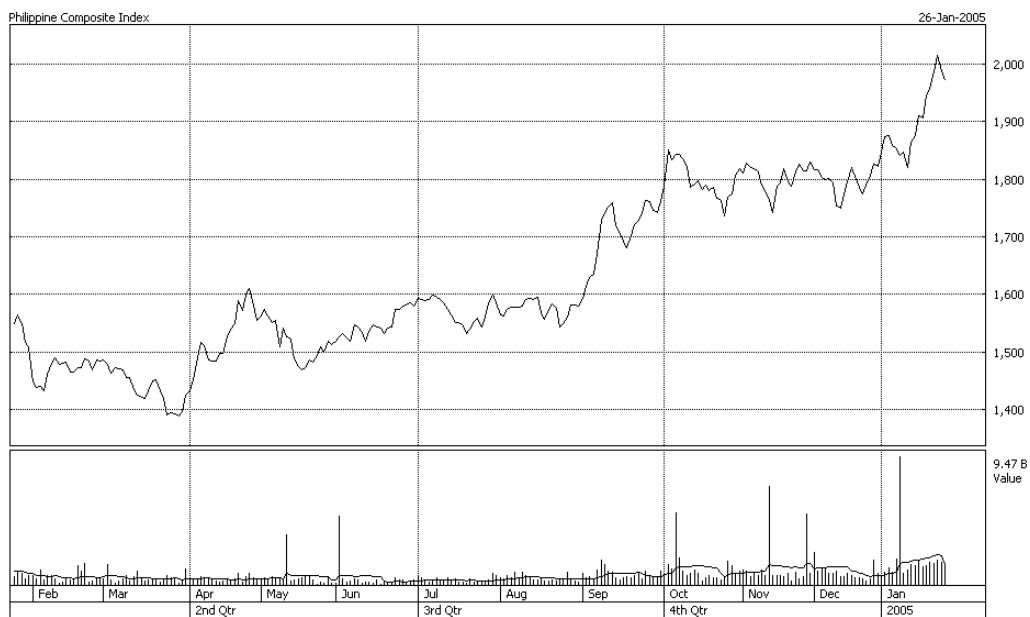
Rank	Company	Profits (in PhP'000)
1	Smart Communications, Inc.	16,122,500
2	Philippine Long Distance Telephone Company	11,182,000
3	Mirant (Phils.) Corporation	10,605,032
4	Globe Telecom, Inc.	10,345,253
5	Mirant Sual Corporation	7,893,459
6	Bank of the Philippine Islands	5,674,000
7	Mirant Pagbilao Corporation	5,652,758
8	First Generation Holdings Corp.	5,302,776
9	United Coconut Planters Bank	5,039,469
10	Nestle Philippines, Inc.	4,963,103

Source: *Philippines 5000 Corporations (2004 Edition)*

PERFORMANCE OF THE STOCK MARKET

The Philippine Stock Exchange Composite Index (PHISIX) began 2004 at 1,487.34 with the market moving on a narrow but downward drift due to the uncertainties brought about by the national elections in May (Chart 7).

Chart 7. Philippine Stock Exchange Composite Index (PHISIX)
January - December 2004



It sharply plummeted as the index reached its lowest point at 1,385.16 on March 29 following the announcement that movie star Fernando Poe, Jr. had decided to contest the presidency. However, the decision of CalPERS to retain investments in the country, the new found strength of the peso, and the favorable reaction of investors to President Gloria Macapagal-Arroyo's lead in presidential election surveys propelled

the market to a three-year high on April 28 as the index rose to 1,620.37, the highest closing level since it reached 1,611.47 on March 6, 2001.

After the elections, the market continued moving on a slow upward trend. Although investors maintained a watchful stance in June as they awaited the proclamation of a new president, the market cheered as incumbent President Arroyo was formally declared as the new president with a fresh six-year term.

