

# Securities & Exchange Commission Annual Report 2006



## Our children, our future

With 2006 characterized by increased commercial activity, favorable exchange rate and buoyant stock trading, the Securities and Exchange Commission looks to 2007 with optimism and exuberance.

It's the same message the children shown on the covers is sending us.

Today's children will be tomorrow's investors.

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# Our Mission

**T**o strengthen the corporate market infrastructure of the Philippines, and to maintain a regulatory system based on international best standards and practices, that promotes the interests of investors in a free, fair and competitive environment.

We shall be guided in this mission by the values of Integrity, Professionalism, Accountability, Independence and Initiative.

**Integrity** - We are morally upright, honest and sincere in our private and public lives.

**Professionalism** - We consistently implement the law, provide timely, efficient and competent service to the public.

**Accountability** - We abide by prescribed ethical and work standards in government service.

**Independence** - We act without fear or favor, and render sound judgment in the performance of our duties and responsibilities.

**Initiative** - We are strategic and forward looking in the fulfillment of our developmental and regulatory functions.

Republic of the Philippines  
Department of Finance  
Securities and Exchange Commission



*“As the vanguard of the country’s corporate governance,  
you in the SEC set the tone of business practices.  
You ensure that the field will always be level for business.  
You therefore have a direct hand in making our country attractive to investors.”*

Speech of President Gloria Macapagal Arroyo  
during the 70th anniversary celebration of the SEC

# Message of the Commission

**W**e are pleased to present the 2006 Annual Report of the Securities and Exchange Commission which summarizes our accomplishments for the year.

The year 2006 was an institutional milestone for the Commission as it celebrated its 70th anniversary. The year showed marked improvement in the country's macroeconomic outlook characterized by a strong peso, growth in gross domestic production, strong remittances from abroad, increased exports and decline in government debt.

The Commission's contribution to the favorable economic and investment environment consists of capital market reforms, promotion of good corporate governance, and strict implementation of the rules on disclosure and accountability.

During the year, the Commission undertook concerted efforts to inculcate in the stakeholders in the corporate and securities sectors the significance of meaningful compliance with the intent and spirit of our laws.

The Commission was firm, but fair, in its enforcement of the rules on market trading and business investments. The intensified surveillance and monitoring activities of the Commission resulted to an 8.27 percent increase, compared to 2005, in the collection of fines and penalties.

We are confident that the information and education drive of the Commission will send a strong message about our resolve to enforce the "rules of the game" equitably and vigorously.

This Report highlights the accomplishments of the Commission in capital market development and regulation, corporate governance, company registration and monitoring, and implementation of the laws we are mandated to enforce.

As we face the challenges of the coming years, we remain committed to fulfill our institutional duties and responsibilities and do our best to help our country attain sustainable development for us and the future generation.

Mabuhay ang Pilipinas!

Chairperson Fe B. Barin  
Commissioners Ma. Juanita E. Cueto,  
Jesus Enrique G. Martinez, Raul J. Palabrica  
and Thaddeus E. Venturanza

# capital market **DEVELOPMENT**



**“The new Rules on Risk Based Capital Adequacy Ratio Requirement, which were put in place in 2005, were successfully implemented last year. A total of 1,694 RBCA Reports were filed by the broker-dealers in 2006.”**

# Market Regulation Department

**M**arket Regulation Department monitors and regulates all market participants, such as, broker-dealers, securities underwriters, transfer agents, clearing houses, exchanges, Self-Regulatory Organizations (SRO), depository registries, and other entities involved in the country's capital market.

The accomplishments of the Department in 2006 may be summarized as follows:

## I. Stock Market Activities

The stock market experienced upward and downward movements during the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2006 brought about by positive and negative news, such as, political events in the country, losses at Wall Street, slow rate of inflation and stronger peso.

The improvement in the macroeconomic outlook, growth in the gross domestic product, strong remittances and rising exports, as well as the decline in government debt, contributed to the upward movement of the stock market in the last quarter of 2006.

As part of the SEC's supervisory authority over SROs, the Department conducted an oversight audit of the Philippine Stock Exchange to assess its performance as an SRO, evaluate its present audit procedures and, if needed, propose the proper corrective measures.

The Department also took over from the Asian Development Bank the lease agreement for the SDG Advanced Warning and Control System (SDG-AWACS) which is used to monitor market trading participants and their daily transactions. Through this facility, the SEC is able to immediately detect unusual price and volume

movements in the market and therefore enable it to immediately address potentially problematic or dubious stock transactions.

## II. Licensing and Monitoring

The Department issued firm licenses to the following market participants:

- Broker-dealers 149 (PSE trading participants – 132, Non-PSE trading participants - 17)
- Investment Houses 33
- Securities underwriters 9
- Government securities eligible dealers 62
- Investment company advisers 15
- Mutual fund distributors 13

The Department issued individual licenses to the following:

- Associated Persons 154
- Salesmen 817
- Certified investment solicitors 712
- Compliance officers 61

As part of its information dissemination program, the Department conducted several certification seminars for Associated Persons and Salesmen to keep them abreast with the laws, rules and regulations, circulars, and directives of the SEC that affect the market and its participants.

The new Rules on Risk Based Capital Adequacy Ratio Requirement, which were put in place in 2005, were successfully implemented last year. A total of 1,694 RBCA Reports were filed by the broker-dealers in 2006.

Although the market participants' compliance with the reportorial requirements was, by and large, prompt and up-to-date, the Department was constrained to take action against several participants that either failed to submit their reports or filed them beyond the prescribed period.

The Department collected a total of PhP7,737,509.25 in filing fees and penalties in 2006.

### III. New Rules and Regulations

In July 2006, the Department initiated the steps that led to the issuance by the SEC of Memorandum Circular No. 7, or the "Rules on Securities Borrowing and Lending."

These rules seek to institutionalize the framework for securities borrowing and lending, broaden trading strategies for market participants, and enhance market liquidity.

At the suggestion of the Department, the SEC, in November 2006, laid down the "Guidelines for Accreditation of Surety Companies" which required bonding companies that issue surety bonds in connection with SEC-related matters to get prior accreditation from the SEC.

The guidelines state that only surety companies that possess certain qualifications and meet the criteria of the SEC will be allowed to issue such bonds. Among other requirements, surety companies are obliged to stipulate in their agreements with their principal-broker-dealer that the SEC shall have the right to sue on the bonds on behalf of the broker-dealers' clients. That action will enable the SEC to pursue vigorously any claims against the bonds and, in the process, expedite the distribution of the proceeds of the surety to the affected clients.

Thereafter, the Department caused the issuance by the SEC of Memorandum Circular No. 14, or the "Rules Governing Over-The-Counter (OTC) Market". The circular is aimed at the ensuring that


the OTC market operates in accordance with the policies on investor protection, market integrity and transparency. The new rules also strengthen the existing Rules Governing Secondary Market Trade of Government Securities.

### IV. Inter-agency cooperation

To further reinforce the SEC's efforts to protect investors and the public from illegal or unethical market practices, the Department actively participated in the activities of the Anti-Money Laundering Council, whose members are the Governor of the Bangko Sentral ng Pilipinas (BSP), the Insurance Commissioner and the SEC chairperson.

The Department disseminated to the SEC departments and market participants concerned information from the Council that would help eliminate or minimize the use of the financial system by terrorist groups for their activities.

The Department is a member of the Reporting, Information Exchange and Dissemination Committee of the Financial Sector Forum (FSF), an inter-agency organization composed of the SEC, BSP, Insurance Commission and the Philippine Deposit Insurance Commission. It was created to provide an institutionalized regulatory framework for coordinating the supervision and regulation of the financial system, help facilitate consultation and the exchange of information among regulators, and provide a platform for harmonizing the regulation of financial products offered by different financial institutions.

The Department was instrumental in the publication and dissemination of "The Capital Market Development Plan: Blueprint for Growth and Expanded Contribution to the Philippine Economy 2005-2010." The Blueprint articulates the seven strategic objectives (and the relevant steps to achieve them) that are intended to stimulate the growth, efficiency and competitiveness of the Philippine capital market over the next five years. 



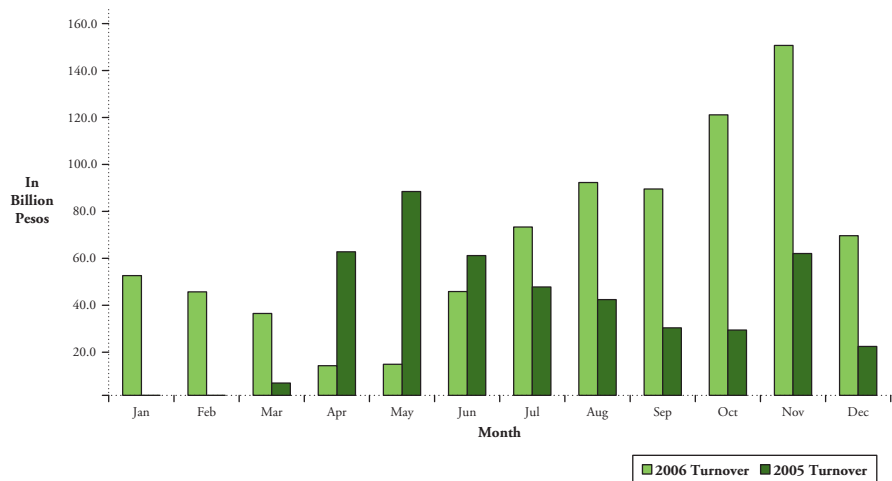
# Fixed-Income Market: A Viable Alternative Investment Channel

In 2006, trading of fixed-income securities through the Philippine Dealing & Exchange Corp. (PDEX) went full blast. PDEX conducted its first full year of operation after opening on March 28, 2005.

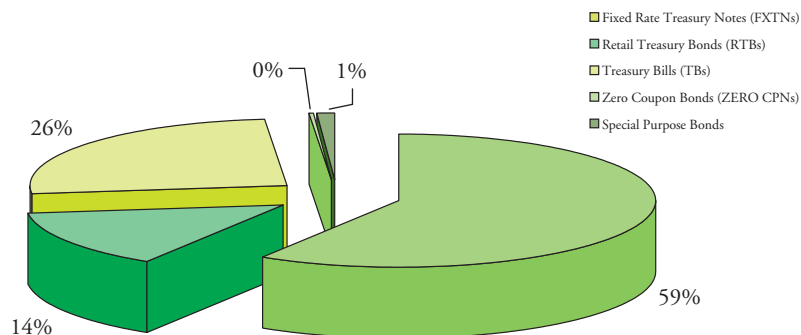
The month-to-month value turnovers, as shown in Chart 1, totaled PhP787.4 billion for 12 months in 2006, an 80 percent increase from 2005's PhP437.8 billion for nine months of operation. The 2006 figure resulted from 10,652 trades as against 2005's 6,244 trades.

As shown in Chart 2, **Fixed Rate Treasury Notes** cornered 59 percent of the total value turnover, **Treasury Bills** raked in 26 percent and **Retail Treasury Bonds** had 14 percent of the total turnover. **Zero Coupon Bonds** and **Special Purpose Bonds** registered combined trades of over one percent.

**Comparative PDEX Value Turnover of GS  
(2005-06)**



**PDEX Value Turnover by Type of Government Securities  
(2006 Total Value Turnover + PhP787.4 bn)**



**“... the SEC reviewed the registration statements for purposes of initial public offering of ... First Gen Corporation, with a total value of PhP9.78 billion, CitisecOnline.com, PhP497 million, and Alliance Tuna International, PhP181 million.”**



# Corporation Finance Department

**C**orporation Finance Department is responsible for: 1) the registration of securities before they are sold or offered for sale to the public and the availability of adequate information on those securities; 2) access by investors to all material disclosures regarding the securities of public companies; and 3) monitoring compliance by issuers with the securities laws.

Among others, the Department's accomplishments in 2006 are the following:

## **I. Inputs to proposed legislative measures to enhance capital market regulation**

The SEC, in coordination with other government agencies, provided support for the amendment of Republic Act 9182 (Special Purpose Vehicle Act of 2002), especially in relation to the extension of the cut-off periods for incorporation of special purpose entities. The amendment, through Republic Act 9343, took effect on July 7, 2006.

The SEC also assisted the efforts to amend the Investment Company Act which is pending before Congress.

## **II. Initiatives to strengthen capital market governance**

- a) Amendment to the Guidelines on the Evaluation of Foreign Investments by Mutual Fund Companies

The amendment allows mutual funds to invest in bonds and other evidence of indebtedness that are registered and traded in an organized market in another country whose issue and issuer or borrower received a credit rating of at least BBB from a reputable international credit rating agency. The original requirement was at least Aaa or AAA rating.

- b) Disqualification of a Securities Broker-Dealer as an Independent Director

The SEC, in Memorandum Circular No. 16, Series of 2006, adopted the policy of disqualifying a securities broker-dealer from sitting as an independent director of listed companies and registered issuers of securities.

A securities broker-dealer is defined as any person holding any office of trust and responsibility in a broker-dealer firm which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, associated person or salesman, and an authorized clerk of the broker or dealer.

c) Certification by Independent Directors

All independent directors of covered companies were required by the SEC to submit not later than December 31, 2006 a certification that they possess all the qualifications and none of the disqualifications under SRC Rule 38. The certification shall include a list of the director's affiliations with other companies.

### III. Registration, licensing and monitoring of market participants

Table 1A - Registration

Type of Market Participants	Registered as of December 31, 2005	New Registrants for the year 2006	Revoked During 2006	Registered as of December 31, 2006
Companies listed in the Exchange	234	4	1	237
Issuers of Securities to the Public (Unlisted)	101	6	4	107
Investment Companies	41	0	1	40
Financing Companies				
• Head Office	865	19	212 <sup>1</sup>	672
• Branch	550	29	32 <sup>2</sup>	547
External Auditors (Individual)	229	176	0	405
Auditing Firms	64	27	0	91
Rating Agency	1	0	0	1
<b>Total</b>	<b>2,314</b>	<b>261</b>	<b>250</b>	<b>2,100</b>

Table 1B - Amount of Registered Securities

Type of Securities	2006	2005	2004
Equity Securities	P 61,211,164,837	P 68,062,071,000	P 14, 283,879,145
Debt Securities	3,872,000,000	7,332,000,000	13,955,000,000
Proprietary & Non-Proprietary Shares/Certificates	2,647,987,600	3,361,193,780	11,336,183,974
<b>Total</b>	<b>P 67,731,152,437</b>	<b>P 78,755,264,780</b>	<b>P 39,575,063,119</b>

In 2006, the SEC reviewed the registration statements for purposes of initial public offering of the following companies: First Gen Corporation, with a total value of PhP9.78 billion, CitisecOnline..com, PhP497 million, and Alliance Tuna International, PhP181 million.

