

Securities and Exchange Commission
ANNUAL REPORT 2007



*"Observing best international practices and standards
for monitoring regulatory compliance"*

CONTENTS



About the Cover

The SEC envisioned that all the best international practices and standards in accounting, auditing and other systems for monitoring compliance with fiduciary responsibility will be observed by the business community by the end of 2007.

Towards this vision, the SEC formulated policies and regulations to foster a more competitive Philippine capital market which is at par with the best in the ASEAN region.

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OUR MISSION

To strengthen the corporate and capital market infrastructure in 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 business environment. We shall be guided in this mission by the values of Integrity, Professionalism, Accountability, Independence and Initiative.

OUR VALUES

- 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.



SECURITIES AND EXCHANGE COMMISSION



“ In the year ahead, the SEC will endeavor to accomplish the challenging task of making the Self-Regulatory Organizations function effectively and maintain discipline within their ranks with minimum of intervention. With our collective efforts, we know we can rise up to this challenge. ”

MESSAGE OF THE COMMISSION

It gives us great pleasure to present the 2007 Annual Report of the Securities and Exchange Commission.

The year in review showed significant improvements in the country's economic outlook characterized by a strong peso, a robust capital market, a big leap in the amount of approved foreign direct investments, and strong remittances from abroad. This resulted in a noteworthy fourth quarter Gross Domestic Product growth of 7.4 percent, compared to last year's 5.5 percent. On the demand side, increased household spending and investments in construction were the main drivers, aided by the accelerated growth in government consumption, export of non-factor services and investment in durable equipment.

In the SEC, the year saw the registration and listing of securities of companies that conducted initial public offerings through which the total amount of money raised reached a record high of over P41 billion. The other more significant contributions of the Commission were the continuous implementation of capital market reforms, promotion of good corporate governance, and strict implementation of the rules on disclosure and accountability.

We envisioned that, by the end of the year 2007, all the best international practices and standards in accounting, auditing and other systems for monitoring compliance with fiduciary responsibility will be observed by the business community. Towards this end, the Commission issued policy directives on the adoption of accounting and auditing standards, presentation of financial statements, amendments to reportorial requirements, and participation in the conduct of the 2007 corporate governance survey, among others.

This Annual Report summarizes the contributions of the different departments and offices of the SEC to attain its objectives of promoting and developing the capital markets as regulator and policy maker. It is noteworthy to mention on this regard that the Commission was awarded by the Government Service Insurance System as one of the Seven Achiever Government Agencies for 2007.

In the year ahead, the SEC will endeavor to accomplish the challenging task of making the Self-Regulatory Organizations function effectively and maintain discipline within their ranks with the minimum of intervention. With our collective efforts, we know we can rise up to this challenge.

Mabuhay ang SEC!

Chair Fe B. Barin
Commissioner Maria Juanita E. Cueto
Commissioner Jesus Enrique G. Martinez
Commissioner Raul J. Palabrica
Commissioner Thaddeus E. Venturanza

2007 VISION

We foresee that, by December 31, 2007, all the best international practices and standards in accounting, auditing and other systems for monitoring compliance with fiduciary responsibility will be observed by the business community.

CY 2007 AT A GLANCE

Accomplishments by Major Final Output (MFO)

PLANNED	ACHIEVED
<p>MFO 1: Capital Market Development Services <i>Policy-formulation, rulemaking, and inter-agency cooperation services to facilitate the development of a globally competitive Philippine capital market</i></p>	
<p>1. Formulate and implement policies, plans, and programs to strengthen the regulatory framework and enhance the liquidity and stability of the capital market</p>	<ul style="list-style-type: none"> • Supported the passage of the Lending Company Regulation Act of 2007 (Republic Act 9474) and formulated its Implementing Rules and Regulations in August 2007. • Sustained the provision of technical inputs for the proposed legislation for the pre-need industry. SEC inputs to Senate Bills 64, 105, and 1094, touched on the powers and functions of the pre-need industry regulator, inclusion of fit and proper rule, setting of minimum unimpaired paid-up capital requirement for pre-need plan issuers, and the establishment of a Planholders' Protection Fund as a way of safeguarding planholders' interest. SEC resource persons likewise appeared before the Senate Committee on Banks and Financial Institutions and Currencies in the hearings convened for the purpose. • Gave comments to House Bills 94, 1685, and 1730 on the proposed law on personal equity retirement account (PERA), and attended their hearings. Apart from recommending the inclusion of debt instruments traded in the local fixed income exchange and securities traded in the Alternative Trading System as PERA investment products, SEC proposed the imposition of certain benchmarks to ensure the quality of investment products. • Participated in the activities of the Technical Working Group involved in the drafting of the proposed Collective Investment Schemes Law (CISL). • Evaluated and approved five (5) proposed rules submitted by Self-Regulatory Organizations. • Revisited reportorial requirements and streamlined the reporting mechanism to simplify reporting procedures and requirements and enhance regulatory compliance by covered entities. • Issued nine (9) Memorandum Circulars, Rules, and guidelines on the following: adoption of accounting and auditing standards and presentation of financial statements; amendment of reportorial requirements; definition of Qualified Buyers under Section 10 of the Securities Regulation Code (SRC); guidelines for the renewal of licenses of certain market participants; corporate governance survey for publicly-listed companies; and Pre-Need Rule 31 (as amended), along with other measures for the pre-need industry.

PLANNED	ACHIEVED
<p>2. Undertake joint activities with local and foreign institutions, industry groups, and professional organizations for mutual assistance in implementing capital market development initiatives and related regulatory efforts</p>	<ul style="list-style-type: none"> • Hosted the 7th ASEAN Capital Market Forum (ACMF) Meeting in Manila on 16 August 2007. • Conducted meetings and conferences with representatives of the Philippine Stock Exchange (PSE) for a joint deliberation of matters regarding the registration and listing of securities, concerns of listed firms, and other measures for ensuring regulatory compliance by regulated entities to protect the interest of the investing public. • Undertook a joint initiative with the PSE, Institute of Corporate Directors, and Ateneo Law School for the adoption of the Corporate Governance Scorecard for Publicly-Listed Companies (PLCs) and the conduct of a survey to assess their actual governance practices. The survey feedback and validation will serve as inputs in formulating and implementing measures for aligning local PLCs' practices with the global practices in corporate governance. • Took part in inter-agency efforts on the ratification of the Fifth Protocol to the WTO-General Agreement on Trade in Services (GATS), the proposed Japan-Philippine Economic Partnership Agreement (JPEPA), and other proposed framework agreements such as: the ASEAN-Korea Free Trade Agreement, ASEAN-China Free Trade Agreement, and the ASEAN-Australia-New Zealand Free Trade Agreement. • Participated and gave support to other initiatives and advocacies across the country on, among others: <ul style="list-style-type: none"> - Investment promotion, trade facilitation, and/or business climate improvement efforts by public and private sector institutions and organizations, such as, the Department of Trade and Industry (DTI), Board of Investments (BOI), Department of Foreign Affairs (DFA), Bureau of Internal Revenue (BIR), Bureau of Customs, Bureau of Small and Medium Enterprises (SME), National Competitiveness Council Anti-Red Tape Task Force, Bicol Regional Development Council, Legaspi City Investments Promotion and Tourism Board, and the National Economic Research and Business Assistance Center (NERBAC) in Region VII; - Establishment of a one-stop-action center (OSAC) inside the Zamboanga City Economic Zone to fast track the processing of locator-firms' licensing requirements and the handling of related concerns. - Activities of the National Anti-Poverty Commission for developing the National Financial Literacy Program; and the - Inter-agency efforts led by DTI concerning the Philippine Business Registry (PBR) project.

PLANNED	ACHIEVED
<p>MFO 2: Services for the generation and dissemination of information</p> <p><i>Services related to the generation and dissemination of information about SEC, its registered entities, and the capital market, to promote understanding and adherence to SEC-administered laws and regulations, enhance public awareness and participation in capital formation, and protect the interest of the investing public</i></p>	
<p>3. Provide investor education and assistance through conduct of trainings, dialogues, symposia, and other communication channels</p>	<ul style="list-style-type: none"> • Conducted a briefing on the ramifications of the “SEC Over-the-Counter (OTC) Rules” for industry participants and professional groups. In coordination with the PhilSEC Institute Foundation, Inc. and the Philippine Dealing and Exchange Corporation (PDEX), SEC also organized a “Symposium for Fixed Income Market Salesmen” in Metro Manila and eight other provinces and cities across the country. • Certification seminars were conducted for Associated Persons and Salesmen for licensing purposes and to enhance their knowledge of, and adherence to applicable laws and regulations so they may be able to effectively perform their functions. • Responded to various queries which were made as follows: in person, 50,976; by phone, 32,239; and through e-mail, 964. • Issued 23 legal opinions in response to queries on the interpretation of certain provisions of the Corporation Code, Securities Regulation Code, and other SEC administered laws. • Processed 230 complaints from the public, 51 from local and foreign law enforcement agencies, and 71 referrals within SEC. • Undertook investor education and assistance services to the provinces through the seven SEC Extension Offices whose key personnel gave lectures and/or acted as resource persons in various seminars and public fora to encourage public participation in the capital market by explaining the basics of investing in the capital market, SEC’s registration and enforcement procedures, and investor-protection efforts, among others. • Sustained the conduct of student orientations to inform target participants about the powers and functions of SEC, its registration and reportorial requirements, and the basics of investing, among others. Briefings in 2007 covered 1,436 students from 24 universities and colleges in Metro Manila and nearby provinces. Relatedly, 121 students from various educational institutions were given the opportunity to undertake on-the-job trainings in the SEC Head Office.
<p>4. Conduct studies and researches on corporate performance and industry trends</p>	<ul style="list-style-type: none"> • Published the book <i>Philippines 5,000 (Top 5,000 Corporations, 2007 Edition)</i> containing the evaluation made on the performance and industry ranking of the top firms based on information gathered from their annual audited financial statements. • Processed 240 requests for corporate information, company and industry listings, and the related company registration and investment statistics.

PLANNED	ACHIEVED
<p>5. Manage the development, implementation, and maintenance of information systems, databases, and the SEC website</p>	<p>SEC-iRegister made possible the processing, on a daily average, of 1,977 requests for verification of company names and reservation of proposed company names, as follows:</p> <ul style="list-style-type: none"> ◦ Verification: 1,632 <ul style="list-style-type: none"> a. On line (through the internet, 24x7):1,274 b. Walk-ins at the Head Office (8 hours, Mondays to Fridays): 358 ◦ Reservation: 345 <ul style="list-style-type: none"> a. Online (24x7): 217 b. Walk-ins (8x5): 128 <p>Since its launching in August 2005 the SEC-iView module of the SEC-iReport system made possible the online viewing and printing of digitized documents. With the additional 3.54 million document pages digitized in 2007, almost 29 million document pages have been uploaded into the system. Apart from reducing person-to-person transactions at the head office, the SEC-iView has given the public the flexibility and convenience of viewing and printing documents, such as company registration documents, periodic reports and disclosures, and financial statements in the confines of their homes, offices, and internet shops. In 2007, around 87% of walk-in clients at the Public Reference Unit were served within one hour. This is a substantial improvement compared with the 43% served in 2002, and the less than 10% served in 2001, wherein unserved clients had to return on another day to claim requested documents and/or re-file request.</p> <ul style="list-style-type: none"> • Posted at the SEC website 208 various information materials consisting of instructions on SEC's registration procedures, reportorial requirements, and schedule of fees, and Cease and Desist Orders issued against errant entities. Advisories were also posted at the website to warn the public about five (5) unregistered firms engaging in Internet-based Ponzi scams, and other entities engaging in illegal activities, such as the selling of securities without the appropriate license/authority from the SEC. Apart from educating the public on how to detect and avoid illegal investment schemes and scams, they were encouraged to report the same to SEC and/or the authority concerned so that action can be undertaken against unscrupulous firms and individuals.
<p>MFO 3: Registration, enforcement, regulation and monitoring <i>Services related to the registration, licensing, and accreditation of firms and individuals, registration of securities and market instruments, monitoring and/or evaluation of corporate reports, financial disclosures and registration statements, and the enforcement of SEC-administered laws and regulations by investigating potential legal infractions and imposing penalties against errant entities</i></p>	
<p>6. Register stock and non-stock corporations, record articles of partnership, and issue license to foreign corporations</p>	<ul style="list-style-type: none"> • Registered 15,065 stock corporations and 8,526 non-stock corporations; recorded 2,390 articles of partnership; and granted licenses to 130 foreign branch and representative offices and 17 multinationals. • Processed and approved 14,258 various applications including the following: 7,418 applications for amendments in Articles of Incorporation and By-Laws; 1,296 increase of capital stock; 45 corporate mergers and consolidations; 194 dividend declarations, 139 dissolutions, 28 decrease of capital stock; 915 applications for amended Articles of Partnerships including Deeds of Assignment, Affidavit of Withdrawal, and Dissolution of Partnership; and various Foreign Investments Act (FIA)-related applications such as 42 applications for increase in foreign equity and 78 filings of securities deposit of branch offices of foreign corporations, among others.