In the 3rd quarter of 2004, President Arroyo's remarks that the country was in throes of a fiscal crisis jolted the market and led to the fall of the composite index by 34.17 points to 1,542.01 on August 24. However, favorable developments in the country's fiscal performance as well as strong fundamentals in the corporate sector propelled the stock market to hit 1,763.30 on September 24, its highest level in more than four years.

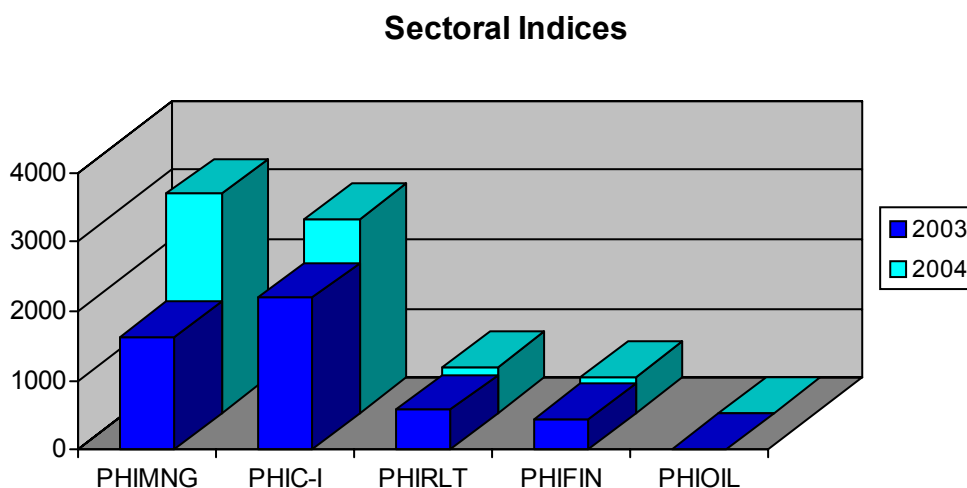
Positive government reports such as a lower budget deficit, policy interest rates at steady low levels, and improved macroeconomic data heightened buying interest in stocks and supported the market's ascent. Thus, despite the peso's depreciation and rising inflation rate, the stock market continued its upward move toward the end of the third quarter.

Mounting crude oil prices, a high November inflation rate, and a downgrade in the country's international credit rating outlook tempered investor enthusiasm. However, encouraging developments in the government's fiscal programs, release of the third quarter report on gross domestic product (GDP), Congress' approval of the "sin" tax bill, the high court's decision on foreign mining investments, and the decision of the local monetary authority to retain domestic rates at current levels allowed the market to maintain its upward trend to close the year as the second-best performing stock exchange in East Asia.

In sum, the year 2004 saw improved investors' confidence as the stock market grew 26 percent. The 30-share PHISIX ended at 1,822.83, which was 380.46 points up from last year's 1,442.27. The broader All-Shares Index also ended on a high note at 1,154.39 from the previous year's 874.78, an increase of 32 percent.

All sectoral indices advanced during the year. Taking a big lead was the *mining* sector (*PHMNG*), surging 95 percent or 1,546.95 points to 3,170.13 from 1,623.18 (Chart 8). *Oil* (*PHIOIL*) posted a 44 percent or 0.53 point-increase to 1.74 from 1.21. *Commercial-industrial* (*PHIC-I*) sector increased by 29 percent or 629.88 points to 2,815.11 from 2,185.23 while the *banking and financial services* sector (*PHIFIN*) also rose 23 percent or 99.34 points to 538.41 from 439.07. The *property* sector (*PHIRLT*) gained 20 percent or 112.20 points to 683.55 from 571.35.

Chart 8. PSE Sectoral Indices, 2004 and 2003



Total volume of transactions soared by 231 percent to 284.16 billion shares compared to 85.97 billion shares last year. Value turnover also

rose to PhP 206.51 billion, which was 42 percent higher from previous year's PhP 145.36 billion.