Table 1C – Number of External Auditors Accredited

By Group	Accredited as of December 31, 2005	Accredited for the year 2006	Accredited as of December 31, 2006
<b>Group A</b>			
• Individual Auditors	117	49	166
• Auditing Firms	27	6	33
<b>Group B</b>			
• Individual Auditors	42	12	54
• Auditing Firms	18	6	24
<b>Group C</b>			
• Individual Auditors	70	115	185
• Auditing Firms	19	15	34
<b>Total</b>			
• <b>Individual Auditors</b>	<b>229</b>	<b>176</b>	<b>405</b>
• <b>Auditing Firms</b>	<b>64</b>	<b>27</b>	<b>91</b>

#### IV. Enforcement of Reportorial Requirements

Table 2A – Number of Reports Evaluated

Issuers of Securities to the Public <sup>3</sup>	Total for 2006
Annual Reports (SEC Form 17-A)	267
Quarterly Reports (SEC Form 17-Q)	581
Current Reports (SEC Form 17-C)	2,696
Beneficial Ownership Reports (SEC Form 23-A/B)	1,586
Information Statements (SEC Form 20-IS)	772
Commercial Paper Issuers' Reports	731
Mutual Funds Reports	380
Tender Offer Reports (SEC Form 19-1)	2
Sub-total	7,015
Financing Companies	
Quarterly Reports	2,951
Commercial Paper Issuers' Reports	994
Sub-total	3,945
<b>Total</b>	<b>10,960</b>

Table 2B – Number of On-site Audits Conducted

Type of Entity	Number of Audit
Financing Companies	12
Issuers of Registered Securities	4
<b>Total</b>	<b>16</b>

Table 2C- Amount of Penalties Imposed & Collected

Law/Rules Violated	Amount of Penalties Collected
Financing Company Act and its Implementing Rules	P 2,001,866.00
Securities Regulation Code and its Implementing Rules and Regulations	
• Listed Companies	3,582,000.00
• Public Companies	1,848,861.18
• Registered/Unlisted Issuers of Securities	1,990,200.00
• Others	2,000.00
Investment Company Act and its Implementing Rules	531,000.00
<b>Total</b>	<b>P 9,955,927.18</b>

The registration of securities of six companies was suspended or revoked by the SEC for repeated or continuous violation of the rules.

#### V. Compliance with Anti-Money Laundering Act

In relation to the SEC's duties and responsibilities to monitor the compliance by financing companies with the Anti-Money Laundering Act (AMLA), the SEC conducted the following activities:


- Enforcement of the conditions stated in the Certificates of Authority, particularly item no. 11 which states:

“The company shall submit with the Commission copies of its Manuals on Statement of Policies and Procedures on Anti-Money Laundering Act of 2001 and Corporate Governance within thirty (30) days from receipt hereof.”<sup>4</sup>

One Hundred Three financing companies submitted the said manual.

- Monitoring the submission of AMLA Compliance Forms within six months after the issuance of the Certificates of Authority.

Forty five financing companies submitted the required AMLA Compliance Forms. The appropriate “show cause” letters were sent to non-compliant companies.

- Information dissemination of various resolutions issued by the Anti-Money Laundering Council. 

#### (Footnotes)

- Two Hundred Eleven (211) surrendered their certificates of authority
- All of these surrendered their certificates of authority
- Listed companies, mutual funds, public companies and registered issuers of unlisted securities
- Pursuant to SEC Circular No. 1, series of 2002, dated January 22, 2002



**“As of June 30, 2006, trust fund investments of the pre-need industry increased to PhP76.5 billion. The trustees invested 76.85 percent of the total trust fund in government securities. Equities had a 9.60 percent share, followed by real estate at 8.71 percent.”**

# Non-Traditional Securities and Instruments Department

**N**on-Traditional Securities and Instruments Department registers and grants licenses for non-traditional securities and instruments, which include pre-need plans, commodity futures contracts, proprietary or non-proprietary shares or membership certificates, and other similar instruments.

In 2006, the Department focused its efforts primarily in monitoring the operations of the pre-need companies. Among other activities, it regularly examined the trust funds of these companies to determine their sufficiency and adequacy in meeting their final obligations to the planholders.

The pre-need industry's performance for the year may be summarized as follows:

## Sales Performance

From January to November 2006, sales reached PhP17.6 billion, or a decrease of 7.09 percent from the PhP18.9 billion level for the same period. (Table 1)

Pension plans continued to be the best selling product with a 63.55 percent share of the total sales. Education plans recorded the highest decrease in sales at 30.44 percent due to the problems besieging the industry, particularly companies that sell or sold open-ended education plans, or plans that guarantee the payment of the cost of tuition of the beneficiaries regardless of its cost at the time of their availment by the planholders' beneficiaries.

**Table 1: NUMBER OF PLANS SOLD AND SALES OF PRE-NEED CORPORATIONS  
January – November 2005 and January – November 2006**

Type of Pre-Need Plan	January - November 2006 P/		January - November 2005		Percent Growth/ (Decline) Rate
	Total	Percent to Total	Total	Percent to Total	
Number of Plans Sold	217,930	100.00	284,307	100.00	(23.37)
Education	30,956	14.21	47,126	16.58	(34.32)
Life	72,525	33.29	106,621	37.50	(31.98)
Pension	114,449	52.50	130,560	45.92	(12.38)
Sales (Peso Amount)	17,568,256,482	100.00	18,907,357,606	100.00	(7.09)
Education	3,803,228,628	21.65	5,467,180,236	28.92	(30.44)
Life	2,600,013,227	14.80	3,533,521,471	18.69	(26.42)
Pension	11,165,014,628	63.55	9,906,655,899	52.40	12.69
Initial Collection (In pesos)	2,207,223,867	100.00	2,029,157,740	100.00	8.77
Education	365,512,713	16.56	527,629,430	26.00	(30.73)
Life	198,794,242	9.01	319,362,587	15.74	(37.75)
Pension	1,642,916,913	74.43	1,182,165,724	58.26	38.97

Note: Details may not add up to totals due to rounding off of figures.  
P/ - Preliminary

## Trust Fund

Under the Pre-Need Rules, a trust fund is set up from the planholders' payments. The fund is separate and distinct from the paid-up capital of a pre-need company and established with a trustee under a trust agreement approved by the SEC to pay the benefits provided for in the contract. The trustees are allowed to invest the fund in different investment instruments to allow it to grow in accordance with the Pre-Need Rules.

As of June 30, 2006, trust fund investments of the pre-need industry increased to PhP76.5 billion. The trustees invested 76.85 percent of the total trust fund in government securities. Equities had a 9.60 percent share, followed by real estate at 8.71 percent.

Type of Investment Instrument	Amount (in PhP Million)	Percent to Total
<b>Total</b>	PhP76,490.00	100.00
Government Securities	58,786.30	76.85
Equities	7,341.29	9.60
Real Estate	6,661.39	8.71
Others	3,701.02	4.84

The SEC is currently reviewing the existing pre-need rules on the investment instruments for the trust fund of pre-need corporations.

## Registration of Pre-Need Securities

Securities Registered, CY 2005 – CY 2006  
(Amount in Million Pesos)

Type of Pre-Need Securities	2006	2005	Percent Increase/ (Decrease)
<b>Total</b>	P17,905.00	P25,630.00	(30.14)
Education	4,400.00	11,550.00	(61.90)
Life	3,650.00	4,100.00	(10.98)
Pension	9,855.00	9,980.00	(1.26)



## 2006 Vision

**W**e envision that, by December 31, 2006, the programs and procedures that will foster meaningful compliance by the business community with the rules on good corporate governance will be in place and operational.



# Company Registration and Monitoring Department

**C**ompany Registration and Monitoring Department performs, among others, the following tasks: a) registration of domestic corporations and partnerships; b) approval of amendments to articles of incorporation/partnership, by-laws, increase in capital stock and mergers and acquisitions; c) grant of licenses to foreign corporations to do business and multinational companies to establish regional headquarters in the Philippines; and d) conduct of monitoring or supervision activities on compliance by corporations with applicable laws.

The accomplishments of the Department in 2006 include the following:

## I. Registration and Monitoring

The registration of corporations and partnerships is performed by the Department at the SEC Head Office and in seven SEC extension offices in the following cities: Baguio (BEO), Cagayan de Oro (CDE), Cebu (CEO), Davao (DEO), Iloilo (IEO), Legaspi (LEO), and Zamboanga (ZEO).

The following tables show the statistics on company registration for 2006.

**Table 1: Company registration, CY 2006**

	CRMD	BEO	CDE	CEO	DEO	IEO	LEO	ZEO	Total
<b>Registered Domestic Corporations</b>	17,261	947	600	1,418	1,259	817	339	337	22,978
A. Stock	12,206	157	196	941	469	344	87	96	14,496
B. Non-Stock	5,055	790	404	477	790	473	252	241	8,482
<b>Recorded Articles of Partnership</b>	2,360	122	45	171	130	62	33	15	2,938
<b>Licensed Foreign Corporations</b>	114	-	-	-	-	-	-	-	114
A. Branch Office	59	-	-	-	-	-	-	-	59
B. Representative Office	55	-	-	-	-	-	-	-	55
<b>Licensed Multinationals</b>	20	-	-	-	-	-	-	-	20
A. RHQ	10	-	-	-	-	-	-	-	10
B. ROHQ	10	-	-	-	-	-	-	-	10

The other applications approved by the Department and SEC extension offices in 2006 are shown below.

**Table 2: Other applications approved**

APPLICATIONS	CRMD	BEO	CDE	CEO	DEO	IEO	LEO	ZEO	Total
Amended Articles of Incorporation	5,060	154	75	-	-	-	40	-	5,329
Amended By-laws/New By-laws	910	54	14	32	114	40	5	15	1,184
By-laws	11		-	1,425	1,258	818	339	337	4,188
Dissolution	142		-	13					155
Increase of Capital Stock	1,026	8	9	74	50	24	7	9	1,207
Decrease of Capital Stock	33		-						33
Merger/Consolidation	51		-						51
Increase in Foreign Equity	57		-						57

Amended Articles of Partnership/Deed of Assignment/Affidavit of Withdrawal/Dissolution of Partnership	1,062	16	3	319	246	144		50	1,840
Amendment of License of Foreign Corporation	87		-						87
Withdrawal of License of Foreign Corporation	29		-						29
Filing of Securities Deposit of Branch Office of Foreign Corporation	76		-						76
Confirmation of Exemption/Valuation of Properties	31	2	3						36
Voting Trust Agreement	285		-						285
Dividend Declaration	178	2	-						130
Equity Restructuring	20		-						20
Additional Paid-in Capital	18		-						18
Accreditation of Appraisers	7		-						7

The Department's monitoring activities are limited to corporations whose securities are not registered under the Securities Regulation Code, or listed on the Philippine Stock Exchange, or is not a grantee of a secondary license from the SEC. The Department sees to it that these corporations comply with the salient provisions of the Corporation Code on the submission of reportorial documents.

The monitoring activities are undertaken to promote transparency in corporate transactions and to make available to the public the data on the management and financial standing of corporations.

The following table shows the statistics on the corporations monitored in 2006.

**Table 3: Company monitoring**

	CRMD	BEO	CDE	CEO	DEO	IEO	LEO	ZEO	Total
Number of corporations monitored	21,834	2,363	503	-	5,133	555	114	413	30,915
Number of certificates of incorporation revoked	12,758	-	-	-	-	-	-	-	12,758
Number of corporations fined	4,884	544	140	795	646	708	83	171	7,975
Number of corporations whose Orders of Revocation were lifted	844	37	31	104	121	-	-		1,137

## II. Stricter disclosure rules

In the early part of 2006, the SEC required all non-stock, non-profit corporations, including non-government organizations, that intend to engage in microfinance activities in the Philippines to state in the purpose clause of their articles of incorporation that they shall conduct microfinance operations pursuant to Republic Act No. 8425 (the Social Reform and Poverty Alleviation Act) and to include "microfinance operations pursuant to RA 8425" in the purposes box of their GIS.

The existing corporations were directed to submit the appropriate documents, such as, amended articles of incorporation and GIS, to show proof of compliance with the new registration and reporting requirements.

Also, the SEC directed all registrant corporations and partnerships to state in their articles of incorporation or articles of partnership the specific address (including the street number, street name, barangay, city or municipality) of their principal office and the specific residence address of each incorporator, stockholder, director, trustee or partner. "Metro Manila" alone was no longer allowed as address of the principal office.

In addition, all corporations were required to state in their GIS the specific residence address of each stockholder, officer, director or trustee. These requirements are aimed at facilitating access to the corporations, partnerships and their directors, trustees or partners.

The SEC also advised domestic stock corporations that they should submit their GIS in the form prescribed by the SEC. If an unauthorized form is used, it shall be considered as non-compliant with the SEC's reportorial requirements.

In the second quarter, the SEC ordered all domestic stock corporations, except banks and insurance companies, with annual gross sales or gross revenue of at least PhP5,000,000 to submit their GIS and FS in electronic format, *i.e.*, on diskette or compact disc, along with five hard copies; the FS in electronic format, however, may be submitted within 30 days from the last day of submission of the annual FS.

In the third quarter, the SEC directed all corporations to check with the Department or the extension offices the status of their registration. The corporations registered in 2000 that failed to submit their GIS and FS for five consecutive years were instructed to appear before the Department or extension office concerned within 30 days from the date of publication of the underlying order to explain why their certificate of incorporation should not be revoked. This action was taken to ensure the corporations' compliance with the reportorial requirements.

