

SALIENT PROVISIONS OF THE SEC RULES AND REGULATIONS ON EXCHANGE TRADED FUNDS

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Outline of Presentation

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RULES AND REGULATIONS ON EXCHANGE TRADED FUNDS

SEC Memorandum Circular No. 10 Series of 2012
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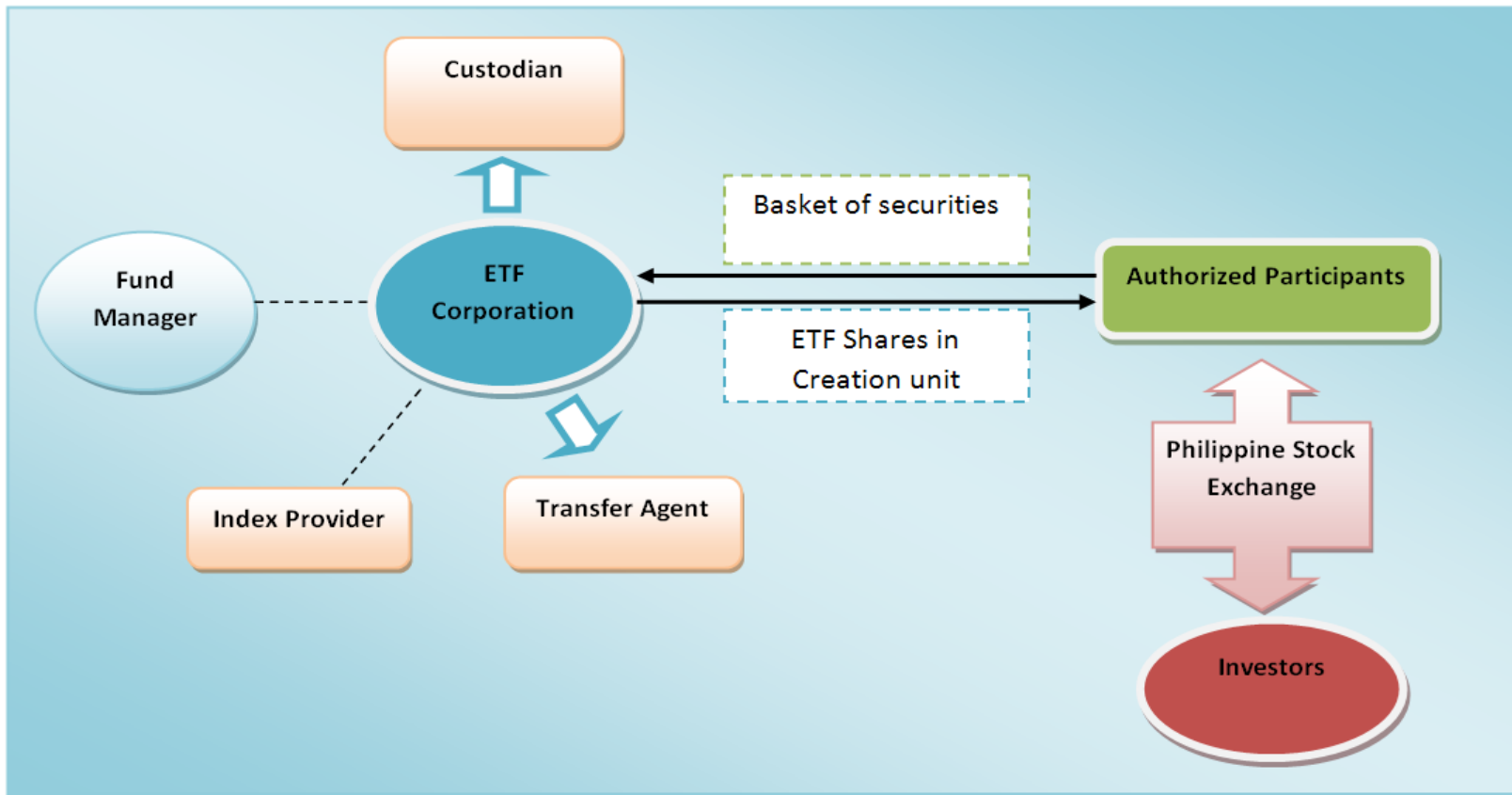