The top three gainers for the year were *Benguet Corporation "A" (BC)* gaining 3,733 percent (or PhP 3.36) from PhP 0.090 to close at PhP 3.45; *DMCI Holdings, Inc. (DMC)* gaining 1,451 percent (or PhP 3.56) from PhP 0.245 to close at Ph P3.80; and *Acesite (Phils) Hotel Corporation (DHC)*, which gained 1,000 percent (or PhP 10.00) from PhP 1.00 to close at PhP 11.00.

The biggest losers were: *Manila Jockey Club, Inc. (MJC)*, *Metro Alliance Holdings and Equities. "A" (MAH)*, and *Wellex Industries, Inc. (WIN)* whose share prices slipped by 72 percent, 60 percent, and 53 percent, respectively.

The most actively traded stocks during the year were: *Philippine Long Distance Telephone Company (TEL)*, *Globe Telecom, Inc. (GLO)* and *SM Prime Holdings, Inc. (SMPH)* with total traded value amounting to PhP 43.9 billion, PhP 16.1 billion, and PhP 14.2 billion, respectively.

PERFORMANCE OF THE PRE-NEED INDUSTRY

Sales Performance

Industry sales amounted to PhP 36.9 billion in 2004 or 11 percent higher than the PhP 33.2 billion generated the previous year (Table 18). Pension plans accounted for the highest share of the total sales of the industry (53 percent) while life plans experienced the highest annual growth rate, at 41 percent. The expansion in sales during the year was not, however, matched by a corresponding increase in the number of plans sold, which declined by almost 5 percent.

Table 18. Number and Amount of Plans Sold by Pre-need Corporations, 2004 and 2003

<i>Item</i>	<i>January – December 2004^{P/}</i>		<i>January – December 2003^{R/}</i>		<i>Growth Rate (%)</i>
	<i>Number/ Amount</i>	<i>Percent to Total</i>	<i>Number/ Amount</i>	<i>Percent to Total</i>	
Number of Plans Sold	507,832	100.00	533,548	100.00	(4.82)
Education	129,383	25.48	141,944	26.66	(8.85)
Life	124,621	24.54	110,870	20.99	12.40
Pension	253,828	49.98	280,734	52.35	(9.58)
Gross Contract Price	P 36,910,191,988	100.00	P 33,165,548,202	100.00	11.29
Education	13,264,542,200	35.94	12,596,235,975	37.98	5.31
Life	4,220,925,161	11.44	2,998,419,027	9.04	40.77
Pension	19,424,724,627	52.63	17,570,893,200	52.98	10.55
Initial Collection	P 4,691,352,117	100.00	P 3,719,445,426	100.00	26.13
Education	1,430,272,814	30.49	1,273,718,817	34.24	12.29
Life	645,648,911	13.76	365,228,146	9.82	76.78
Pension	2,615,430,392	55.75	2,080,498,463	55.94	25.71

