



Republic of the Philippines
Department of Finance
Securities and Exchange Commission
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Implementing Rules and Regulations of the Investment Company Act

Pursuant to Republic Act No. 2629, otherwise known as the Investment Company Act ("ICA") and Republic Act No. 8799 otherwise known as the Securities Regulation Code ("SRC"), the Commission is granted the authority to prescribe the regulation of investment companies, and to require them to register with the Securities and Exchange Commission ("Commission") and to comply with certain standards including, among others, the regular public disclosure of financial condition, investment policies and objectives, and their fund portfolios as well as their pricing and fees.

The Commission is also authorized to regulate Fund Managers and other parties involved in the operation of investment companies;

The ICA authorizes the Commission to issue from time to time rules and regulations and orders as are necessary or appropriate to exercise its powers under the ICA that would include the definition of accounting, technical and trade terms and prescribing the forms in which information required in registration statements, prospectuses, applications, and reports to the Commission which shall include the rules governing Unitized Mutual Funds or other types of investment companies;

There is a need to align the rules with global standards and practices in order to develop the Philippine capital market that will help prepare the investment companies qualify and compete in international cross-border transactions;

In line with these developments, the ICA Rule 35-1 is hereby amended and the following rules and regulations are hereby adopted that shall govern investment companies as well as the transactions, persons and all other activities and practices involved therein.

RULE 1 - Definition of Terms

When used herein, unless the context otherwise requires:

1. **Act** - shall refer to the Investment Company Act, Republic Act No. 2629.
2. **Assets Under Management (AUM)** - shall refer to the total market value of all the financial assets of an Investment Company managed by a Fund Manager.
3. **BSP**- shall refer to the Bangko Sentral ng Pilipinas

4. **Certified Investment Solicitor (CISO)** – shall refer to a natural person of legal age duly licensed by the Commission and appointed by the Fund or the FM/MFD to solicit, sell or offer to sell the shares or units of an Investment Company to the public.
5. **Co-Managed Fund** – shall refer to a fund structure that is similar to a feeder fund structure but allows the local Fund Manager to know and control the management of the funds in the Investment Company.
6. **Closed-end Company** – shall refer to an Investment Company which offers for sale a fixed number of non-redeemable securities which are offered in an initial public offering and thereafter traded in an organized market as determined by the Commission and Exchange.
7. **Collective Investment Scheme (CIS)** – shall refer to an arrangement whereby funds are solicited from the investing public for the purpose of investing, reinvesting and trading in securities or other assets allowed under this Rule.
8. **Commission** – shall refer to the Securities and Exchange Commission.
9. **Credit Ratings** – shall refer to those ratings assigned to any entity that measures the creditworthiness of a borrower or its capacity to fulfill its financial obligations. These ratings are derived after considering all factors, and issued a credit rating agency accredited by the Commission.
10. **Custodian** – shall refer to an independent third party entity duly authorized or accredited by the Bangko Sentral ng Pilipinas or the Commission to engage in the business of custodial and safekeeping of investment assets.
11. **Deposits** – shall refer to deposits placed with deposit-taking institutions that are either banks or entities licensed to accept deposits pursuant to law and subject to prudential rules and regulations.
12. **FATCA** – shall refer to Foreign Account Tax Compliance Act which is a United States federal law enacted in 2010 by the United States Congress.
13. **FM/MFD** – shall refer to a Fund Manager who, aside from managing a Fund, also functions as a distributor of the shares or units of the Investment Company and may no longer be required to secure a separate license for the distribution of the shares or units of the Investment Company.
14. **Feeder Fund** – shall refer to a fund structure where at least ninety percent (90%) of the net assets of the mutual fund company is invested in a single collective investment scheme, which is not a Feeder Fund.
15. **Fund-of-Funds** – shall refer to a fund structure where more than 50% of the net assets of the mutual fund company is invested in more than one collective investment schemes.
16. **Fund Manager ("FM")** – shall refer to a registered entity with an Investment Company Adviser license that is engaged in the business of managing the daily operations of an Investment Company in the investment, administration and accounting of fund assets and the monitoring of the activities of third party service providers such as custodian, transfer agent, and distributors.

17. **Independent Director** – shall refer to a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in any covered company. An independent director shall possess the degree of independence and all the qualifications and none of the disqualifications for independent directors as defined in the SRC and its implementing rules and regulations or such other rules or guidelines issued by the Commission.
18. **Investment Assets or Eligible Assets** – shall refer to those assets in which the funds of the Investment Company may be invested in.
19. **Investment Company** – shall refer to a stock corporation primarily engaged or holds itself out as being engaged primarily, or proposes to engage, in the business of investing, reinvesting and trading in securities.
20. **Investment Company Adviser License** – shall refer to the license issued by the Commission to a Fund Manager and/or Fund Advisor.
21. **Investment Grade** – shall refer to a rating within the top 4 long-term credit ratings, or at least Baa or BBB, or the top 3 short-term credit ratings, or at least A, provided on an international scale.
22. **Investors of the Fund** – shall refer to the shareholders or unitholders of the Investment Company who executed a subscription agreement with the Investment Company or the Fund Manager to subscribe to the shares or units of the Investment Company.
23. **Index** – shall refer to a single number that is calculated based on known methodology and is used to gauge the price and/or volume movements of a list of selected securities traded in an Exchange.
24. **IOSCO** – shall refer to the International Organization of Securities Commissions.
25. **Investment Company Adviser** – shall refer to an Investment Company Adviser licensee who regularly advises or recommends investment decisions with regard to the securities or other portfolio of the Investment Company pursuant to an advisory contract with the Investment Company.
26. **Issuer** – is the originator, maker, obligor, or creator of the security.
27. **Mutual Fund Company ("MFC")** – shall refer to a registered open-end Investment Company that holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting and trading in securities. It is a company that pools the funds of individuals and institutional investors to form a massive asset base which is entrusted to a full time professional Fund Manager who develops and maintains a diversified portfolio of security investments. It offers for sale or has outstanding any redeemable securities of which it is the issuer.

28. **Mutual Fund Distributor ("MFD")** - shall refer to a juridical person duly licensed or authorized by the Commission to distribute shares or units of an Investment Company as either principal distributor or sub-distributor.
29. **Net Asset Value (NAV)** - shall refer to the aggregate value of each fund, either shares or units, as determined by the market value of its underlying securities holdings, including any cash in the portfolio less liabilities, computed at the close of the trading of securities for the day.
30. **Net Asset Value per Share or NAVps** - shall refer to the computed NAV on a per share basis at the close of the day. It is calculated by dividing the Investment Company's total net assets from the shares outstanding.
31. **Net Asset Value per Unit or NAVpu** - shall refer to the computed NAV on a per unit basis at the close of the day. It is calculated by dividing an MFC's total net assets by the number of its outstanding units.
32. **Organized Market** - shall refer to an exchange, government securities market or an over-the-counter market that is regulated by the relevant competent regulatory authority and where financial instruments are regularly traded. It shall be of good repute and open to the public or a substantial number of market participants.
33. **Rules or the ICA Rules** - shall refer to the Implementing Rules and Regulations of the Investment Company Act.
34. **Sales load** - shall refer to the charge or commission on the cost of acquiring the shares or units of an Investment Company.
35. **Solicitation** - shall refer to the act of providing information about a security or investment product being offered for sale with the view of making another person a client or closing or bringing in a sale or purchase of security or investment product.
36. **SRC** - shall refer to the Securities Regulation Code, Republic Act No. 8799.
37. **Target Fund** - shall refer to either a local or foreign CIS where a feeder fund, fund-of-funds or co-managed fund invests in.
38. **Tradable securities** - shall refer to a financial instrument that has quoted two-way prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.
39. **Transferable securities** - shall refer to shares and other securities equivalent to shares, and bonds and other forms of securitized debt excluding money market instruments or any security title to which can be transferred only with the consent of a third party.
40. **Transfer Agent** - shall refer to a juridical person duly licensed by the Commission as a transfer agent and appointed by the Investment Company, or the Fund Manager, to maintain an accurate registry for recording the initial and subsequent transfer of securities.
41. **Unitized Mutual Fund (UMF)** - shall refer to an MFC that issues units of participation each of which represents an undivided interest in the pool of investment assets of the scheme.

42. **WFE** – shall refer to World Federations of Exchange

Unless otherwise specifically provided, the terms used in this Rules shall have the same meaning as defined in the Act.

RULE 2- Interpretation of the Rules

Any doubt in the interpretation of this Rules shall be resolved by the Commission in a manner which establishes a socially conscious free market that regulates itself, encourage the widest participation of ownership in enterprises, enhance the democratization of wealth, promote the development of the capital market, protect investors and ensure full and timely disclosure of material information.

RULE 3 - Incorporation and Registration of an Investment Company

3.1. No person shall act as an Investment Company unless it is registered as such in accordance with the Corporation Code of the Philippines, the Act, the SRC and their implementing rules and regulations (IRR).

3.2. An MFC that already registered its common shares for offer or sale may also be allowed to register units of participation. However, the computation of the NAVs for the shares shall be computed separately from the assets generated from the issuance of the units.

3.3. Classifications of Investment Company. An Investment Company may be classified by investment policy as either:

- a. **Equity Fund** – shall refer to an Investment Company with the objective to invest predominantly in or hold equity instruments.
- b. **Bond Fund or Fixed Income Fund** – shall refer to an Investment Company which invests in fixed income instruments such as bonds, treasury bills, certificates of deposit, promissory notes, bills of exchange, debentures, etc. It should not invest in shares, except redeemable preferred shares, or share warrants.
- c. **Balanced Fund** – shall refer to an Investment Company that invests in both equity and fixed income instruments. The respective investments in either equity or fixed income shall not be less than thirty five percent (35%) but not more than sixty five percent (65%) of the NAV of the Investment Company.

- d. Feeder Fund – shall refer to an MFC that invests at least ninety percent (90%) of its net assets in a single CIS established by another Fund Manager, asset management company or fund operator, which shall not be a feeder fund.
- e. Fund-of-Funds – shall refer to an MFC that invests at least fifty percent (50%) of its net assets in more than one (1) CIS established by another Fund Manager/s, asset management company/ies or fund operator/s.
- f. Index Fund – shall refer to an Investment Company with an objective of providing investors with a return that replicates or is linked to securities indices as disclosed in its prospectus.
- g. Money market funds – shall refer to an Investment Company that invests in short-term fixed income securities with a portfolio duration of one (1) year or less.
- h. Multi-asset/Asset Allocation Fund - shall refer to an MFC that invests in a fixed or variable mix of both equity and fixed income instruments, as well as cash and cash-equivalents.

The above enumerations are not exclusive. There may be other classifications of funds based on their investment policy that may be approved by the Commission.

3.4. Minimum Requirements. An Investment Company applying for incorporation with this Commission shall comply with the following requirements:

- a. File documentary requirements for the registration of its Articles of Incorporation ("AOI") and By-Laws (BL);
- b. File SEC ICA Form 7-A and pay the filing fee of ₱10,000.00 plus LRF;
- c. The name of the corporation shall contain the word "Fund";
- d. The primary purpose clause of the AOI shall provide that the corporation shall engage in the business of investing, reinvesting or trading in securities or other investment assets allowed under the Act and this Rules;
- e. All members of the Board of Directors shall be Filipino citizens;
- f. It shall have a minimum subscribed and paid up capital of Fifty Million Pesos (₱50,000,000.00). The Commission may grant a request for a lower paid-in capital requirement if the Investment Company is one of or part of a group of investment companies to be created or already in existence to be managed or under management by the same Fund Manager with a track record of at least five years as such and provided that the subscribed and paid up capital shall not be lower than One Million Pesos (₱1,000,000.00);
- g. All shares shall be common and voting and, in general, redeemable in accordance with the terms and conditions prescribed and disclosed in the Registration Statement. For MFCs that will issue units, the unitholders shall have no voting rights but are entitled to be notified of any material change to the Registration Statement and the subscription agreement;

- h. The original proponents of a newly formed Investment Company, which is not related to an existing fund or Fund Manager with a track record of at least five (5) years, shall not be allowed to sell, transfer, convey, encumber or otherwise dispose of their securities within twelve (12) months from the registration of the Investment Company;
- i. The pre-emptive right of stockholders to all issues or disposition of shares in proportion to their respective shareholdings shall be denied in the AOI of an Investment Company; and
- j. An Investment Company shall not be required to comply with the minimum subscribed and paid-up capital relative to the increase in its authorized capital stock.