During the same quarter, the SEC implemented the revised Guidelines on Foundations. The applicants for Foundation status were ordered to submit together with their application for registration a statement, signed by the president or corporate secretary, of the willingness of the Foundation to allow the SEC to conduct an audit of its operations, and permit access by its representative to the corporate and accounting books, records, names of beneficiaries, agreements entered into, correspondences and all pertinent documents for the preceding five years.

The SEC also directed the inclusion in the audited financial statements of Foundations a sworn statement, signed by its president and treasurer, on the source, amount and application of funds, and complete information about accomplished, ongoing and planned activities. The sworn statement should be accompanied by a certification from the Office of the Mayor, or Office of the Barangay Captain, or head of either the Department of Social Welfare and Development or Department of Health, on the

existence of such activities in the locality in which he exercises jurisdiction.

Furthermore, Foundations are obliged to deposit their funds in banking institutions regulated by the Bangko Sentral ng Pilipinas under pain of a fine of not less than PhP10,000.00, or revocation of the certificate of registration in case of non-submission of documents for two consecutive years.


The revised Guidelines on Foundations are the SEC's contribution to the country's anti-terrorism policy, and are in compliance with its responsibility to the Philippine Anti-Money Laundering Council to which it is a member.

In the last quarter, the SEC issued Memorandum Circular No. 15 which redefined the requirements for foreign corporations that apply for a license to do business in the Philippines. The circular imposed stiffer measures for non-compliance and ordered the use of the more comprehensive revised GIS.

During the year, the SEC, upon the request of the Philippine Retirement Authority, monitored closely the corporations that had stockholders who hold Special Investors Resident visas.

Towards the end of the year, the SEC promulgated the "Guidelines on the Use of Untitled Lands As Consideration for Shares of Stocks of A Corporation," which relates to the transfer, conveyance or disposition in favor of or in exchange for shares of a corporation of untitled lands classified by the Bureau of Lands and Department of Environment and Natural resources as alienable and disposable lands and those not covered by the Comprehensive Agrarian Reform Law.

Similar to the issuance of shares in consideration for properties requiring ownership registration, shares issued in consideration for untitled land shall be held in escrow by the SEC and shall not be transacted or released unless proof of transfer is submitted to the SEC within the period prescribed by the guidelines.

In recognition of its efficient registration and monitoring efforts, the Department received last year the "Public Service Delivery Audit Award" from the Civil Service Commission. 

# investor PROTECTION

“... six criminal information were filed in court, one administrative action was filed with the SEC Office of the General Counsel, three certificates of registration were revoked, two penalties were imposed and two settlement offers were accepted.”



# Compliance and Enforcement Department

**C**ompliance and Enforcement Department is responsible for ensuring compliance by all market participants with applicable Philippine laws, rules and regulations. It investigates potential legal infractions and takes appropriate action against violators of the Securities Regulation Code, the Corporation Code, Presidential Decree No. 902-A and other regulatory enactments implemented by the SEC.

The Department accomplished the following in 2006:

## I. Boiler Room Investigations

Acting on referrals from domestic and foreign regulatory agencies, the Department investigated 19 companies suspected of boiler room activities.<sup>1</sup>

REFERRED/INITIATED BY FOREIGN JURISDICTIONS	NO. OF REFERRALS	NO. OF COMPANIES
Financial Supervision Authority - Finland	1	1
Securities Futures Commission - Hongkong	2	2
Commercial Affairs Dept. - Singapore Police	1	1
U.S. Securities and Exchange Commission	1	7
<b>TOTAL</b>	<b>5</b>	<b>11</b>

REFERRED/INITIATED BY INDIVIDUALS	NO. OF REFERRALS	NO. OF COMPANIES
Former Employee	1	1
Investors – United Kingdom	2	2
Singaporean Investor	2	2
Compliance Officer of a Foreign Broker	1	2
Swedish Investor	1	1
<b>TOTAL</b>	<b>7</b>	<b>8</b>

## II. Complaints received

The Department processed 122 complaints received from the public and other reliable parties. The breakdown of these complaints is shown in the following tables:

**Table 1: Complaints from the public**

Internet	11
Walk-in/Personal visit	15
Telephone call	4
Letter	44
Newspaper Publication	2
<b>TOTAL</b>	<b>76</b>

**Table 2: Complaints from law enforcement and other government (local and foreign) agencies:**

Department of Trade and Industry	8
Bangko Sentral ng Pilipinas	1
Criminal Investigation and Detection Group (PNP)	1
National Security Council	1
Department of Foreign Affairs	2
Government Service Insurance System	1
Department of Justice	1
Office of the President	2
Anti Money Laundering Council	2
PCTC/Interpol- Singapore	1
U.S. Securities and Exchange Commission	1
Financial Supervision Authority of Finland	1
Commercial Affairs Dept. - Singapore Police	1
Securities Futures Commission - Hongkong	2
<b>TOTAL</b>	<b>25</b>

**Table 3: Complaints received from SEC operating departments:**

Non-Traditional Securities & Instruments Department	7
Market Regulation Department	1
Corporation Finance Department	9
Company Registration & Monitoring Department	3
Office of the Chairman	1
<b>TOTAL</b>	<b>21</b>

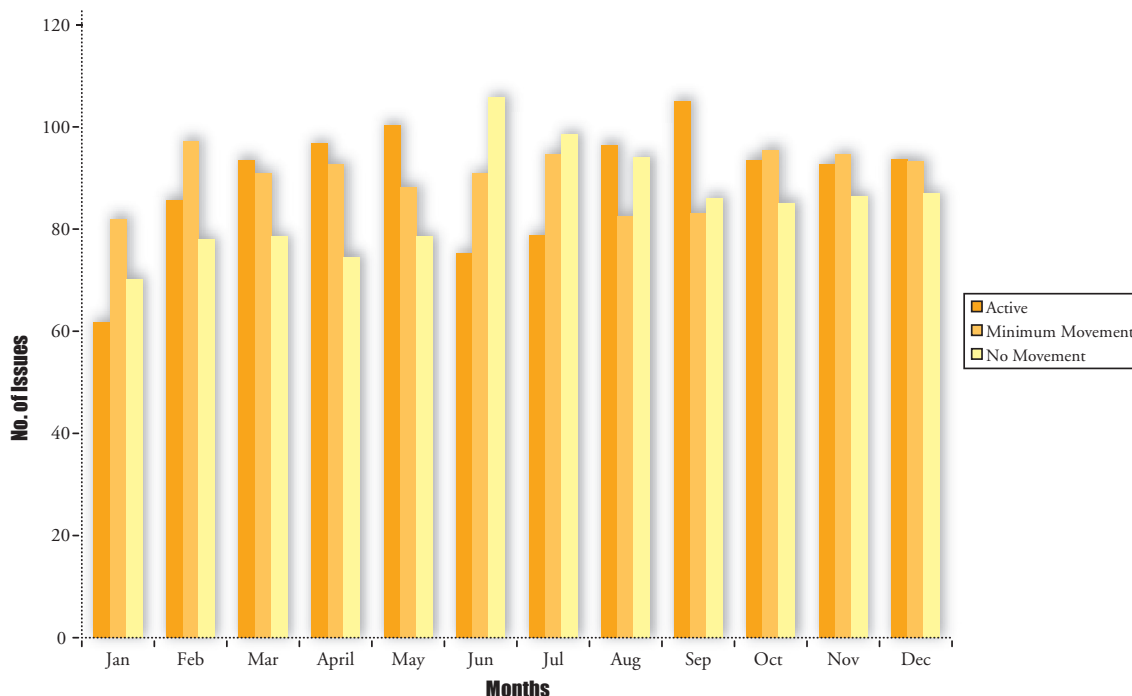
### III. Market Surveillance

The Department conducts daily market surveillance on a broad range of securities transactions, including unfair securities deals, such as manipulation of stock prices and insider trading.

It uses real time market surveillance software, the Advance Warning and Control System (AWACS), and technistock. In 2006, it referred 28 suspicious transactions to the SEC Market Regulation Department for appropriate action.



## Market Movement 2006



## IV. Results of Investigations

Of the 122 complaints that the Department received and investigated, six criminal information were filed in court, one administrative action was filed with the SEC Office of the General Counsel, three certificates of registration were revoked, two penalties were imposed and two settlement offers were accepted.

Category	Description	No.
Investigation Report Evaluated		6
Complaint-Affidavits filed	None	none
Criminal Information filed in Court	a) Perjury <sup>2</sup> b) Violation of Pre-Need Rules <sup>3</sup> c) Investment Company Act d) Falsification of Public Documents <sup>4</sup>	3 1 1 1
Administrative Petition filed	a) Fraud in the procurement of certificate of incorporation	1
Certificates of Registration Revoked	a) Failure to comply with a lawful order of the SEC b) Submission of Falsified Treasurer's Affidavit c) Violation of the Revised Rules and Regulation for Submission/Verification of the Bank Certificate of Deposit and Application for Initial Paid-Up Capital	1 1 1
Penalties Imposed	a) Selling of Unregistered Securities b) Fraud in the Procurement of Certificate of Registration	1 1
Settlement Offer Accepted	a) Selling of Unregistered Securities b) Manipulation of Security Prices, Devices and Practices	1 1

## V. Information Drive of the Department

To further educate the public on investment malpractices, the Department actively participated in public lectures and seminars on the subject.

Name of Organizer	Date and Place	Description	Approximate Number of Participants
SEC- Human Resource & Administrative Department	Oct. 11, 2006 SEC Building	Public Seminar: Popular Scams and Swindles	120
SEC- Human Resource & Administrative Department	Oct. 13, 2006 SEC Building	Technical Training: Popular Scams and Swindles	67
National Law Enforcement Coordinating Committee, Subcommittee on Anti-Money Laundering and Combating Financing of Terrorism	Oct. 18, 2006 SEC Building	Investment Scams	20
Commercial Affairs Dept. - Singapore Police	Oct. 6, 2006 Manila - Video Conference	Securities Fraud Investigation - Philippine SEC	60
SEC - Corporation Finance Dept.	Nov. 21, 2006 SEC Building	Seminar For Compliance Officers of Financing Companies - AMLA and RIRR	50
PNP -DIDM	Dec. 7, 2006 PNP Conference Room, Camp Crame, Quzon City	Briefing on Investment Scams	20
Brgy CAPT & DTI	February 8, 2006 Baguio City	How to Differentiate a "Legitimate" Networking from an "Illegitimate" Pyramid Scheme.	200
Brgy CAPT & DTI	March 7, 2006 Davao City	- do -	150
Brgy CAPT & DTI	June 15, 2006 Tagbilaran, Bohol	- do -	150
Brgy CAPT & DTI	June 21, 2006 Tagbilaran, Bohol	- do -	150

## VI. Capacity enhancement programs of the Department


The Department's staff attended trainings and seminars that helped further increase their analytical and investigative skills.

TOPIC	DATE AND PLACE	ORGANIZER
ING Lecture Series for the SEC	Nov. 17, 24, & 29, 2006, Crowne Plaza	ING Bank
Enforcement Training/Workshop	Dec. 7, 2006, SEC	SEC
Seminar on Updates on the Philippine Accounting and Auditing Standards	Sept. 14, 15, 21 & 22, 2006, SEC	SEC
Technical Training for SEC	Oct. 10 & 13, 2006, SEC	SEC
Seminar Workshop on the Principle of Completed Staff Work for Technical Staff	Jun 5 & 16, 2006, SEC	SEC
Professional Enrichment and Pep-up Session of the CED	Mar. 17 & 18, 2006, Tagaytay City	SEC
Financial Investigation Training	Sept. 11-15, 2006, BSP	AMLC

Seminar on Terrorism and Terrorist Financing	May 9, 2006, SEC	SEC
Interpol Working Meeting on Asian Organized Crime Groups in Asia Pacific	May 15-17, 2006, Manila	PCTC-Interpol
Capacity Enhancement Program on AML/CFT Distance Learning Course	Mar. 8,15,22 & 29, 2006, AIM Resource Center, Makati	AIM/World Bank
Training on Presentation Skills for SEC Managers	Feb. 20, 24, 27 & Mar. 1, 2006, SEC	SEC
Seminar on NGO'S as Fronts for Money Laundering and Financing of Terrorism	May 9, 2006, SEC	SEC
The Code of Corporate Governance and Investment Scams and Swindles	Oct. 13, 2006, SEC	SEC
Regional Seminar on Investigation and Enforcement	Jul. 10-14, ADB, Mandaluyong City	ADB
Anti-Money Laundering Typologies Workshop	Sept. 19, 2006, Makati City	AUSTRAC/AMLC
Terrorism Financing and Money Laundering (Basic and Advance Course)	Aug. 7-11, 2006, BSP	AMLC
Briefing on Charter Change	Jul. 21, 2006, Manila	LBP
The Role of SEC in Capital Market Development	Oct. 10, 2006, SEC	SEC
The Company Registration and Monitoring Functions	Oct. 13, 2006, SEC	SEC

## VII. Inter-Agency Collaboration

The Department investigated and referred to the Department of Trade and Industry for investigation eight cases involving corporations and entities engaged in selling products through the multi-level marketing network. This action was in consonance with the 2002 Memorandum of Agreement between the SEC and DTI on inter-agency cooperation in combating pyramiding and Ponzi schemes.

The Department also worked closely with the National Bureau of Investigation in the investigation of Wealth and Income Network, Inc. for violation of the securities laws. 

### (Footnotes)

- 1 Boiler Room – a place where high pressure selling techniques are used by salespeople who call potential investors (known in the trade as sucker list) to peddle speculative or fraudulent securities.
- 2 Perjury is committed through false narration of facts on documents under oath submitted to the SEC for purposes of incorporation.
- 3 Violation of pre-need rules is committed in case of failure to comply with the required minimum paid-up capital, trust fund deficiency and non-compliance with registration and licensing requirements of pre-need plans and the pre-need companies' dealers and agents.
- 4 Falsification of Public Documents is committed by falsifying the signature of a bank manager on a bank certificate of deposit which was submitted to the SEC as part of the requirements for incorporation.