^{P/} Preliminary

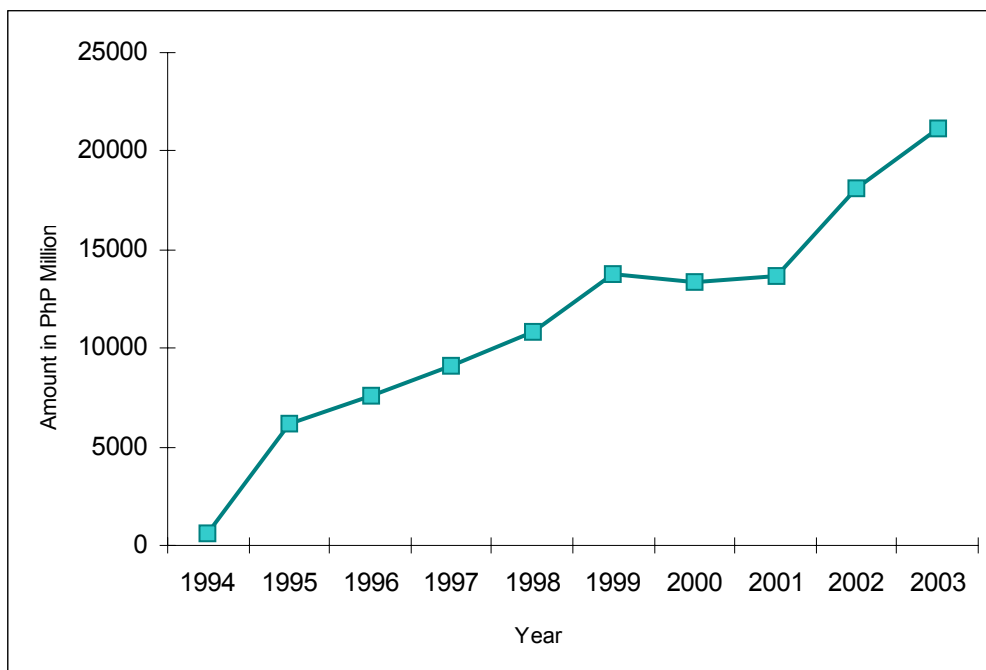
^{R/} Revised

Financial Profile

Audited financial statements submitted in 2004^{1/} showed that the gross revenues of the pre-need industry reached PhP 21.1 billion, an increase of 17 percent compared with the 2002 level (Chart 9). These revenues are comprised of trust fund earnings, interest income, capital gains realized, and other income. In 2003, the realized gross income on pre-need plans amounted to PhP 13.3 billion, accounting for 63 percent of the total revenues.

Chart 9. Gross Revenues of the Pre-need Industry

FY 1994 – FY 2003



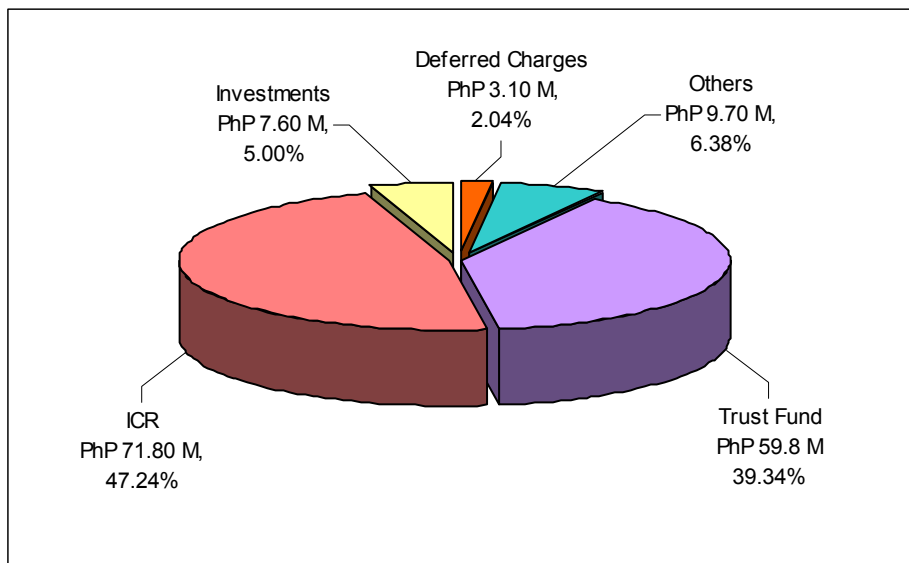
In the same year, the industry's total assets grew by 2 percent to PhP 152 billion from PhP 148.7 billion in 2002. Instalment contracts receivables (ICR) accounted for 47 percent of the total assets, followed by trust fund which represented 39 percent (Chart 10). ICR consist of

^{1/} Covering operations in FY 2003

outstanding account balances arising from the sale of pre-need plans on an installment basis while trust funds represent the net asset value in a trust set-up with a duly licensed trust entity to answer for benefits or services obligated.