PLANNED	ACHIEVED
<p>7. Register/license capital market participants, and securities and investment instruments</p>	<ul style="list-style-type: none"> • Registered/issued licenses to 2,576 entities, such as securities brokers and dealers, investment houses, financing companies, investment companies, government securities eligible dealers, transfer agents, pre-need plan dealers and general agents, surety companies, mutual fund distributors, associated persons, salesmen, certified investment solicitors and compliance officers. • Evaluated applications and issued 58 Certificates of Eligibility (COE) covering non-performing assets worth ₱4.86 billion. • Accredited 52 auditing firms and 295 external auditors. SEC also granted four-month probationary accreditations to nine (9) auditing firms and 78 external auditors. • Issued a license to the Marketplace for Trade and Related Services (TRESDAQ) as an Alternative Trading System (ATS) of Regina Development Capital Corporation, and renewed the license of the Marketplace for SME Receivable Purchases (M4SME-RP) as an ATS of the Development Bank of the Philippines. • Registered ₱151.22 million worth of securities and pre-need plans, broken down as follows: ₱120.05 million equity securities, ₱11.10 million debt securities, ₱3.74 million proprietary and non-proprietary shares/ certificates, and ₱16.33 million pre-need plans. The string of Initial Public Offerings (IPOs) in 2007 set the pace for the robust 77% expansion in the amount of registered securities and pre-need plans, compared to the year-ago level which stood at ₱85.64 million.
<p>8. Examine, inspect, verify, and/or evaluate corporate reports, financial disclosures, and registration statements</p>	<ul style="list-style-type: none"> • Continued the process of monitoring compliance with reportorial requirements under Section 141 of the Corporation Code of the Philippines. Monitored 21,354 corporations, of which certificates of incorporation of 1,156 firms were revoked; 6,940 corporations were fined; and lifted revocation orders on motion filed by 315 corporations. For the year in review, SEC stepped up its monitoring activities on foundations and multinational companies. • Monitored/reviewed 21,189 financial reports, disclosures, and other periodic reports of regulated entities. • Conducted an oversight audit on PSE and the PDEX to assess their performance and audit practices as Self-Regulatory Organizations (SROs). • Monitored 354 Anti-Monetary Laundering Act (AMLA) Compliance Forms submitted by Financing Companies.
<p>9. Conduct enforcement, regulatory compliance-monitoring, surveillance, and intelligence activities</p>	<ul style="list-style-type: none"> • Monitored market trading participants and their daily transactions through the use of a real-time market surveillance system for detecting unusual price and volume movements to identify and/or address any potentially problematic or fraudulent stock transaction in its early stage. • Undertook investigations on six (6) firms suspected of engaging in boiler room activities, and looked into the operations of Ponzi scams and securities fraud perpetrated through the Internet. In two instances, the websites of suspected boiler room operators were closed down by their web hosts upon SEC's request. • Evaluation made on 17 investigation reports completed in 2007 resulted in the filing of three (3) complaint-affidavits and six (6) Administrative Petitions for Revocation of Certificates of Registration, and the imposition of fines/penalties on seven (7) corporations three of which were through settlement. • Terminated 49 cases and released 375 various Orders, Resolutions, and Decisions on cases involving the Calling of Meetings, Corporate Names, Dissolutions, Suspension of Payments, and Petitions to Lift Orders of Revocation, among others.

PLANNED	ACHIEVED
Other activities undertaken to deliver on SEC's MFOs---	
10. Observe prudence in administration of SEC's mandate and resources	<ul style="list-style-type: none"> • Collected ₱1,883.10 million, or 95% higher than the year-ago level of ₱963.30 million, which can be attributed to the following: renewed confidence in the market that boosted collections derived from the registration/licensing of corporations, securities, and capital market participants; intensified compliance-monitoring and enforcement activities that generated more collections from fines imposed against errant entities; and the automation of certain registration processes, including among others, the issuance of official receipts and the reporting of collections, thereby improving the internal system for recording, monitoring, and reporting of financial transactions. • Reduced level of expenditures by 13% to ₱350.40 million from ₱405 million in the previous year. For the last five years, SEC contributed an annual average of ₱705 Million to the national coffers, while maintaining the ratio of expenditures to income at less than 50% during the same period. • Adhered to auditing and accounting rules and regulations prescribed by the Commission on Audit (COA). In 2007, no material observation, adverse findings/exceptions on collections and disbursements, were noted by the COA on the Commission's financial transactions and internal control processes.
Efforts to improve on the SEC's organizational efficiency resulted in the following: <ul style="list-style-type: none"> • The Commission was awarded one of the 2007 Seven Achiever Government Agencies on 31 May 2007 by the Government Service Insurance System (GSIS); and, • On 17 October 2007, SEC was elevated to the elite Hall of Fame Category of Outstanding Accounting Offices by the Association of Government Accountants in the Philippines, on account of SEC being one of the "Most Outstanding Accounting Office in the National Government Sector - Big Agency Category" in the years 2002, 2004, 2005, and 2006. 	

MARKET DEVELOPMENT SERVICES

CORPORATION FINANCE
DEPARTMENT



ACCOMPLISHMENTS

I. Initial Public Offering

The year saw the registration and listing of the securities of several companies that conducted initial public offerings (IPOs). The total amount of money raised through IPOs reached a record high of ₱41.2 billion in 2007. Ten (10) companies conducted IPOs during the year. Vista Land & Lifescapes, Inc. was the biggest issuer with an issue size of ₱21.2 billion, followed by Aboitiz Power Corporation at ₱11.6 billion. Table 1 shows the companies that went public in 2007.

Table 1. Initial Public Offering 2007

	Company	Amount of Issue
1	Pacific Online Systems Corporation	₱ 104,800,000.00
2	National Reinsurance Corporation of the Philippines	2,424,400,000.00
3	Phoenix Petroleum Philippines, Inc.	284,200,000.00
4	Aboitiz Power Corporation	11,600,000,000.00
5	GMA Network, Inc.	1,552,900,000.00
6	Vista Land & Lifescapes, Inc.	21,276,060,318.00
7	Anchor Land Holdings, Inc.	581,100,000.00
8	I-Remit, Inc.	502,711,560.00
9	Splash Corporation	2,011,000,000.00
10	Oriental Peninsula Resources Group, Inc.	894,000,000.00

Registers securities before they are sold or offered for sale to the public and ensures availability of adequate information on said securities.

Ensures that investors have access to all material disclosures on securities of public companies and their offering to the public.

Monitors compliance by issuers with the SRC and its implementing rules and regulations embodied therein and transmits infractions thereof to the Compliance and Enforcement Department.

Corporate Governance Practices

SEC continued to intensify its efforts to monitor meaningful compliance with the Code of Corporate Governance. It issued Memorandum Circular No. 2, s. 2007, directing all publicly-listed companies to participate in a **Corporate Governance (CG)** Survey using the **CG Scorecard** as the survey instrument, replacing the previously required self-rating forms.

Copies and templates of **CG Scorecard** were distributed through paper mail and posted in the official SEC website. Initially, one hundred fifty three (153) companies responded to the survey in 2007, the results of which will be evaluated by the Institute of Corporate Directors (ICD).

Influenced by the methodological and regional framework introduced by Thailand, the CG Scorecard approach relies significantly on responses to customized questionnaires relative to existing corporate management policies and practices of sample companies. Conducted in collaboration with the Philippine Stock Exchange (PSE) and the ICD, the survey will (i) provide the regulators and covered companies with empirical data on the current state of corporate governance within the covered industry group to be used in part as basis for policy and program interventions; (ii) help these companies develop or strengthen their CG structures or mechanisms at par with world standards; and (iii) help SEC in its review of CG principles for possible adoption by public companies.

III. New Regulation on Lending and Borrowing

The SEC recognizes the important role of financing and lending companies in providing credit loans to business enterprises on term basis to finance its capital investments. The increasing demand for capital financing is a natural complement to the recovery of growth and further expansion of businesses in the country. In 2007 alone, financing companies in the Philippines granted gross loans amounting to ₱72.410 billion, an increase of 10.41% from the previous year's level of ₱64.88

billion. Industry assets rose to ₱88.642 billion in 2007, a 10% increase from its year-ago level of ₱80.27 billion.

There are 614 financing companies and 4,737 lending companies in the country as of the year in review. Lending companies are broken down as follows:

Corporations	- 2,233
Partnerships	- 777
Single Proprietorships	- 1,727
Total	<u>4,737</u>

As provided for in Republic Act No. 8556, otherwise known as The Financing Company Act, these companies may extend credit and loan facilities to business enterprises by any of the following activities:

- Direct lending
- Discounting/Factoring of Commercial Papers and Receivables
- Trading of contracts, leases, chattel mortgages and other evidences of indebtedness
- Financial leasing of movable and immovable properties

The newly enacted Lending Company Regulation Act of 2007 allows lending companies to do only direct lending activity.

IV. Contributing to the Growth of the Mutual Fund Industry

The mutual fund industry is recognized as one of the more viable and better performing investment outlets in the country. Since its inception, the mutual fund industry has helped the financial market grow tremendously. Consequently, more sophisticated investment opportunities and mechanisms have evolved. The net assets of the industry grew by a compounded annual growth rate of 70.7% over the last five years. It also experienced remarkable performance in terms of sales and investment returns. In mid 2007, the industry generated sales of ₱24.290 billion, and in 2006, ₱69.954 billion.

There are 43 registered mutual fund companies in the Philippine as of 2007. The mutual fund concept was introduced in the Philippines in 1957 when Filipinas Mutual Fund (FMF) was launched in December of that year. A few years after, more funds were organized that led the Philippine Congress to enact in 1960 Republic Act No. 2629, otherwise known as the Investment Company Act.

V. Registration, licensing and monitoring of Market Participants

Table 2A. Registration

Type of Market Participant	Registered as of December 31, 2006	New Registrants for the Year 2007	Revoked During 2007	Surrendered C/A During 2007	Registered as of December 31, 2007
Companies listed on the Exchange	235	9	-	-	244
Issuers of Securities to the Public (Unlisted)	120	14	1	-	133
Investment Companies	40	3	-	-	43
Financing Companies					
• Head Office	665	20	1	75	609
• Branch	564	52	-	46	570
Lending Companies ¹	-	8	-	-	8
Rating Agency	1	-	-	-	1
Total	1,625	106	2	121	1,608

Table 2B. Amount of Registered Securities

Type of Securities	2007	2006	2005
Equity Securities	₱ 120,054,051,117.26	₱ 61,211,164,937	₱ 68,062,071,000
Debt Securities	11,100,000,000.00	3,872,000,000	7,332,000,000
Proprietary & Non-Proprietary Shares/Certificates	3,741,388,200.00	2,647,987,600	3,361,193,780
Total		₱ 67,731,152,437	₱ 78,755,264,780

¹ Pursuant to SEC Memo Circular No. 13, s. 2001, all partnerships and single proprietorships must convert into corporations, after which all lending corporations must secure secondary licenses to operate as a Financing Company. In 2007, however, R.A. No 9474, otherwise known as the Lending Company Regulation Act was enacted, placing regulatory power to SEC over these companies. Eight (8) lending companies secured Certificate/s of Authority to Operate as a Lending Company during the year.

VI. Enforcement of Reportorial Requirements

SEC Memorandum Circular No. 3, issued on September 5, 2007, calls for the discontinuation of some filings and the modification of the format, content and frequency of submission of certain reports. The following reports filed with the Department have been replaced by new reporting documents:

Table 3A. New Reporting Requirements

Reporting Entity	Type of Discontinued Reports	Replaced by
Listed Issuers of Securities	Self-rating form	Corporate Governance Scorecard
Issuer of Registered/ Exempt Commercial Papers	a) Monthly Report (M- 101-40) b) List of issuances, outstanding balances and maturing obligations that form part of Form 17-Q c) Quarterly Report and Monthly Report of issuers of exempt CPs	
Financing Companies	a) Report on the change in directors/officers with NBI clearance, police clearance, certificate of good moral character, band credit information and proof of financial capacity b) General Information Sheet c) FCQF1 and FCQF2	Interim Financial Statements

Table 3B. Number of Reports Evaluated

Issuers of Securities to the Public	Total for 2007
Annual Reports (SEC Form 17-A)	333
Quarterly Reports (SEC Form 17-Q)	174
Current Reports (SEC Form 17-C)	2,590
Beneficial Ownership Reports (SEC Form 23-A/B)	1,875
Information Statements (SEC Form 20-IS)	655
Commercial Paper Issuers' Reports	500
Mutual Funds Reports	308
Tender Offer Reports (SEC Form 19-1)	5
Sub-total	6,440
Financing Companies	
Quarterly Reports	1,970
Commercial Paper Issuers' Reports	1,244
Sub-total	3,214
Total	9,654

VII. Compliance with the Anti-Money Laundering Act

Pursuant to SEC Circular No. 1, series of 2002, dated January 22, 2002, a financing 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.” Five hundred forty two (542) financing companies submitted the said Manual .

Three hundred fifty four (354) financing companies filed the requisite AMLA Compliance Forms within the prescribed period after the issuance of their Certificate of Authority. The appropriate “show cause” letters were sent to non-compliant companies.

Table 3C. Number of On-Site Audits Conducted

Type of Entity	Number of Audit
Financing Companies	12
Total	12

Table 3D. Amount of Penalties Imposed & Collected

Law/Rules Violated	Amount of Penalties Collected
Financing Company Act and its Implementing Rules	₱ 1,286,326.00
Securities Regulation Code and its Implementing Rules and Regulations	
• Violations of Rule 17	9,184,532.24
• Violations of Rule 23	509,200.00
• Violations of Section 54	1,500,400.00
• Violations of Rule 20	80,000.00
• Violations of Rule 68	302,000.00
• Other Violations	173,773.75
Total	₱ 13,036,231.99

MARKET REGULATION DEPARTMENT



ACCOMPLISHMENTS

I. Market Activities

The decline in Shanghai stock market's benchmark had a significant impact on the first quarter performance of the Philippine Stock Exchange (PSE) for 2007. This resulted in a global stock sell-off that spilled into other stock markets, including the US. The main index rose in the next quarter as the Philippine peso climbed to a six-year high, coupled with increases in both foreign and domestic trading activities. On the third quarter, the Exchange reached a new milestone when the annual value turnover hit the ₱1 trillion mark. The Philippine Dealing and Exchange Corp. (PDEX), meanwhile, had a trade volume of ₱1.55 billion for the year in review. The unprecedented surge in value turnover reflected the growing enthusiasm of investors, which included foreign groups, to invest in the local capital market. Improvements in the government's fiscal position, also helped tremendously in the positive turnaround of the economy.