# Commissioners

1. Chairperson Fe B. Barin
2. Commissioner Ma. Juanita E. Cueto
3. Commissioner Jesus Enrique G. Martinez
4. Commissioner Raul J. Palabrica
5. Commissioner Thaddeus E. Venturanza



# Directors



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1. Vernetta Umali-Paco  
*General Counsel*
2. Gerard M. Lukban  
*Commission Secretary*
3. Jose P. Aquino  
*Market Regulation Department*
4. Adelaida C. Navarro-Banaria  
*Financial Management Department*
5. Merle P. Cunanan  
*Cebu Extension Office*
6. Benito A. Cataran  
*Company Registration and Monitoring Department*
7. Ma. Gracia F. Casals-Diaz, OIC  
*Office of the General Accountant*
8. Annie G. Tesoro  
*Baguio Extension Office*
9. Justina F. Callangan  
*Corporation Finance Department*
10. Virgilio V. Salentes, OIC  
*Economic Research and Information Department*
11. Marylou I. Duka-Castillo  
*Legaspi Extension Office*
12. Hubert B. Guevara  
*Compliance and Enforcement Department*
13. Marilyn Peneyra-Lim, OIC  
*Human Resource and Administrative Department*
14. Renato V. Egipto  
*Cagayan de Oro Extension Office*
15. Marcos G. Florendo, Jr.  
*Zamboanga Extension Office*
16. Russell I. Ildesa  
*Iloilo Extension Office*
17. Javey Paul Francisco, OIC  
*Davao Extension Office*

# 2006 Memorandum Circulars

## **Memorandum Circular No. 1 (11 January 2006)** *Guidelines on the filing of Functional Currency Financial Statements*

This circular applies to companies whose functional currency (i.e., the currency of the primary economic environment in which the company operates) is other than the Philippine peso and whose financial statements use that currency.

*The company's determination of its functional currency shall be made in accordance with PAS 21, the Effects of Changes in Foreign Exchange Rates.*

When a company chooses to submit financial statements using its functional currency, a notice signed by the company's chief executive officer and chief financial officer shall be given to the SEC within 45 days after the end of the company's fiscal year. The notice shall be accompanied by a report from the company's external auditor stating its assessment that the company's determination of its functional currency was made in accordance with PAS 21.

The company may opt to present its financial statements in Philippine peso. If it does, the company shall translate its functional currency financial statements to Philippine pesos in accordance with PAS 21 and with proper notice to the SEC.

## **Memorandum Circular No. 2 (18 January 2006)** *For Non-Stock, Non-Profit Corporations, Including Non-Government Organizations (NGOs) that intend to engage in microfinance activities*

This circular is intended to strictly monitor the microfinance activities of non-stock corporations.

It requires all non-stock, non-profit corporations, including NGOs that intend to engage in microfinance activities, to state in the purpose clause of their Articles of Incorporation that they shall conduct microfinance operations pursuant to Republic Act No. 8425 ( the Social Reform and Poverty Alleviation Act). They have to indicate in their General Information Sheet (GIS), under the purposes box, that they are engage in microfinance operations pursuant to the said law.

## **Memorandum Circular No. 3 (16 February 2006)** *Principal Office Address; Address of Each Incorporator, Director, Trustee or Partner*

In line with the "full disclosure" requirement of existing laws, all corporations and partnerships applying for registration with the SEC are required to state in their Articles of Incorporation or Articles of Partnership the specific address of their principal office, which should include the street number, street name, barangay, city or municipality; and the specific residence address of each incorporator, stockholder, director, trustee, or partner.

Pursuant to this circular, "Metro Manila" is no longer be allowed to be used as address of the principal office. Additionally all corporations are now required to state in their GIS the specific residence address of each stockholder, officer, director or trustee.

## **Memorandum Circular No. 4 (23 February 2006)** *Philippine Financial Reporting Standards*

The SEC, in Resolution No. 114, Series of 2006, approved the adoption in its rules and regulations of the following accounting standards, as approved by the Accounting Standards Council:

### **Philippine Financial Reporting Standards (PFRS)1**

PFRS	IFRS	Title	Effectivity Date	Supersedes
PFRS 6	IFRS 6	Exploration for and Evaluation of Mineral Resources	1/1/06	-
PFRS 7	IFRS 7	Financial Instruments: Disclosures	1/1/07	PAS 30 & 32 (in part)

### **Amendments to Philippine Accounting Standards (PAS)2**

Title	Effectivity Date
Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	1/1/06
Amendments to PAS 39: The Fair Value Option	1/1/06
Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	1/1/06
Amendment to PAS 1: Capital Disclosures	1/1/07

These accounting standards were adopted to maintain consistency and uniformity in the accounting standards being used in the Philippines.

**Memorandum Circular No. 5 (23 March 2006)**  
*Submission of General Information Sheet (GIS)*

In order to be more responsive to the data and information needs of the public and the regulatory agencies, the format of the GIS filed by corporations was expanded to include additional data which can be useful to GIS end-users. The new format of the GIS is available for downloading at the SEC website.

**Memorandum Circular No. 6 (7 April 2006)**  
*Submission of General Information Sheet and General and Special Form for Financial Statements in Electronic Format*

Under this circular, the submission in electronic format (i.e., on disketter or compact disc) of the GIS and the General Form Financial Statements (GFFS), and the industry-specific Special Forms for Financial Statements (SFFS) was mandated pursuant to Section 27 of Republic Act No. 8792 (Electronic Commerce Act) and Section 37 of its Implementing Rules and Regulations.

The circular applies to the following companies:

- *SEC-registered domestic stock corporations with annual gross sales or gross revenue of at least PhP 5,000,000.00;*
- *Investment Companies and publicly-held companies enumerated in Section 17.2 of the Securities Regulation Code; Investment Houses or Underwriters of Securities;*
- *Investment Houses or Underwriters of Securities;*
- *Pre-Need Plan Companies;*
- *Brokers/Dealers in Securities;*
- *Financing Companies;*
- *Investment Company Advisers;*
- *Government Eligible Securities Dealers (GSED);*
- *Transfer Agents;*
- *All other market participants and self-regulatory organizations (e.g., Exchanges, Alternative Trading Systems, and Clearing Houses).*

To ensure the submission of complete, accurate and reliable data in the GIS, GFFS and SFFS submitted in electronic format, these submissions shall be accompanied by a certification under oath by the corporate secretary or the president that the electronic file is in the same form and format as the GIS hard copy. The treasurer, chief financial officer or a person occupying an equivalent position is also required to certify under oath that, except for certain details or breakdowns required in the GFFS and SFFS, the Generally Accepted Accounting Principles in the

Philippines (GAAP) prescribed accounts and figures provided in the electronic documents are based on the contents of the AAFS submitted to the SEC.

**Memorandum Circular No. 7 (9 June 2006)**  
*Rules on Securities Borrowing and Lending*

Securities Borrowing and Lending (SBL) is a recognized facility in the settlement of certain securities transactions. Section 39 of the Securities Regulation Code (SRC) mandates that the SEC register and grant licenses, and supervise and regulate the organizations engaged in activities related to or connected with the securities business. Furthermore, Sections 33.2 (1) and 42.2 (e) of the SRC require the transparent, prompt and accurate clearance and settlement of all securities transactions.

The SEC issued this circular to provide for the rules on securities borrowing and lending. It aims to institutionalize the framework for SBL since it facilitates the settlement of securities transactions, broadens trading strategies for market participants, and enhances liquidity in the market. The circular requires the execution and/or registration of the Master Securities Lending Agreement (MSLA), or the agreement between the lender and the borrower that embodies the terms and conditions under which securities are lent or borrowed. Upon the registration of the MSLA with the Bureau of Internal Revenue, the participants in the market can avail of tax exemptions.

**Memorandum Circular No. 8 (9 June 2006)**  
*Revised Guidelines on Foundation*

This circular is intended to promote transparency in the operations of foundations. It seeks to ensure that the funds generated by foundations are utilized in accordance with the purposes stated in their Articles of Incorporation.

The circular requires of foundations, among others, the following documents:

- *Notarized Certificate of Bank Deposit in the amount of not less than PhP1,000,000;*
- *Statement of willingness to allow the SEC to conduct an audit for the preceding five years;*
- *Sworn statement by the president and treasurer of the source and amount of funds, its programs and activities, and the application of funds;*

**Memorandum Circular No. 9 (29 June 2006)**  
*Submission of General Information Sheet (GIS) – Non-Stock Corporations*

Pursuant to the “full disclosure” requirement of existing laws, this circular requires all domestic non-stock corporations to use the revised official GIS for

non-stock corporations. The revised GIS form is available for downloading at the SEC website.

**Memorandum Circular No. 10 (3 August 2006)**  
*Amendment to the Guidelines on the Evaluation of Foreign Investments by Mutual Fund Companies (SEC Memorandum Circular No. 7 s. of 2005)*

The SEC, in Resolution No. 359 series of 2006, amended the Guidelines on the Evaluation of Foreign Investments by Mutual Fund Companies (SEC Memorandum Circular No. 7, Series of 2005) so that Section 2 (a) (ii) of the latter shall read as follows:

“Sec. 2. The said investments shall be limited to the following financial instruments:

- a. Bonds and other evidence of indebtedness
  - i. xxx xxx xxx
  - ii. Those registered and traded in an organized market in another country whose issue and issuer/borrower received a credit rating of at least BBB from a reputable international credit rating agency;
  - iii. xxx xxx xxx”

The credit rating was adjusted to BBB to provide for a more flexibility in investments of mutual fund companies. This was done after a careful study of the risks involved as well as the rates of return on the companies’ investments.

**Memorandum Circular No. 11 (12 October 2006)**  
*Increase in Processing Fee on Applications for Certificate of Eligibility Pursuant to the Special Purpose Vehicle Act*

To rationalize the processing fee for the evaluation of applications for Certificate of Eligibility covering non-performing assets under Republic Act No. 9182 (Special Purpose Vehicle Act), the SEC increased the processing fees as follows:

	Old Rate	New Rate
For transfers to be made to an SPV by financial institutions under SEC jurisdiction	1/100 of 1% of the transfer price but not below P10,000.00	0.50% of the transfer price but not below P20,000.00
For second leg transfers (individual, third party)	1/100 of 1% of the transfer price but not below P3,000.00	0.10% of the transfer price but not below P5,000.00

**Memorandum Circular No. 12 (30 October 2006)**  
*Adoption of New and Revised Philippine Standards on Auditing Review Engagements, Assurance Engagements, Quality Control and Philippine Auditing Practice Statements*

To conform with the latest auditing standards, the SEC approved adopted the rules and regulations of the following new and revised Philippine Standards on Auditing, Review Engagements, Assurance Engagements, Quality Control, and Philippine Auditing Practice Statements, which were subsequently approved by the Auditing and Assurance Standards Council, Board of Accountancy and the Professional Regulation Commission:

No.	Title	Effective Date
<b>Philippine Standards for Auditing (PSA)</b>		
PSA 220 (Revised)	Quality control for Audits of Historical Financial Information	Audits of financial information for periods beginning on or after June 15, 2006
PSA 230 (Revised)	Audit Documentation	Audits of financial information for periods beginning on or after June 15, 2006
PSA 240 (Revised)	The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements	Audits of financial statements for periods beginning on or after June 15, 2006
PSA 700 (Revised)	The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements (including conforming amendments to PSA 200, PSA 210, PSA 560, PSA 701 and PSA 800)	Reports dated on or after December 31, 2006
<b>Philippine Standards on Review Engagements (PSRE)</b>		
PSRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	Reviews of financial information for periods beginning on or after June 15, 2006
<b>Philippine Standards on Assurance Engagements (PSAE)</b>		
PSAE 3000 (Revised)	Assurance Engagements Other than Audits or Reviews of Historical Financial Information	Reports dated on or after January 1, 2005
<b>Philippine Standards on Quality Control (PSQC)</b>		
PSQC 1	Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	Quality control system should be established by June 15, 2006
<b>Philippine Auditing Practice Statements (PAPS)</b>		
PAPS 1014	Reporting by Auditors on Compliance with International Financial Reporting Standards	Reports dated on or after June 15, 2006



**Memorandum Circular No. 13 (30 November 2006)**  
*Amended Guidelines on Accreditation and Reportorial Requirements of External Auditors*

In 2003, the SEC issued Guidelines on Accreditation and Reportorial Requirements of External Auditors. This was done to strengthen the enforcement capacity of the SEC and increase reliance on the opinion of external auditors. High qualification standards and strict reporting obligations for external auditors of companies covered by the circular were enforced and monitored through a system that encourages quality control and disciplined financial environment.

Through this circular, the SEC amended the abovementioned guidelines to make them responsive to the capital market's changing environment. The amendments to the guidelines, among others, include the following:

- *Inclusion of an additional group (Group D) to cover companies that are mandated by other regulatory agencies to have an external auditor accredited by the SEC, provided the SEC has been consulted on such requirement by the said agency and that it has agreed on the terms thereof through a Memorandum of Agreement duly executed between the SEC and the regulatory agency.*
- *Requirement of Quality Assurance Manual for sole practitioner applicants;*
- *Requirement of the list of corporate clients whose audited financial statements (AFS) are evaluated by the SEC. The list shall likewise indicate the findings noted by the SEC and other regulatory agencies on the said AFS including the action thereon by the external auditor.*

**Memorandum Circular No. 14 (27 October 2006)**  
*Rules Governing the Over the Counter (OTC) Market*

The SEC saw the need to promulgate the rules that shall govern the activities of brokers, dealers, salesmen and associated persons of brokers or dealers in trading Alternative Trading System, and to support bilateral negotiations between the buyer and seller before concluding a transaction which is generally referred to as the Over-the-Counter (OTC) market.