EXCHANGE TRADED FUND

is an open-end investment company that continuously issues and redeems its shares of stock in creation unit in exchange for delivery of a basket of securities representing an index whose performance the ETF endeavors to track;



ETF STRUCTURE



SECTION 3 – COVERAGE

These Rules and Regulations shall apply only to **passively-managed ETFs**. Amendments to these may be accordingly introduced to address issues such as but not limited to those affecting other forms of ETF, including actively-managed ETFs, upon determination by the Commission that such other forms of ETF are necessary for the development of the capital market.



SIGNIFICANT TERMS AS DEFINED IN THE RULES (SECTION 5)

Authorized Participant is a registered broker-dealer that entered into a participating agreement or any similar arrangement with the ETF, and participates in the creation and redemption of shares in the ETF in accordance with the terms provided under the agreement between the Authorized Participant and the ETF.

Arbitrage, for purposes of the ETF, is the practice of the Authorized Participant to cause the creation of more ETF shares for sale in the secondary market, or to purchase ETF shares in the secondary market for redemption, in order to take advantage of the price differential of the ETF's Net Asset Value per share ("NAVps") and the market price.



SIGNIFICANT TERMS AS DEFINED IN THE RULES (SECTION 5)

Basket of securities is the bundle of securities whose names and numbers are specified each business day by an ETF, in exchange for which, the ETF will issue, or in return for which it will redeem ETF shares; provided that the ETF may allow cash to be a part of the basket in accordance with the pertinent provisions of these Rules.

Creation Unit is the smallest block of ETF shares that can be created or redeemed by an Authorized Participant from the ETF as prescribed and disclosed in the Registration Statement.



SIGNIFICANT TERMS AS DEFINED IN THE RULES (SECTION 5)

Market Maker is an Authorized Participant that assumes the obligation of providing two-way quotes following the rules of the Exchange and the Commission for the purpose of ensuring liquidity and of maintaining a fair and orderly trading market to the ETF shares.

Net Asset Value (“NAV”) is the aggregate value of a fund 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 hours of the Exchange.



INCORPORATION AND REGISTRATION OF THE ETF

Minimum Requirements:

- A. The name of the corporation shall contain the words “Exchange Traded Fund” or “ETF”;
- B. The purpose clause of the Articles of Incorporation shall provide that the corporation shall engage in the business of investing, reinvesting or trading in securities and shall issue and redeem its shares of stock in a defined creation unit in exchange for delivery of a basket of securities representing an index



INCORPORATION AND REGISTRATION OF THE ETF

- C. All members of the Board of Directors shall be Filipino citizens;
 - D. It shall have a minimum paid up capital of Two Hundred Fifty Million Pesos (Php 250,000,000.00);
 - E. All shares of its capital stock shall be common, voting and, in general, redeemable in creation unit in accordance with the terms and conditions prescribed and disclosed in the Registration Statement; and,
 - F. The pre-emptive right of stockholders to all issues or disposition of shares in proportion to their respective shareholdings shall be denied in the Articles of Incorporation of the ETF.
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REGISTRATION OF ETF SHARES UNDER THE SRC

No shares of stock of an ETF shall be registered pursuant to the SRC unless the assets of the corporation shall be primarily in baskets of securities comprising the index that it represents to track.

An ETF shall file a Registration Statement (“RS”) using SEC Form 12-1 ETF signed by the principal executive officer or officers, its principal financial officer, its comptroller or principal accounting officer, and the majority of its board of directors or persons performing similar functions.



RULES PROVIDED MORE FLEXIBILITY IN THE INVESTMENTS OF THE ETF

An ETF shall not be subject to the maximum or minimum investment limitations provided under ICA Rule 35-1.