The Department continued to monitor the activities of the PSE and the PDEX as part of the SEC's supervisory authority over Self-Regulatory Organizations (SROs). It conducted an oversight audit to assess the exchanges' respective performance as SROs and evaluated their present audit procedures. Likewise, it reviewed the proposed PSE examination calendar and audit methodology implemented on Trading Participants (TPs) for the year.

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 capital market entities.

Ensures compliance with the registration requirements and transmits infractions of the SRC and its Rules and Regulations to the Compliance and Enforcement Department.

I. Licensing and Monitoring

The Department issued new licenses to the following market participants:

Table 1. Number of Licenses Issued, 2007

Type of Market Participant	Institutional	Individual
Broker-dealers	151	-
Broker – dealers – Branch offices	18	-
Securities underwriters	31	-
Government securities eligible dealers	60	-
Investment company advisers	14	-
Mutual fund distributors	13	-
Transfer agents	28	-
Surety companies	11	-
Associated persons	-	162
Salesmen	-	858
Certified investment solicitors	-	997
Compliance officers	-	99

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, and issuances of the SEC that affect the capital market and its participants.

For those who did not meet the necessary certification requirements for Associated Persons in years 2004–2006, the Department conducted special certification seminars and examinations simultaneously in June 2007 to give the concerned APs the opportunity to complete their credentials before applying for registration renewals for the ensuing year.

During the period under review, the Department monitored, reviewed and analyzed the following reports:

Table 2. Number of Reports Monitored, 2007

Type of Report	Total for 2007
RBCA Report	1,800
SEC Form 28T (Termination Notices)	86
SEC Form 28 S/AP (amendments)	3
SEC Form 30.1	107
SEC Form IHU-A	38
SEC Form 28-BDA	63
SEC Form IHU/GSED-CO-AP	33
SEC Form ICA-IA	9
Annual Report	30
SEC Form ICA-COS-CO-T	17

To facilitate online filing and processing of secondary license applications by market participants, the Department adopted the Company Registration and Licensing Information System (CRLIS) Functional Specifications Document (FSD) in connection with the second phase of the *SEC i-Report* project.

II. Initiatives to further strengthen capital market regulation

In January 2007, the Department conducted a briefing on the ramifications of the “*SEC Over-The-Counter (OTC) Rules*” to industry organizations and professional groups. Among the issues discussed was the requirement for “Broker-Dealers” (broad definition covers Broker-Dealers, Investment Houses, Underwriters of Securities and Government Securities Eligible Dealers) in the OTC market to amend their registration as well as those of their respective Salesmen and APs or Compliance Officers (COs).

In December 2007, the Department, in coordination with the PhilSEC Institute Foundation, Inc. and the Philippine Dealing and Exchange Corporation (PDEX), conducted the “*SEC Symposium for Fixed Income Market Salesmen*” which was attended by bank officers and personnel that will act as OTC salesmen of banking institutions that are members of the Bankers Association of the Philippines. The symposium was conducted in Metro Manila, Cebu, Iloilo, Cagayan de Oro,

Davao, Baguio, Lucena and in the cities of Laguna and Pampanga.

Through the Department's efforts, the following Rules submitted by the SROs were approved by the Commission:

- *PDEX's Inter-Professional Market for Repurchase Agreement Program Rules (Repo Rules)* that, in general, will supply cash liquidity, trading efficiency and depth in the market. The Repo Rules provide the principles and procedures that will govern the conduct of business by repo participants, classify and qualify the repo trading participant and their conduct and respective obligations, furnish the types of eligible collateral securities and its features and describe the repo trading mechanics to be used as well as the repo settlement mechanics.
- *PDEX's Rules on Inter-Professional Market* allowing qualified buyers, together with the dealer-banks, to directly participate in its trading system, as well as expand the list of products to include private fixed income securities other than government securities. Allowing these "qualified investors" to participate in PDEX provides opportunity to view on real time the bid and ask quotes of dealers, thus improving the transparency of price discovery process.
- *PDEX's Rules on Fixed Income Securities Lending Transactions* for its trading participants. The PDEX approach involves pooling the fixed income securities of participating lenders and making them available for borrowing by the trading participants via trade matching mechanism.
- *PSE's Securities Borrowing and Lending Rules.* The PSE has opted to allow the conduct of SBL by its trading participants via the traditional approach of engaging a lending agent. According to the said Rules, any trading participant who wishes to engage in SBL as Agent Facilitator must execute an SLAA (Securities Lending Authorization Agreement) with its client before it does the first SBL transaction on behalf of the client and as a Lender, with the Lending Agent. A trading participant, whether

acting as an Agent-Facilitator or a principal with respect to securities that it owns, shall engage a Lending Agent in the conduct of SBL transactions.

- *PSE's Amended Short Selling Rules.* This amended version authorizes the PSE to limit the listed securities that may be subject of a short sale based on those which can meet the approved set of criteria. It also empowers the PSE to require its trading participants to tag all short sale transactions and enables the PSE to disclose to the public these transactions in aggregate numbers.


The Department lent logistical and administrative support for the successful hosting by the SEC in Manila of the the 7th ASEAN Capital Market Forum (ACMF) Meeting on August 16, 2007. The ACMF was established to bring together the heads of securities regulatory authorities in the region. The delegates present were from Indonesia, Laos, Malaysia, Myanmar, Singapore, Thailand, Vietnam and the Philippines. The various projects reported on the ASEAN Capital Market Development Working Committee included updates on bond linkages and exchange linkages among the member countries, as well as recent developments in the ASEAN Bond Mutual Fund Project.

III. Inter-agency participation

In February 2007, through the initiative of the Department, the SEC reiterated its commitment to the International Organization of Securities Commissions (IOSCO) to exert its best efforts in working towards the removal of the impediments identified by the IOSCO Screening Committee. This paved the way for the inclusion of Philippine SEC as a signatory to Annex B of the IOSCO Memorandum of Understanding (MOU) the following month

The Department worked with the representatives of the Bangko Sentral ng Pilipinas (BSP) in April 2007 in developing an action plan involving the Performance Foreign Exchange Corporation (PFEC) and other similar companies engaged in illegal activities related to currency financial futures or leveraged foreign currency/margin trading.

NON-TRADITIONAL SECURITIES AND INSTRUMENTS DEPARTMENT



Registers and grants licenses for non-traditional securities and instruments, including but not limited to pre-need plans, commodity futures contracts, proprietary shares or membership certificated and other similar instruments.

Monitors compliance with rules and transmits infractions thereof to the compliance and enforcement department

HIGHLIGHTS OF ACCOMPLISHMENTS

For the year in review, 31 pre-need corporations were granted dealer's licenses to sell pre-need plans, i.e. education, life and pension. Of the 31, ten (10) corporations are authorized to sell three (3) types of plans, eight (8) corporations can sell two (2) types of plans and 13 corporations can sell one (1) type of plan.

The Non-Traditional Securities and Instruments Department continued to oversee and monitor the operations of pre-need companies, particularly the solvency and liquidity of their trust funds in order to satisfy their obligations to planholders. The Department also pursued the reforms that will strengthen the policy and regulatory framework of the pre-need industry to ensure prudent investment management of

the trust fund, protect the interests of the planholders and nurture an environment that fosters investor confidence and vibrancy in the industry.

Table 1. Sales of Pre-Need Corporations

Type of Pre-Need Plan	January – December 2007		January – December 2006		Percent Growth/ (Decline) Rate
	Total	Percent to Total	Total	Percent to Total	
Number of Plans Sold	228,952	100.00	243,480	100.00	(5.97)
Education	24,603	10.75	33,118	13.60	(25.71)
Life	107,070	46.77	87,795	36.06	21.95
Pension	97,279	42.49	122,567	50.34	(20.63)
Sales (Peso Amount)	18,939,932,358	100.00	19,798,886,350	100.00	(4.34)
Education	3,849,181,603	20.32	4,095,455,629	20.69	(6.01)
Life	4,069,238,594	21.48	3,144,247,919	15.88	29.42
Pension	11,021,512,161	58.19	12,559,182,803	63.43	(12.24)
Initial Collection (In pesos)	2,014,812,454	100.00	2,493,154,685	100.00	(19.19)
Education	332,397,901	16.50	393,086,784	15.77	(15.44)
Life	317,050,299	15.74	250,379,263	10.04	26.63
Pension	1,365,364,253	67.77	1,849,688,638	74.19	(26.18)

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

PRE-NEED SALES PERFORMANCE

Pre-need sales from January to December 2007 totaled ₱18.9 billion. Pension plans continued to remain as the best selling product with a 58.19 percent share in the total sales, whereas education plans and life plans posted sales at 20.32 and 21.48 percent, respectively. Meanwhile, life plans posted the top percentage sales growth at 29 percent over the previous year's level.

TRUST FUND

Pre-need companies are required to set aside part of the contract price to be deposited under a trust account. It is important that the trust fund and its investment yields accumulate to the maturity value indicated in the pre-need contract. The size and quality of the trust fund assets are evaluated yearly by the Department against the pre-need reserve liabilities. It is imperative that the trust fund assets be equal to or in excess of actuarial reserve liabilities since any excess or shortfall can directly affect the net worth and capability of the company to deliver the contracted benefit obligations to the plan holders.

At the end of December 2007, pre-need trust funds amounted to ₱107.2 billion, 13.0 percent higher than the 2006 level of ₱94.8 billion. Table 2 provides a breakdown of the trust fund held by the different trustees.

Table 2. Investment Portfolio of the Trust Fund for Pre-Need Corporations as of 31 December 2007

Investment Instruments	Amount	Percent to Total
TRUST FUND EQUITY	107,231,107,110	100.00
Government Securities	76,099,459,459	70.97
Equities	19,543,820,225	18.23
Real Estate	6,041,812,523	5.63
Time Deposits	4,069,496,011	3.80
Others	1,476,518,892	1.38

During the year in review, the Department initiated the following enforcement measures:

- Assisted in the Commission's issuance of Memorandum Circular No. 1, s. 2007, otherwise known as the Guidelines on the Expedient Approvals of Matters Concerning Pre-Need Plans which was approved on April 4, 2007.
- Issued on April 20, 2007, in coordination with the Office of the General Accountant, a Notice for revised requirements on the reserving and liability recognition of pre-need companies covering their audited financial statements.
- Implemented Pre Need Rule 31, as amended: *Accounting Standards for Pre-Need Plans and Pre-Need Uniform Chart of Accounts (PNUCA)*, for interim financial statements of pre-need corporations covering the period from June 30,

2007 and onwards and for audited financial statements as of December 31, 2007, and thereafter, in compliance with the PAS/PFRS.

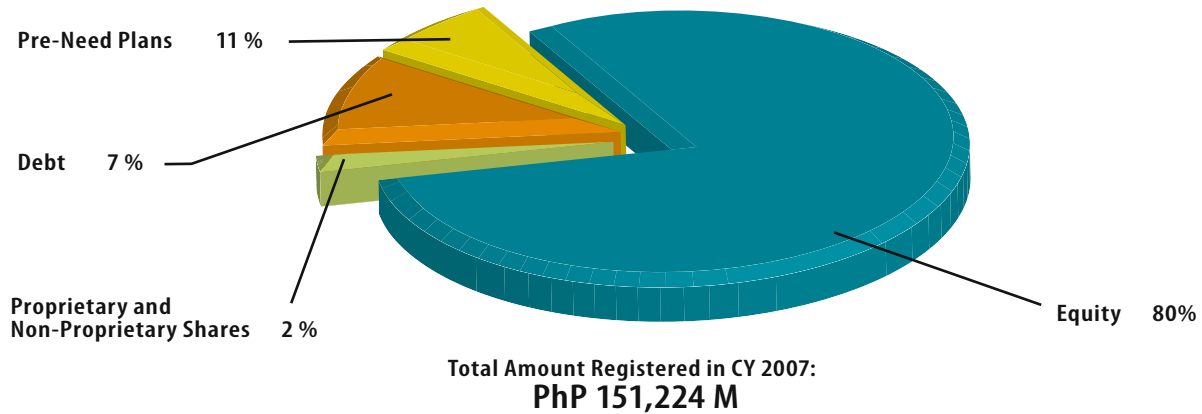
- Formulated the Guidelines on the Management of the Trust Fund of Pre-Need Corporations, approved on September 27, 2007 and issued as SEC Memorandum Circular No. 4, series of 2007. This took effect on November 1, 2007.
- Discontinued the submission of the schedule of lapsed, cancelled and surrendered plans and the list of salesmen on apprenticeship, as provided for in SEC Memorandum Circular No. 3, s. 2007. The same issuance also limits the frequency of submission of certain reports.

The Department renewed the license of the Marketplace for SME Receivables Purchases (M4SME-RP) as an Alternative Trading System (ATS) of the Development Bank of the Philippines. It also issued a license to the Marketplace for Trade and Services Related Securities (TRESDAQ) as an ATS of Regina Development Capital Corporation.

Table 3. Registration of Pre-Need Securities
Securities Registered, CY 2006 – CY 2007
(Amount in Million Pesos)

Type of Pre-Need Securities	2007	2006	Percent Increase / (Decrease)
Total	16,328.6	17,905.0	(8.80)
Education	1,933.6	4,400.0	(56.05)
Life	4,710.0	3,650.0	29.04
Pension	9,685.0	9,855.0	(1.72)

Statistics on Registration of Securities and Pre-Need Plans



Increase in Securities Registration CY 2006 - CY 2007	
Equity Securities	96 %
Debt Securities	187 %
Proprietary and Non-Proprietary Shares	41 %

Equity Securities		
YEAR	Amount (in PhP M)	Growth Rate
2007	120,054	96 %
2006	61,211	(10 %)
2005	68,062	376 %
2004	14,284	(88 %)
2003	119,245	
Total	382,856	

Debt Securities		
YEAR	Amount (in PhP M)	Growth Rate
2007	11,100	187 %
2006	3,872	(47 %)
2005	7,332	47 %
2004	13,955	(29 %)
2003	10,800	
Total	47,059	

Proprietary and Non-Proprietary Shares/Certificates		
YEAR	Amount (in PhP M)	Growth Rate
2007	3,741	41 %
2006	2,648	(21 %)
2005	3,361	(70 %)
2004	11,336	171 %
2003	4,183	
Total	25,269	

Pre-Need Plans		
YEAR	Amount (in PhP M)	Growth Rate
2007	16,329	(9 %)
2006	17,905	(30 %)
2005	25,630	(9 %)
2004	28,176	(11 %)
2003	31,840	
Total	119,880	

COMPANY REGISTRATION

COMPANY REGISTRATION AND MONITORING DEPARTMENT



Registers domestic corporations and partnerships.