3.5. The requirements provided for under Rules 3.1 and 3.3 shall not apply to licensed or registered collective investment schemes of other economy/ies with whom the Philippines has a mutual or multilateral agreement on cross-border transaction of funds.

RULE 4 – Registration of Securities

No person shall sell or offer for sale or distribute the shares or units of an Investment Company unless such have been registered in accordance with the requirements of the ICA, SRC and their IRR, and the registration statement has been declared effective by the Commission.

4.1. Registration Statement (RS)

- a. An Investment Company issuing shares and units shall file a Registration Statement ("RS") using SEC Form 12-1-ICA;
- b. The form shall be notarized and signed by the President, Treasurer, Corporate Secretary, or any officer occupying a position equivalent to any of the foregoing or performing similar functions, and a majority of the Board of Directors of the Investment Company and the Fund Manager;
- c. The form shall provide information on expenses relative to the issuance, offering and distribution of the securities, taxes, registration fees and such other relevant expenses.
- d. For issuance of units, the Fund Manager shall shoulder the expenses incurred in the registration and offering of the units.
- e. Submit together with the RS an Exhibit Table which will provide the items required to be submitted under Rule 4.3.
- f. The Commission may reject the RS or suspend or revoke the effectivity of the RS if the Investment Company or Fund Manager –

- i. submits or has been found to have submitted false or misleading information to the Commission;
- ii. made misrepresentations or has been found to have misrepresented information in the RS;
- iii. defrauds or has been found to have defrauded investors; or
- iv. contravenes or has been found to have violated any law, rules and regulations, disclosures in the RS, prospectus or subscription agreement.

4.2. – Prospectus and Product Highlight Sheet

The Investment Company, through its Fund Distributor, upon request by a prospective investor, shall provide the relevant Product Highlight Sheet and Prospectus which shall contain the data required under SRC Rule 12 and this Rules. In addition, the following information shall be provided in the prospectus:

- a. The name of the Investment Company. For this item, it is preferable that the Investment Company indicate in its name whether it is an Equity Fund, Bond or Fixed Income Fund, Balanced Fund, Money Market Fund, Index Fund, Feeder Fund, Fund-of-funds, Co-Managed Fund, Multi-asset/Asset Allocation funds, etc.;
- b. Information with respect to the Investment Company including classification whether it is an open-end or closed-end;
- c. If units are to be offered, it shall contain the words "Unitized Mutual Fund" or "UMF";
- d. The description of the terms, features, rights, and privileges of the Investment Company shares or units to be registered;
- e. The investment objective, policy and strategy of the Investment Company;
- f. Investment of the fund or the use of proceeds including the investment powers of the Fund Manager with respect to the funds of the Investment Company;
- g. Category of the fund whether aggressive, growth-oriented, or conservative; character and kind of investments which may be purchased by the Fund Manager on behalf of the Investment Company and dealings in debt securities, whether it is short term, medium term or long term;
- h. Profile of the prospective investors and investment suitability;
- i. Risk factors and other information on the investments;
- j. The manner in which the shares or units are to be offered to the public/ plan of distribution including sub-distributions;
- k. Determination of the offering price;
- l. Pricing method/methodology of asset valuation;
- m. Specific dividend policy such as percentage and frequency of declaration;
- n. The procedure for issuance and redemption/payoff structure, redemption centers and the costs involved;

- o. Discussion on business experience (for the last 5 years) of the directors and executive officers including their ownerships in the Investment Company, family relationships and employment contracts;
- p. Disclose separately and in tabular format the directors and executive officers' compensation;
- q. Security ownership and beneficial ownership of any person holding at least five per centum (5%) of the outstanding shares of the Investment Company;
- r. Disclosures on related party transactions and description of involvement, if any, of the Investment Company, Fund Manager, their officers, or directors in companies which the Investment Company will be dealing with;
- s. Name and background of the parties which should include roles, duties and responsibilities of the Fund Manager, Fund Advisor, Fund Distributor, Custodian, and Transfer Agent;
- t. Summary of fees, commissions and other charges to be deducted from the fund and paid by the shareholders/unit holders;
- u. Liabilities of the Investment Company and the Fund Manager to the shareholders/unit holders;
- v. Legal proceedings involving the Investment Company and the Fund Manager, and their officers and directors;
- w. Annual meeting of shareholders;
- x. Risk monitoring and management procedure, including a risk management framework for the assets managed by the Fund Manager;
- y. Procedure for handling customer's complaints;
- z. Procedure for monitoring fund distribution;
- aa. Policies on the following: conflict of interest; and management and procedures in monitoring and resolving conflicts of interest;
- bb. Delegation of fund management or custody of assets, if any;
- cc. Borrowing of money;
- dd. Corporate governance;
- ee. Anti-money laundering, FATCA and counter-terrorist financing policies;
- ff. Taxation;
- gg. Other laws and government policies applicable to the company;
- hh. Procedures to ensure compliance with relevant Laws and Regulations;
- ii. Latest financial statements consistent with the requirements of SRC Rule 68, as amended, and certified by a SEC-accredited external auditing firm categorized under Group A;
- jj. Management discussion and analysis and results of operations which should include performance benchmark, information on independent accountant and external audit fees and other related matters and services.

With respect to performance benchmark, the Investment Company shall disclose where the information on the benchmark can be obtained. If a customized benchmark or combination of multiple benchmarks is used, there shall be a description on how the benchmark is derived;

- kk. The rights of the shareholders/unit holders in case of dissolution of the Investment Company and the dissolution plan;
- ll. Prominently display the following statement in bold face 12-point type, in the preliminary prospectus:

"A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY."

- mm. Provide a statement that the liability of the shareholders or loss to the unitholders is limited to their investments to the Investment Company;
- nn. Any other reports, schedules or information which the Commission may deem necessary or appropriate for the protection of investors;
- oo. In case the prospectus has become effective, prominently display the following statement in bold face 12-point type, which shall be signed by the President under oath:

"ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED IS TRUE AND CURRENT."

4.3 - Exhibits filed with the Registration Statement

The following exhibits shall be filed together with the RS:

- a. Proof of Publication of Notice re: Filing of RS (with Affidavit and copy of Publication);
- b. Articles of Incorporation (AOI) and By-Laws for newly organized corporations or latest amended AOI and/or By-laws for existing investment companies;
- c. Subscription Form (with attached Client Suitability Assessment Form);
- d. Redemption Form;
- e. Opinion re: Tax Matters;

- f. Material Contracts (Management, Advisory, Distribution, Transfer Agency, Custodial Agreement, etc.);
- g. Curriculum Vitae of directors and officers of the Fund and Fund Manager;
- h. Certification under Oath of the President and Chairman of the Board, or their equivalent in rank, on the involvement of the members of the Board of Directors in companies which the Investment Company will be dealing with;
- i. Authorization re: Issuer's Bank Accounts;
- j. Board Resolution of the Investment Company approving the securities offering and authorizing the filing of the RS;
- k. Duly notarized Board Resolution manually signed by a majority of the Board of Directors of the Investment Company and Fund Manager approving the disclosures contained in the RS and assuming responsibility for the information contained therein;
- l. Investment Company's Anti-Money Laundering Manual with Secretary's Certification as to its adoption;
- m. Investment Company's Manual on Corporate Governance with Secretary's Certification as to its adoption;

The Commission may require such other exhibits it may deem necessary.

4.4 – Shelf Registration

Shares of the Investment Company which are intended to be issued in tranches at more than one instance after the RS has been rendered effective by the Commission may be registered for an offering to be made on a continuous or delayed basis in the future provided that the registrant shall comply with the following requirements:

- a. At least thirty (30) days prior to the offering or sale of the securities of the subsequent tranches, it shall inform the Commission in writing, through a prescribed format, the material changes, if any, in the RS previously rendered effective by the Commission; and,
- b. Submit the following documents:
 - i. Latest Audited Financial Statements and/or Interim Financial Statements;
 - ii. Certification of No Material Change in the Disclosures in the Prospectus;
 - iii. Curriculum Vitae of directors and officers of the Fund and the Fund Manager which were not submitted with the original RS; and
 - iv. Copy of new contracts/agreements, if any.
- c. Filing Fees
 - i. Upon filing of an RS, a filing fee of 1/10 of 1% of the issued value (based on the NAVPS [Net Asset Value Per Share] if it is a mutual fund) of the first tranche of securities shall be paid.

- ii. The filing fees of the subsequent tranches shall be payable within forty five (45) days prior to commencement of the offer/sale of the particular tranche of the securities.
- iii. The registrant shall execute an undertaking to:
 1. Pay the remaining registration fees no later than thirty (30) business days prior to the expiry of the three (3) year period reckoned from the date of effectivity of the RS; and
 2. And shall not offer the unpaid portion of the securities to the public until payment of the required fees.

4.5. - Filing Fees

a. For every registration of shares, the following fees plus Legal Research Fee (LRF) of 1% of the computed amount shall be paid:

<i>Maximum Aggregate Price of securities to be offered</i>	<i>Amount of filing fee</i>
Not more than ₱500 Million	0.10% of the maximum aggregate price of the securities to be offered
More than ₱500 Million but not more than ₱750 Million	₱500,000.00 plus 0.075% of the excess over ₱500 Million
More than ₱750 Million but not more than ₱1 Billion	₱687,500.00 plus 0.05% of the excess over ₱750 Million
More than ₱1 Billion	₱812,500.00 plus 0.025% of the excess over ₱1 Billion

or such fees as may be prescribed by the Commission.

b. Fees for issuance of units

The registration fee for every application for registration of units of participation shall be Ten Thousand Pesos (₱10,000.00), or such amount as may be prescribed by the Commission, regardless of the quantity of units to be registered. Each year thereafter, an annual fee of 1bps based on the average net asset value of the unitized funds shall be paid within thirty (30) days from the recently ended calendar year, or not later than 31 January of every year after the registration of the units.

4.6 - Delivery of Prospectuses to Investors

a. The Fund Distributor, through its CISol, is obliged, upon request, to deliver a copy of a duly rendered effective prospectus to interested parties with the latest Audited Financial Statements of the fund.

b. Distribution of an electronic copy of prospectus may be allowed provided that hard copies shall be given upon the request by interested parties.

c. Distribution of a condensed copy of the prospectus to prospective investors may be allowed, subject to SEC approval. The summary of fees to be paid by the Investment Company and the investors should be presented in tabular format.

RULE 5 – Parties Involved

The Investment Company, the Fund Manager, Fund Advisor, Fund Distributor, Transfer Agent, Custodian and Compliance Officer shall have the following common duties and responsibilities:

- a. Carry on and manage the business and the assets of the Investment Company in a proper, diligent and efficient manner;
- b. Observe honesty, due care and diligence, utmost good faith and high standards of integrity;
- c. Exercise care and diligence, and act in the best interest of the investors;
- d. Establish systems, procedures and processes to be observed by its officers and employees to ensure compliance with the Act, SRC and this Rules to protect the interests of the investors;
- e. Take responsibility for all actions and omissions of any third party to whom it delegates any of its duties and responsibilities, except for any resulting damage or liability arising from force majeure or other similar occurrence beyond the control of such third party;
- f. Ensure that any person appointed or employed by it is of good repute, having relevant expertise and experience to act in the capacity so appointed or employed;
- g. Refrain from using its position to gain, directly or indirectly, an advantage for itself or for any other person or to cause detriment to the interests of the investors;
- h. Avoid and eliminate conflicts of interest in the performance of their functions, which may be identified by the Commission as prejudicial to the interests of the investing public;
- i. Disclose all conflicts of interests in the performance of their functions; and
- j. Comply with orders, rules and regulations as may be prescribed by the Commission.