The circular seeks to ensure that the OTC market operates in a manner consistent with investor protection, market integrity and transparency in order to promote the development of the capital market. This circular contains provisions, among others, on the following:

- *Registration of Broker or Dealer in an OTC market.*
- *Prohibition of brokers or dealers from making,*

*creating or operating or enabling another to make, create or operate an OTC market, except in accordance with the rules.*

- *Membership of participants with an SRO.*
- *Definition of eligible participants and eligible securities.*


**Memorandum Circular No. 15 (5 October 2006)**  
*Guidelines on Compliance by Foreign Corporations with Reportorial and Monitoring Requirements*

This circular updates the guidelines on reportorial and monitoring requirements of foreign corporations. Its highlights are as follows:

- *Increase of fines for stock branch office and Regional Office Headquarters;*
- *Increase of fines for non-stock branch office, representative office and Regional Headquarters;*
- *Fines for the branch office and ROHQ are based on the accumulated income (not on retained earnings);*
- *Submission of a set of reports in case of non-operation and increase of fines for non-submission;*
- *Simplification and increase of fines for non-filing of petition for change or addition of resident agents;*
- *Imposition of fines for late submission of the certificate of inward remittance of the ROHQs and RHQs;*
- *Revision of GIS forms.*

**Memorandum Circular No. 16 (21 December 2006)**  
*Disqualification of a Securities Broker-Dealer as an Independent Director*

This circular disqualifies securities broker-dealers from sitting as independent directors of listed companies and registered issuers of securities.

The term "securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, associated person or salesman, and an authorized clerk of the broker or dealer. 

**(Footnotes)**

- 1 Philippine Financial Reporting Standards correspond to the adopted International Financial Reporting Standards (IFRS).
- 2 Philippine Accounting Standards correspond to the adopted International Accounting Standards (IAS).

# Office of the General Accountant

The Office of the General Accountant advises the SEC and its departments and SEC-regulated entities in the area of accounting standards and treatment, and leads in the interpretation and application of international accounting standards to improve the transparency of audited financial statements.

In 2006, the Office's accomplishments include the following:

## I. Inputs to proposed legislative measure to enhance capital market regulation

The SEC provided technical assistance to the House of Representatives' committee discussion of House Bill No. 286, or "An Act Providing for Corporate Accountability, Fixing the Penalties for Any Violation Thereof, Appropriating Funds Therefor and for Other Purposes." The bill proposes to create a public company accounting oversight board similar to that in the Sarbanes-Oxley Act of the United States that will oversee the audit of public companies to protect the interests of investors and promote the public interest in the preparation of informative, accurate and independent audit reports of companies that issue or offer securities to the public.

## II. Initiatives to further strengthen capital market governance

- a) Amendments to the Guidelines on Accreditation and Reportorial Requirements of External Auditors

The changes, among others, are the following:

- Inclusion of a Group D category to cover the accreditation requirements for external

auditors of registered corporations that are required by other regulatory agencies to have an external auditor accredited by the SEC, e.g., corporate bank borrowers with at least PhP15 Million in total assets, as ordered by the Bangko Sentral ng Pilipinas;

- Provision for specific evaluation requirements, particularly the submission of the audited financial statements of the top two clients and their review by the SEC, including the evaluation criteria on whether or not to deny the application because of certain findings in the statements;
- Material internal control weaknesses which may lead to financial reporting problems are now considered reportable findings of an accredited external auditor under the revised Guidelines.
- b) Adoption of new and revised auditing standards and practices

The SEC, in Resolution No. 458, Series of 2006, approved the adoption in its rules and regulations of the new and revised Philippine Standards on Auditing (PSAs 220, 230, 240, 700), Review Engagements (PSRE 2410), Assurance Engagements (PSAE 3000), Quality Control (PSQC 1), and Philippine Auditing Practice Statements (PAPS 1014). These standards and practices provide additional measures and policies that must be complied with by external auditors to ensure independence, objectivity and completeness of the audit work.

- c) Adoption of Philippine Financial Reporting Standards (PFRS) and amended

## Philippine Accounting Standards (PAS)

The SEC, in Resolution No. 114, Series of 2006, adopted PFRS Nos. 6 and 7 on Exploration for and Evaluation of Mineral Resources, and Financial Instruments: Disclosures, respectively, including the amendments to PAS 39 on Cash Flow Hedge Accounting of Forecast Intragroup Transactions, The Fair Value Option, Financial Guarantee Contracts, and to PAS 1 on Capital Disclosures.

### d) Adoption of Alternative Valuation Techniques for Unlisted Shares

The SEC allowed alternative valuation techniques which can be used to establish the fair value of unlisted shares, i.e., recent arm's length market transactions, current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The acceptability of the fair value of the unlisted shares based on the said techniques is subject to the following conditions: (1) a fair valuation study is conducted by an independent financial institution which is an expert in the field of valuing securities; (2) the study is supported by reliable, verifiable and adequate data; (3) the technique used makes maximum use of market inputs, and relies as little as possible on entity-specific inputs; (4) it reasonably reflects how the market can be expected to price the instrument; and (5) the inputs to the valuation technique reasonably represent market expectations and measures of the risk-return factors that are inherent in the financial instrument.

### III. Accreditation of external auditors and auditing firms

As part of the accreditation process for external auditors and auditing firms of public and listed companies and those with secondary licenses, and to sustain the improvements on the quality of financial reports, the Office of the General Accountant reviewed in 2006 the

following documents:

Quality Assurance Manuals	546
Financial Statements	
Audited by the Applicants	1,096 <sup>1</sup>

A total of 293 applications were denied due to material deficiencies in the audited financial reports of the applicant's clients. The denial, however was without prejudice to their right to re-apply, but on condition that they show improvement in the quality of their audit work.

The applicants were required to prepare and submit Quality Assurance Manuals that are in accordance with the provisions of effective auditing standards and practices that prescribe the quality assurance process, the procedure for monitoring professional ethics and independence for clients, and other quality assurance policies or procedures.

The SEC accredited 176 external auditors and 27 auditing firms.

### IV. Implementation of the Special Purpose Vehicle Act of 2002

During the year, the SEC issued a total of 34 Certificates of Eligibility (COEs) pursuant to the Special Purpose Vehicle Act of 2002. The aggregate amount pertaining to the said COEs, based on selling price/book or appraised value, is PhP510,263,090.13.

On October 12, 2006, the SEC increased the processing fee of applications for COEs to rationalize it with the technical skills and time required to evaluate an application.

### V. Transition to International Financial Reporting Standards

- The SEC gradually adopted the harmonized financial reporting and accounting standards prescribed by the International Accounting Standards Board (IASB). As of the end of 2006, it adopted all the international financial

reporting standards (IFRSs) and revised international accounting standards prescribed by the IASB. These standards, including their interpretation, are now embodied in the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS).

To allow the smooth transition to IFRS, the SEC granted temporary relief to the following companies:

- Mutual funds or investment companies were given until September 2006 to shift from accrual method to market value in valuing their investments;
- Mining companies with long-term hedging contracts which were entered into and became effective prior to January 1, 2005 were granted transitional relief from PAS 39 (Financial Instruments: Recognition and Measurement). Under this transitional relief, certain commodity derivative contracts of mining companies were “grandfathered” and exempted from the fair value requirements of PAS 39 subject to certain conditions;
- Pre-need companies were allowed to defer compliance with PAS 39 and PFRS 4 in their December 31, 2005 audited financial statements with respect to the accounting treatment for revenues and financial liabilities.

In January and August 2006, the SEC exempted from the “tainting” provisions of PAS 39 the exchange transactions contemplated in the Domestic Exchange Offer of the Bureau of Treasury covering government securities or bonds maturing in 2007-2030 since the re-classification is non-recurring and could not have been reasonably anticipated by the entity, and considering the fact that the success of the exchange is in the interest of the country. The exemption was granted on condition that the entities that opt to exchange their eligible bonds shall not recognize any gains or losses in the Income Statement and any such

unrealized gains or losses shall be amortized over the term of the bonds obtained from the exchange.

- b) To determine the level of compliance with the requirements of effective accounting standards, the SEC reviewed the 2005 audited financial statements of selected listed companies based on their market capitalization, holders of secondary licenses using total assets as criterion, and the Top 100 Corporations.

The audited financial statements for the year ended December 31, 2005 of 66 selected listed companies and secondary licensees were reviewed. The SEC also completed the evaluation of the audited financial statements of 84 large corporations that hold primary licenses only.

The most common deficiencies noted in the financial reports of selected listed companies and secondary licensees were:

1. Incomplete or no disclosure on compensation/benefits of key management personnel (PAS 24);
2. Incomplete or no disclosure on leases (PAS 17);
3. No disclosure of the composition of the company’s retirement plan assets (PAS 19);
4. Incomplete or no discussion of critical accounting estimates, judgments and assumptions used;
5. No disclosure on the breakdown of property, plant and equipment by components in 2004 (PAS 16);
6. No breakdown of interest expense into its short-term and long-term components;
7. The amount of finance cost at gross is not presented separately on the face of the Income Statement (PAS 1);
8. Incomplete information on segment reporting (PAS 14);
9. Incomplete or no-cross referencing of the material items of the Cash Flow Statement to the notes to the financial statements (PAS 1);

10. Incomplete disclosure on retirement benefits (PAS 19);
11. No disclosure on expenses pertaining to Investment Property which earns lease income (PAS 40);
12. No disclosure on ultimate parent company (PAS 1);
13. No disclosure of the proportionate share in the assets, liabilities, revenues and net income of the joint venture (PAS 31);
14. Inadequate disclosures on the bases of impairment losses recognized (PAS 36);
15. No disclosure on the amount of undistributed earnings of subsidiaries and associates.


For pre-need companies, the most common deficiencies in their financial reports are the non-disclosure of the schedule of maturities of plan holder benefits as required by PAS 32, and insufficient or lack of disclosure on the methods and assumptions used to estimate the company's actuarial reserve liabilities.

The audited financial statements of the Top 100 Corporations also showed the following deficiencies:

1. No disclosure on long-term loans, i.e., whether secured or unsecured (PAS 1);
2. No disclosure on financial risks management (PAS 32);
3. No disclosure on the fact that the statement is a separate financial statement, list of significant investment in subsidiaries including the name, country of incorporation and proportion of ownership interest (PAS 27);
4. No explanation on the realizability of the input tax which are material in amount;
5. No disclosure on unused stand-by credit lines;
6. Incomplete disclosure on Asset Retirement Obligation, i.e. factors used in the cost estimation (PAS 16 and 36);

7. Incomplete disclosure on the redemption features of the preferred stock i.e. whether the option to redeem rest with the holder of the stock or with the company, the redemption period and the redemption price of the preferred stock (PAS 32).

The material deficiencies noted in the financial reports of the companies covered by the review include the following: (1) the lack of accounting policies on certain major accounts, such as, inventories, other sources of revenues, deposits and other accounts (material in amount); (2) failure to properly classify financial assets pursuant to PAS 39 or to consolidate pursuant to PAS 27 (without any explanation for non-consolidation); (3) failure to comply with the measurement or valuation requirement under the effective standards, such as, on investments and real estate inventory; and (4) inconsistencies in accounting policies used; (5) failure to comply with PAS 32 covering the treatment and disclosure of redeemable preferred shares; and (6) the land revaluation was based on zonal valuation which is inconsistent with PAS 16 where the revaluation should be based on fair value.

The companies with findings in their audited financial statements were required in writing to explain the deficiencies or deviations and to submit an audit committee or board resolution acknowledging the validity of the findings and the corrective measures taken thereon. They were advised that failure to sufficiently explain the deficiencies or deviations shall subject the companies concerned to appropriate penalties under SRC Rule 68. 

**(Footnotes)**

- 1 For each applicant, the financial statements of the top two (2) clients are reviewed. The 1,096 financial statements evaluated by the SEC pertain to five hundred forty eight (548) applicants.

# Office of the General Counsel

**A**s part of its responsibility to provide legal counsel to the SEC, the Office of the General Counsel issued in the year in review 37 legal opinions to queries on the interpretation of certain provisions of the Corporation Code, Securities Regulation Code and other laws.

The more significant opinions are the following:

## Effectivity Date of Merger

Under Section 79 of the Corporation Code, a merger shall be effective only upon the issuance of the Certificate of Merger. However, if the parties to the merger have agreed on a cut-off date, or effective date of merger, that date shall be binding on them.

More so, if the agreed date of merger will not prejudice the rights of the general public or people who are transacting with the parties to the merger, or result to a decrease in the payment of taxes by any of the parties. (Opinion No. 06-04, Jan. 17, 2006)

## Voting rights of delinquent members

Can the voting rights of delinquent members of a non-stock condominium corporation be assigned to its Board of Directors?

No. Since there is no specific provision in the Corporation Code with regard to delinquent members of non-stock corporations, Section 71 of the Code shall apply. This is clear from Section 87 which states that the provisions governing stock corporations, when pertinent, shall apply to non-stock corporations.

Considering that delinquent stockholders are not entitled to vote, then that right cannot be enjoyed, much less delegated, by delinquent members to others.

There is no provision in the Condominium Act, or Republic Act No. 4726, which permits the assignment of delinquent members' voting rights. A provision in a condominium corporation's by-laws mandating the assignment of the voting rights of its delinquent members to its Board of Trustees is contrary to Section 71 of the Code.

A by-law or provision thereof that is contrary to law cannot attain validity through acquiescence or on the basis of long practice, or give rise to any vested right. Any action to have the same declared as null and void is imprescriptible.

Hence, any party may petition the SEC to annul the certificate of filing of a corporation's by-laws or any provision thereof that is contrary to law. (Opinion No. 06-12, February 15, 2006)

## Credit card receivables

Credit card receivables arising from transactional credit card accounts that have been pre-selected by the transferor may be classified as "assets," as contemplated in Republic Act No. 9267, or the "Securitization Act of 2004." Thus, those receivables can be subject to securitization upon compliance with the requirements provided for in the said law. (Opinion 06-15, March 1, 2006)

## Conflict of interest

An officer of the SEC cannot, in representation of his wife's interest, be a member of the board of directors of a coconut trading business that his in-laws are planning to incorporate.

A directorship in a family corporation would give rise to a conflict of interest for the said public official.