Approves amendments to articles of incorporation/partnership, by-laws, increase in capital stock and mergers and acquisitions.

Grants licenses to foreign corporations to do business and to multinational companies to establish regional headquarters in the Philippines.

Conducts monitoring or supervision activities on compliance by corporations with applicable laws.

ACCOMPLISHMENTS

I. Company Registration

During the year in review, the Company Registration and Monitoring Department worked in partnership with various government agencies and institutions to further improve the registration processes and procedures of the SEC. The Department continued its collaboration with the Board of Investments, briefing foreign investors on the laws, rules and regulations being implemented by the SEC. It actively represented the SEC in various Anti-Red Tape Task force meetings to enhance public service. It participated in the workshops conducted by the National Competitiveness Council, Bureau of Customs, Bureau of Small and Medium Enterprises, and Department of Trade and Industry. Meetings were held with the Department of Foreign Affairs to

address the concerns of some Korean investors and with the Department of Social Welfare and Development on the expansion of the coverage of endorsable activities.

The Department also took part in the workshops on corporate governance conducted by the Philippine Council for NGO Certification, a private entity.

The Department's continuing collaboration with the various government agencies and entities, like the Department of Health, Department of Education, Department of Social Welfare and Development, Department of Energy, Bangko Sentral ng Pilipinas, Insurance Commission, Commission on Higher Education, Technical Education Skills and Development Authority, Civil Aeronautics Board, Maritime Industry Authority, National Telecommunication Commission, Philippine Overseas Employment Administration, Bureau of Fire Protection and Philippine National Police proved to be very productive as well.

Table 1. Company Registrations CY 2007

Registered Domestic Corporations	
Registered Domestic Corporations	
A. Stock	12,466
B. Non-Stock	5,217
Recorded Articles of Partnership	1,822
Licensed Foreign Corporations	
A. Branch Office	70
B. Representative Office	55
Licensed Multinationals	
A. RHQ	5
B. RHOQ	12

Table 2. Other Applications Approved

Amended Articles of Incorporation	5,344
Amended By-laws/New By-laws	943
By-laws	33
Dissolution	112
Extension of Corporate Term	60
Increase of Capital Stock	1,108
Decrease of Capital Stock	28
Merger/Consolidation	41
Increase in Foreign Equity	42
Amended Articles of Partnership/Deed of Assignment/Affidavit of Withdrawal/Dissolution of Partnership	848
Amendment of License of Foreign Corporation	14
Withdrawal of License of Foreign Corporation	15
Filing of Securities Deposit of Branch Office of Foreign Corporation	78
Confirmation of Exemption/Valuation of Properties	57
Voting Trust Agreement	189
Dividend Declaration	140
Equity Restructuring	22
Additional Paid-in Capital	8
Accreditation of Appraisers	3
Certification Issued	4,573



II. Company Monitoring

The Department also monitors the corporations' compliance with SEC's reportorial requirements, such as the General Information sheet (GIS) and the Financial Statements (FS), and with the other applicable laws, rules and regulations vis-a-vis the contents of the reports.

During the year, the Department focused on the monitoring of foundations, the corporations registered in 2001, and the regional operating headquarters.

With the full simultaneous implementation of the Revised Guidelines on Foundations and the Guidelines on Compliance by Foreign Corporations with the Reportorial Requirements, the Department reviewed the reportorial status of 4,163 foundations, 597 Regional Headquarters, and 43 Regional Operating Headquarters, representing 41.6, 97 and 77 percent, respectively, of the total registered with the SEC.

Also, there were collaborative efforts with the Philippine Association of Multinational Companies' Regional Headquarters, Inc. regarding the latter's concerns on certain provisions of the Guidelines.

Table 3. Company Monitoring, 2007

Number of corporations monitored	13,142
Number of certificates of incorporation revoked	1,156
Number of corporations fined	4,759
Number of corporations whose Orders of Revocation were lifted	217

EXTENSION OFFICES

Supports the Commission's enforcement and regulatory responsibilities and goals.

Supports the work of the Company Registration and Monitoring Department (CRMD).

Performs enforcement, investigation and/or inspections in coordination with the Compliance and Enforcement Department.

ACCOMPLISHMENTS

The SEC has seven (7) extension offices in the Philippines namely: Baguio (BEO), Cagayan de Oro (CDOEO), Cebu (CEO), Davao (DEO), Iloilo (IEO), Legaspi (LEO) and Zamboanga (ZEO).

Among others, the accomplishments of the extension offices in 2007 are the following:

Table 1. Company Registrations CY 2007

	BEO	CDE	CEO	DEO	IEO	LEO	ZEO	Total
Registered Domestic Corporations								
A. Stock	200	238	1,089	509	411	81	71	2,599
B. Non-Stock	841	498	467	748	491	32	232	3,309
Recorded Articles of Partnership	130	54	165	111	58	32	18	568
Licensed Foreign Corporations								
A. Branch Office	-	-	3	-	2	-	-	5

The other applications approved by the SEC extension offices in 2007 are shown below:

Table 2. Other Applications Approved

	BEO	CDE	CEO	DEO	IEO	LEO	ZEO	Total
Amended Articles of Incorporation	148	64	321	203	96	40	44	916
Amended By-laws/ New By-laws	37	17	58	51	29	2	21	215
By-laws	1	736	1,094	1,091	2	408	303	3,635
Dissolution	9	1	7	3	2	3	2	27
Increase of Capital Stock	16	12	62	52	30	5	11	188
Merger/Consolidation	-	-	1	2	1	-	-	4
Increase in Foreign Equity	-	-	4	3	-	-	-	7

continued on next page

Table 2. Other Applications Approved (...from page22)

	BEO	CDE	CEO	DEO	IEO	LEO	ZEO	Total
Amended Articles of Partnership/Deed of Assignment/Affidavit of Withdrawal/Dissolution of Partnership	12	4	22	22	8	-	-	68
Confirmation of Exemption/ Valuation of Properties	2	2	22	13	15	-	-	54
Voting Trust Agreement	-	-			1	-	-	1
Dividend Declaration	3	-	20	29	2	-	-	54
Additional Paid-in Capital	-	-	3	1	-	-	-	4

The following table shows the relevant statistics on corporations monitored in 2007 by the Extension Offices:

Table 3. Company Monitoring, 2007

	BEO	CDE	CEO	DEO	IEO	LEO	ZEO	Total
Number of corporations monitored	1,570	610	1,867	1,726	624	-	1,184	7,581
Number of corporations fined	427	92	580	430	430		222	2,181
Number of corporations whose Orders of Revocation were set aside	7	10	30	27	22	-	2	98

SIGNIFICANT ACCOMPLISHMENTS

Baguio Extension Office (BEO)

The SEC-Baguio Extension Office (BEO) is known in the City of Baguio as a government office which provides courteous and efficient service, as cited by the Civil Service Commission's letter of commendation. The BEO continued to engage in information dissemination to an increasing number of clients, including students, through personal visits/consultations in the office, telephone calls, e-mails and letters. In 2007, the BEO Director appeared in TV and radio interviews to inform the public on SEC registration procedures and other matters affecting the functions of extension offices. Several articles on SEC matters appeared in the local newspaper, particularly on the subject of *Ponzi scheme* and other investment scams, and lending investors. BEO also participated in seminar lectures attended by student groups, businessmen, associations and in panel discussions

on the referendum conducted by Benguet Electric Cooperative (BENECO) under the Electric Power Industry Reform Act (EPIRA) Law, and on consumer issues under Consumernet Baguio. The BEO Director also served as speaker on SEC rules and regulations before the National Optometrist Congress. The BEO constantly participates in inter-agency meetings (RLECC, DTI, NERBAC, NSCB). The year 2007 marked an all-time high for BEO performance level, with a total collection of ₱7.8 million from registration and amendment fees, fines and penalties. This represented an increase of 59% from its 2006 income of ₱4.9 million.

Cagayan de Oro Extension Office (CDOEO)

In 2007, the Cagayan de Oro Extension Office's partnership with local chapters of IBP (Integrated Bar of the Philippines) and PICPA (Philippine Institute of Certified Public Accountants) was all the more strengthened by the visits of the newly elected officers of these two organizations to the

SEC office. Informal discussions meant to update lawyers and accountants on latest issues and issuances of the SEC were done during these visits.

In October 2007, the CDOEO Director spoke at the 5th National Convention of Solemnizing Officers hosted by the National Statistics Office – Office of the Civil Registrar General, on the topic *“Intra-Corporate Conflicts of Different Religious Organizations/Sects”*.

The Office has constantly maintained harmonious networking relationship with different national and regional government and private organizations. Being one of the core members of the Investment Action Center Team (IACT) and ConsumerNet of DTI and NEDA, Oro Chamber of Commerce and Industry and other business organizations, the CDOEO is in constant touch with the prevailing economic situation in the region. These regular fora enables the CDOEO to update other member government and private agencies on the latest SEC accomplishments and more importantly, enlist their assistance in informing the public about investment scams.

Cebu Extension Office (CEO)

In 2007, SEC-Cebu Extension Office (CEO) participated in the implementation of the National Economic Research and Business Assistance Center (NERBAC) in Region VII. NERBAC is a one-stop action center which provides prospective entrepreneurs with one-stop business assistance. Likewise, CEO participated in radio programs hosted by the Civil Service Commission to inform the public of company registration procedures and reportorial requirements as well as investment scams.

As delegated by the Compliance and Enforcement Department (CED), the Cebu Extension Office conducted investigations on the operations of corporations under surveillance, in coordination with other government agencies and local government units.

Davao Extension Office (DEO)

The DEO actively participated in a number of television and radio talk shows and conducted

seminars for various audiences. It also joined forces with certain business groups and NGOs in providing the said groups with reliable information, resulting in enhanced investor and membership education. Its public awareness and networking efforts have made companies more cognizant of the SEC’s role and mandate and the services available at the extension office, thereby facilitating local transactions.

Iloilo Extension Office (IEO)

In 2007, the Iloilo Extension Office (IEO) participated in seminars and lectures on SEC updates on rules and regulations, updates on SEC accreditation for CPAs, in coordination with the Office of the General Accountant (OGA).

Legazpi Extension Office (LEO)

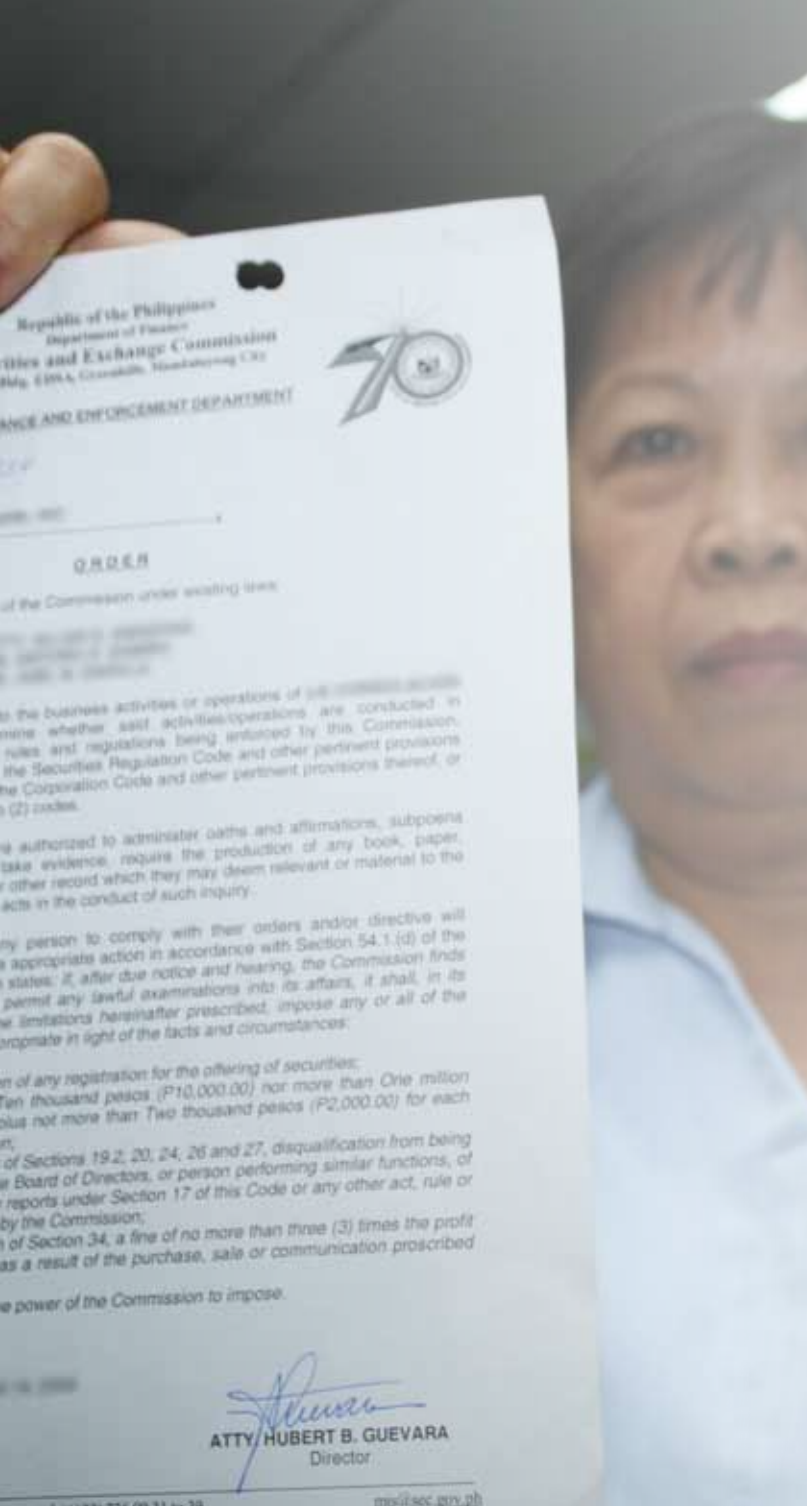
The Legazpi Extension Office (LEO) actively participated in regular monthly meetings of the Bicol Regional Development Council–Development Administration Committee, particularly on investments and economic policies of the region and the Legazpi City Investments Promotion and Tourism Board that formulates policies on investment promotion of the city. SEC-LEO regularly guested in different radio and TV programs to talk about updates on SEC rules and regulations, accomplishments, pyramiding and other investment scams and erring pre-need companies.