5.1 – Fund Manager

5.1.1. Qualifications of a Fund Manager

- a. An Investment Company shall appoint a Fund Manager with an Investment Company Adviser license. The following are the requirements for the licensing of an ICA:

- i. Paid-up capital of at least Fifty Million Pesos (P50,000,000.00) and a minimum unimpaired net worth of at least Fifty Million Pesos (P50,000,000.00) exclusive of revaluation surplus, unrealized gain in value of non-current investments, deferred income tax and other capital adjustments as may be required by the SEC. Provided further that the Fund Manager shall be required to have an additional unimpaired capital requirement of 0.02% of the excess of One Hundred Billion Pesos (P100,000,000,000.00) of the total AUM, which additional capital infusion shall be made within 30 days after the end of the fiscal year the AUM increased.
- ii. Audited Financial Statements for the last three (3) years reflecting its ongoing business operations.

A Fund Manager that cannot comply with Rule 5.1.a.ii. shall have a board made up of directors all of whom shall have a track record of at least five (5) years in fund management and/or its related functions in any reputable investment banking institution or asset management company dealing with securities or stock brokerage business, and have passed such licensure exam for Fund Managers as may be proscribed by the Commission.

- iii. The applicant Fund Manager, its directors or key officers have not:
 - 1) Willfully made or caused to be made in any application for registration or reports required to be filed with the Commission, any material or misleading statement or information, or willfully omitted any material fact which is required to be stated therein or made a misrepresentation therein;
 - 2) Been found to have defrauded investors;
 - 3) Been convicted of a crime involving moral turpitude which involved the purchase or sale of any securities, or which arose out of the conduct of the business of a broker, dealer, investment adviser, investment house, bank, trustee or other fiduciary capacity;
 - 4) Willfully violated, or willfully aided, abetted, counseled, commanded, induced, or procured the violation by any person of any provision of the Act, the SRC, this Rule and such other orders of the Commission.

If the Fund Manager was found to have committed any of the foregoing violations, its license, if already granted, shall be revoked. The directors shall be removed after due notice and hearing in accordance with the Corporation Code. Failure to remove the said individuals shall give rise to the presumption that the Fund Manager committed the violations.

- b. To carry out all required functions, the Fund Manager shall have in place the following:
 - i. an organizational structure with clear lines of responsibility;
 - ii. sufficient technical and human resources;

- iii. an efficient fund management operation system;
- iv. adequate internal control system;
- v. a risk monitoring and management process, including a risk management framework for the assets that they manage, based on the size, complexity and risk of the assets under management;
- vi. adequate processes for handling costumers' complaints and monitoring of fund distribution;
- vii. procedures to monitor conflicts of interest and policies on conflict management; and
- viii. procedures to ensure compliance with relevant laws and regulations.

- c. **Fit and Proper Rule.** The Fund Manager, as well as its directors, chief executive officer, key executive officers or managers, and substantial shareholders shall be fit and proper to serve as such, based on the following criteria:
- i. honesty, fairness and integrity;
 - ii. diligence, competency and capability; and
 - iii. financial soundness.

The criteria shall also take into account the provisions of the SRC on Ethical Standards Rule and the principles and requirements of the IOSCO.

- d. All members of the Board of Directors shall have the minimum qualifications, as follows:
 - i. Executive Directors shall have at least five (5) years experience in financial or capital markets;
 - ii. Non-Executive Directors shall have at least five (5) years experience in financial or capital markets or in any other related field.
- e. The nomination and election of independent directors shall be in accordance with Section 38 of the SRC and its IRR.
- f. The Chief Executive Officer (CEO), or its equivalent, shall have a minimum of ten (10) years experience in financial or capital markets;
- g. Key executive officers, who are heads of the departments which are responsible for the core functions of the Fund Manager's organization, shall have:
 - i. at least a Bachelor's degree, or its equivalent, and a minimum of three (3) years experience (for the past 5 years) in financial or capital markets; or
 - ii. a minimum of five (5) years experience (in the past 7 years) in financial or capital markets;
- h. A Compliance Officer shall have the qualifications and functions enumerated under this Rules.
- i. Key officers, who are responsible for making investment decisions shall have:

- i. At least a Bachelor's degree, or its equivalent; passed such licensure exam as may be prescribed by the Commission; and, at least three (3) years experience (in the past 5 years) in fund management and/or related functions; or
 - ii. Professional qualifications and with at least five (5) years experience (in the past 7 years) in fund management and/or related functions.
- j. The Commission may prescribe additional requirements or qualifications for a Fund Manager that it may deem necessary.
- k. In case the Investment Company manages its own funds, the qualifications required under this Rule shall apply. The Investment Company shall appoint an independent entity that shall oversee its operations.

5.1.2. Responsibilities of a Fund Manager. The Fund Manager shall have the following responsibilities:

- a. Manage the investment assets of the Investment Company and perform its functions in accordance with the disclosures in the RS, Prospectus, its agreements with the investors of the Investment Company, if any, the Act, the SRC and its IRR and this Rules;
- b. Keep or cause to be kept such books and records as will sufficiently explain the transactions, and dispositions of the assets of the Investment Company including the shares/units cost allocation;
- c. Maintain records and arrange for participants to receive accounts, reports and statements;
- d. Provide copies of financial and other records of Fund investments to investors, Investment Company, and auditor;
- e. Ensure that the Fund's shares or units are accurately valued or priced;
- f. Ensure that all payments out of the Investment Company and its investment assets are made in accordance with the disclosures in the prospectus, the Act, the SRC and its IRR and this Rules, and its agreement with the investors of the Fund;
- g. Ensure that all assets of the Investment Company are deposited with an independent custodian;
- h. Comply with the instructions of the Investment Company or orders of the Commission to remedy a breach of the disclosures in the prospectus, its contract with the Investment Company, the Act, the SRC and its IRR and this Rules;
- i. Furnish the Investment Company with all the contracts and agreements relating to the operation and management which the Investment Company is not a party thereto;
- j. Conduct all transactions for the Investment Company at arm's length;
- k. Implement the Written Supervision and Control Procedures, including procedures for establishing and segregating transactions. Such procedures shall take into consideration

the requirements of the Anti-Money Laundering Act of 2001, as amended, and the Revised Code of Corporate Governance or any amendments thereon;

- l. Establish, maintain and implement written policies and procedures to ensure that complaints from investors are handled in a timely and appropriate manner. The Fund Manager shall maintain a Complaint Log to record complaints received, the action taken, progress or status of the Complaint, if any, which shall be made available to the Commission upon request or during the conduct of an examination;
- m. Monitor the activities of the fund distributor, including the sub-distributor, relative to the sale of the Fund shares or units;
- n. Facilitate the redemption of the shares or units, and pay out the redemption proceeds within seven (7) banking days from receipt of notice of redemption;
- o. Maintain proper accounting and other records of all transactions;
- p. The Fund Manager shall ensure proper written notification of any payment of monies into or out of the Investment Company. Such notification shall be done not later than the close of business day;
- q. Ensure that there is a system of internal accounting controls that is sufficient to provide reasonable assurances that the financial statements are prepared in conformity with the Philippine Financial Reporting Standards (PFRS) that are adopted by the Financial Reporting Standard Council and the rules promulgated by the Commission with regard to the preparation of financial statements;
- r. Propose amendments to the prospectus and secure approval for those amendments which require approval of the shareholders;
- s. Ensure that it shall operate and administer the Investment Company in accordance with the agreements that it disclosed and entered into with the Investment Company and its investors, whether shareholders or unitholders, and in compliance with the provisions and requirements of ICA, SRC, and Corporation Code and their IRR, including these rules, circulars, orders, and terms and conditions prescribed by the Commission;
- t. Report to the Commission within five (5) days, any material development or breach of the provisions or covenants with the Investment Company, the Act, the SRC and its IRR and this Rules that:
 - i. Relates to the establishment, management, operation or dissolution of the Investment Company or to the registration and sale of securities;
 - ii. Has or is likely to have a material adverse effect on the interests of the shareholders/unit holders;
 - iii. Relates to a material amendment of the contract between the Investment Company and itself, including, but not limited to, the termination of the said contract, and the withdrawal or non-renewal of the Fund Manager's license to operate as such and the dissolution of the Fund Manager's corporate existence.

- u. Inform existing shareholders and/or unitholders of any significant changes to be made to the RS or subscription agreement, no later than one month before the change is to take effect; where the change cannot be determined in advance, the investors shall be informed as soon as practicable;
- v. Notify the shareholders and/or unitholders on the extensions or new agreements to be entered into between the parties involved through posting in the Funds' website and/or the office/s of the Funds' distributors not later than one month before the agreements shall take effect;
- w. File such information and documents to keep reasonably current the information in the RS, Prospectus and documents on file;
- x. Perform its duties and responsibilities with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent man, acting in like capacity and familiar with such matters, would exercise in the conduct of an enterprise of like character;
- y. Act honestly and fairly in managing the fund to the best and exclusive interest of the Investment Company, its shareholders and/or unitholders. The Fund Manager shall ensure at all times that any representations or other communications made and information provided to the client is accurate and not misleading;
- z. Ensure the segregation of the assets and other properties of each fund it manages and from those of its own account, physically and in the relevant records, by clearly and properly identifying and labeling the said assets and properties;
- aa. Have sufficient resources, including competent manpower complement, and proper systems, procedures and processes to effectively and efficiently perform its business activities and its duties and responsibilities, and to ably supervise and ensure compliance with the regulatory requirements and other obligations;
- bb. File the reports for Fund Managers as prescribed by the Commission including the reports required to be filed on behalf of the registered Investment Company it is managing.
- cc. Comply with all the regulatory requirements and any other obligations set forth in all the agreements and arrangements that it entered into as Fund Manager;
- dd. Pay for its own account the administrative penalties imposed upon the Fund to which it is managing especially in connection with the reporting requirements of the Investment Company to the Commission;
- ee. Pay for its own account the compensation for any valuation error or incorrect pricing of the NAV when it is at fault;
- ff. Minimize, manage, and disclose transactions where the interests of the Fund Manager may conflict with the interest of the investors of the Investment Company. It shall uphold the best interest of the shareholders/unitholders and shall avoid conflict of interest situations; if unavoidable, a disclosure shall be promptly made to the Commission. A

disclosure shall be made by the Fund Manager within five (5) days if it invests the assets of the Investment Company in securities, property, assets in which such Fund Manager or any of its directors, officers or affiliates has a 10% equity ownership by filing a Current Report (SEC Form 17-C). Such transactions would include, among others, transactions with the affiliates of the Fund Manager, proprietary trading and staff dealing; and

gg. Such other duties and responsibilities that the Commission may prescribe.

The abovementioned duties and responsibilities shall also be imposed on the directors, officers and staff of the Fund Manager. The liabilities may also attach to them if found to have wilfully violated the provisions of this Rules.

5.1.3. Prohibited Acts of the Fund Manager – the Fund Manager shall not:

- a. Purchase securities and investment assets for its own account which may conflict with its obligation as a Fund Manager;
- b. Engage in a business other than the business of managing, administering, marketing and distributing funds and securities, and other related activities;
- c. Pay or cause to be paid out of the fund any fees, commissions and other similar expenses that have not been disclosed in the registration statement and prospectus;
- d. Retain any rebate from, or otherwise share in any commission with, any broker or dealer in consideration of transactions or investments of the funds. Any rebates or shared commissions shall be for the account of the fund concerned;
- e. Make payments out of the assets of the Investment Company for the purpose of marketing the securities of the Investment Company; and
- f. Misuse information acquired as Fund Manager to gain advantage for itself or for another or other persons;
- g. Perform activities that shall cause harm to the Investment Company and its shareholders/unit holders;
- h. Engage the Investment Company in non-permissible activities such as direct lending of monies; and
- i. Engage in any other prohibited acts that the Commission by rule or order shall prescribe.