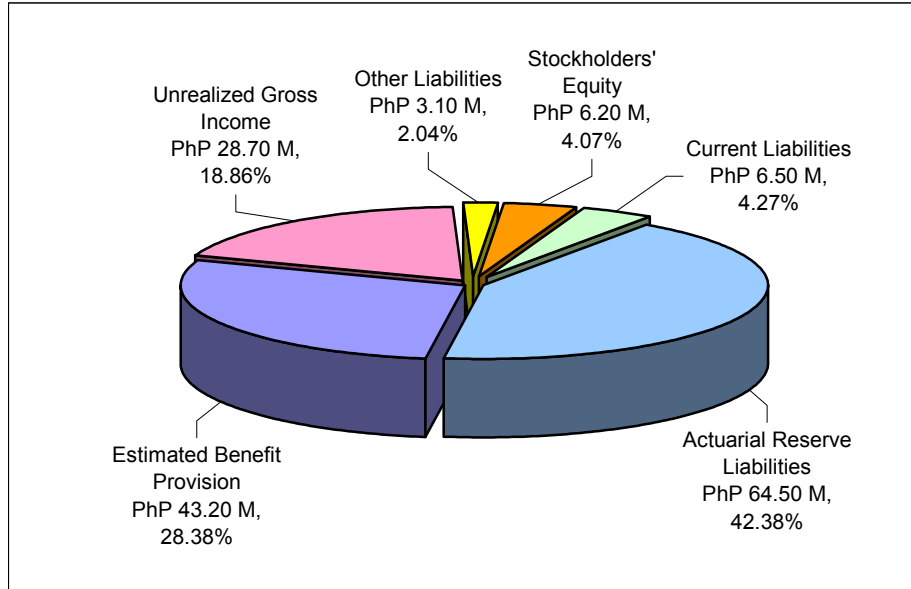
Chart 10. Composition of Assets of Pre-need Industry

FY 2003



Of the total liabilities and stockholders' equity, estimated benefit provision (EBP) in the outstanding ICR of all plans sold on installment basis accounted for 28 percent; unrealized gross income (UGI), 19 percent; and, actuarial reserve liabilities (ARL), 42 percent (Chart 11).

Chart 11. Composition of Liabilities and Stockholders' Equity of Pre-Need Industry, FY 2003



Trust Fund

In order to meet their growing actuarial reserve liabilities, pre-need firms, through duly licensed trust entities^{2/}, are required to allocate their trust funds in accordance with the investment portfolio mix defined in the *New Rules for the Registration and Sale of Pre-Need Plans (New Pre-Need Rules)*.

Based on the monthly trust fund statements submitted by trustees, the pre-need firms' trust fund investments reached PhP 66.37 billion as of 30 June 2004 (Table 19). Government-issued securities received the biggest share of the industry's investments as more than half of the trust funds went into government bonds. Other major recipients were the equities market, and the real estate industry, which received PhP 8.52 billion and PhP 8.31 billion, respectively.

^{2/} by BSP

Table 19. Trust Fund Investments of the Pre-need Industry

As of 30 June 2004

<i>Portfolio</i>	<i>Amount (in PhP Billion)</i>	<i>Percent to Total</i>
<i>Total</i>	66.37	100.00
Government Securities	43.52	65.57
Equities	8.52	12.84
Real Estate	8.31	12.52
Private Bonds	4.06	6.12
Others	1.96	2.95

The rest of the trust fund of the pre-need industry was held in the form of cash, foreign accounts, time deposits, common trust funds, commercial papers and promissory notes, and mutual funds.

Measures to Promote Stability of Pre-Need Industry

During the year, the SEC allowed pre-need firms to avail themselves of the five-year regulatory leeway program to help them comply with the accounting and actuarial standards of the *New Pre-Need Rules*.