Zamboanga Extension Office (ZEO)

In 2007, ZEO participated in a dialogue-seminar of a local electric utility with thousands of consumer-members and provided perspectives and helpful insights in the latter’s thrust of converting to either a stock corporation or a stock cooperative. Towards the end of the year, the ZEO became part of the One-Stop Action Center (OSAC) established inside the Zamboanga City Economic Zone, an integrated agro-industrial economic hub in southern Philippines with a freeport status. The center aims to provide prospective investors or locators with fast-tracked processing of necessary licenses, permits, clearances, tax and custom matters – all under one roof.

ENFORCEMENT

COMPLIANCE AND ENFORCEMENT DEPARTMENT



Ensures compliance of all market participants, issuers and individuals, with Philippine regulations and governing legislation.

Recommends sanctions to be imposed on revocation, suspension of licenses and other actions for approval of the Commission.

Develops procedures for interacting with prosecutors, other agencies and foreign jurisdictions and for making referrals to other government agencies.

Prosecutes before the court those with violations of securities laws.

Boiler Room Investigations

The Department investigated six (6) companies suspected of boiler room activities. The origin of these investigations is as follows:

Referred/ Initiated By:	No. of referrals	No. of companies
Foreign jurisdiction		
- US SEC	1	1
Individuals (Investors)		
- Singapore	1	1
- Hong Kong	2	2
- Denmark	1	2
TOTAL	5	6

Complaints Received

A total of 352 complaints were received and acted upon. These complaints were from the public, local and foreign law enforcement agencies, as well as, from SEC operating departments. The breakdown is shown in Table 1, while Tables 2 to 4 provide further details.

Table 1. Breakdown of Complaints acted upon:

NATURE	Frequency	Percentage
Complaints from		
- the public	230	65.34%
- local/foreign law enforcement agencies	51	14.49%
- SEC Departments/ Offices	71	20.17%
TOTAL	352	100.00%

Table 2. Complaints from the Public

Internet	16
Walk-in	128
Telephone call	18
Letter	67
Newspaper Publication	1
TOTAL	230

Table 3. Complaints/Requests for assistance from law enforcement and other government (local and foreign) agencies:

Bangko Sentral ng Pilipinas	3
Criminal Investigation and Detection Group (PNP)	1
Department of Foreign Affairs	1
Department of Social Welfare and Development	1
Department of Trade and Industry	22
Office of the President	3
Anti-Money Laundering Council	5
National Bureau of Investigation	1
Interpol	7
Australian Securities & Investment Commission	1
Commercial Affairs Dept.-Singapore Police	1
Securities Futures Commission-Hongkong	2
U.S. Securities and Exchange Commission	1
Korea	1
FSA, Japan	1
TOTAL	51

Table 4. Complaints received from SEC operating departments

Non- Traditional Securities & Instruments Department	5
Market Regulation Department	11
Corporation Finance Department	10
Company Registration & Monitoring Department	27
Office of the Chairman	18
TOTAL	71

Results of Investigation

For year 2007, 17 investigation reports were evaluated by the Department.

This resulted in the filing of three (3) complaint-affidavits and six (6) Administrative Petitions for Revocation of Certificates of Registration with the SEC's Office of the General Counsel. Penalties amounting to ₱3,691,915 were collected from seven (7) corporations, while three (3) settlement offers from (3) were accepted.

Category	Description	No.
Investigation Report Evaluated		
Complaint Affidavits	- Unregistered securities	1
	- Falsification	2
Administrative Petition for Revocation of Certificate of Registration	- Serious misrepresentation	1
	- Fraud in the procurement of certificate of registration	3
	- Fraud in the procurement of certificate of registration	1
	- Non-submission of reportorial requirements	1
Penalties Settlement Offer Accepted	-Unregistered securities	4
		3
Cease and Desist Order	- Offering of unregistered securities	1
TOTAL		17

Capacity enhancement activities of the Department

The following seminar / workshops helped increase the Department's staff skills:

Table 5. 2007 Seminars/Workshops

Anti-money laundering training the trainer's programme (layer 1)- European Commission
Anti-money laundering training (layer -2)-European Commission
Computer based-anti-money laundering seminar Asian Development Bank
Seminar on fixed income securities and market
Update on international financial standards
International anti-money laundering/counter financing of terrorism
Enterprise theory of investigation in the investigation of organized criminal groups
Alternative trading system
Alternate dispute resolution (ADR)
Regional assistance program on money laundering and terrorist financing through charities and new trends of money laundering technology
Corporate governance: law and jurisprudence
Complex financial investigations course; session 9
Seminar on the Philippines Financial Reporting Standards
SEC seminar on asset back securitization
Terrorist financing seminar-workshop
Course on money laundering and terrorist financing
APEC counter terrorism financing workshop Malaysia
Awareness seminar on transnational crime
10th annual meeting of the Asia/Pacific group on money laundering – Australia
5th information technology crime investigation training seminar – Tokyo, Japan
Strengthening the anti-money laundering regime –ADB
Counterterrorism financial regulatory training - US

Inter-Agency Collaboration

The Department received requests for assistance from other enforcement agencies relative to securities fraud over the Internet. Investigations revealed that most fraudulent schemes are web based and facilitated by foreign and local web hosting companies and Internet service providers. In two instances, the web sites of suspected boiler room operations were shut down by the web hosts upon the request of the Department.

SPECIAL OFFICES

OFFICE OF THE GENERAL COUNSEL

Provides expert legal counsel to the Commission and its line Departments, and is responsible for general non-enforcement litigation, and for all appellant litigation.

Assists in the preparation of the Commission's legislative agenda, reviews and comments on proposed legislation that would affect the securities industry and the Commission's powers and functions.

Acts as liaison with the House and the Senate, including requests for information, briefings, testimony and statutory drafting assistance.

Ensures that all rulings and opinions of the Commission are consistent with Philippine laws and jurisprudence

ACCOMPLISHMENTS

A total of 23 legal opinions on the interpretation of certain provisions of the Corporation Code, Securities Regulation Code and other related laws were formulated by the Office of the General Counsel. Noteworthy are the following:

Non-Filipino nationals as officers / members of non-stock corporations

A non-Filipino/alien national may serve as member of the board of trustees or be a chairman of the board of a non-stock corporation/association, provided the corporation is not engaged in a nationalized activity, and subject to the limitation that the trustees must be members of the association and majority of them are residents of the Philippines.

However, in cases when the association engages in partly-nationalized activities, foreign nationals may sit in the board only in proportion to the allowable membership therein. In the event that the alien national assumes the post of Chairman of the Board, his acts shall be limited to that of a presiding officer during board meetings. **(Opinion No. 07-07, August 8, 2007)**

Subsidiary corporations

A corporation can be created or have legal personality only with the consent of the State. The corporation shall be granted such legal personality only after it has complied with the registration requirements prescribed by the Corporation Code with the issuance of a Certificate of Registration by the SEC.

Section 2 of the Corporation Code provides that *"a corporation is an artificial being created by law"*. This means that it cannot come into existence by mere agreement of the parties, whether be it the principal or subsidiary corporation. Similarly, subsidiary

corporations cannot be created by mere resolution of and by the members of a corporation. Without registration with the Securities and Exchange Commission, what is created is a mere aggragation of persons which cannot perform corporate acts like entering into contracts or acquiring property under its name. **(Opinion No. 07-10, May 24, 2007)**

Manufacturing not incidental to the business of selling

While marketing and selling are logically inferable from the business of manufacturing considering that there must be an end-user for the goods and products manufactured, the same could not be said for the business of selling as covering the business of manufacturing. The underlying reason for this is that it is not necessary or indispensable that a trader or dealer of goods must also be the manufacturer or producer of the goods it sells.

The fundamental difference between the business of a manufacturer from that of a seller or dealer of goods could be inferred from a reading of the Retail Trade Liberalization Act of 2000, which excludes from the coverage of "retail trade" (*described as an act, occupation or calling or habitually selling direct to the general public merchandise, commodities or goods for consumption*), the sale made by a "manufacturer or processor of the products manufactured, processed or produced by him if his capital does not exceed ₱100,000.00"

If manufacturing were incidental to the business of trading or selling, there would have been no need for the distinction under the law since it could be assumed that selling necessarily entails manufacturing the goods being traded or sold.

Being a seller, trader, dealer or importer of goods does not automatically classify one as a manufacturer because manufacturing is not fairly and reasonably necessary or incidental to the business of selling

Unless the articles of incorporation include the purpose of manufacturing, it is only then when a corporation may legally undertake the same. The fact that a corporation has in its secondary purpose an all-embracing proviso that it can "*conduct and transact any and all business*"; cannot be stretched and interpreted in such as way as to include purposes not incidental, implied or necessary for the furtherance of the purposes stated in the Articles of Incorporation. **(Opinion No. 07-14, July 18, 2007)**

Grandfather Rule vs. Control Test

The test for compliance with the nationality requirement is based on the total outstanding capital stock irrespective of the amount of the par value of the shares. Stated otherwise, once it is established that a company is at least 60% owned by Philippine nationals, it is no longer necessary to conduct any further inquiry as to the owners of the shareholders (where the shareholders are themselves corporations) since the entire company is already considered a Filipino entity. **(OGC Opinion No. 07-18, November 28, 2007)**

The Commission currently employs two methods for determining the nationality of a corporation, depending on the business in which the corporation was formed to engage: the **grandfather rule**, and the **control test**.

The grandfather rule is a method of determining the nationality of a corporation which in turn is owned in part by another corporation by breaking down the equity structure of the shareholder corporation. It

involves the computation of Filipino ownership of a corporation in which another corporation of partly Filipino and partly foreign equity owns capital stock. The percentage of shares held by the second corporation in the first is multiplied by the latter's own Filipino equity. The product of these percentages is determined to be the ultimate Filipino ownership of the subsidiary corporation.

The grandfather rule can be useful when the economic activity in question is one of those strictly limited by law to Filipinos such as certain types of retail trading, and mass media, by determining the actual Filipino ownership of corporations that intend to engage in such activities by looking into the equity ratios of their stockholder corporations. In some instances, the Commission has held that corporations looking to engage in such activities must be wholly Filipino-owned.

Under the control test, on the other hand, a corporation shall be considered a Filipino corporation if the Filipino ownership of its capital stock is at least 60%, and where the 60-40 ratio of Filipino-alien equity ownership is not in doubt. Its shareholdings in another corporation shall be deemed to be Filipino when computing the percentage of Filipino equity of that second corporation. The control test is applied on corporations intending to engage in an economic activity where such 60-40 Filipino-foreign equity ratio is allowed by law. ***(OGC Opinion No. 07-19, November 28, 2007)***

While it is the policy of the State to develop a self-reliant and independent national economy controlled by Filipinos, it is balanced by its liberal stance on allowing the participation of foreign investors in certain areas of investment where foreign equity is only allowed up to a certain extent. For instance, in the operation of public utilities, the permissible maximum foreign equity under the Constitution is 40%.

In order to determine the nationality of a corporation with foreign equity, the SEC employs the "control test", which provides as follows: "shares belonging to corporations or partnerships at least 60% of the capital of which is owned by Filipino citizens shall be considered as of Philippine nationality, but if the percentage of Filipino ownership in the corporation or partnership is less than 60%, only the number of shares corresponding to such percentage shall be counted as of Philippine nationality" (citing SEC Opinion dated March 23, 1993, addressed to Mr. Francis F. How; SEC Opinion dated November 23, 1993, addressed to Messrs. Dominador Almeda and Renato S. Calma).

The purpose of the sixty per centum (60%) requirement is to ensure that corporations and associations allowed to operate a public utility shall be controlled by Filipinos. ***(OGC Opinion No. 07-20, November 28, 2007)***

SPECIAL OFFICES

OFFICE OF THE GENERAL ACCOUNTANT

Acts primarily as an expert resource to the Commission in the area of promoting the adoption of international accounting standards to enhance transparency of the Philippine Capital Market.

Deals with improving accounting standards, tracking workflow and ensuring the rapid turn-around of accounting inquiries.

Provides technical support to operating departments regarding issues of accounting treatment for public offerings and disclosures.