5.1.4. Fund Management Agreement. Subject to the approval by a majority of the board, the formal written agreement between the Fund Manager and Investment Company shall provide among others, the following:

- a. Its duties and responsibilities as a Fund Manager ;
- b. Extent of services to be rendered by the Fund Manager ;
- c. Fees, remuneration and other expenses of the Fund Manager ;

- d. Any restrictions or prohibitions regarding the performance by the Fund Manager of its functions;
- e. Liabilities of the Fund Manager ;
- f. The term of the engagement and the manner of termination thereof, which shall be in accordance with such requirements or limitations the Act and this Rules may prescribe, provided that:
 - i. the term shall continue for more than two (2) years from the date of execution as long as the continuance is approved annually by the Board of Directors or by a vote of the shareholders representing a majority of the outstanding voting securities of the Investment Company;
 - ii. the contract may be terminated at any time, without penalty, by the Board of Directors, and the termination period shall not be more than sixty (60) days from the written notice to the investment adviser; and
 - iii. there is an automatic termination in case of assignment by the investment adviser.
- g. Reporting obligations of the Fund Manager;
- h. Such agreement shall not contain any provision which protects or purports to protect any director or officer of such Fund Manager against any liability to the Investment Company or to its security holders to which it would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of its office; and
- i. Such other terms or conditions as the Commission may prescribe.

5.1.5. Limitations on Affiliation of Fund Manager. The Fund Manager, as well as its directors, chief executive officer, key executive officer or managers, shall not be allowed to hold more than fifty percent (50%) of the membership of the board of the Investment Company.

5.1.6. Outsourcing/Delegation of Functions of the Fund Manager. A Fund Manager may delegate any of its functions by entering into an agreement with other parties necessary in the operation of an Investment Company. However, such delegation or outsourcing shall be subject to the following:

- a. It shall only delegate its function/s to an entity that is licensed in the Philippines to manage funds or domiciled and licensed as a Fund Manager in a jurisdiction that is a signatory to the IOSCO MMOU Appendix "A";
- b. It shall remain responsible for any delegated functions and shall ensure that the delegatee employs a high standard of care when performing the delegated functions, as if the Fund Manager is the one performing the delegated function;

- c. It shall have in place suitable processes to monitor and control the activities of the delegatee and evaluate the performance of the delegate; and
- d. It shall ensure that it or its delegatee is able to provide the Commission, ready access to information related to the delegated functions.

5.1.7. Oversight Responsibility of the Investment Company. The Investment Company shall continue to perform oversight responsibility over the appointment of a delegate and shall undertake the necessary measures if, upon proper finding, the appointment of a delegatee, is not in the interest of the Investment Company shareholders/unitholders.

In case the Investment Company shall perform full oversight over the Fund Manager, it shall be required that fifty percent (50%) of its directors are independent directors.

5.1.8. Pre-termination or End of Contract. In case of pre-termination or end of contract between the Investment Company and the Fund Manager, the latter shall:

- a. Upon request, the Fund Manager shall assist the Investment Company in hiring a new Fund Manager and continue managing the funds which shall not exceed more than thirty (30) days from the time the contract between them is terminated, or such period that the parties have stipulated in their agreement that would promote the protection of the investors;
- b. In connection with the immediately preceding provision, the Fund Manager shall assist an actively managed Investment Company in hiring a new Fund Manager for a period of at least sixty (60) days from the time the contract between them is terminated.

5.1.9. Withdrawal of license as Fund Manager. The Fund Manager shall undertake the following procedures:

- a. Submit its letter request or file SEC Form ICA-IA indicating its Request for withdrawal of Business and/or Cancellation of Registration as an Investment Company Adviser (ICA)/Fund Manager;
- b. Within five (5) days from the submission of its letter request, it shall file an affidavit or sworn statement stating, among others, the following:
 - i. The company will cease to solicit new business as an ICA/Fund Manager and should the company remain inoperative for five (5) years, its Certificate of Incorporation will be revoked;
 - ii. The company will preserve, for a period of not less than five (5) years from the date the Commission has approved its operation to cease, all records required to be maintained pursuant to the Books and Records Rule. In addition, the company shall inform the Commission of the

names, residence addresses and contact numbers of at least two (2) person/s responsible for the safekeeping of all the records.

- c. Submit an undertaking/affidavit of assumption of liabilities of subject company's officer, director or majority stockholder stating in effect that should third parties having claims against the corporation will appear in the future (in the next five [5] years), said officer, director or majority stockholder maybe held responsible for said claims; and
- d. Submit a Certificate of Good Standing from the Commission.
- e. Amend the AOI to delete in its purpose the business of managing investment companies.

5.1.10. Failure to hire a new Fund Manager. Unless the Investment Company is not qualified to manage its own funds under this Rule, an Investment Company that fails to engage the services of a new Fund Manager shall be allowed to manage the fund operation, except to distribute its own funds, which should not be more than sixty (60) days from the cessation of the business of the Fund Manager. After the expiration of the 60-day period and the Investment Company continuously fails to hire a new Fund Manager or secure an extension of the 60-day period, the Commission shall initiate suspension proceedings on the Investment Company's Registration Statement and Certificate and Permit to Offer for Sale its Securities. Unless it is being suspended for such other violation of the law or rules, the suspension order shall be lifted once the Investment Company is able to hire a new Fund Manager and has filed a petition to lift the order of suspension.

The period of suspension shall not be more than one year, or such other period as may be determined by the Commission. After the expiration of the said period, the Commission shall revoke the Investment Company's Registration Statement and Certificate and Permit to Offer for Sale its Securities and shall issue an Order directing the Investment Company to wind up and liquidate its assets. In case the Investment Company failed to comply with the said directive, the Commission shall appoint a liquidator to facilitate the liquidation of the assets within six (6) months from the appointment.

The unclaimed assets of the Investment Company shall be placed by the liquidator in an escrow account for ten (10) years after which the funds shall be escheated in favor of the government in accordance with the procedure prescribed by existing laws and rules.

5.2- Mutual Fund Distributor (MFD)

5.2.1. Qualifications of a Mutual Fund Distributor. An Investment Company shall appoint a Mutual Fund Distributor licensed by the Commission that meets the following requirements:

- a. It is organized as stock corporation;

- b. It has a paid-up capital of at least Ten Million Pesos (₱10,000,000.00) and minimum unimpaired net worth of at least Ten Million Pesos (₱10,000,000.00) exclusive of revaluation surplus, unrealized gain in value of non-current investments, deferred income tax and other capital adjustments as may be required by SEC;
- c. It has or undertakes to have at least one (1) registered CISol; and
- d. It has complied with such other requirements as may be prescribed by the Commission;

5.2.2. Fund Manager as Fund Distributor. The Fund Manager that intends to distribute the shares or units of the funds it is managing may no longer be required to secure a separate license as a MFD. Such fund participant shall be referred to as FM/MFD. However, if the FM/MFD intends to distribute the securities of another fund managed by a different Fund Manager or CIS Operator, it shall be required to secure a separate license as a Mutual Fund Distributor.

5.2.3. Responsibilities of a Mutual Fund Distributor. The MFD shall be principally responsible for the following:

- a. Marketing, distributing and selling shares or units of the Investment Company;
- b. Appointing CISols licensed by the Commission;
- c. Filing SEC Form ICA-CIS/CO-T within thirty (30) days after it terminates the appointment or registration of its CISol;
- d. Complying with the Suitability Rule;
- e. Maintaining a record of its transactions relating to offering of the shares/units; and
- f. Performing such other duties and responsibilities that may be prescribed by the Commission.

5.2.4. Suitability Rule_ – In recommending to a prospective investor the purchase or sale of shares or units of an Investment Company, an MFD or FM/MFD shall:

- a. have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts disclosed by such investor as to his financial situation, needs and risk appetite; and
- b. not effect transaction unless he has disclosed and explained to his prospective investor the various fees, if any, involved in effecting such transaction and the prospective investor has agreed to said fees and the signified in writing his assent to the various fees being charged.

5.2.5. Marketing and Distribution Agreement. The MFD and the Investment Company shall enter into a formal marketing and distribution agreement which shall contain, among others, the following provisions:

- a. the duties and responsibilities of a MFD;

- b. extent of services to be rendered by the MFD;
- c. fees, remuneration and other expenses of the MFD;
- d. any restrictions or prohibitions regarding the performance by the MFD of its functions;
- e. undertaking to employ or appoint only CISols duly licensed by the Commission; and
- f. reporting requirements of the MFD.

5.2.6. Outsourcing/Delegation of Functions of the Mutual Fund Distributor. The MFD may hire its own sales force and/or use the services of mutual fund dealers to distribute the shares or units of the Investment Company subject to the following conditions:

- a. The delegatee/s are duly licensed or authorized by the Commission to engage in the selling of shares/units. Sub-distributors, including banks, entities engaged by the MFD or the Fund Manager, to distribute funds shall also comply with the requirements provided under Rule 5.2.;
- b. The name of the delegatee or the sub-distributor and its functions are disclosed in its registration statement and prospectus;
- c. If not disclosed in the registration statement and prospectus, submit a report to the Commission within five (5) days from the time it engages the services of the delegate or a sub-distributor together with a copy of the sub-distributor agreement and a complete list of sub-distributors it authorized to distribute the funds and the period of their engagement.
- d. In case the MFD terminates the services of a sub-distributor, the MFD shall submit a report to the Commission within five (5) days from the date of termination of his services.

5.3 – Custodian

5.3.1. Qualifications of a Custodian. An Investment Company, or its appointed Fund Manager, shall appoint an independent third party Custodian which meets the following qualifications:

- a. A universal or commercial bank with trust license, or a non-bank entity with a trust license, or a BSP-accredited custodian bank, or a registered securities depository.
- b. Has adequate resources, including competent staff, and appropriate systems, procedures and processes to ensure that the assets and properties of the Investment Company are held in the following manner:
 - 1. Safekeeping of the assets of the Investment Company which shall be clearly identified and properly labeled as assets or properties of the Investment Company;

2. Investment company assets and properties are properly earmarked, and segregated physically and/or on the records of the Custodian;
 3. The assets and properties are registered in the name of, or for the account of, the Investment Company;
- c. Has adopted adequate and effective internal control procedures, including the independence between and among its different office units, and satisfactory risk management procedures;
 - d. Has provisions for periodic or other inspections by employees and agents of the Commission and/or the Bangko Sentral ng Pilipinas;

5.3.2. Independent Custodian. To be considered independent, the Custodian shall not:

- a. Hold directly or indirectly five percent (5%) or more of the total number of issued shares in the Investment Company and Fund Manager or vice versa;
- b. Have a common shareholder in the Investment Company, or the Fund Manager who holds directly or indirectly five percent (5%) or more of the total number of issued share capital of the Investment Company and Fund Manager;
- c. Have a director, officer or employee who is connected to the Investment Company or Fund Manager, either as a director, officer or employee.

5.3.3. Responsibilities of a Custodian. The custodian shall have the following responsibilities:

- a. Holds all proceeds from the sale of securities, including the original subscription or payments at the time of incorporation;
- b. Safekeep the assets of the Investment Company which shall be clearly identified and properly labeled as assets or properties of the Investment Company;
- c. Ensure that the Investment Company assets and properties are properly earmarked, and segregated physically and/or on the records of the Custodian;
- d. Ensure that the assets and properties are registered in the name of, or for the account of, the Investment Company;
- e. Releases the assets upon the proper instruction of the Fund Manager, or the Investment Company in cases where the latter has no Fund Manager.
- f. Discusses with the Investment Company or its Fund Manager, before appointment, that it is handling more than one Investment Company, by:
 - i. Identifying, if any, areas that may give rise to conflict of interest issues; and
 - ii. Providing measures to avoid, if not eliminate, such conflict of interest.

- e. Files reports, periodic or otherwise, that relate to its operation as a custodian to the Investment Company that may be prescribed by the Commission.
- f. Performs such other duties and responsibilities that may be prescribed by the Commission.

5.3.4. Prohibited Acts of a Custodian. No custodian shall be allowed any of the following acts:

- a. Perform any management or investment advisory function including the sale of the shares or units of the Investment Company wherein it is the custodian;
- b. Use for its own account the assets which are under its custody;
- c. Distribute securities of the Investment Company wherein it is the custodian;
- d. Engage in any other prohibited acts that the Commission may by rule or order prescribe.