The leeway was granted to five pre-need companies which incurred, primarily, trust fund deficiencies due to the change in interest yield assumption in the 2003 valuation of their actuarial reserve liabilities for pre-need plans from the previous year's valuation. As a result, said pre-

need companies may amortize the funding of their trust fund deficiencies over a five-year period, with the first amortization starting in 2004.

Moreover, the SEC approved the request of nine trustee banks to place their pre-need trust fund in such investments as subordinated notes, five-year term corporate notes which were not part of the investment outlets prescribed under the *New Pre-Need Rules*. This request for exemption from *Pre-Need Rule 17.1* was favourably acted upon by the SEC to help the trustee banks diversify their investment portfolio and enhance the yield of the trust funds they are handling.

Finally, the Commission appointed and maintained oversight/management committees in three pre-need companies experiencing financial difficulties. This is in keeping with the SEC's efforts to ensure not only their faithful compliance with the *New Pre-Need Rules*, but also the proper management and utilization of the company's assets in order to safeguard the interest of pre-need planholders.

REGISTRATION OF SECURITIES

Significant improvements in the registration of proprietary and non-proprietary shares and debt securities were seen in 2004 when compared to the levels registered in 2002 and 2003. Thus, the total amount of securities registered during the year under review grew by 15 percent, even as this was tempered by the continued decrease in pre-need plans and the slow down in the expansion of debt securities registered.

Table 20. Securities Registered, CY 2002 - CY 2004

<i>Type of Securities</i>	<i>2004 (Amount in PhP)</i>	<i>2003 (Amount in PhP)</i>	<i>2002 (Amount in PhP)</i>	<i>% Increase/ (Decrease) 2003 - 2004</i>	<i>% Increase/ (Decrease) 2002 - 2003</i>
Total	67,751,063,119	58,747,671,747	62,819,065,475	15.32	(6.48)
Pre-Need Plans	28,176,000,000	31,840,000,000	34,170,000,000	(11.51)	(6.82)
Equity Securities	14,283,879,145	11,924,612,550	15,397,575,475	19.78	(22.56)
Debt Securities	13,955,000,000	10,800,000,000	5,200,000,000	29.21	107.69
Proprietary and Non- Proprietary Shares/ Certificates	11,336,183,974	4,183,059,197	8,051,490,000	171.00	(48.05)

The registration of proprietary and non-proprietary shares or membership certificates experienced the highest annual growth rate, at 171 percent. This can be attributed to the renewed interest of property owners and/or developers in the offering of securities to the public as a source of funding their development and expansion projects.

On the other hand, the 29 percent increase in the registration of debt securities can be traced from the corporate bonds issued by large companies such as Ayala Corporation, Globe Telecom Inc., Ayala Land Inc., and the Citiland Group. Relatively low and stable interest rates and

the ongoing regulatory reform in the capital market continued to encourage capital intensive companies to tap the bond market as a source of funds.

Meanwhile, the amount of equity securities rose 20 percent to PhP 14.28 million in 2004 from PhP 11.92 million in 2003. The increase resulted from the additional registration of shares of stocks of mutual fund companies which included Philam Dollar Bond Fund, Sun Life Dollar Bond Fund, ALFM Dollar Bond Fund, and GrepaLife Fixed Income Fund.

The only downtrend during the year was experienced by pre-need plans, with total amounts declining by 12 percent. Nevertheless, pre-need plans continued to account for almost half of the total amount of securities registered in the last three years.

IMPLEMENTATION OF INFORMATION SYSTEM STRATEGIC PLAN

Briefly, the SEC's computerization project is intended to make use of information and communications technology (ICT) in performing and delivering public services related to the development of the Philippine capital market, such as:

- Generating, managing, analyzing, interpreting, and disseminating capital market information;
- Accepting and retaining documents, issuing articles of incorporation, licenses, certifications, etc., in the form of electronic documents; and,
- Compiling and processing data on corporations, their financial performance, and other data necessary to generate statistics that will be useful in appraising, formulating, and/or adjusting macroeconomic policies.