ACCOMPLISHMENTS

Efforts to improve the substance and process of accounting and auditing

The Office of the General Accountant continued the process of adopting international standards and best practices in accounting and auditing through the following activities:

- a. Submission for adoption of International Financial Reporting Interpretation Committee (IFRIC) Nos. 4 to 12 and the amendment to PAS 101 (Accounting Standards for Non-Publicly Accountable Entities) particularly providing that the standard shall be effective until withdrawn;
- a. Drafting of the circular adopting the revised Philippine Accounting Standard (PAS) No. 1, as part of the Philippine Reporting Financial Reporting Standards, superseding PAS 1 adopted in 2005. The revision aims to improve the users' ability to analyze and compare the information given in financial statements. One of the changes will require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable readers to analyze changes in a company's equity resulting from transactions with owners in their capacity as owners (such as dividends and share repurchases separately from non-owner changes (such as transactions with third parties). The revised standard likewise gives preparers of financial statements the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals or in two separate statements (a separate income statement followed by a statement of comprehensive income);

Participation in the meetings of the following:

- Ad Hoc Committee on Pre-Need which resulted to the revision of Pre-Need Rule 31 and Pre-Need Uniform Chart

of Accounts (PNUCA). The Rule provides for the generally acceptable accounting principles for Pre-Need Corporations which include the regulatory requirements on their pre- need reserved and trust funds

- Financial Reporting Standards Council (FRSC);
- Auditing and Assurance Standards Council (AASC);
- Philippine Interpretations Committee – Financial Reporting Standards Council.

Initiatives to strengthen regulatory compliance

- a. Reviewed the 2006 audited financial statements of 100 listed companies by industry with selected professors from De La Salle University- Manila;
- b. Reviewed the 2006 audited financial statements of 200 secondary licensees, mostly financing companies, with the Association of CPA in Education (ACPAE). The Office conducted an oversight review of the findings of ACPAE;
- c. Finalized the Compliance Checklist distributed to different SEC departments in June 2007.

The checklist assists each specialist in determining the sufficiency of disclosures in the financial statements and compliance thereof with the requirements of the Generally Accepted Accounting Principles in the Philippines (GAAP) and the Philippine Financial Reporting Standards (PFRS) ;

- d. Evaluated the 2006 audited financial statements submitted by corporations which are included in the Top 5000 Corporations. The review was done according to industry category;
- e. Conducted random review of substantially deficient financial statements of 2,000 ordinary corporations. The findings include lack of cash flow statement or absence of notes to financial statements. Show cause letters were issued from June 15 to July 12, 2007. A warning letter was issued to each company to henceforth fully comply with the requirements, otherwise monetary penalty shall be imposed.

Accreditation and Monitoring of External Auditors

For the period ending December 31, 2007, the Office accredited a total of 347 auditing firms and external auditors, broken down as follows:

Category*	Auditing Firm	Partners/Individual
Group A	14	96
Group B	-	1
Group C	35	146
Group D	3	52
Total	52	295

In addition to the foregoing regular three year accreditation, this Office granted four-month probationary accreditations to 78 external auditors and nine (9) auditing firms.

Ninety percent (90%) of the total number of external auditors who were accredited from January to October 2007 fall under Group C external auditors who cater to financing companies and transfer agents, and Group D external auditors or corporations with at least ₱15 Million total assets which borrow from banks. This is a positive development since the common concern is the sufficiency of accredited external auditors for the said categories of companies.

Compliance with the requirements by 80 accredited external auditors was monitored. The accreditation of seven (7) external auditors was downgraded from Group A to C due to material findings on the financial statements of their clients.

Other Accomplishments

The Office prepared a summary of the internal control policies and procedures of the Commission which was submitted to the Government Service Insurance System in connection with its search for outstanding government agencies. It also participated in the deliberation and drafting of the Revised Pre-Need Uniform Chart of Accounts (PNUCA) and Guidelines on the Management of the Trust Fund of the Pre-Need Companies;

The result of the Office's review of Functional Currency Financial Statements, pursuant to SEC Memorandum Circular No. 1 Series of 2006 (Guidelines on the Filing of Functional Currency Financial Statements), is as follows:

Documents Received	Number of Companies	Actions Taken
Notice of Filing of Functional Currency Financial Statements	140	Acknowledgment letters issued to ninety five (95) companies Comment letters issued to forty five (45) companies

It evaluated applications for Certificates of Eligibility (COE) pursuant to the Special Purpose Vehicle Act. A total of Fifty Eight (58) COEs were issued for the period ending December 31, 2007, representing an amount of Four Billion Eight Hundred Fifty Eight Million (₱4,858,000,000.00) Pesos in non-performing assets.

SUPPORT SERVICES

FINANCIAL MANAGEMENT DEPARTMENT



Implements the financial policies and procedures in accordance with the existing government rules and regulations

Prepares, recommends and executes budgetary plans and programs for the Commission

Evaluates existing policies on budgetary and fiscal matters

Recommends measures to improve the financial management

Acts as liaison of the Commission to other government agencies in financial and related matters

Income

The Securities and Exchange Commission collected a total of ₱1,883.1 million for the year 2007. This is ₱919.8 million more than the 2006 collection of ₱ 963.3 million or an increase of 95.5%. The revenue hike was primarily due to the increase in capitalization of companies in various industries which resulted to the increased collection in registration fees of more than ₱214 million in the banking sector, ₱200 million in the power sector, ₱126 million in the real estate development sector, ₱33 million in the cement and mining sector, ₱ 68 million in the food manufacturing sector and ₱205 million in other industries. The increase in registration fees involved around 40 companies only. Five of these companies accounted for ₱437 million in registration fees.

The SEC also increased its collections in Miscellaneous Income by ₱70.6 Million from ₱68.4 million in 2006 to ₱139.0 million in 2007 or an increase of 103.2%. This was primarily due to the full implementation of SEC iView module of the SEC computerization program. The cost of this module is fully recovered

as of this year. Likewise, the SEC was able to collect ₱13.8 million more in fines and penalties during the year due to increased monitoring and enforcement activities.

For the past five years, the SEC contributed an average of P705 million a year to the national coffers (Table 2). In 2007, it contributed a total of ₱1,765.4 million and recorded in its books a total of ₱117.7 million or a total income of ₱1,883.1 million. This was 95.5% percent higher than last year's income of ₱963.3 million (Table 1).

In 2007, the Commission operated on a budget of Php 233.9 million which was released in full by the Department of Budget and Management as allotment. The SEC's contribution to the National Government of ₱1,765.4 million exceeded by ₱1,531.5 million the allotment received from the DBM.

Table 1. SEC's Income by Source, 2007 and 2006

Year	2007		2006	
	Source of Income	Amount (Php)	Percent to Total	Amount (Php)
License Fees	25,166,421.98	1.3 %	36,432,588.32	3.8 %
Registration Fees	1,615,708,349.13	85.8 %	769,195,058.73	79.8 %
Fines & Penalties	103,141,890.63	5.5 %	89,285,929.99	9.3 %
Misc. Income	139,054,318.91	7.4 %	68,409,055.99	7.1 %
TOTAL INCOME	1,883,070,980.65	100.0 %	963,322,633.03	100.0 %

Table 2. SEC Net Contribution to the National Government (in Php million)

Year	2003	2004	2005	2006	2007	Average
Remittance to NG	596	800	808	862	1,765	966
Allotments	266	222	249	333	234	261
Net Contribution	330	578	559	529	1,265	705

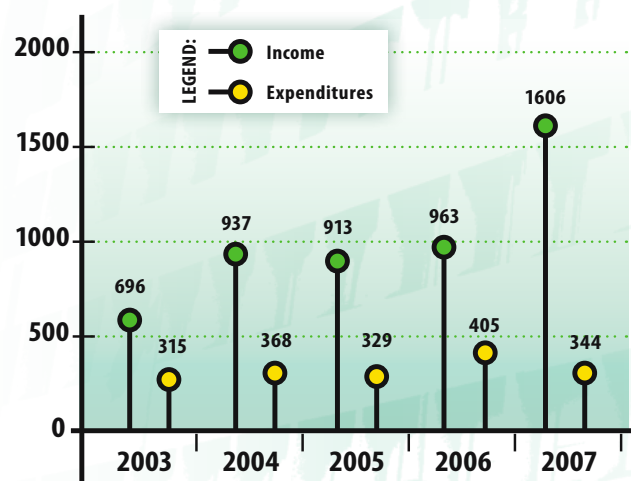
Expenditures

The total expenditures of the SEC reached ₱343.9 million in 2007, decreasing by ₱61 million from the previous year's level of ₱405 million. Total income of ₱1,606.2 million in 2007, exceeded expenditures of ₱343.9 million for the same period by ₱1,262.3 million. For the last five years, SEC has kept its ratio of expenditures to income at less than 50% percent (Chart 1).

Budget preparation and execution

Republic Act 9401, otherwise known as the General Appropriations Act of 2007, appropriated a total of ₱ 225.9 million for the SEC. In addition, the Department of Budget and Management released the amount of ₱8.0 million to SEC to cover the additional personal services requirement of the Commission due to the filling up of vacancies for the year 2007. Total subsidy

Chart 1. SEC's Income vs. Expenditures, CY 2003 – 2007



received from the National Government for the year amounted to ₱233.9 million. Of this amount, ₱233.8 million was obligated leaving a balance of ₱.1 million as savings.

Total expenditures for the year amounted to ₱350.4 million. This was sourced from the subsidy from the National Government of ₱233.9 million and from the income retained by the SEC pursuant to R.A. 8799 and R.A. 9182 in the amount of ₱116.5 million.

The new version of the electronic budget system was installed in 2007 with additional functions and additional report formats. This further facilitated the record keeping and reporting of allotments and obligations to DBM, COA and Congress.

Pre-audit, recording and reporting of financial transactions

The SEC complied strictly with auditing and accounting rules and regulations prescribed by the Commission on Audit (COA) on disbursement, collections and in recording the SEC's financial transactions. No material observation or exception on disbursements, collections and on the SEC's internal control processes was received from COA during the year.

All financial transactions are recorded and financial reports are prepared using the computerized New Government Accounting System (e-NGAS). During the year the new version of the e-NGAS was installed enhancing the functionality of the computerized accounting system. The SEC complied strictly with auditing and accounting rules and regulations prescribed by the Commission on Audit (COA) on disbursement, collections and in recording the SEC's financial transactions. No material observation or exception on disbursements, collections and on the Commission's internal control processes was received from COA during the year.

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Collections and remittances to the National Government

The SEC was able to collect a total of ₱1,883.1 million in CY 2007. Out of this collection, ₱1,765.4 million was remitted to the National Government and the balance of ₱117.7 million was retained by the Commission pursuant to Section 75 of R.A. 8799, the Securities Regulation Code and Section 28 of R.A. 9182, the Special Purpose Vehicle Act. The amount remitted to the National Government was P1,050.5 million more than the target assigned to the Commission for the year 2007 of ₱714.9 million or an excess of 146.9%. Compared to the collections for the year 2006 of ₱963.3 million, total collections in CY 2007 is more by ₱919.8 million or an increase of 95.5%.

The total expenses incurred by SEC in 2007 of ₱350.4 million represent 18.61% of its total collections for the year 2007 of ₱1,883.1 million. The Commission's expenditures for CY 2007 that were sourced from the allotments received from the DBM amounted to ₱233.8 million. These expenses represent 13.2% of the total amount remitted by the Commission to the National Government of ₱1,765.4 million. The net amount contributed by the Commission to the government coffers for 2007 amounted to ₱1,531.6 million.

The Cash Receipt Module of the SEC iReport project was fully operational in 2007. Issuances of official receipts were fully computerized and the reporting of collections was also computerized.

Recognition of Exemplary Performance

For the fourth time during a period of five (5) years (2002,2004,2005 and 2006), the SEC was awarded as one of the Most Outstanding Accounting Office – National Government Sector – Big Agency for the year 2006. The award was given by the Association of Government Accountants of the Philippines on October 17, 2007 at the Crown Regency Suites in Cebu City. Since the SEC was awarded as one of the Most Outstanding Accounting Offices for three (3) consecutive years (2004 to 2006), it was elevated to the elite Hall of Fame Category of Outstanding Accounting Offices.

ECONOMIC RESEARCH AND INFORMATION DEPARTMENT



Handles public affairs and assistance, investment research, investor education and methods for responding to the inquiries and complaints from the general public

Prepares and publishes procedural and educational booklets for information of the general public of the role of SEC, functions of the capital markets and their rights and protections

Develops all procedures related to investment and economic research as well as internal corporate planning

Provides lead technical support for the Commission's software development, hardware procurement and establishment and maintenance of the communications network

ACCOMPLISHMENTS

Implementation of SEC's computerization program

The year 2007 marked the complete development of three (3) major ICT projects funded under the e-Government Fund. These projects are as follows: the SEC iView module; the paper submission or e-Service module; and the ePMS or cashing module.

*** SEC iView Module**

This is an on-line "pay-per-use" system which enables all external users to view and print needed documents from the SEC data base. This facility provides the public the convenience of securing SEC documents they may need from their own Internet-enabled computers at their home or office, 24 hours a day, 7 days a week. Being a "pay-per-view" documents

online facility, the use of pre-load account (*called "pin mailer"*) is needed to access the system. The pin mailer may be purchased at the Securities and Exchange Commission Head Office. To expand the use of the SEC iView, the Department is considering the use of other payment modalities to complement the pin mailer.

*** Paper Submission or e-Service Module**

This is a central paper document management tool used for receiving entries to be made available in the SEC iView online viewing facility. The e-Service module is capable of the following: a). receipt of report documents from various sources such as mail, extension offices, fax, email, etc, b). receipt of other documents which are exceptional or not company related, c). search, track, locate the status of submitted documents, and summarize submission.

The paper submission module has two components. One is the computer-assisted paper submission of primary registration module that seeks to improve public service delivery by the SEC's Company Registration and Monitoring Department (CRMD). Another is a computer-assisted paper submission of secondary licenses module that aims to improve public service delivery by other SEC operating departments. Both modules are ready for roll-out.