5.3.5. Custodial Agreement. The formal written agreement between the Investment Company, or its Fund Manager, and the Custodian shall specify, among others, the following:

- a. its duties and responsibilities as a custodian;
- b. extent of services to be rendered by it;
- c. its fees, remuneration and other expenses;
- d. any restrictions or prohibitions regarding the performance of its functions; and
- e. reporting requirements of the custodian

5.3.6. Outsourcing/Delegation of Functions of the Custodian. The Custodian may delegate its custody functions to another BSP-accredited custodian or SEC-registered securities depository. In case the Investment Company invests in global securities, the following shall be required of the custodian:

- a. The sub-custodian/global custodian shall be independent, licensed and regulated by a competent regulatory authority;
- b. The delegating custodian remains responsible for the actions or omissions of the sub-custodian/global custodian pertaining to the function delegated;
- c. The delegating custodian shall have adequate procedures to monitor the sub-custodian/global custodian; and
- d. The custodian informs the Commission within five (5) days from the execution or termination of the sub-custodian agreement of such delegation and submit a copy of the agreement or the proof of termination thereof.

5.3.7. The custodian may likewise act as a transfer agent or dividend disbursing agent of an Investment Company.

5.3.8. In case the Custodian is a non-bank entity, it shall likewise take hold of the cash assets of an Investment Company that shall be placed in a commercial or universal bank for the account of the Investment Company.

5.4 – Transfer Agent

5.4.1. **Qualifications of a Transfer Agent.** An Investment Company shall appoint a transfer agent registered pursuant to SRC Rule 36.4 or such other applicable rules or regulations.

5.4.2. **Responsibilities of a Transfer Agent.** The Transfer Agent shall have the following responsibilities:

- a. Maintain an accurate registry for recording the initial, additional subscription/s and subsequent transfer of securities.
- b. Countersign, when applicable, certificates of securities upon their issuance;
- c. Monitor the issuance or redemption of shares or units to prevent unauthorized issuances;
- d. Record the ownership of shares or units by bookkeeping entry;
- e. Record shareholders or unitholder's dividend entitlements; and

5.4.3. **Prohibited Acts of the Transfer Agent.** The Transfer Agent shall be prohibited from acting as the accountant or auditor of the Investment Company for whom it is the Transfer Agent

5.4.4. **Transfer Agency Agreement.** The Investment Company and the Transfer Agent shall enter into a formal Transfer Agency agreement which shall contain, among others, the following provisions:

- a. Its duties and responsibilities as a Transfer Agent;
- b. Extent of services to be rendered by it;
- c. Its fees, remuneration and other expenses;
- d. Any restriction or prohibition regarding the performance by the Transfer Agent of its functions; and
- e. Reporting requirements of the Transfer Agent

5.4.5. The transfer agent may likewise act as the dividend disbursing agent of the Investment Company.

5.5. – Fund Advisor

5.5.1. **Qualifications of a Fund Advisor.** The Fund Advisor shall have the same qualifications required for the Fund Manager.

5.5.2. Responsibilities of a Fund Advisor. The following shall be the responsibilities of a Fund Advisor:

- a. Advise or recommend investment decisions with regard to the securities or other portfolio of the Fund pursuant to an advisory contract with the Fund Manager or the Investment Company.
- b. Provide informative and consultative services which may include investment research, advice, assistance and recommendations that will guide the Fund Manager in formulating the investment strategies and guidelines for the Investment Company which is necessary to provide the Fund with a continuous inflow of information and advice concerning the Fund's investments.
- c. Prepare and submit such information and data relating to economic conditions, industries, business, corporations, or securities; and
- d. Periodically review and analyze the financial market as well as current developments in industries having a direct or indirect bearing on the Fund's investments;
- e. Act honestly and fairly to the best and exclusive interest of the Investment Company, its shareholders and/or unitholders and for the integrity of the market.
- f. Ensure at all times that any representations or other communications made and information provided to the client is accurate and not misleading.

5.5.3. Limitations on Affiliation of Fund Advisor. The Fund Advisor, as well as its directors, chief executive officer, key executive officer or managers, are not allowed to hold more than fifty percent (50%) of the membership of the board of the Investment Company.

5.6 - Compliance Officer

5.6.1. Qualifications of a Compliance Officer. The compliance function shall be performed by a Compliance Officer who shall have the following qualifications:

- a. He must be a resident of the Philippines;
- b. Of legal age;
- c. Undertook or passed the certification examination for Compliance Officer administered by the Commission;
- d. Passed the applicable examination within the last three (3) years immediately preceding his/her engagement as a Compliance Officer;
- e. Duly licensed by the Commission to perform compliance function;
- f. Has a valid license for the year and paid the required annual fee;

- g. Possesses at least eight (8) hours of training and two (2) years of experience in securities regulation matters and an understanding of the mutual fund activities of the firm enabling them to effectively execute their duties;
- h. Has no disciplinary history for the past ten (10) years or has not been censured, reprimanded or fined by a professional or regulatory body for negligence, incompetence, mismanagement, or dereliction of duty;
- i. Has not been dismissed or requested to resign from any position or office; and
- j. Has complied with such other requirements as may be prescribed by the Commission.

5.6.2. Responsibilities of a Compliance Officer. The following are the responsibilities of a Compliance Officer:

- a. To have a system designed to achieve compliance with the SRC, ICA and their IRR, SEC Memorandum Circulars, Corporate Governance Rules and such other applicable laws, such as, but not limited to, the Anti-Money Laundering Act, Data Privacy Act;
- b. Comply with the orders or resolution of the Commission, or any of its Department;
- c. Oversee the compliance with the requirements of the Commission relative to the closure of the business of an Investment Company and Fund Manager;
- d. Ensure that all CISols are registered and notify the Commission of any resignation; and
- e. Exercise due diligence in the conduct of his/her compliance function.

5.7 – Certified Investment Solicitor (CISol)

5.7.1. Qualifications of a Certified Investment Solicitor. A CISol, prior to offering or selling of Investment Company shares or units, shall comply with the following requirements and standards for eligibility:

- a. He must be a resident of the Philippines;
- b. Of legal age;
- c. Passed the Investment Company Representative Certification Examination (ICRCE) or applicable examination for CISol administered by the Commission;
- d. Passed the examination within the last three (3) years immediately preceding his/her engagement as a CISol.
- e. Filed a complete SEC Form ICA-CIS;
- f. Has a valid license for the year and has paid the required annual fee;
- g. Has no disciplinary history for the past ten (10) years or has not been censured, reprimanded or fined by a professional or regulatory body for negligence, incompetence, mismanagement, or dereliction of duty;

- h. Has not been dismissed or requested to resign from any position or office;
- i. Duly licensed by the Commission to solicit, sell or offer the securities of an Investment Company; and
- j. Has complied with such other requirements as may be prescribed by the Commission.

5.7.2. Responsibilities of a Certified Investment Solicitor. The following are the responsibilities of the CISol:

- a. Keep current the information contained in the SEC Form ICA-CIS and file an amended form whenever there is any change.
- b. Explain fully the terms of the mutual fund shares which are offered to prospective clients as described in the registration statement and prospectus;
- c. Provide the prospective client copies of the registration statement, prospectus, the latest Annual Report and Quarterly Report before any sale of the shares or units of an Investment Company takes place and shall make adequate disclosure of material information in dealings with his/her clients;
- d. Not to make untrue statements, interpretations, or misrepresentations, or to omit or avoid disclosing material facts concerning the Investment Company shares or units which prospective clients are entitled to know and ensure at all times that any representations or other communications made and information provided to the client is accurate and not misleading
- e. Comply with the Suitability Rule;
- f. Perform the pre-acceptance account review process which includes the processes provided under the Anti- Money Laundering Law;
- g. Should seek from his/her clients, information about their financial situation, investment experience and investment objectives relative to the services to be provided;
- h. Comply with the "Know-Your-Client" (KYC) rule prior to establishing a relationship between the Investment Company and the investor to determine the real identity of the prospective investor by requiring the submission of identification documents; and
- i. Act with due skill, care and diligence, in the best interest of his/her clients and for the integrity of the market.

5.7.3. Effect of the Withdrawal or Revocation of the MFD License on the CISol. In case the license of the MFD is revoked or withdrawn, the license of the CISol is automatically suspended. The suspension of the license of the CISol shall be lifted once it is registered as a CISol with a licensed MFD.

5.8. – Independent Accountants or Auditors

5.8.1. Qualifications of an Independent Accountants or Auditors.

The Independent Accountants or Auditors appointed to audit the financial statements of an Investment Company, its appointed Fund Manager and Fund Distributor shall be duly accredited by the Commission in accordance with SRC Rule 68, as amended.

5.8.2. Responsibilities of Independent Accountants or Auditors. The following, in addition to those prescribed under existing laws and regulations, shall be the duties and responsibilities of the independent accountant or auditor:

- a. Audit and certify the financial statements of the Investment Company, Fund Manager and Fund Distributor;
- b. Validate the net asset value of the Investment Company and check the accuracy of the operator's valuation of the Investment Company's assets;
- c. Report to the Board of Directors of the Investment Company any irregularity or undesirable practice in the operation of the Investment Company which has come to its knowledge. Any material finding shall be reported by the independent accountant or auditor to the Commission;
- d. Report to the Commission any non-compliance by the Investment Company, Fund Manager and distributor with its contractual and regulatory requirements;
- e. Report to the Commission whether the internal control and audit structures in the operation of the Investment Company, appointed Fund Manager and Fund Distributor are at an acceptable level; and
- f. Conform with the Code of Professional Ethics for CPAs and ensure compliance with the effective Standards such as Philippine Standards in Auditing (PSAs), (PFRS), SRC Rule 68, as amended, and other supplemental standards or rules issued by regulatory authorities.

RULE 6 – Investment of Funds

6.1. Investment Assets. The Fund Manager, based on the Investment Company's investment objective, policy and focus, may only invest in the following eligible investment assets:

- a. Transferrable securities;
- b. Money market instruments;
- c. Deposits;

- d. Financial derivatives;
- e. Tradable securities;
- f. Units or participation in other CIS; and
- g. Securities issued by or guaranteed by the Philippine government or the Bangko Sentral ng Pilipinas.

6.2. Transferrable securities. The following shall be the criteria for the selection of transferrable securities:

- a. The securities are adequately liquid and marketable in order to meet the redemption requests;
- b. There is appropriate information available on the securities, or where relevant, on the portfolio such that the information is accurate, regularly disclosed, available to the public, and sufficient to analyze the investment;
- c. The investment is subject to reliable and verifiable valuation where securities:
 - i. Dealt in an organized market, are subject to daily valuation that is reliable and based on either market prices or valuations that are made independently from the issuer; and
 - ii. Not dealt in an organized market, are subject to periodic valuations that are based on information obtained from the issuer or competent investment research.
- d. The securities are negotiable;
- e. The securities are issued and offered in any regulatory authority that is an ordinary or associate member of the IOSCO, and, if the securities are listed, they are traded in an exchange that is a member of the WFE;
- f. Equity securities traded in an organized exchange in another country possess all the following qualities:
 - i. The issuer has been in operation for the preceding three (3) consecutive years;
 - ii. The issuer fully complies with its obligation of continuing disclosure and the other requirements of the securities laws and regulations in force in its jurisdiction and which laws and regulations are not substantially different from those enforced in the Philippines.

6.3. Money Market Instruments. Investment in money market instruments shall comply with the following requirements:

- a. The investment is dealt in the money market, or investment in a portfolio with duration of one (1) year or less;
- b. Can be sold at limited cost in an adequately short time frame based on ordinary market conditions; and

- c. The value can be verified based on either market data or valuation models.

6.4. Deposits. Investment in deposits shall be placed in a deposit-taking institution which is repayable on demand, or can be withdrawn anytime.

6.5. Financial Derivatives.

- A. Financial Derivatives are investments dealt in -
 - 1. An exchange; or
 - 2. Over-the-counter (OTC financial derivative) provided that:
 - a. The counterparty is a financial institution subject to prudential supervision and approved by the relevant authority
 - b. It is subject to reliable and daily valuations that are based on:
 - i. Up-to-date market values, which do not rely only on market quotations by the counterparty; or
 - ii. Pricing models based on an adequate and generally accepted practice methodology and where the values are subject to verifications on the daily basis and the pricing models are subject to verifications at an appropriate frequency by either:
 - 1. An independent party; or
 - 2. A unit within the Fund Manager that is independent from the one in-charge of managing the assets; and
 - c. They can be sold, liquidated or closed by an offsetting transaction at any time at its fair value.
- B. The underlying shall consist of:
 - 1. Eligible assets;
 - 2. Financial indices comprising eligible assets;
 - 3. Foreign exchange rates/currencies; or
 - 4. Interest rates; or
 - 5. Credit spread

6.6. Investments in Tradable securities. Tradable securities shall be those issued by the government or any political subdivision of a foreign country, any supranational entity, or foreign corporations with two-way quotation prices which are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

6.7. Units or participation in Collective Investment Schemes. Investments in other CIS shall be allowed provided that the target fund is registered with the Commission or approved by the BSP, or

registered/authorized/approved, as the case may be, by a regulatory authority that is an ordinary or associate member of the IOSCO.