The said corporation would, in one way or another, be regulated, supervised or licensed by the SEC. Rule 6.2 of the Securities Regulation Code leaves little room for avoiding said conflict as it proscribes directorship or trusteeship in any organization or association, whether registered with the SEC or not, except in charitable or civic organizations, of which the proposed corporation is not one. (Opinion No. 16-17, March 13, 2006)

## Dissolution

It is only upon the approval of the amended articles of incorporation by the SEC that a corporation shall be deemed dissolved. Thus, if the shortened term, as proposed in the amendment

of the articles of incorporation, expires before the approval by the SEC, the corporation will not be automatically dissolved upon such expiration but only upon SEC's approval of the amendment.

On the other hand, if the SEC gives it approval before such shortened term expires, the dissolution can take effect only upon the expiration of such shortened term. (Opinion No. 06-24, March 30, 2006)

### **"Metro Manila" as address**

SEC Memorandum Circular No. 3, series of 2006, which disallowed the use of "Metro Manila" as principal office address and requires corporations to state in their articles of incorporation the specific address of the corporation's principal office and the specific residence addresses of each stockholder, officer or director or trustee covers only corporations and partnerships applying for registration with the SEC from February 28, 2006 onwards.

The circular does not apply to entities that are already registered with the SEC before the said date. Consequently, there is no need to amend the articles of incorporation of a corporation when it changes its principal office address from one street to another, or from one floor to another of the same building, for as long as the address is in the same municipality or city as the one indicated in the articles of incorporation on file with the SEC.

The corporation only has to reflect this change of address in the General Information Sheet submitted to the SEC that will form part of the official records of the corporation on file with it. (Opinion No. 06-24, March 30, 2006)

### **Tender offer**

A tender offer to reacquire within a period of time at the prevailing market price of shares below board lot (999 shares or below) is allowed and the classification of below board lot is a valid classification.

A reacquisition by the subject corporation of its own shares is not covered by the mandatory tender offer rule; the said case is properly dealt with as a tender offer made by an issuer under Rule 19.4 of the Securities

Regulation Code (i.e., "such other legitimate corporate purposes") as the corporation has sufficient unrestricted retained earnings, and the buy back is pursuant to one of the purposes provided for in the said provision. (Opinion No. 06-25, April 7, 2006)

### **Reincorporation**

Can a corporation which was dissolved on account of the expiration of its corporate term later reincorporate under the same corporate name, capital structure, purposes, principal office and substantially the same officers, incorporators, board of directors and shareholders?


No. It is mandatory for a dissolved corporation to commence liquidation proceedings on its assets and liabilities within three years after its corporate term has lapsed.

In the absence of a corporate liquidation, the real property of the dissolved corporation cannot be automatically transferred to the re-incorporated entity. The re-incorporated corporation cannot sue or be sued as the registered owner of real property owned by the dissolved corporation.

The re-incorporated corporation is a new entity which is distinct and separate from the dissolved corporation, even though the two corporations are essentially the same. Any suit or claim on the real property must be directed to the "trustees" of the dissolved corporation for its liquidation.

The re-incorporated corporation can succeed to the ownership over the real property owned by the dissolved corporation only in the event liquidation proceedings are carried out by the directors, acting as trustees, of the dissolved corporation, and the real properties distributed to the stockholders as liquidating dividends are assigned by the co-owners to the new corporation in exchange for new shares of stocks to be issued by the re-incorporated corporation. (Opinion No. 06-33, October 3, 2006)

### **Professional practice**

Foreign naval architects and marine engineers may be allowed to form a corporation or establish a firm or partnership to practice their profession in the Philippines solely for the purpose of undertaking the Subic Shipbuilding Project in Subic Bay Freeport Zone, which shall be understood to be undertaken only for a limited duration or period of time, provided the practice of the profession shall be undertaken by and under the supervision of a duly registered naval architect and marine engineer with the Board of Examiners for Naval Architects and Marine Engineers. 

# Economic Research and Information Department

**E**conomic Research and Information Department serves as technical lead for the SEC on application program development operation and maintenance, hardware and software specification and configuration, and establishment and maintenance of communications network.

The significant accomplishments of the Department during the year in review consist of the following:

## I. Implementation of SEC's computerization program

In compliance with the mandated regulations and procedures on government computerization, the Department pursued the SEC's computerization program consistent with the Information Systems Strategic Plan (ISSP) and Republic Act No. 8792 (Electronic Commerce Act). The planned systems for implementation under the ISSP are designed to facilitate the performance of the SEC's core functions.

The SEC ISSP has several component systems that have to be developed in phases until 2010. In 2006, the Department continued the refinement of the *SEC i-Register* and *SEC i-Report* systems. When fully developed and operational, the web-based *SEC i-Register* system will offer the public the convenience of online registration.

The *SEC i-Report* is an online facility that allows companies and other market participants to inquire, transact business and submit their reportorial requirements to the SEC via the Internet.



The first web-based module of *SEC i-Report* is *SEC i-View* or *SEC Documents Online* which is a pay-per-use system. In 2006, enhancements were made on *SEC i-View* by uploading the documents submitted to the SEC from 1996 to 2006. To expand the usage of *SEC i-View*, the Department is finalizing the use of the mobile payment called G-Cash to supplement the present pin mailer modality.

In October 2006, the Department deployed the cashing module of *SEC i-Report* at the Head Office. This module is expected to improve public service delivery by computerizing the tellering, backroom operations and reporting of payments for SEC services. It will also generate the required reports for the Commission on Audit, Department of Budget and Management and other external agencies.

The Department also coordinated and facilitated the review of the functional specification design for paper submissions for primary registration, secondary licenses and reverse search.

The paper submission of primary registration module is a computer-assisted paper submission facility that seeks to improve public service delivery by the SEC's Company Registration and Monitoring Department.



The paper submission of secondary licenses module is a computer-assisted paper submission facility that aims to improve public service delivery by other SEC departments.

Through these modules, the document receipt data can be captured and stored at the database at source and on real time. The tracking of documents and assignments of processors can be done using this module. The documents can be scanned upon receipt by the operating departments and immediately made available online to the processors for simultaneous review.

The reverse search is a modality that will allow users to inquire about (i) the companies to which an individual may be affiliated; (ii) individual-to-company relationship; (iii) company-to-company relationship; and (iv) information on the involvement of a company in a particular case.

In November 2006, the Department launched the computer-assisted paper submission of reports for roll-out in time for the peak submission of reports that will start in March 2007. Through this module, the document receipt data can be captured and stored at the database at source and on real time. It can also facilitate reportorial submission by SEC-regulated companies.

Later, the SEC bidded out the supply and delivery of various IT equipment under its computerization project. The project will further boost office productivity through better use of information technology.

## **II. Intensified public assistance and information services**

The Department continued to improve and streamline its system of delivering public assistance services. Its Public Assistance and Reference Unit receives and acts on public queries on SEC rules, policies and processes. A queuing system for one-on-one dealing with the transacting public was introduced and this has resulted in quicker response to public queries. In addition, the Department distributed Citizen's Manuals,

information pamphlets and brochures and other information resource materials to the public.


## **III. Inter-agency collaboration**

The Department implemented the SEC-BIR linkage through *SEC i-Register* which allows the assignment of pre-generated Taxpayer's Identification Number (TIN) to newly registered companies whose registrations have been approved at the Head Office. Later in the year, the Department caused the publication of the 2006 edition of the *Philippines Top 5000 Corporations* in collaboration with the Credit Information Bureau, Inc.

## **IV. Provision of corporate planning, research and related services**

The Department continues to administer the *AWACS* (advance warning and control system) real-time market surveillance and risk management system and ensure the proper operation of the Philippine Stock Exchange File Transfer Protocol. It likewise administers the *Document Imaging System* and the *Informix Database* server.

The Department coordinated the conduct of the SEC 2006 Mid Year Assessment and CY 2007 Annual Strategic planning workshop which resulted in the following outputs: (i) the 2<sup>nd</sup> semester 2006 and CY 2007 Strategic Priorities and Programs, Activities and Projects; (ii) the summary of issues raised and agreements reached during the workshops discussions; and (iii) the SEC Logical Framework (Logframe) consistent with SEC's Major Final Outputs

Finally, the Department assisted in the preparation of SEC's comments or inputs to the following documents: (i) the ASEAN-Korea Draft Agreement on Financial Services and Trade in Services; (ii) the 2<sup>nd</sup> World Bank Survey on Entrepreneurship and Economic Development; and (iii) the ASEAN-Australia-New Zealand Draft Investment Agreement and (iv) the draft ASEAN-China Free Trade Agreements. 



**“The Department conducted four public seminars for 238 people, and briefed 1,438 students from 20 colleges and universities nation-wide on the SEC Mission, Vision and its duties and responsibilities.”**

# Human Resource and Administrative Department

**H**uman Resources and Administrative Department is responsible for human resource management and development, general administration and service delivery to SEC's clientele.

The Department's accomplishments in 2006 include the following:

## I. Personnel Management

The Department revisited the current SEC personnel management system. The study led to a proposal to establish a new system on merit promotion career development, and rewards and incentives for qualified and deserving employees. It also gave rise to the approval by the SEC Personnel Selection Board of the guidelines on recruitment and selection for all position levels.

In 2006, a total of 362 applications for various positions were screened, of which 192 underwent the hiring process. Fifty nine appointments were issued to newly hired and promoted employees, including renewal of temporary appointments. The newly hired personnel brought the number of SEC employees to 405.

The year also saw the roll out of the Personnel Records Management and Recording System. Three hundred forty officials and employees in the Head Office were enrolled in the Finger Scan Units. The encoding of the personnel information to the system was completed by the end of the year.

## II. Personnel Development

The Department conducted seven organizational development programs that were participated in by 307 employees, eight

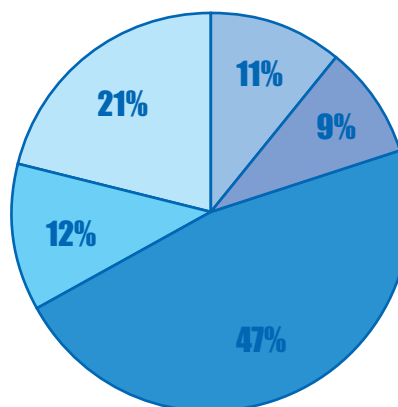
Technical Skills Enhancement seminars with 312 participants, and two Professional Development Programs with 90 participants.

The eleven "Brown Bag Sessions" conducted by the Department drew the attendance of 268 employees. The sessions discussed employee welfare, personality development and work efficiency.

The Department conducted four public seminars for 238 people, and briefed 1,438 students from 20 colleges and universities nationwide on the SEC Mission, Vision and its duties and responsibilities.

## SUMMARY

**SEC Conducted Programs 2006**



- Organizational Development
- Technical Skills Enhancement
- Professional Development
- Brown Bag Sessions
- Student Orientation

## A. Organizational Development Programs

Program Title	Date Conducted	No. of SEC Participants
Values Orientation Workshop	13 January	8 (Zamboanga EO)
Seminar-Workshop on the Principle of Completed Staff Work (3 batches)	23-24 March 19-20 April 15-16 June	123
Seminar-Workshop on Completed Staff Work for SEC Managers (2 batches)	16-17 August 22-23 May	35 22
Human Resources and Administration Department Teambuilding	18-19 May	51
Teambuilding & Enhancement Seminar for Office of the General Counsel	18 February	21
Professional Enrichment & Pep-Up Session of the Compliance and Enforcement Department	17-18 March	33
Seminar on NGO's as Fronts for Money Laundering & Financing of Terrorism	9 May	36
<b>TOTAL SEC Workforce Trained</b>		<b>307</b>

## B. Technical Skills Enhancement

Program Title	Date Conducted	No. of SEC Participants
Seminar-Workshop on Public Expenditure Management	24 May	30
The Role of SEC in Capital Market Development and The Company Registration and Monitoring Function	10 October	45
The Role of Corporate Governance and Investment Scams and Swindles	13 October	57
ING Lecture Series for the Securities and Exchange Commission	17,24,29 November	60
Enforcement training Workshop	7 December	49
SEC I-View User's Training	15 March	28
Exploring Star Office 8 Master's Training	15-17 and 22-23 May	18
Basic Star Office Training	20,21,22 & 27 June	32
<b>TOTAL SEC Workforce Trained</b>		<b>312</b>

## C. Professional Development Programs

### 1. Internal

Program Title	Date Conducted	No. of SEC Participants
Seminar on the Updates on the Philippine Accounting Standards	14 August	30
Seminar on the Updates on the Philippine Accounting & Auditing Standards	14-1; 21-22 September	60
<b>TOTAL SEC Workforce Trained</b>		<b>90</b>

### 2. External (Local)

Program Title	Date Conducted	No. of SEC Participants
Mandatory Continuing Legal Education (MCLE)	14-17 March	2
MCLE Seminar	4-7 July	2
MCLE Seminar	19-20 July	2
MCLE Seminar	23-24 November	2
Seminar-Workshop on Employee Testing & Evaluation	17 February	1
Phil. Association of Government Budget Administration (PAGBA) Seminar-Workshop	19-22 April	3
PAGBA Seminar-Workshop	20-23 September	2
Capacity Enhancement Program on Anti-Money Laundering Council/Combating the Financing of Terrorism	8,15,22,29 March	5
Oracle Training	13-17, 20-24 27-31 March	1
Fundamentals of Java Programming	22-26 June	2
7 Fundamentals of Java Language	29 May – 2 June	1
Basic Course on Terrorist Financing/Money Laundering	7-11 August	2
Training on E-Procurement	9-10 August	1
Seminar on Managing ICT Services in Government-ITIL Framework	21-23 August	1
Financial Investigation Techniques	11-15 September	2
Anti-Money Laundering Typologies Workshop	19 September	2
Financial Investigation Training Sponsored by AMLC Secretarial and the US Treasury Dept.	9-13 October	1
e-Government Project Management	16-20 October	2

Training on Moral Recovery Program of the Government	29-30 November	1
Seminar on Managing ICT Services in Government ITIL Framework	6-8 December	1
E-Commerce Made Easy for Filipino SME Exporters: Seminar for Business Advisers	22-24 February	2
Bridging Leadership Seminar (2 batches)	16-18 March 26-28 April	1 1
<b>TOTAL SEC Workforce Trained</b>		<b>40</b>

#### D. Conferences/Meetings/Briefings

Program Title	Date Conducted	No. of SEC Participants
The National Conference on Governance Innovations: The Australian and Philippine Experiences	18 January	1
Congressional Oversight Committee for the E-Commerce Law	6,13,14,15,20 March	2
Briefing on Charter Change	21 July	8
Forum on Real Investment Trusts	6 October	2
3 <sup>rd</sup> Meeting of the Working Committee on Financial Services Liberalization	26-27 October	1
1 <sup>st</sup> National Congress on Good Citizenship	27-28 October	3
Public Hearing on the Proposed Senate Resolution No. 455	4 December	3
National Convention of the Phil. Government Employees Association (PGEA)	7 December	2
First Board Meeting of the Moral Recovery Officers' Foundation, Inc. Under the Moral Recovery Program of the Philippines	14 December	1
Meeting of the Working Group on Foreign Direct Investment Statistics	18-20 July	2
<b>TOTAL SEC Workforce Trained</b>		<b>25</b>

### III. Reports and Records Management


2006	Reports Received	Request for Files & Corporate Document	Income Generated
January	8,430	8,065	821,042
February	9,762	11,361	1,246,937
March	16,328	8,960	1,048,797
April	40,865	9,794	1,022,292
May	77,207	9,331	980,866
June	15,642	11,269	1,216,708
July	14,896	12,935	1,247,137
August	9,714	12,310	1,172,839
September	14,379	13,908	1,323,981
October	10,738	9,447	912,342
November	10,686	9,871	899,453
December	9,257	8,164	849,888
<b>TOTAL</b>	<b>237,904</b>	<b>125,415</b>	<b>12,742,282</b>

The reports received in 2006 were converted to digitized form and uploaded to CD's for the I-View System. The status of conversion for 2006 is as follows:

January	100%	July	23%
February	100%	August	21%
March	97%	September	67%
April	75%	October	81%
May	83%	November	78%
June	60%	December	71%

### IV. General Services

The Department provided overall internal support to the operating units of SEC in terms of supplies requirements and transport services.