*** ePMS (Cashiering) Module**

This is a tool used by SEC cashiers, tellers and special collecting officers for receiving and encoding payments from clients, mainly for administrative purposes like accountable forms, assignments, encoding of received official receipts and money stamps. It is also used to generate all reports required by the Commission on Audit (COA), the Bureau of Treasury, the Department of Budget and Management (DBM) and other concerned agencies.

Intensified Public Assistance and Information Services

The Department has intensified the provision of public assistance and information through a variety of ways. These include the designation of information officers at the public assistance desk, the

provision of telephone "hotlines", the production of Citizen's Manual, information pamphlets / brochures, uploading of advisories at the SEC website, and the dissemination of information materials. With the introduction of the "SEC Infomercials", the general public, while inside the SEC premises, are able to view various SEC information materials and updates on the plasma TV displays located at the ground and second floors of the SEC building.

Work flows on the publics' requests for information have been systematized and improved for better public service delivery. Consequently data requirements are made available within fifteen (15) days upon receipt of a complete request.

The Department has an existing Memorandum of Agreement with the CD Technologies Asia to jointly undertake activities that will promote the knowledge projects and activities of the SEC. The activities include the conversion into electronic format of SEC rules, regulations, orders, opinions, circulars, guidelines and other issuances and the periodic updating of the same.

The Department has started transforming the SEC library facilities into an electronic library. Under the e-library environment, accessing information available in the SEC's library collection may be done electronically. Before given access to this service facility, internal and external users are required to attend an orientation/training session on the e-library system.

Inter-Agency Collaboration

The Department, along with the Company Registration and Monitoring Department (CRMD), continues to serve as the focal unit responsible in pursuing the electronic linkage between the SEC and the Bureau of Internal Revenue (BIR) through the SEC iRegister. This linkage allows the assignment of pre-generated Taxpayer's Identification Number (TIN) to newly registered companies whose registrations have been approved by the SEC Head Office.

The Department caused the publication of the 2007 edition of the Philippines Top 5000 Corporations in collaboration with the Credit Information Bureau, Inc. (CIBI).

Along with other agencies, the SEC through the ERID, collaborated with the Department of Trade and Industry (DTI) in pursuing the Philippine Business Registry (PBR) project. This web-based portal allows sharing and access of business registration information among relevant regulatory agencies like the BIR, SSS and the SEC. This single business registry system also allows enterprises to transact with only one agency for all their business requirements.

The Department participated in inter-agency activities and gave inputs or comments to the following: a). ASEAN-Korea Free Trade Agreement b). ASEAN-China Free Trade Agreements c). ASEAN- Australia-New Zealand Free Trade Agreement on Services and Investments d). WTO General Agreements on Trade in Services, and the e). Japan – Philippines Economic Partnership Agreement (JPEPA).

Corporate Planning, Research and Related Services

The Department prepared agency reports and requisite documents for the annual government budgeting exercise and performance review conducted by the oversight agencies, as well as supporting documents for the congressional and Senate hearings on the SEC budget and investment scams.

Further, it organized the conduct of the annual planning workshop, inputs of which include the reporting templates for the submission of inputs such as, Q1 accomplishments vis-à-vis targets, priority

objectives and Programs, Actions and Projects (PAPs) for S2 2007-2008, strategic priorities for CY 2008-2010 with forward budget estimates, and further enhancements to the SEC Logical Framework for submission to DBM.

The Department provided assistance preparatory to the conduct of the 2007 Corporate Governance survey for publicly listed companies which was spearheaded by the Institute of Corporate Directors (ICD). It likewise prepared the Terms of Reference (TOR) for the conduct of researches outlined in the Capital Market Development Plan Blueprint 2005-2010. These researches are on the following: a). the benefits, costs and lessons learned from having independent directors in covered companies and b). the role of independent directors.

The Department also prepared SEC's inputs and responses to information requests from local and foreign external demand agencies. This included the SEC's participation in the ADB-Country Review Mission (CPRM), JPEPA Inter-Agency discussions and the mid-term review updating (2008-2010) of the Financial Chapter of the Medium –Term Philippine Development Plan (MTPDP).

Finally, the Department assisted in the preparation of the Commission's documentary reports to support the SEC's nomination to GSIS' Seven Outstanding Government Agencies (SOGA) Awards, where the Commission was awarded as one of the 2007 Seven Achiever Government Agencies on 31 May 2007.



HUMAN RESOURCE AND ADMINISTRATIVE DEPARTMENT

Oversees all human resource and administrative support functions and activities related to employment policies and practices

Oversees responsibilities of departments in all areas of employee related issues, including recruitment, benefits, performance appraisal, administration of salary policies, internal and external training program, and for equipment procurement, purchase of supplies, mail and facility security

Ensures SEC's compliance with Philippine Labor Laws and interacts with related government agencies as necessary in establishing policies and practices and addressing employee grievances

The Human Resource and Administrative Department (HRAD) collaborates with the Economic Research and Information and Financial Management Department in helping the operating departments perform their respective core functions.

For 2007, HRAD continued to fulfill its role in fostering, reinforcing and sustaining a consistent application of the Commission's policies and programs relating to the management, wellness and development of its resources, and the delivery of efficient service to the Commission's internal and external clientele.

I. Personnel Development

Parallel to the capability-building thrust of the Commission, the department conducted and coordinated eighteen (18) programs on Technical Training and Echo Sessions that provided excellent forum for exchange and transfer of technical knowledge and provided opportunities for professional advancement, nineteen (19) Organizational Development programs with participants from across departments and positions, focused on livelihood, personal and health enhancements, and two (2) Skills programs that centered on Anti-Money Laundering and

training the trainers sessions. The nine (9) Brown Bag Sessions included the topics of interest to the employees.

The Department also provided technical and administrative assistance to its officials and employees regarding training and travel requirements consistent with the government's drive to facilitate administrative governance. This year, thirty-five (35) SEC officials and employees attended thirty-one (31) foreign training programs and conferences, while two hundred ten (210) participants attended 56 external local training initiatives.

To heighten awareness on the role of the SEC and carry out its social responsibility, student orientations were conducted all-year round for 24 schools and universities with a total of 1,436 participants. Similarly, the SEC-on-the-Training Program accepted and deployed 121 students from 28 partner schools/ universities within and outside of the metro.

A summary of training programs is provided in Table 1.

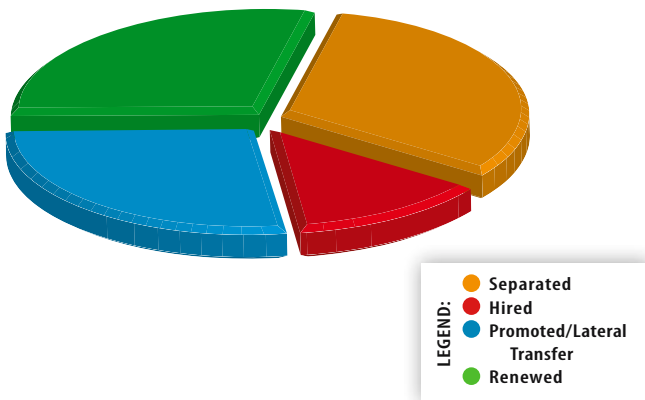
Table 1. SEC's Training Programs for 2007

Training Classification	Number of Sessions/ Programs	Number of Participants
I. SEC In-House Training for Employees		
a. Technical Training and Echo Sessions	18	628
b. Organizational Development Training	19	528
c. Skills Training	2	63
d. Brown Bag Sessions	9	120
Total	48	1,339
II. External Trainings for SEC Employees		
a. Foreign	31	35
b. Local	56	210
Total	87	245
III. Student Orientation Program	24	1,436
IV. Special Events		
a. In-House	4	608
b. External	4	61
Total	8	669

II. Personnel Management and Wellness

As of 31 December 2007, the Commission has 392 personnel, down by 2.97 per cent from its year-ago level of 404. Movements in personnel included 22 (44%) separated/resigned, 9 (18%) hired, 19 (38%) promoted or requested lateral transfer and 31 (39%) renewed.

Chart 1. Personnel Movement for 2007



The Department shortlisted 352 applications for various positions (permanent and contractual), of which 213 underwent various stages in the hiring process. Sixty nine successful applicants were appointed to plantilla positions and 23 were hired on contract-of-service basis.

To keep the employees abreast with benefits and availments, the Department hosted symposia on PAG-IBIG Housing Loans, and MediCard benefits; submitted updates in PhilHealth Members' Data Record; and undertook programs and seminars on health and disease prevention.

Believing in a good work-life balance, the Department supported and spearheaded various activities that promote wellness, relaxation and human interaction. Aerobic exercise sessions, participating in the "Walk for Life" and "Thousand Steps for Human Rights" were among the activities organized to achieve this end. To "feed the mind" so to speak, the Department initiated the publication of four (4) issues of the SEC newsletter that allowed for information dissemination and self-expression through literary compositions.

III. Management of Government Resources

Consistent with the Commission's austerity measures, electricity, fuel and water consumption in the Main Office and Extension Offices was further cut down in 2007 bringing the accumulated savings to 23.77%.

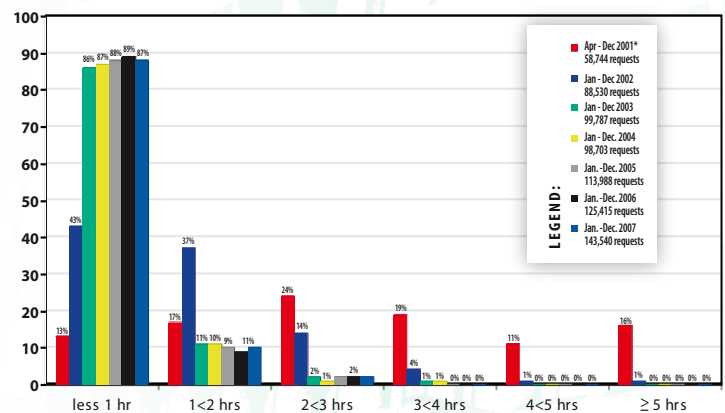
Undertakings to augment existing administrative services and further promote a work-friendly environment include the installation of a new PABX telephone system and PLDT New Generation Network; the mounting of three (3) new compressors at the 2nd, 4th and 8th floors; and the upgrade of all photocopiers to digital machines. The construction of the covered walkway from the EDSA gate to the basement has been completed and fully functional while the renovations at the basement, 7th and 9th floors are nearing 76% completion as of 15 December 2007.

For 2007, an additional 3.5417 million pages of corporate records were made available for retrieval through the SEC i-View. Owing to the IT improvements and efficient storage facilities put in place in the past years, the Department can accommodate 87% of public requests in less than an hour as shown in Table 2, earning a total income of ₱14,708,563 for government funds.

Table 2. RETRIEVAL OF COMPANY FILES

Public Waiting Time (in hours served) Years 2001-2007

PERCENT TO TOTAL REQUESTS



COMMISSIONERS



Commissioner
Raul J. Palabrica

Commissioner
Ma. Juanita E. Cueto

Chair
Fe B. Barin

Commissioner
Jesus Enrique G. Martinez

Commissioner
Thaddeus E. Venturanza

DIRECTORS



1. **Vernetta Umali-Paco**
General Counsel
2. **Gerard M. Lukban**
Commission Secretary
3. **Ma. Gracia F. Casals-Diaz, OIC**
Office of the General Accountant



4. **Vicente Graciano P. Felizmenio, Jr., OIC**
Market Regulation Department
5. **Justina F. Callangan**
Corporation Finance Management
6. **Jose P. Aquino**
Non-Traditional Securities and Instruments Department
7. **Benito A. Cataran**
Company Registration and Monitoring Department
8. **Hubert B. Guevara**
Compliance and Enforcement Department



9. **Virgilio V. Salentes**
Economic Research and Information Department
10. **Adelaida C. Navarro-Banaria**
Financial Management Department
11. **Marilyn Peneyra-Lim**
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SPECIAL REPORTS:

ADOPTION AND IMPLEMENTATION OF INTERNATIONAL PRACTICES AND STANDARDS ON AUDITING AND ACCOUNTING: CHALLENGES AND SUCCESSES

The Commission considers a financial reporting system supported by strong governance, high quality standards and sound regulatory frameworks a significant factor to economic development. Investors put a very high regard to quality financial report, audit and ethics. Investors seek investment opportunities all over the world. Thus, more and more countries open their doors to foreign investments and both public and private sectors increasingly recognize the benefits of expanding their businesses globally.

One of the challenges of globalization is to make the rules and regulations aligned with international standards and practices, particularly on financial reporting. The benefits of global financial reporting framework include: increased credibility of domestic capital market to foreign capital providers and potential foreign partners, easier access to foreign capital, greater comparability of financial information for investors, greater transparency, ease of regulation of securities markets because of regulatory acceptability of financial information provided by market participants and continuation of local implementation guidance for local circumstances. Moreover, globally consistent and uniform financial system provides cost efficiencies and greater safeguards to the public. It is widely recognized that investors are more willing to diversify their investments across borders if they are able to rely on financial information based on a similar set of standards. Ultimately, convergence with international standards, such as the International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA), leads to greater economic growth.

International convergence is the goal that is embraced in the Commission's vision for 2007 *"We foresee that by December 31, 2007, all the best international practices and standards in accounting, auditing and other systems for monitoring compliance with fiduciary responsibilities will be observed by the business community."* Since the goal is ultimately dependent on the observance by the business community of the international standards and practices, the Commission's role revolved around the establishment of legal and regulatory environments that provide for meaningful compliance with the international standards, the revision or drafting of regulations to reflect the international standards and practices and to provide guidance thereof, ensuring compliance with said regulations, and establishment of efficient and effective enforcement mechanisms to improve the consistency and quality of compliance with the said standards.

The Commission amended SRC Rule 68 to incorporate the requirements on compliance with the international standards and practices on accounting and auditing. It strengthened sanctions for deviations from these

standards. For external auditors who provide reasonable assurance on compliance covering financial reports, the Commission issued a set of revised Guidelines on Accreditation of External Auditors that provides stricter regulatory structure and reporting in connection with the conduct of audit of corporations specially those imbued with public interest.