6.8. Investment Limitations. In investing the assets of an Investment Company, the Fund Manager shall comply with the following limitations:

- a. The maximum investment of an Investment Company in any single enterprise or issuer shall not exceed an amount equivalent to fifteen percent (15%) of its net assets, nor shall the total investment of the fund exceed ten percent (10%) of the outstanding securities of the investee company.
- b. The Investment Company must not invest, in aggregate, more than twenty percent (20%) of its net assets in transferrable securities, money market securities, deposits and financial derivatives issued by a single entity or issuer.
- c. Deposits shall not exceed twenty percent (20%) of its net assets in a single bank/non-bank with quasi bank license excluding monies for liquidation of a revoked Investment Company.
- d. The investments in the following shall not exceed five percent (5%) of the net assets of the Investment Company:
 - i. Deposits placed with a non-investment grade or unrated deposit taking institution;
 - ii. Debt securities or money market instruments not dealt in an organized market or issued by an unrated or non-investment grade issuing body; and
 - iii. Over-the-counter financial derivatives with non-investment grade or unrated counterparty, unless the derivatives are used for efficient portfolio management which the investment aggregate shall not exceed more than twenty percent (20%) of the assets of the Investment Company;
 - iv. Unlisted shares issued by a related party.

The aggregate investments shall not exceed ten percent (10%).

- e. Index funds shall not be subject to investment limitations under this provision, provided, they comply with the following requirements:
 - i. Comprise eligible assets;
 - ii. Diversified such that the maximum weight per constituent does not exceed thirty percent (30%) of the index or the underlying securities should have the same weights as the index;
 - iii. Developed by an independent and reputable agency, and based on a recognized and accepted methodology;
 - iv. Represent an adequate benchmark for the market which is widely accepted in international financial markets;

- v. Index value is published daily through media, which disseminate information in a timely manner and is accessible either publicly or on a subscription basis; and
 - vi. Information on the index is published daily and readily accessible
- f. Investment in foreign government debt securities or money markets where the issuer or the guarantor is a government, sovereign or central bank with an international long-term issuer rating of investment grade may be increased to a maximum of thirty five percent (35%) of the net assets of the Investment Company;
- g. A maximum of five percent (5%) of the net assets of the Investment Company may be invested in government debt securities issued or guaranteed by a government, sovereign or central bank with an international long-term issuer rating that is non-investment grade;
- h. In investing in financial derivative instruments for the Investment Company, the Fund Manager shall see to it that it employs a risk-management process which captures the risks associated with the use of financial derivatives and satisfies all the following requirements:
- i. The total exposure to financial derivatives or embedded financial derivatives, including counterparty transactions, shall not exceed ten percent (10%) of the net assets of the Investment Company, or five percent (5%) of the net assets if the derivatives are not investment grade, unless the derivatives counterparty is used for efficient portfolio management which the investment aggregate shall not exceed more than twenty percent (20%);
 - ii. The Investment Company shall invest five percent (5%) of its net assets to liquid assets to meet all its payment and delivery obligations;
 - iii. The Fund Manager shall not act as a counterparty to an OTC derivative invested into by the Investment Company.
- i. The MFC shall be prohibited from investing in the securities it is issuing.
- j. No Investment Company shall purchase from or sell to any of its officers or directors or the officers or directors of its investment advisor/s, manager or distributor/s or firm/s of which any of them are members, any securities other than the capital stock of the Investment Company.
- k. The Investment Company shall not engage in short selling;
- l. Unless the Commission shall provide otherwise, the Investment Company shall not invest in any of the following:

- i. margin purchase of securities (investment in partly paid shares are excluded);
- ii. commodity futures contracts;
- iii. precious metals; and
- iv. unlimited liability investments.

6.9. Additional Rules on Money Market Funds. Constant net asset value money market funds (C-NAV MMFs) are not permitted. The Fund Manager that manages an Investment Company that markets itself as a money market fund or an equivalent fund that primarily invests in high quality debts securities, deposits and money market instruments shall comply with the following:

- a. Shall have a cash reserve, or assets with high liquidity, low market risk and can be cashed within T+1 day, of at least ten percent (10%) of its net assets;
- b. Invest in any of the following:
 - i. high quality debts securities;
 - ii. deposits; and
 - iii. money market instruments
- c. Shall not engage in direct lending of monies.

6.10. Liquidity Requirements. For liquidity purposes, unless otherwise prescribed by the Commission, at least ten percent (10%) of the assets of an Investment Company shall be invested in liquid/semi-liquid assets.

- a. Such liquid/semi-liquid assets shall refer to, but not limited to the following:
 - i. Treasury notes or bills, Certificates of Indebtedness issued by the Bangko Sentral ng Pilipinas which are short term, and other government securities or bonds and such other evidence of indebtedness or obligations, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines;
 - ii. Tradable Long-Term Negotiable Certificate of Time Deposits (LTNCTD)
 - iii. Government debt securities where the issuer or the guarantor is a foreign government, sovereign or central bank with an international long-term issuer rating of investment grade;
 - iv. Savings or time deposits with government-owned banks or commercial banks, provided that in no case shall any such savings or time deposit accounts be accepted or allowed under a "bearer", "numbered" account or other similar arrangement.
 - v. Money market instruments issued by Philippine regulated qualified buyers or those issued by an investment grade issuing body;
 - vi. Other collective schemes wholly invested in liquid/semi-liquid assets.

- b. The MFC may implement a decreased investment of less than ten percent (10%) but not less than five percent (5%) of its assets in liquid/semi-liquid assets, provided, however, that it shall submit a notarized liquidity contingency plan, signed by the President of the Fund and its Fund Manager.
- c. Index funds may be exempted from the liquidity requirement provided that it submits a notarized liquidity contingency plan signed by the President of the Fund and its Fund Manager which shall be approved by the Commission. The plan shall include a statement that:

"In making any redemption to meet a client obligation, the Fund Manager will exercise the requisite prudence and diligence necessary under the circumstances and taking into account all relevant factors that will ensure market stability."

6.11. Other Limitations

6.11.1. Operational expenses. The total operating expenses of an Investment Company shall not exceed ten percent (10%) of its average investment fund or net worth as shown in its previous Audited Financial Statements covering the immediately preceding fiscal year.

The formula shall be as follows:

$\text{Expense Ratio (\%)} = \frac{\text{Total Operating Expenses}}{\text{Average Net Asset Value}} \times 100$

6.11.2. Borrowing limit. An Investment Company may borrow, on a temporary basis, for the purpose of meeting redemptions and bridging requirements provided that:

- a. The borrowing period should not exceed one month; and
- b. The aggregate borrowings shall not exceed ten percent (10%) of the net assets of the Investment Company.

The Investment Company shall not incur any further debt or borrowing unless at the time of its incurrence or immediately thereafter there is an asset coverage of at least three hundred percent (300%) for all borrowings of the Investment Company. Provided, however, that in the event that such asset coverage shall at any time fall below three hundred percent (300%), the Investment Company shall

within three (3) days thereafter, reduce the amount of its borrowings to an extent that the asset coverage of such borrowings shall be at least three hundred percent (300%).

6.12. Breach of Investment Restrictions.

- a. The Fund Manager shall inform the Commission within three (3) business days after it becomes aware of any breach of the investment restrictions and shall rectify such breach as soon as practicable, but shall not be more than five (5) business days from the date of discovery. Failure of the Fund Manager to report the breach within the period shall raise the presumption that the Fund Manager intentionally breached the investment restrictions and therefore shall be liable for administrative penalty/ies.
- b. If any of the investment limits is breached by reason other than investment decision, the Fund Manager shall report this matter to the Commission within five (5) business days, and rectify the breach no later than three (3) months from the date of the breach.

6.13. The purchase and sale of foreign securities shall be made only through a distributor or underwriter duly authorized or licensed by the relevant government of the issuer of such securities.

RULE 7--Feeder Fund, Fund-Of-Funds and Co-Managed Funds

7.1. An MFC may be allowed to operate as a feeder fund, fund-of-funds, or co-managed funds and such fact is clearly indicated in the registration statement, prospectus and other documents that are disseminated to the public.

7.2. The prospectus or materials to be disseminated by the feeder fund, fund-of-funds, or co-managed funds in connection with its offer of securities shall provide an explanation or illustration of a feeder fund or a fund-of-funds.

7.3. The feeder fund, fund-of-funds or co-managed funds shall provide in its prospectus and/or its current reports the *material information* or significant reports affecting or submitted by the target funds.

7.4. Feeder and co-managed funds are required to invest at least ninety percent (90%) of their net assets in a single collective investment scheme, and thus:

- a. The single entity limit of fifteen percent (15%) shall not be applicable;
- b. The target fund:
 - (i) shall not be a feeder fund or co-managed fund;

- (ii) is a CIS established by another Fund Manager, asset management company or fund operator;
 - (iii) shall provide ample protection to the investors of the feeder fund or co-managed funds. If the target fund is a foreign fund, the securities regulator approving the said fund shall have been assessed to have broadly implemented the IOSCO Principles relevant to collective investment schemes;
 - (iv) publishes Quarterly/Semi-Annual and Annual Reports, or such other periodic reports;
 - (v) provides the co-managed fund information or reports on the investments it has made in a more frequent manner.
- c. the investment objectives of the target fund is aligned with that of the feeder fund or co-managed funds;

7.5. An MFC that invests more than fifty percent (50%) of all its assets in other CIS shall be deemed a fund-of-funds and shall be subject to the following:

- a. the target fund shall not be a feeder fund;
- b. the target funds are CISs established by another Fund Manager/s, asset management company/ies or fund operator/s;
- c. the target fund shall provide ample protection to the investors of the feeder fund. If the target fund is a foreign fund, it shall have assessed to have broadly implemented the IOSCO Principles relevant to collective investment schemes;
- d. the target fund publishes Quarterly/Semi-Annual and Annual Reports;
- e. Investment limit of fifteen percent (15%) in non-collective investment scheme or entity;
- f. the investment objectives of the target fund is aligned with that of fund-of-funds; and
- g. the fund-of-funds is compliant with Rule 6.10 on liquidity requirements.

7.6. The target fund is supervised by a regulatory authority, as follows:

- a. A local target fund shall either be registered with the Commission or approved by the Bangko Sentral ng Pilipinas;
- b. A target fund constituted in another economy shall be registered/authorized/approved, as the case may be, in its home jurisdiction by a regulatory authority that is an ordinary or associate member of the IOSCO.

7.7. Investments in target funds shall be held for safekeeping by an institution registered/authorized/approved by a relevant regulatory authority to act as third party custodian.

7.8. The custodian can liaise with the offshore target fund on the transactions of the feeder fund.

7.9. The Fund Manager can invest the funds of the feeder fund, fund-of-funds or co-managed funds to a target fund that is administered by the Fund Manager or its related party/company provided that:

- a. There shall be no cross-holding between the feeder fund or fund-of-funds and the target funds where cross-holding refers to the holding of securities in another by two (2) or more funds;
- b. All initial charges on the target fund are waived; and
- c. The management fee shall be charged only once, either at the level of the feeder fund, fund-of-funds, co-managed funds or at the level of the target fund, whichever is lesser.

RULE 8 – Net Asset Value

8.1. The Fund Manager shall ensure that the NAV of the Investment Company issuing shares or units, or both, but computed separately, is calculated on a consistent basis.