For the foregoing functions or output to be realized, data should be compiled in an orderly and rational manner, and processed accordingly which can only be done through the use of appropriate technology.

Although the SEC has an existing computer system prior to its SRC-mandated reorganization, it could not have handled the demands of the new law and the reorganization. This is because not only was the SEC expected to do more under the law, it was also expected to carry out its new functions with less people. This, in turn, could only be achieved through the implementation of an appropriate computerization program that will modernize the SEC by transforming the manner of delivering its services. Putting in place a suitable system will therefore allow the SEC to concentrate in developing the capital market, particularly the non-bank

financial sector (NBFS), since a properly designed computer system will free up the staff from routine transactions and duties that can be automated.

Accordingly, following all the mandated regulations and procedures related to government computerization, the SEC updated its (Information System Strategic Plan (ISSP). The updating was carried out by considering the core functions of the reorganized SEC, the major final outputs which were formulated based on the SEC's mandate arising from the various laws and pursuant to the public expenditure management (PEM) reforms whose implementation was started by the DBM, and the provisions of R. A. 8792 or the e-Commerce Act.

One of the attributes of the SEC's updated ISSP is its aspiration to use ICT as a tool, inter alia, for enhancing its capability to monitor registered entities, and instituting a credible surveillance and enforcement system. The computer system should enable the SEC staff to retrieve and analyze large quantity of data and information from diverse documents. In the process, ICT will help improve regulatory management and advance regulatory compliance since SEC-registered entities will be aware that the SEC has the appropriate ICT tools for the purpose. Indeed, a credible surveillance and enforcement system and capability to ensure regulatory compliance are essential in promoting the development of the Philippine capital market.

Accordingly, the updated ISSP has the following 13 component systems:

1. Company Registration System
2. Licensing of Market Participants System
3. Licensing of Market Instruments System
4. Compliance Monitoring and Evaluation System

5. Case Tracking System
6. Market Surveillance System
7. Document Tracking System
8. Document Imaging System
9. Library Information System
10. Electronic Document Filing System
11. Statistical Reporting System
12. Human Resources Information System
13. Financial Management System

Implementation Strategy

The implementation of the updated ISSP involves the design, construction, development, testing, deployment, operation, and maintenance of the various systems. The larger the coverage or the number of components for implementation, the more complex the project becomes which increases the risk of failure.

Since ICT project management is complex and multidimensional, and the complexity grows exponentially as the number of components increases, it is prudent as it is practical that the updated ISSP is implemented incrementally or in modules to ensure its success.

SEC i-Register system. The *SEC i-Register* system is the logical component for the first module since the database build-up should start with the registration of either corporations or partnerships. The system as designed, constructed, implemented, and deployed has functionalities for enhancing and supporting the operations and to speed up the delivery of

services through the automation of routine tasks and transactions related to company registration and monitoring. As automation is implemented, the SEC staff will have more time to concentrate in their monitoring and enforcement functions thereby advancing their knowledge and confidence.

Initially, all the functions of the *SEC i-Register* have been made available at the SEC Head Office. As the system is stabilized with the installation of its enhanced version, the process of deploying to the seven SEC extension offices all the *SEC i-Register* functionalities has already started and will be completed by the first semester of 2005, or at the latest within the third quarter.

The implementation of the *SEC i-Register* system has enabled the establishment of the database link between the SEC and the DTI, and paved the way for the electronic exchange of information between the SEC and the BIR.

SEC i-Report system. The Compliance Monitoring and Enforcement System (CMES or *SEC i-Report*), which includes all the other systems in the SEC's updated ISSP pertaining to SEC's monitoring and enforcement functions, will be implemented as the second module. It is envisioned to provide the facility to effectively collect and analyze data that will help policy makers within and outside the SEC to make critical policy decisions to meet the objectives of nurturing and building up confidence which are needed in the development of the securities market – one of the segment of a properly functioning capital market which is one of the key elements needed for the development of the economy.