The Commission obtained the strong support of the national standard setters, the Philippine Financial Reporting Standard Council (FRSC) and the Auditing and Assurance Standards Council (AASC), professional organizations, such as, the Philippine Institute of Certified Public Accountant (PICPA) and the Association of CPAs in Public Practice (ACPAPP), and regulated entities. Through active coordination and participation in the activities of FRSC and AASC, the Commission facilitated the process for reaching a consensus on the adoption of international standards that serves as the foundation for financial reporting and auditing in the Philippines. Sufficient guidance on implementing issues were issued by the Commission along with the *Questions and Answers (Q & As)* released by the Philippine Interpretations Commission, of which the Commission is also a member.

The Commission tapped professional organizations, such as, the PICPA and ACPAPP, to help in the dissemination of information to encourage the implementation and facilitate the trainings on international standards and practices not only on professionals but also on directors and officers of the corporations that should fully adopt the standards. The Commission believes that in order to fully adopt and implement international standards, action is necessary at all points along the information supply chain that delivers financial reporting. In coordination with SEC through the ADB-sponsored "Train the Trainers on IAS", PICPA conducted country-wide seminars on international standards. ACPAPP and other accredited training providers likewise held numerous seminars highlighting the requirements of the SEC on financial reporting based on international standards. During said seminars, the Commission noted the participation of the members of Board of Directors and management who have primary responsibility for financial reporting, as well as auditors, and other participants in the financial reporting process, such as, lawyers, bankers, analysts, and educators, all of whom have important roles in achieving international convergence.

As of December 31, 2007, the Commission has adopted in to its rules and regulations all the IFRS and interpretations in effect, except for the transitional relief on pension accounting (IAS 19) and on the comparative disclosures on financial instruments (IFRS 7). All listed companies and other secondary licenses, including entities that are economically significant¹, are mandated under the rules to fully implement IFRS as adopted by the Philippines. For small and medium enterprises, the Commission shares the global concern on the relevancy and appropriateness of adopting complex international standards on such entities. Thus, it adopted PAS 101 which allows deferral of adoption of full IFRS for the small and medium enterprise. It is still awaiting the finalization of the IFRS for SMEs by the International Accounting Standards Board (IASB).

To balance the need to improve standards and to address a practical issue faced by an industry peculiar to the Philippines, the Commission, after a rigid study with the participation of the concerned parties, issued

¹ As defined under PAS 101, those which have P250 Million or more total assets, or P150 Million or more total liabilities, and which have public accountability or secondary license from SEC, Bangko Sentral ng Pilipinas or Insurance Commission.

appropriate accounting principles for pre-need companies which offer hybrid securities, and the exemption from the “tainting provisions” of IAS 39 pertaining to the exchange transactions covered by the Domestic Bond Offer by the national government.

The Commission has continuously been adopting ISAs as part of its rules, subsequent to the deliberation and adoption thereof by AASC and the Board of Accountancy. Quality assurance procedures based on international standards and practices are now incorporated in the manuals of auditing firms and practitioners.

Different activities have been conducted by the Commission to determine compliance by the submitted financial statements with the standards. Every year, the Commission reviews the financial statements of listed companies and other secondary licenses. The findings on said financial reports include insufficient disclosures on some accounts and deviation from certain standards. As part of its findings on the 2006 financial statements, five (5) out of one hundred (100) financing companies failed to fully adopt the international standards which subjected the companies concerned and auditors to sanctions under the rules of the Commission.

The Commission posted in its website issuances relative to compliance with IFRS. These include the list of IFRS and interpretations that the Commission has adopted and the list of findings on the 2005 financial statements which were reviewed by the Commission. A summary of the findings on the 2006 financial statements shall likewise be posted in the website once the review is completed and the deficiencies are consolidated by industry.

A total of two thousand (2,000) financial statements of ordinary corporations were evaluated during 2007. Most of these companies are small and medium enterprises which are allowed to defer compliance with IFRS. Nevertheless, the said companies were advised in writing to comply with the standards effective as of December 31, 2004, until such time that the IFRS for SMEs is issued by the IASB and adopted by FRSC and the Commission.

As part of the accreditation process for external auditors, the Commission reviews the top two (2) clients of the applicant to determine compliance with the standards. One of the reasons for the denial of numerous applications is the failure of the external auditor to show high quality financial reports.

As experienced by the Commission in the previous years, there are many challenges to achieving international convergence. All concerned parties, such as, regulators, national setters, preparers of financial statements, auditors and users of financial statements, must continuously take action to sustain the successes made so far. Looking forward, the Commission shall remain committed in leading the way for an up-to-date convergence to a single set of globally acceptable high quality standards, with the ultimate objective of protecting the interest of the public and ensuring efficient capital flows across borders.

PERFORMANCE OF THE CORPORATE SECTOR

THE PHILIPPINES TOP 5,000 CORPORATIONS

Over-all Leader in Revenue: Manufacturing

Taken collectively, the performance of the manufacturing sector continued to lead during the year in review, as it posted the highest value of total sales at ₱2,259,673 million or a growth rate of 440 percent, from its previous year's recorded sales of ₱418,482 million. The wholesale and retail trade sector posted the second highest value of total sales at ₱1,509,422, down by 1 percent from its year-ago sales level.

Over-all Leader in Profitability: Financial Intermediation

In terms of profitability, the financial intermediation industry was over-all leader with ₱135,794 million in total profitability or a positive growth of 47.83 percent. It posted the third highest value of sales at ₱586,663 million or an increase of 45.2 percent from its year-ago level of ₱404,029. The revenue growth of this sector was attributed to a rebound in the performance of non-banks and insurance companies.

Meanwhile, the real estate industry came in a far second, with total profit of ₱77,495 million or a growth rate of 35.7 percent. Growth in this sector was pushed by higher sales of residential projects, mostly from low cost housing for OFW families and the sustained demand for business office spaces by the business process outsourcing (BPO) sector and the increased rental and leasing operations of shopping malls.

The manufacturing sector which was the over-all leader in terms of revenue, ranked third in profitability with ₱73,289 million down by 4 percent from its 2005 profit level.

Tail-ender: Mining Industry

The mining and quarrying sector posted a revenue of ₱177,104 million, up by 14.9 percent from its year-ago level, placing it at the tail end in the ranking of industries. In 2006, it realized a profit of ₱36,068 million placing it 6th in the profitability ranking of industries.

Top 2005 data - 2006 edition	no. of companies				Sales/Revenue					
	Number		% to total		Amount (million)		% to total		Average (million)	
Year	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
ELECTRICITY, GAS AND WATER SUPPLY	67	61	1.3	1.2	352,559	362,862	6.48	6.07	5,262	5,949
MINING AND QUARRYING	28	34	0.6	0.7	119,629	177,104	2.2	2.96	4,272	5,209
TRANSPORT, STORAGE AND COMMUNICATIONS	251	254	30.7	5.1	1,998,231	375,067	36.73	6.27	1,303	1,477
FINANCIAL INTERMEDIATION	299	302	5.0	6.0	404,029	586,663	7.43	9.81	1,610	1,943
MANUFACTURING	1533	1494	6.0	29.9	418,482	2,259,673	7.69	37.79	1,400	1,512
WHOLESALE AND RETAIL TRADE	1738	1677	34.8	33.5	1,509,593	1,509,422	27.75	25.24	869	968
REAL ESTATE, RENTING AND BUSINESS ACTIVITIES	521	604	10.4	12.1	322,647	344,249	5.93	5.76	619	570
Top 2005 data - 2006 edition	no. of companies				Profit					
	Number		% to total		Amount (million)		% to total		Average (million)	
Year	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
ELECTRICITY, GAS AND WATER SUPPLY	67	61	1.3	1.2	49,882	58,567	12.46	11.51	745	960.11
MINING AND QUARRYING	28	34	0.6	0.7	12,456	36,968	3.11	7.26	445	1,087.29
FINANCIAL INTERMEDIATION	299	302	30.7	5.1	91,855	135,794	22.95	26.68	307	449.65
TRANSPORT, STORAGE AND COMMUNICATIONS	251	254	5.0	6.0	73,176	64,771	18.28	12.73	292	255.00
REAL ESTATE, RENTING AND BUSINESS ACTIVITIES	521	604	6.0	29.9	57,100	77,495	14.27	15.23	110	128.30
MANUFACTURING	1533	1494	34.8	33.5	76,378	73,289	19.08	14.40	50	49.06
WHOLESALE AND RETAIL TRADE	1738	1677	10.4	12.1	29,776	35,325	7.44	6.94	17	21.06

MEMORANDUM CIRCULARS

MEMORANDUM CIRCULAR NO. 1 **April 4, 2007**

Guidelines on the Expedient Approvals of Matters Concerning Pre-Need Plans

The Guidelines cover the registration and licensing of pre-need plans and reliefs concerning the trust funds of pre-need corporations.

The Guidelines specify which pre-need corporations can avail of the provisions of the Memorandum Circular (MC) as well as the required documents pertaining to registration and licensing of pre-need plans.

The MC also stipulates the filing fees, the time frame for the processing, as well as the processes the application shall pass through, and the sanctions that the Commission may impose on any fraudulent entry(ies) in the applications.

MEMORANDUM CIRCULAR NO. 2 **August 9, 2007**

Participation in the Corporate Governance Survey

Directs all publicly listed companies to participate in the Corporate Governance (CG) Survey, which uses the CG scorecard as the survey instrument.

The Survey is a tripartite collaboration of the Securities and Exchange Commission (SEC), Philippine Stock Exchange (PSE) and Institute of Corporate Directors (ICD).

The survey, which is developmental in nature, has the following objectives:

- a. to provide the regulators and publicly-listed companies with empirical data on the current state of corporate governance within this group of regulated entities as basis for policy and program interventions;
- b. to help publicly-listed companies develop or strengthen their corporate governance structures or mechanisms in line with global corporate governance principles and practices; and
- c. to help the SEC in its review of corporate governance principles for possible adoption by publicly-listed companies.

MEMORANDUM CIRCULAR NO. 3 **September 5, 2007**

Amendment of Reportorial Requirements

Amends the rules on the filing of reports with the SEC operating departments, namely the Market Regulation Department (MRD), the Corporation Finance Department (CFD), the Non-traditional Securities and Instruments Department (NTD), and the Company Registration and Monitoring Department (CRMD).

For MRD, the reports filed by Brokers/Dealers, Transfer Agents, Investment Houses/Underwriters, Investment Company Advisers, Government Securities Eligible Dealers, SROs, PDTC and Securities Clearing Corporation of the Philippines, which shall be discontinued are enumerated. For those reports that are still required to be submitted, the format, content and frequency of submission are described.

For CFD, the reports that shall be discontinued for submission to the Commission are enumerated. The Self-Rating form shall be replaced by the CG Scorecard in compliance with SEC MC No. 2, s. 2007. The dates, forms and processing of submission of the other reports are stated in the MC.

For NTD, there is also an enumeration of the reports that shall be discontinued. On the other hand, the filing periods of the required reports for submission are presented, while companies engaged in Alternative Trading System are required to submit Form 2-A not later than 10 calendar days prior to the implementation of a material change in operation.

For CRMD, reports that are to be discontinued are Notice of Postponement of Annual Meeting and Affidavit of Non-Holding of Annual Meeting. The same discontinuance shall be applied to the filing of report of election, death, resignation, cessation of office of directors, trustees and officers. However, in case any of the incidents mentioned happens, the corporation shall report the incident through an Amended General Information Sheet (GIS), which shall be filed within 30 days from the occurrence of the incident.

MEMORANDUM CIRCULAR NO. 4
September 27, 2007

Guidelines on the Management of the Trust Fund of Pre-Need Corporations

Sets the Guidelines for the Pre-Need Corporations and entities authorized to engage in trust operations and to act as Trustee for Pre-Need Corporations pursuant to Section 16 and 74 of the SRC. The Guidelines have the following objectives:

- a. to govern the management and administration of Trust Funds established for the payment of Pre-Need Benefits under plan contracts, and
- b. to provide an updated and more flexible choice of investments for the Trust Fund subject to rules and regulations that would ensure prudent investment

management and protection of the interests of the planholders.

The Guidelines cover the following:

- a. Trust Fund
- b. Trust Agreement
- c. Responsibilities of the Trustee
- d. Investments of the Trust Fund
- e. Recognition and Measurement of Trust Fund Assets and Liabilities
- f. Liquidity Reserve Fund
- g. Reportorial Requirement
- h. Time of Making Deposits to the Trust Fund
- i. Transitory Provisions
- j. Sanctions

MEMORANDUM CIRCULAR NO. 5
October 19, 2007

Adoption of Philippine Standard No. 1 (Revised 2007)

The Commission, in its resolution No. 383 s. 2007 dated October 19, 2007, approved the adoption of Philippine Accounting Standard (PAS) 1, Presentation of Financial Statement (revised 2007), as a Philippine Financial Reporting Standard (PFRS) under SRC Rule 68. MC No. 5 s. 2007 supercedes PAS 1 adopted in 2005. The revision on PAS 1 aims to improve user's ability to analyze and compare the information given in financial statements.

MEMORANDUM CIRCULAR NO. 6
December 10, 2007

Definition of Qualified Buyers under Section 10 of the Securities Regulation Code (SRC)

Sets the rules on the determination of a "qualified buyer" which can be a natural or a juridical person. The rules also identify the documentary requirements that these "qualified buyers" have to comply with, and the period of validity of their registration.

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 Investment 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 (Republic Act 9182)
11. Securitization Act of 2004 (Republic Act 9267)

2008 VISION

We foresee that, by December 31, 2008, the Self-Regulatory Organizations will be able to function effectively and maintain discipline within their ranks with the minimum of intervention by the Securities and Exchange Commission.

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