8.2. **Daily Computation and Publication of the NAVps/NAVpu.** The Fund Manager shall compute and post the net asset value per share/unit of the Investment Company on a daily basis and shall:

- a. Publish such daily prices in at least two (2) national newspapers of general circulation which may be done through the industry organization/s;
- b. Upload in its website or industry association, through digital portals such as its website or social media accounts; and
- c. Post them daily in a conspicuous place at the principal office of the Investment Company as well as in all its branches or correspondent offices which are designated redemption centers.

8.3. **Price Determination of the Assets of the Investment Company.** The value of the assets of the Investment Company shall be determined based on the following:

- a. If quoted in an organized market, based on official closing price or last known transacted price;
- b. If unquoted or quoted investments where the transacted prices are not represented or not available to the market, based on fair value; Provided further that in determining the fair value of the investments, the Fund Manager shall, with due care and good faith:
 - i. Have reference to the price that the Investment Company would reasonably expect to receive upon the sale of the investment at the time the fair value is determined;
 - ii. Document the basis and approach for determining the fair value.

8.4. Net Asset Value Calculation. Unless the Commission shall prescribe otherwise, the net asset value shall be calculated by *adding*:

- a) The aggregate *market* value of the portfolio securities and other assets;
- b) The cash on hand;
- c) Any dividends on stock trading ex-dividend; and
- d) Any accrued interest on portfolio securities,

And *subtracting*:

- e) Taxes and other charges against the fund not previously deducted;
- f) Liabilities;
- g) Accrued expenses and fees; and
- h) Cash held for distribution to investors of the fund on a prior date.

8.5. Issue and Redemption Price of Shares/Units. -

- a. The shares or units in the Investment Company should be issued or redeemed, in case of MFC, at a price arrived at by dividing the fund's NAV by the number of shares or units outstanding.
- b. The price of securities subscribed or redeemed within the cut-off time of the day the subscription or request for redemption is received, respectively, shall be based on the net asset value per share/unit computed as of the closing day. Subscription or request for redemption received beyond the cut-off time is deemed received the following banking day and to be priced at net asset value per share/unit computed on the next banking day.
- c. Generally the daily cut-off time shall be at 12:00 noon. A different cut-off time may be set as long as it is provided in the prospectus.
- d. The net asset value per share/unit computation shall be made in accordance with the valuation method indicated in the prospectus and shall be applied consistently. Any change in the net asset value per share/unit calculation or valuation method shall be subject to approval by the Commission.

8.6. Valuation Error or Incorrect Price. In case of valuation error or when incorrect pricing occurs, the Fund Manager shall:

- a. Report to the Commission within five (5) business days from the valuation error or incorrect pricing is found on the:
 - i. valuation or pricing of shares/units error;
 - ii. the reason/s for the error;
 - iii. revised valuation or calculation to correct the valuation or pricing of shares/units error;

- iv. measure/s that the Fund Manager will adopt to prevent a recurrence of such errors;
- b. If an error is made in the pricing of shares/units, the correct price shall be published within twenty-four (24) hours from discovery and any necessary action shall be taken to avoid further error. If the error results in an incorrect price of 0.5% or more of the Investment Company's net asset value per unit/share, the Commission shall be informed immediately, or not later than twenty-four (24) hours from discovery. In such a case, investors shall be compensated, unless determined otherwise by the Commission.
- c. If the Fund Manager caused the valuation error, it shall compensate the affected participants and notify them of the compensation made and the scheme for any losses incurred as a result of the valuation error within five (5) business days;
- d. The Fund Manager shall not use the assets of the Investment Company to compensate or pay the shareholders or the unitholders for the valuation error; and
- e. File a compensation report to the Commission within five (5) business days from the end of each month until all the affected participants shall have been compensated.

RULE 9 - Subscription or Sale of Securities

9.1 Minimum Investment in an Investment Company. Unless the Commission shall prescribe otherwise, the initial minimum investment and additional investment by any single investor in any shares or units issued by Investment Company shall be provided in the prospectus.

9.2. Payment for the shares or units of the Investment Company. Unless otherwise provided in the prospectus and approved by the Commission, the shares or units sold by the Investment Company shall be on a cash basis. Installment sales are prohibited.

RULE 10- Redemption of Securities

10.1. Right to Redemption of Shares and Units of the MFC. Investors in redeemable shares and units issued by an MFC shall have the right to have their securities redeemed in accordance with the terms of the issue thereof.

10.2. Period to Receive Payments. Payments for the redeemed shares and units shall be made within seven (7) banking days from receipt of the request for redemption.

10.3. Treasury Shares. Redeemed Shares shall not be required to be treated or recorded as treasury shares.

10.4. Suspension of Redemption of Shares or Units. The Commission *motu proprio* or, upon the request of a Fund Manager, may suspend the redemption of securities of Investment Company if:

- a. The exchange, where eighty percent (80%) of the securities in the Investment Company's portfolio, is suspended;
- b. Eighty percent (80%) of the securities in the Investment Company's portfolio, could not be traded or liquidated; or
- c. Whenever necessary or appropriate in the public interest or for the protection of investors.

10.5. Period for the Suspension of Redemption of Shares or Units. The Commission shall provide the period of suspension of redemption which shall not be more than twenty-one (21) business days, unless an extension is approved by the Commission En Banc.

RULE 11 – Books and Records

11.1. Maintenance of Books and Records. The Investment Company and all parties involved whether as a Fund Manager, fund distributor, fund advisor, transfer agent, or custodian are required to keep and maintain books and records related to accounting and their business transactions.

11.2. Books and Records Required to be Maintained. The books and records to be maintained by the Fund Manager, and other service providers in relation to their contracts with the Investment Company, shall be as follows:

- a. Subscription form/investment application form and redemption form;
- b. Investment questionnaire;
- c. Subscription and redemption registry/journal
- d. General and subsidiary ledgers, and journals;
- e. Cash disbursement book;
- f. Cash receipts books;
- g. Summary of investment portfolio valuation reports
- h. Bank statements and validated deposit slips;
- i. Material contracts;
- j. Daily computation of NAV
- k. Board resolutions and Minutes of Stockholders' Meetings;
- l. Stock and transfer books, if applicable; and
- m. Such other books and records required by the Commission.

11.3. Separate booking and recording for shares and units. A Fund Manager that manages an MFC which issues both shares and units of participation shall ensure proper booking or recording of transactions to separate the assets, liabilities, income and expenses corresponding to each type of securities issuance.

11.4. Inspection of Books and Records. The books and records shall be made available at all times to the Commission upon request for review and examination.

11.5. Retention Requirement for Books and Records. The parties shall maintain, keep and preserve the books and records for a period of not less than five (5) years, the first two (2) years in an easily accessible place. In case of termination of contract between the Compliance Officer or CISol and the Investment Company or Fund Manager, the Fund Manager shall maintain and preserve in an easily accessible place all records until at least three (3) years after the Compliance Officer or CISol has terminated his/her employment and relationship with the company.

RULE 12 - Reportorial Requirements

12.1. Reportorial Requirements for the Investment Company. The Fund Manager, on behalf of the Investment Company, shall comply with the following requirements:

- a. Within thirty (30) days from effectivity of the Order declaring effective the registration of the Investment Company, and within the first ten (10) days of every month thereafter, the Fund Manager shall submit to the Commission a Monthly Issuance and Redemption Report of shares or units under oath executed on its behalf by its Treasurer or any other officer holding an equivalent position, showing the following information:
 - i. The total amount received from sale of shares and/or units;
 - ii. The total amount of redemptions;
 - iii. The number of shares or units outstanding at the beginning of the month;
 - iv. The number of shares or units sold during the month;
 - v. The number of shares or units redeemed during the month;
 - vi. The number of shares or units outstanding at the end of the month;
 - vii. The percentage of the outstanding shares owned by Filipinos as of the end of the month;
 - viii. The percentage owned by retail and institutional investors as of the end of the month; and
 - ix. Average net asset value as of the end of the month.
- b. Submission of Annual, Quarterly, and Current Reports required under the SRC Rule 17;
- c. Filing of Information Statement as required under SRC Rule 20;
- d. Other reports and records as may be required by the Commission from time to time.

12.2 Additional information in the Annual and Quarterly Reports of an Investment Company. The Annual and Quarterly Reports of the Investment Company shall provide information on the following:

- a. a schedule showing the following information in two comparative periods:
 - i. percentage of investment in a single enterprise to net asset value;
 - ii. total investments of the fund to the outstanding securities of an investee company;
 - iii. total investments in liquid or semi-liquid assets to total assets;
 - iv. percentage of total operating expenses to the average *daily average net asset value*;
 - v. the average daily net asset value;
 - vi. total assets to total borrowings;
- b. number of institutional and retail investors and the percentage of their investments, and the geographic concentration of investments;
- c. level of its compliance with FATCA regulations;
- d. Investment Company return information in the last five (5) recently completed fiscal years;
- e. if issuing units, a separate presentation for each of the financial conditions, results of operations, changes in net assets statements.

12.3. Additional information in the Audited Financial Statements. In case an Investment Company files SEC Form 17-EX (Notice of Suspension of Filing of Reports), it is required to append to its AFS the requirements provided for in Rule 12.2.

12.4. Reportorial Requirements of the Fund Manager. The Fund Manager shall be required to file:

- a. Annual Report in a SEC Form ICA-AR within one hundred five (105) calendar days after the end of the fiscal year;
- b. Quarterly Report in a SEC Form ICA-QR within forty five (45) calendar days after the end of the first three quarters of each fiscal year;
- c. Current Report in a SEC Form ICA-IA within five (5) calendar days after the occurrence of the event reported;
- d. SEC Form ICA-CO/CIS-T not later than five (5) calendar days after the discontinuation of employment/affiliation with the company by the Compliance Officer/CISoI;
- e. SEC Form ICA-CO within seven (7) calendar days from the date of the occurrence of the event; and
- f. SEC Form ICA-CIS within seven (7) calendar days from the date of the occurrence of the event.

12.5. Notice of Inability to File Annual Report and Quarterly Report. In case all or any required portion of SEC Form 17-A/SEC Form ICA-AR or SEC Form 17-Q/SEC Form ICA-QR could not be filed on time, a notification may be filed by the Fund Manager through SEC form 17-L not later than the due date of the subject report pursuant to SRC Rule 17.1.1.6.

12.6. Compliance with the Philippine Financial Reporting Standards ("PFRS"). An Investment Company and all parties involved shall use as their financial reporting framework the PFRS as adopted by the Commission.

RULE 13- Suspension or Revocation

13.1. - Suspension and Revocation of Registration of Securities and the License of the Fund Manager

13.1.1. Grounds for Suspension or Revocation of Registration of Securities and License of the Fund Manager.

- a. Failure of the Investment Company or Fund Manager to file its periodic reports for two (2) consecutive reporting periods;
- b. Failure of the Investment Company or Fund Manager to comply with the directive of the Commission despite receipt of notice;
- c. Commission of a fourth (4th) violation of ICA, SRC and rules and regulations governing the Investment Company;
- d. Failure of the Investment Company and the Fund Manager to pay the prescribed annual Fees;
- e. Other grounds provided under Rule 15 of the 2015 SRC IRR and other grounds that the Commission may deem appropriate.

13.1.2 Procedures for the Suspension or Revocation of Registration of Securities and License of the Fund Manager. If the Commission, after due notice and hearing, revokes or suspends the effectivity of a registration statement or the license of the Fund Manager,

- a. The Commission shall publish a notice of the Order of Revocation or Suspension in a national newspaper of general circulation in the Philippines and/or post at the Commission's website, along with a statement that:
 - i. the offering in its current form has been cancelled; or
 - ii. the license of the Fund Manager has been suspended or revoked.
- b. Upon receipt of a notice under paragraph 14.1.2(a), the Investment Company and all persons acting on its behalf in the management or distribution of the subject securities shall immediately terminate the offering;

- c. In case the license of the Fund Manager is suspended, the Investment Company shall immediately appoint a new Fund Manager, or if it fails to appoint a new Fund Manager, it shall be allowed to manage funds for not be more than sixty (60) days.
- d. Unless the Investment Company is qualified to manage its own funds under this Rule, the Investment Company shall immediately appoint a new Fund Manager in case the license of the Fund Manager is revoked. If it fails to appoint a new Fund Manager, it shall be allowed to manage its funds for not be more than sixty (60) days. After the expiration of the 60-day period and the Investment Company still fails to hire a new Fund Manager or secure an extension of the 60-day period, the Commission shall initiate suspension proceedings on the Investment Company's Registration Statement and Certificate and Permit to Offer for Sale its Securities. The period of suspension shall not be more than one year, or such other period that may be determined by the Commission. After the expiration of the said period and the Investment Company continuously fails to hire a new manager, the Commission shall direct the Investment Company to wind up and liquidate its assets. In case the Investment Company fails to comply with the said directive, the Commission shall appoint a liquidator to facilitate the liquidation of the assets within 6 months from the appointment.