It coordinated the SEC's energy conservation program that led to a vigorous campaign for optimum use of available resources, and earned an "Excellent" rating in energy conservation from the Department of Energy. 

# Cross Border Cooperation

## I. International Organization of Securities Commission

In 2006, the SEC participated in the 31<sup>st</sup> Annual Conference of the International Organization of Securities Commission (IOSCO) hosted by the Hong Kong Securities and Futures Commission.

The conference, which was held in Hong Kong from June 5 to 8, 2006, discussed the following topics:

- International Financial Reporting Standards (IFRS) – Initial Experiences;
- Hedge Funds – How Far is it Necessary to Regulate?
- Bond Markets – Should their Transparency be Enhanced?; and
- Challenges Related to the Implementation of IOSCO Principles and IOSCO Memorandum of Understanding on Emerging Securities Markets.

On June 16, 2006, the SEC signed a Participation Arrangement with IOSCO on the regulatory interpretation and enforcement of IFRS. The agreement laid down the conditions that shall govern the parties in the maintenance, access to and use of the Global IFRS Coordination Database (GICD).

The arrangement gives the SEC access to a secure electronic GICD database which is a source of information on regulatory activities that involve the interpretation and enforcement of IFRS in relation to the IOSCO Statement of Principles – Regulatory Interpretation and Enforcement of Financial Reporting Standards and Appendix-Guidance for Implementation.



**Regional Seminar on Investigation and Enforcement held at the ADB Headquarters in July 2006**

## II. ASEAN Framework Agreement on Services

In March 2006, the SEC, represented by Director Jose P. Aquino of the Market Regulation Department, attended a meeting of the Working Committee on Financial Services Liberalization under the ASEAN Framework Agreement on Services (AFAS) in Cambodia.

The meeting marked the beginning of negotiations for the fourth package of commitments under the positive list approach. Earlier, the ASEAN Secretariat

reported that only Cambodia, Indonesia, Laos, Malaysia, the Philippines and Singapore submitted their positive lists. The participants agreed that bilateral negotiations on the commitments will commence in August 2006 after the member countries have had a chance to study the positive lists.

The Working Committee met in Cebu City in October 2006, in lieu of the August schedule. It revised the timetable for negotiations on AFAS and submitted a status report on the negotiations on the Free Trade Agreements with Dialogue Partners to the ASEAN Secretariat.

### III. Participation in Other International Conferences

On March 16, 2006, SEC Chairperson Barin attended the 4<sup>th</sup> Asia-Pacific Regional Meeting of the Financial Stability Forum (FSF) which was hosted by the Reserve Bank of Australia.

Senior representatives from finance ministries, central banks and supervisory and regulatory authorities from FSF members and other regional non-members, as well as senior officials from international institutions, were present in the meeting.

The topics discussed during the meeting were international and regional financial stability outlook, economic and financial impact of an avian flu pandemic, developments in regional financial systems, and international initiatives to strengthen market infrastructure and financial systems.

In June 2006, Chairperson Barin was invited to speak on “International Anti-Money Laundering Initiatives and Security Measures” during the 6<sup>th</sup> Annual Commonwealth Business Council Banking & Finance Forum, dubbed “Emerging Market Economies: Challenges, Opportunities & Relationships with Global Financial Centres.” The forum was held in Central London, United Kingdom.


From July 10 to 14, 2006, key personnel of different SEC operating departments attended the Regional Seminar on Investigation and Enforcement at the Asia Development Bank Headquarters in Ortigas Center, Mandaluyong City.

The seminar was jointly sponsored by the SEC and the APEC Financial Regulators Training Initiative. During the seminar, Director Jose P. Aquino was elected Chairman of the Advisory Group – Securities Regulators of the APEC Financial Regulators Training Initiative.

The seminar lecturers were Robert Fisher and Paul Saulski of the US Securities and Exchange Commission, Brian Butler of the Ontario Securities Commission, Ivan Chan Choong Chau of the Malaysian Securities Commission, and Stephen Evans and Tom Veidners of the Australian Securities and Investments Commission. The seminar participants came from different ASEAN countries, China, India, Kyrgyzstan, South Korea, Sri Lanka and Taiwan.

In September 2006, Chairperson Barin spoke on the topic “Economic Overview and Capital Market Update” at the conference on “Emerging Markets Programme – Emerging Markets Challenge: Rethinking Regulation” held in Kuala Lumpur, Malaysia.

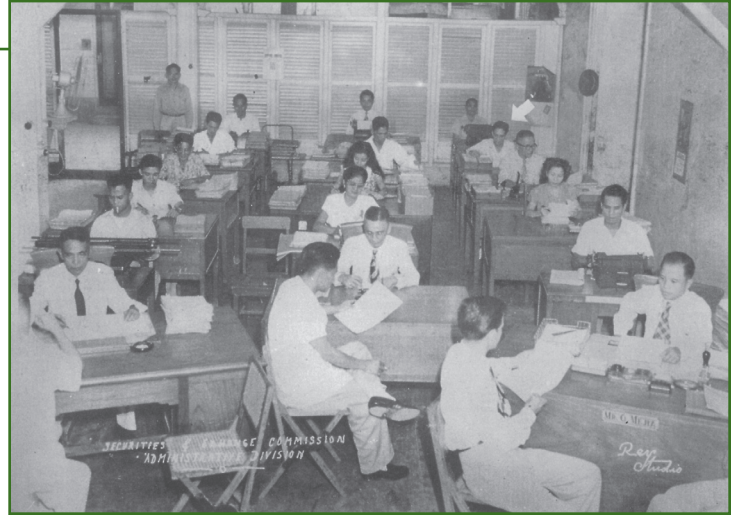
She later participated in November in the high level Symposium on Integrity Supervision of Financial Sector Firms and Markets held at the International Monetary Fund in Washington D.C., USA.

During the conference, she explained the Philippine experience on the accounting framework and its application, the role of the auditor, corporate governance, the roles of the supervisor and regulator, and the corrective measures taken by the Philippine authorities to address integrity failures. 

# Seven Decades

## 1936 to 1946

- On October 26, 1936, Congress enacted Commonwealth Act No. 83 creating the Securities and Exchange Commission.
- SEC started operations on November 11, 1936 under the supervision of the Department of Justice.
- SEC was abolished during the Japanese Occupation.



## 1947 to 1956

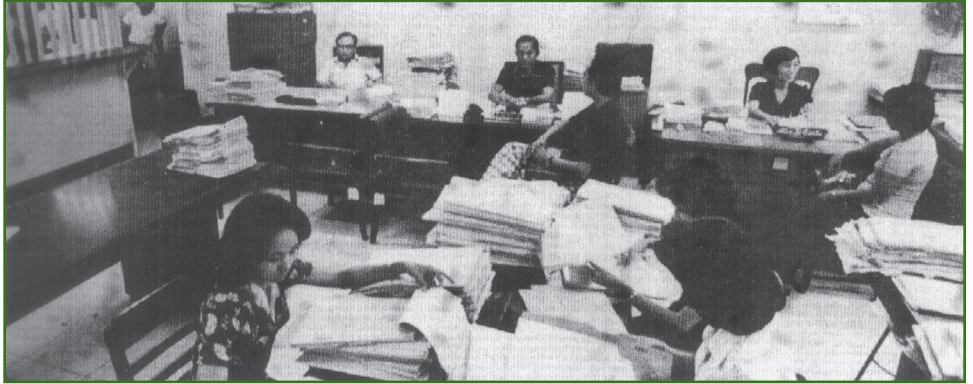
- SEC was reactivated on October 21, 1947.
- By 1955, it had registered 9,728 corporations, including PLDT and San Miguel Corporation.
- SEC tightened monitoring of trading at Manila Stock Exchange to prevent fraud and stock manipulation.
- Supervision of SEC was transferred to the Department of Commerce and Industry.



# *of the Securities and Exchange*

## **1957 to 1966**

- SEC issued rules on submission of reports by oil companies and foreign companies not licensed to do business in the Philippines, and filing of annual financial statements.
- When major business offices moved to Makati, SEC transferred its office in 1963 from Manila to Pasong Tamo, Makati.



## **1967 to 1976**



- SEC was given additional regulatory functions by the Financing Company Act, Investment Houses Law and Pres. Decree 678.
- First SEC extension office was opened in Cebu City in 1973.
- Pres. Decree 902-A granted SEC quasi-judicial powers.
- SEC was reorganized as a collegial body with three commissioners.
- Supervision of SEC was transferred to the Office of the President in 1976.

## **1977 to 1986**

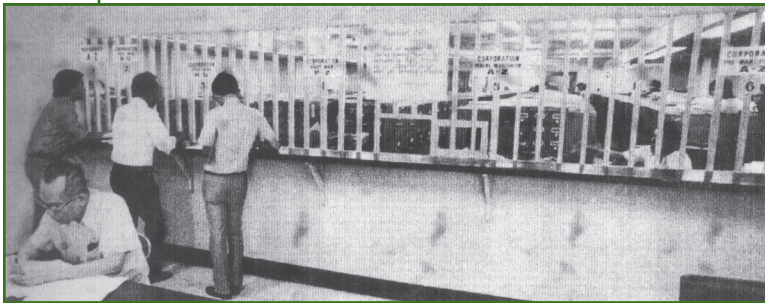
- SEC membership increased to five commissioners including the chairman.
- SEC Davao City extension office was opened in 1978.
- Corporation Code of the Philippines was enacted in 1980.
- Supervision of SEC was transferred to the Ministry of Finance in 1981, then to the Office of the President in 1986.
- In 1982, the Revised Securities Act was passed by Congress.



# Commission



## 1987 to 1996



- Additional extensions offices were opened in Iloilo, Baguio, Zamboanga, Legaspi and Cagayan de Oro.
- Supervision of SEC was transferred to Department of Finance in 1994.
- Manila Stock Exchange and Makati Stock Exchange merged in 1992 to become the Philippine Stock Exchange (PSE).


## 1997 to 2006

- Supervision of SEC was transferred to the Office of the President in 1999, then to the Department of Finance in 2000.
- Securities Regulation Code was enacted in 2000 to further develop the capital and securities markets.
- Self Regulatory Organization status was given to PSE by SEC.
- SEC web page <[www.sec.gov.ph](http://www.sec.gov.ph)>, and I-View and I-Report systems became operational in 2001.




# Our Whereabouts

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*OIC Javey Paul D. Francisco*

A man with dark hair, wearing a light blue and white striped short-sleeved shirt, is seen from the side, leaning over a counter. He is holding a blue pen and writing on a document. He is wearing a silver watch on his left wrist and a silver bracelet on his right wrist. In the background, a sign reads "TREASURY DIVISION" in green letters on a white background. The setting appears to be an office or a government service center.

**TREASURY  
DIVISION**

**“The amount remitted to the National Government was PhP863.3 million more than the collection target of PhP680.9 million assigned to the SEC for 2006. Compared to the SEC’s collection in 2005 of PhP813.7 million, its collection in 2006 was PhP49.6 million more, or an increase of 6.10 percent.”**

# Financial Management Department

**F**inancial Management Department is responsible for (i) the preparation and implementation of the budget, (ii) pre-audit, (iii) the recording and reporting of financial transactions, (iv) the collection of fees paid to and other income received by the SEC, and (v) the remittance of the said revenue to the Bureau of the Treasury.

In 2006, the Department's notable accomplishments are the following:

## **I. Budget preparation and implementation**

The SEC, like other government agencies, operated on the re-enacted CY 2005 budget. Although the SEC was granted a budgetary allocation of PhP240.2 million, only PhP194.3 million was actually allotted to it by the Department of Budget and Management (DBM).

Thereafter, upon the Department's request, the DBM approved the release of PhP138.7 million to the SEC from the un-programmed fund of the government, which amount represents a portion of the income collected by the SEC in CY 2005 that exceeded its target for that year.

Originally, this fund was intended for the purchase of a building, information technology equipment and motor vehicles. The allotment for the building was re-aligned to Personal Services, Maintenance and Other Operating Expenses and other capital outlay items. The re-alignment was made to make up for the unreleased appropriation and to cover the inadequacies in CY 2006 that were not addressed in the re-enacted budget.