The *SEC-iReport* is envisioned to deliver, among others, the following functions:

- a. Provide electronic records management services including data capture, storage, and backup

- b. Collect automated data using optical mark read (OMR), optical character recognition (OCR), and intelligent character recognition (ICR) technologies
- c. Disseminate captured data, report, and/or documents to authorized users, as appropriate
- d. Provide advanced database management technology and data warehousing to enable companies state-of-the-art access to their respective records
- e. Provide quick analysis of large amounts of data to accurately identify trends, patterns, or problem areas
- f. Provide an effective report monitoring system that will keep track of non-submission of reports on due dates, automatically generate notice of non-submission, and compute the related penalties
- g. Implement an effective reverse search system for tracking, among others, suspicious investments/investors (consistent with the world-wide effort on anti-terrorism)

Aside from the foregoing, the CMES is also envisioned to deliver the following functionalities:

- a. Manage large-volume document, which includes various reports and correspondence, receipt and preparation
- b. Implement a workflow management system to carefully track documents
- c. Assign automatically the bar code data for each of the documents and reports submitted to the SEC and storing the same to the appropriate index field(s)

- d. Perform high-speed scanning and imaging
- e. Index material being scanned at the level of batch, folder, and document group
- f. Open automatically each document/report into individual pages, convert the pages to a standard format such as PDF, and then file the pages directly into the appropriate electronic folder of associated documents
- g. Manage and store digital object or physical object meta-data providing immediate access to critical information and provide imaged and paper-based document archival and retrieval
- h. Provide adequate file-type storage and use
- i. Keep track of changes and make available the most current information only while still keeping previous revisions captured as an audit trail. The most current information can be published as documents on the Web as needed, while the previous revisions are stored for reference of key personnel
- j. Render automatically any document in PDF or TIF format
- k. Perform automated replication services for fail-safe redundancy
- l. Index and manage off-line documents such as paper and microfilm
- m. Provide for a secure digitized document storage system
- n. Implement life-cycle management for record storage management, retention, and tracking including disposition based on current rules of document retention and disposition
- o. Provide full audit trails for all possible user actions

In view of the importance of monitoring compliance with regulatory and other capital market development policies, as well as the processing of data into useful information for the formulation of economic policies, the implementation of the CMES has been widely recognized. In fact, the CICT (formerly ITECC or the IT E-Commerce Council) has endorsed to the DBM the partial funding for the implementation of the *SEC i-Report*.

The CMES or the *SEC-iReport* will provide the compliance monitoring system which is one of the processes necessary, not only in formulating the appropriate economic policies and ensuring that these policies are implemented properly, but also in assessing the impact of policy and for devising policy adjustments as may be warranted.

Since the *SEC-iReport* is a much larger system compared with the SEC-iRegister, it will have to be implemented in two phases. Phase I has been called the SEC-Document Manager while Phase II is known as the SEC-Financial System or the SEC-FinSys. Phase I is further divided into Part 1 and Part 2.

For brevity, the following table gives the different components or modules of the *SEC-iReport*.

Table 21. Components of the *SEC-iReport*

<p>Phase 1: <i>SEC Document Manager</i></p> <p>Phase 1 - Part 1</p> <p>a. SEC-iView</p> <p>b. SEC File Manager</p> <p>c. Reverse search</p> <p>d. SEC – I – MoDe (1)</p> <ul style="list-style-type: none"> • Generate notice of non-submission • Compute penalty for late submission 	<p>Phase 2: <i>SEC-Financial System</i></p> <p>a. Online analytical processing (OLAP)</p> <p>b. Decision support system (DSS)</p> <p>c. SEC – I – MoDe (2)</p> <ul style="list-style-type: none"> • Monitor compliance with regulatory parameters such as minimum capitalization, laws on foreign equity, etc.
<p>Phase 1 - Part 2</p> <p>a. On-line submission of reports</p> <p>b. Data warehouse</p>	