13.1.3 Lifting of the Suspension or Revocation of Registration of Securities and License of the Fund Manager.

- a. Upon the expiration of the period of suspension of the Registration Statement and Certificate and Permit to Offer for Sale its Securities, unless it is being suspended for such other violation of the law or rules or has not complied with the directives of the Commission, the suspension order shall be lifted provided that the Fund Manager:
 - i. Has paid all its monetary penalties;
 - ii. Has filed a petition to lift the order of suspension demonstrating why its license to act as a Fund Manager should be reinstated;
 - iii. Paid a fee of Five Thousand Pesos (P5,000.00) (first suspension); Ten Thousand Pesos (P10,000.00) (second suspension) plus LRF;
 - iv. Complies with the directive of the Commission;
 - v. Receives an order lifting the suspension issued by the Commission.
- b. To lift the suspension or revocation order of license of a Fund Manager, the latter shall comply with Rule 13.1.3.a (i-v). However, the fee under item (iii) thereof shall be Twenty Five Thousand Pesos (P25,000.00) and Fifty Thousand Pesos (P50,000.00) plus LRF.
- c. After the lifting of the Suspension or Revocation Order, the next penalty to be imposed for the violation of the same provision shall be penalty for the first offense.

13.1.4 Consequence of failure to lift Order of Revocation. A Fund Manager with revoked license that fails to cause the lifting of the Order of Revocation within two (2) years, shall be required to

amend its Articles of Incorporation changing its name and primary purpose by deleting its function as an asset or Fund Manager.

13.1.5 Blacklisting of the Fund Manager. The imposition of 3rd suspension or revocation of License shall forever bar a Fund Manager from acting as such and shall be required to amend its AOI changing its name and primary purpose by deleting its function as an asset manager or a Fund Manager. Failure to comply therewith shall constrain the Commission to revoke the Fund Manager's primary license.

13.1.6. Voluntary Revocation of Registration of Securities

a. **An application for Voluntary Revocation of Registration of Securities** shall include the following documents:

- i. Verified Petition for Revocation of Registration;
- ii. Board Resolution approving the revocation stating therein the reason for the revocation, certified under oath by the corporate secretary and attested to by the President or anyone performing a similar function, and duly approved by a majority of the stockholders;
- iii. Proof that the holders were notified within thirty (30) days after the board has decided to voluntarily cause the revocation of the registration of securities of the Investment Company;
- iv. List of stockholders/unit holders indicating their respective shareholdings/unit holdings as of the latest date;
- v. A mechanism that will inform all its shareholders and unitholders in the redemption of the investments which should include the establishment of redemption centers.
- vi. All relevant books and papers of the Investment Company, as may be determined by the Commission;
- vii. Proposed Notice of Filing of Petition for Voluntary Revocation of Registration of Securities, reciting the facts supporting the said petition which shall be subject to the approval of the Commission; and
- viii. Copy of the official receipt showing payment of the Ten Thousand Pesos (P10,000.00) plus Legal Research Fee (LRF) or such other filing fees that may be prescribed by the Commission.

The Commission may impose such other requirements or conditions as it may deem necessary specifically for the protection of the investors.

b. **Procedure for Voluntary Revocation.**

- i. Upon the presentation of the documents required for voluntary revocation of registration of securities, the Notice of Filing of Petition for Voluntary Revocation

shall be immediately published by the petitioner, once in a national newspaper of general circulation.

- ii. If, after fifteen (15) business days from the said publication, the Commission finds that the petition together with all other papers and documents attached to it is on its face complete and that no party stands to suffer any damage from the revocation, it shall prepare an order revoking the registration.
- iii. The Order of Revocation together with the manner how the shares or units shall be redeemed shall be published once in a national newspaper of general circulation at the expense of the company, and/or uploaded at the websites of the company and industry associations.

13.1.7. Exemption from the Reporting Obligation under the SRC. The Order of Revocation shall exempt the Issuer from its reporting obligations under Section 17.2 of the Securities Regulation Code unless it continues to qualify as a public company.

13.1.8. Residual Obligation of the Investment Company with a Revoked Registration Statement. The Investment Company, or the Fund Manager, shall inform the Commission of the status of the redemption of securities every 30th of January until all the shares/units have been fully redeemed.

13.2 - Suspension and Revocation of the License of the Mutual Fund Distributor, Compliance Officer and Certified Investment Solicitor

13.2.1. Grounds for Suspension or Revocation of Registration of Securities and License of the Mutual Fund Distributor, Compliance Officer and CISol. After due notice and hearing, the Commission may suspend the license of a mutual fund distributor, compliance officer, or certified investment solicitor (referred to as "erring Parties" for this portion) for the following:

- a. Failure to pay the required annual fees;
- b. Failure to comply with the directive of the Commission despite receipt of notice; or
- c. Failure to comply with the regulatory requirements under the Rules despite receipt of notice.

13.2.2. Publication of the Order of Suspension or Revocation. The Commission shall publish the Order of Suspension or Revocation of the license/s of the erring Parties once in a national newspaper of general circulation in the Philippines and/or post at the Commission's website.

13.2.3. Procedures for the Lifting of the Suspension or Revocation of License. Unless it is being suspended for such other violation of the law or rules, the Order of Suspension or Revocation shall be lifted provided that the following have been satisfied:

- a. The erring Party complies with the directive of the Commission;

- b. Payment of Petition fee of Five Hundred Pesos (P500.00) plus LRF for the Compliance Officer and the CISO; and Ten Thousand Pesos (P10,000.00) for the Mutual Fund Distributor;
- c. Files a Petition to Lift the Order of Suspension or Revocation;
- d. Commission issues an Order lifting the Suspension or Revocation Order

13.2.4. Blacklisting the Mutual Fund Distributor, Compliance Officer, CISO. Failure of the erring Parties to comply with the directive of the Commission, despite notice and hearing and an opportunity to correct the violation, shall constrain the Commission to bar the erring Party from acting as such for one (1) year, or such longer period as the Commission may prescribe. After the expiration of one (1) year, it may comply with Rule 13.2.3. for the lifting of the suspension.

RULE 14 –Amendments to the Registration Statement and Prospectus

14.1. Grounds for Amending the Registration Statement and the Prospectus. The Registration Statement and the Prospectus, shall be amended on any of the following grounds:

- a. Any change in the investment objective, investment policy or strategy of the Investment Company;
- b. An increase or decrease in the volume of authorized capital stock being offered;
- c. Any change in the rights of the shareholders or unitholders that will not be beneficial to their interest;
- d. The information becomes incomplete or inaccurate in any material respect.

14.2. Changes in Investment Objective, Policy, and Strategy. Any change in the investment objective, policy and strategy shall require prior approval of its shareholders representing a majority of its outstanding capital stock. The unitholders shall be notified of such change at least thirty (30) days before the change will be implemented.

14.3. Requirements for the Amendment of the Registration Statement and the Prospectus. If any of the grounds for the amendment of a registration statement or prospectus on file with the Commission is present or if the Investment Company wants to change any material information therein after a Current Report or SEC Form 17-C has been filed, the Investment Company shall:

- a. File an amendment to the registration statement with the Commission explaining in detail all proposed changes which shall be reviewed by the Commission in accordance with Section 14 of the SRC;

- b. Signed by the persons specified in Section 12.4 of the SRC or by any executive officer duly authorized by the Board of Directors. The final registration statement and prospectus shall, however, be signed by all the required signatories under Section 12.4 of the Code;
- c. File with the Commission one (1) complete, unmarked copy of every amendment, including exhibits and other papers and documents filed as part of the amendment and one (1) additional copy, marked to indicate clearly and precisely, by underlining or in some other appropriate manner, the changes effected in the registration statement by the amendment. Three (3) copies of the amended registration statement and prospectus shall be signed by the required signatories and filed with the Commission. Only one (1) of the three (3) copies is required to have a copy of the Audited Financial Statements and Interim Financial Statements, if applicable, and stamped received with "OGA Copy".
- d. If the registration statement has been declared effective by the Commission, publish a notice of the proposed amendment/s, including the reasons for the amendments, in two (2) national newspapers of general circulation in the Philippines and in the Investment Company or Fund Manager's website stating that the offering in its current form has been amended;
- e. Have the amended registration notarized and signed by the President, Treasurer, Corporate Secretary, or any officer occupying a position equivalent to any of the foregoing or performing similar functions of the Investment Company, and a majority of the Board of Directors of the Investment Company and the Fund Manager;
- f. A copy of every amendment relating to a certified financial statement shall include the consent of the certifying external accountant on the use of his certificate in the amended financial statement in the registration statement or prospectus and to being named as having certified such financial statement.
- g. In case of an increase in the volume of the authorized capital stock, the amended registration statement or prospectus shall be accompanied by a filing fee based on the amount as the Commission may determine;
- h. If the Amended Registration Statement has been rendered effective, publish in two (2) national newspapers of general circulation in the Philippines and in the Investment Company or Fund Manager's website the Order of the Commission

14.4. Consequences of Material Omission or Misstatement. If the Commission learns that the prospectus is on its face incomplete or inaccurate in any material respect, or there is a material omission in it, it may require the Investment Company to revise its amended registration statement, or suspend or revoke its registration under Rule 14 hereof.

14.5. Requirement for changes in non-material information. In case any information stated in the prospectus changes, which are not enumerated in Rule 14.1, the Issuer shall file a report on SEC Form 17-C on the said changes. The changes shall be considered part of the disclosure in the prospectus.

unless the Commission, within twenty (20) business days from receipt of such report, requires the issuer to explain such changes.

RULE 15 - Administrative Sanctions

If the Commission finds that there is a violation of any provision of the Act, or this Rule or any applicable rules under the SRC, or that any person, in a registration statement or its supporting papers and the prospectus, as well as in the periodic reports required to be filed with the Commission has made any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or refuses to permit any lawful examination into its corporate affairs, the Commission shall, in its discretion impose additional sanctions provided by law aside from those established by existing regulations.

RULE 16- Applicability of Certain Regulations

16.1. The provisions of ICA, SRC and their IRR, and other relevant regulations insofar as they are applicable and not inconsistent herewith, shall apply suppletorily hereto.

16.2. Regulations on Cross Border Transactions. Offering or selling registered collective investment schemes in another economy/ies shall be subject to the regulations provided for in a mutual or multilateral cross-border trading of funds agreement which the Philippines is a signatory thereof.

RULE 17- Transitory Provision and Effectivity

All further requirements herein shall be complied with upon the effectivity of this Rules which is fifteen (15) days after publication in two (2) national newspapers of general circulation. The compliance with the Rules may be deferred by the Commission provided that it shall not exceed more than **one (1) year** from the approval of this Rules. The shares being offered at the time of the effectivity of the Rules pursuant to an effective registration statement and permit may still be offered but shall be revised in accordance with the requirements provided herein.

RULE 18 - Repealing Clause

All rules and regulations, circulars, orders, memoranda, or any part thereof and the rules and regulations previously promulgated by the Commission and/or by persons required to be registered

under the ICA or SRC, or any part thereof, in conflict with or contrary to these Rules or any portion hereof, are hereby repealed or modified accordingly.

RULE 19 - Separability Clause

If any portion or provision of this Rule is declared unconstitutional or invalid, the other portions or provisions hereof, which are not affected thereby shall continue in full force and effect.

19 December 2017, Pasay City.


TERESITA J. HERBOSA
Chairperson


ANTONIETA F. IBE
Commissioner


EPHYRO LUIS B. AMATONG
Commissioner


EMILIO B. AQUINO
Commissioner


BLAS JAMES G. VITERBO
Commissioner