In sum, the SEC operated in CY 2005 on a total allotment of PhP333.0 million from the National Government and PhP100.0 million

from the income it retained pursuant to Republic Act. No. 8799.

From the allotment of the National Government, the SEC incurred expenses in the amount of PhP333.0 million.

Thus, for 2006, the SEC's overall expenses reached P432.3 million, with PhP99.4 million sourced from its retained income.

## **II. Pre-audit, recording and reporting of financial transactions**

In 2006, the SEC did not receive from the Commission on Audit (COA) any notice of suspension or disallowance in relation to its disbursements.

The Department strictly complied with auditing and accounting rules and regulations prescribed by the COA on disbursements and recording of the SEC's financial transactions. All financial transactions were recorded and financial reports were prepared using the computerized New Government Accounting System (e-NGAS). Also, last year, the computerized budgeting system (e-Budget) was fully utilized by the Department in the preparation of Obligation Slips and reports on allotments, obligations and balances.

## **III. Collections and remittances to the National Government**

The SEC collected a total of PhP963.3 million in 2006. From this collection, PhP863.3 million was remitted to the National Government. The balance of PhP100.0 million was retained by the SEC pursuant to R.A. 8799.

The amount remitted to the National Government was PhP863.3 million more than the collection target of PhP680.9 million assigned to the SEC for 2006. Compared to the SEC's collection in 2005 of PhP813.7 million, its collection in 2006 was PhP49.6 million more, or an increase of 6.10 percent.

The expenses incurred by the SEC in 2006 represent 38.57 percent of the PhP863.3 million it remitted to the National Government for the same year. The net amount contributed by the SEC to the government coffers for 2006 was PhP530.3 million.

Although the SEC deployed the Cash Receipt Module of its SEC-iReport project in the 4<sup>th</sup> quarter of 2006, its reports to the Bureau of the

Treasury for October and November, 2006 were prepared manually. It was only in December 2006 that these reports were prepared using the computerized cash receipt module.

### Recognition of Exemplary Performance

The Association of Government Accountants of the Philippines cited the SEC on November 22, 2006 as the "Most Outstanding Accounting Office – National Government Sector – Big Agency" for 2005 for having exemplarily met the criteria of accuracy, timeliness, reliability and compliance to accounting rules and regulations.

The SEC was given the same award in 2002 and 2004.

## FINANCIAL PERFORMANCE

### Income

The Securities and Exchange Commission is one of the few agencies that consistently give positive contributions to the National Government.

For the past five years, the SEC has contributed an average of PhP485 million a year to the national coffers (Table 1). In 2006, it contributed to the National Government a total of PhP863.3 million and recorded in its books the sum of P100.0 million, or a total income of PhP963.3 million. This is 5.43 percent higher than last year's income of PhP913.7 million (Table 2).

### Expenditures

The total expenditures of the SEC reached PhP432 million in 2006, up by PhP104 million from 2005's level of P328 million. Its total income of PhP963 million in 2006 exceeded expenditures of PhP432 million for the same period by PhP531 million. For the last five years, SEC has kept its ratio of expenditures to income at less than 50 percent.

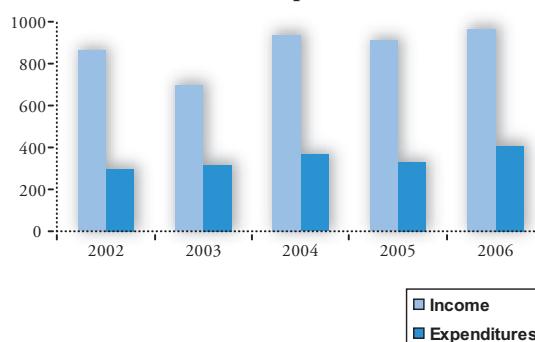
Table 1. SEC Net Contribution to National Government

	2002	2003	2004	2005	2006	Average
Remittance to NG	762	596	800	808	863	766
Allotments	335	266	222	249	333	281
Net Contribution	427	330	578	559	530	485

Table 2. SEC's Income by Source, 2006 and 2005

Source of Income	2006		2005	
	Amount (PhP)	Percent to Total	Amount (PhP)	Percent to Total
License Fees	36,432,588.32	3.8%	50,669,122.89	5.5%
Registration Fees	769,195,058.73	79.8%	716,401,615.22	78.5%
Fines & Penalties	89,285,929.99	9.3%	82,464,345.82	9.0%
Misc. Income	68,409,055.99	7.1%	64,195,709.10	7.0%
<b>TOTAL INCOME</b>	<b>963,322,633.03</b>	<b>100.0%</b>	<b>913,730,793.03</b>	<b>100.0%</b>

Chart 1. SEC's Income vs. Expenditures, CY 2002-2006



# Laws Implemented by the Securities and Exchange Commission

1. Corporation Code (Batas Pambansa Blg. 68)
2. Securities Regulation Code (Republic Act 8799)
3. Presidential Decree 902 – A
4. Partnership Law (Civil Code of the Philippines)
5. Investment Company Act (Republic Act 2629)
6. Financing Company Act (Republic Act 5980)
7. Foreign Investments Act (Republic Act 7042)
8. Investment Houses Law (Republic Act 8366)
9. Access Devices Regulation Act of 1998 (Republic Act 8484)
10. Special Purpose Vehicle Act of 2002 (Republic Act 9182)
11. Securitization Act of 2004 (Republic Act 9267)

# The Capital Market Development Plan: Blueprint for Growth and Expanded Contributions to the Philippine Economy, 2005-2010

## Background and Methodology

In the first quarter of 2004, the Securities and Exchange Commission (SEC) originated the concept of a policy Blueprint to define future directions for Philippine capital market institutions, their key participants, and end users. The SEC envisioned the Blueprint as a consultative document that would provide forward-looking guidance to stakeholders in both the private and public sectors.

The SEC's decision to pursue policy formulation via the Blueprint is consistent with the agency's dual role, under Section 2 of the Securities Regulation Code, as both a regulator and promoter of the nation's capital market institutions and their participants to achieve certain economic and social objectives. To be an effective policy tool, the Blueprint needs to evaluate the role and effectiveness of the capital market and its key participants collectively as:

- An intermediary in mobilizing and allocating savings to private sector enterprises that can drive economic growth and job creation;
- A complement to the banking sector in delivering financial services and products to a wide range of local savers and investors; and
- As a change agent in developing a more balanced, stable and competitive financial system in the country.

The strategic objectives identified in the Blueprint represent a combination of economic, business, and legal/regulatory factors that will materially influence the Philippine capital market's

vitality as an engine of economic growth for the country. The Blueprint is not meant to suggest changes at the margin, but instead to focus on major policy, legal and regulatory actions that require definitive action in the near term.

The Department of Finance approved the Blueprint on 20 October 2006. Reform initiatives under each of the Blueprint's strategic objectives are set forth in an Action Plan, along with an indicative timetable that was confirmed with responsible implementing agencies. The SEC will have primary responsibility for monitoring progress in implementing the Blueprint and related Action Plan.

The SEC will also update the Action Plan during its implementation to reflect new initiatives, identify impediments that may arise during implementation and take measures to address these impediments. In this regard, the SEC will draft progress reports every four months to the Secretary of Finance who has agreed to oversee the interests of the national Government in the project. Progress reports will also be posted on the SEC website.

## Overview of the Policy Goals and Strategic Objectives

The 11 strategic objectives comprising the Blueprint are divided into four chapters, according to the institution(s) that will take the lead in pursuing the suggested reforms.

Objectives 1-3 set forth the National Government's support for the Blueprint's recommendations, its role in overseeing the implementation of the Blueprint through 2010, and its commitment to pursue macroeconomic goals and tax reforms designed to stimulate



personal savings and long-term investment via the capital market.

Objectives 4-5 focus on the key capital market institutions and various strategies and reforms intended to accelerate their growth and efficiency in allocating savings to Philippine issuers seeking long-term capital.

Objectives 6-9 include a series of legal and regulatory issues that financial regulators need to address to ensure effective oversight and enforcement capabilities, strengthen investor protection and align the framework for financial regulation with current global standards or best practices.

Objectives 10-11 highlight the issues concerning investor education and corporate governance that require a joint effort by financial regulators and principal capital market institutions.

### **Strategic Objectives**

A central objective behind the transparent and deliberate consultative process used to produce the Blueprint is the achievement of a consensus among key constituencies about the critical steps necessary to promote the development of the Philippine capital market. That process produced broad support for the Blueprint. Looking forward, maintaining broad support, as well as fostering consensus and support for the implementation of recommended actions that flow from this report, should remain a central objective of this effort.

The Philippine capital market will provide an efficient and sustainable forum for domestic companies to raise long-term capital at a reasonable and competitive cost via public offerings of equity and debt instruments. Securities offered will be listed locally and possibly abroad.


Supervision of the Philippine financial system falls into a category referred to as “multiple supervision,” i.e., responsibility for supervision is divided among multiple agents of the National Government. There is therefore a need to identify

opportunities for harmonization of financial regulations, better exchange of information and data among regulators, and to develop a strategy for pursuing future reforms that cut across the current governance structure, including minimizing, if not eliminating, imbalances or distortions in incentives that directly affect the choices of investors.

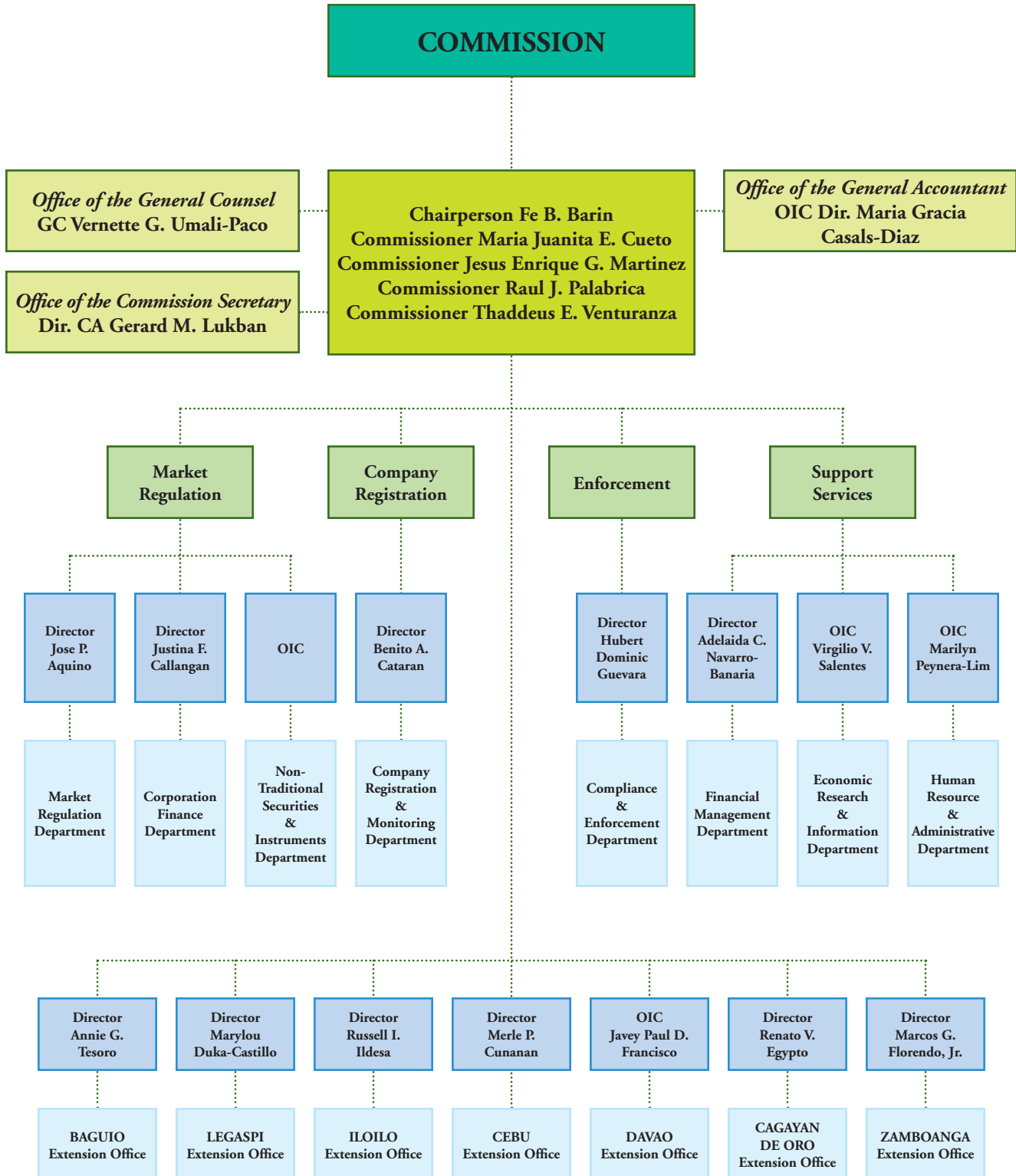
Such choices should be made in response to the “dynamics of the market place,” i.e., the interplay of supply and demand and the drive for competitive advantage via innovation and reduced costs. The government, in close consultation with the private sector, will initiate the process of identifying, discussing, deciding and prioritizing these principles and defining a strategy of achieving competitive parity across the bank and non-bank financial sectors.

To widely promote the concept of savings and investment, it is imperative to educate prospective savers and investors on the nature of investment products available through the intermediary, the risks/rewards associated with different kinds of products, and the process related to opening an account, buying and selling securities, and receiving dividend payments. The government will work closely with the private sector in developing strategies to educate the public on the importance of savings and the various investment choices available to them

The SEC will develop a policy supported by a discussion paper that explains the rationale for all proposed changes in the Philippine corporate governance regime including:

- Definition of an enforcement process and sanctions to address prolonged or repeated non-compliance with the corporate governance requirements by a regulated company; and
- Review of the experience of other countries in the region that follow an OECD-corporate governance framework, including any methods for documenting the costs and benefits of this program. 

# How We Are Organized



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