RULES PROVIDED MORE FLEXIBILITY IN THE INVESTMENTS OF THE ETF

An ETF shall not be subject to the liquidity requirements provided under ICA Rule 35-1.



RULES PROVIDED MORE FLEXIBILITY IN THE INVESTMENTS OF THE ETF

- **An ETF shall not be subject to any Lock-Up requirement under ICA Rule 35-1.**
- **An ETF shall be exempt from the mandatory tender offer rule under Section 19 of the SRC.**

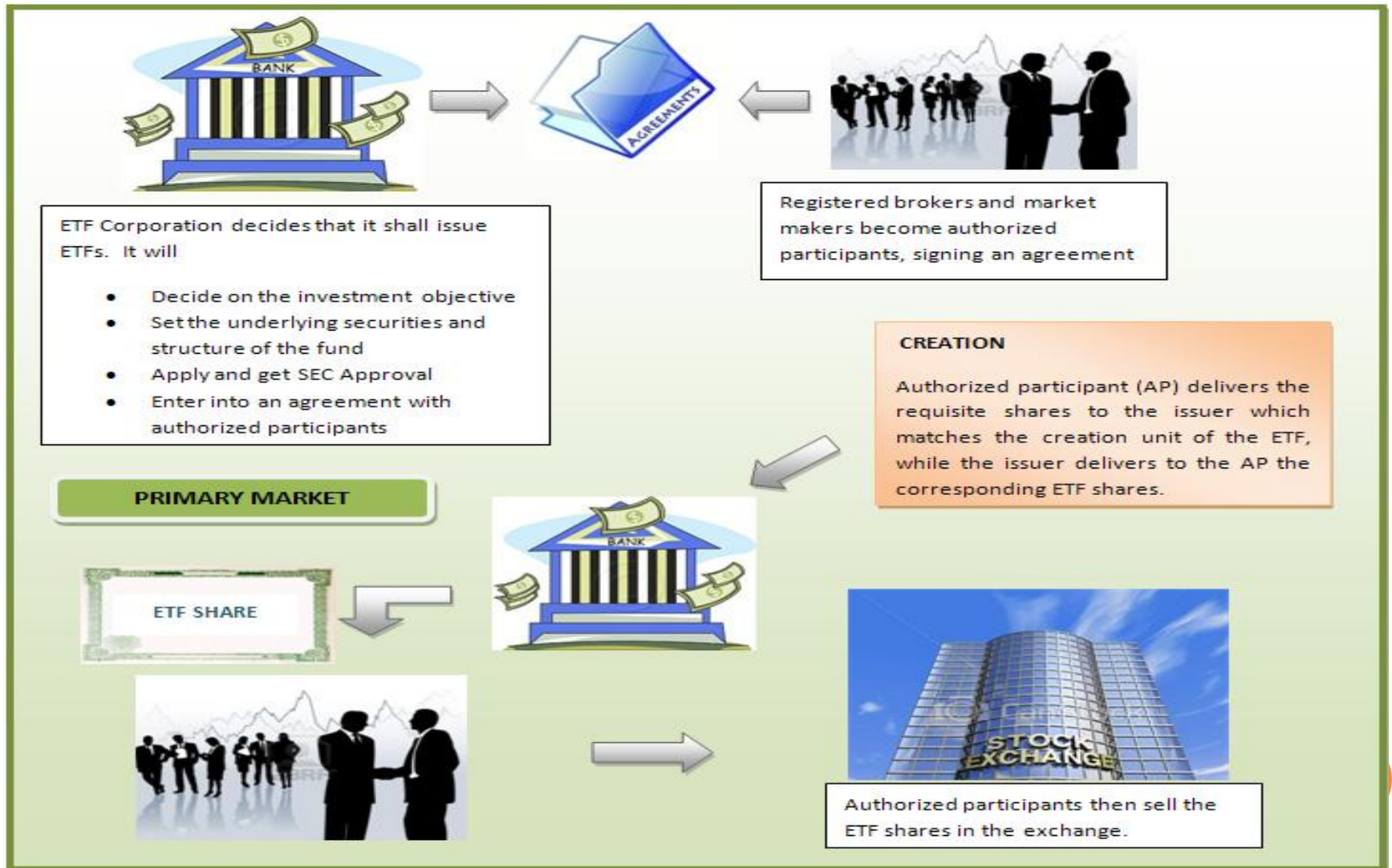


LIQUIDITY OF THE ETF SHARES AND THE UNDERLYING SECURITIES

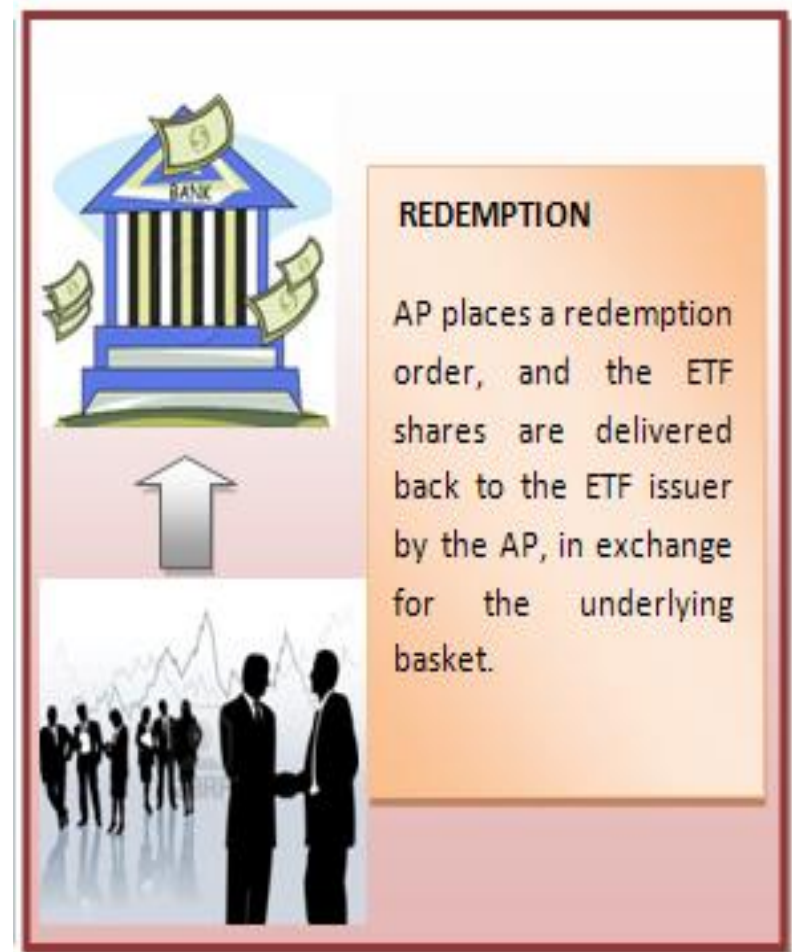
- the shares of stock of ETF shall be listed and traded in a registered Exchange;
- At least two (2) Authorized Participants shall be appointed by the ETF, provided that at least one (1) of them shall act as market maker;
- The underlying securities comprising the index are listed and traded in a registered Exchange and have sufficient liquidity; provided, that securities that are part of the main index of the Exchange shall be deemed to have sufficient liquidity;



ETF FLOWCHART



ETF FLOWCHART



ISSUANCE OF ETF SHARES IN EXCHANGE FOR CASH

In exceptional cases, an ETF may allow the issuance of ETF shares in exchange for cash



SECTION 15 – APPOINTMENT OF FUND MANAGER

An ETF shall appoint a reputable Fund Manager who shall register as Investment Company Adviser in accordance with the requirements of the ICA.



SECTION 22 – REGISTRATION OF SALESMAN AND ASSOCIATED PERSON

A registered salesman of an Authorized Participant or trading participant in an Exchange, prior to trading ETF shares, shall present a certification to the Commission that he has undergone a relevant training on ETF provided for by the Commission and/or any person authorized by the Commission.



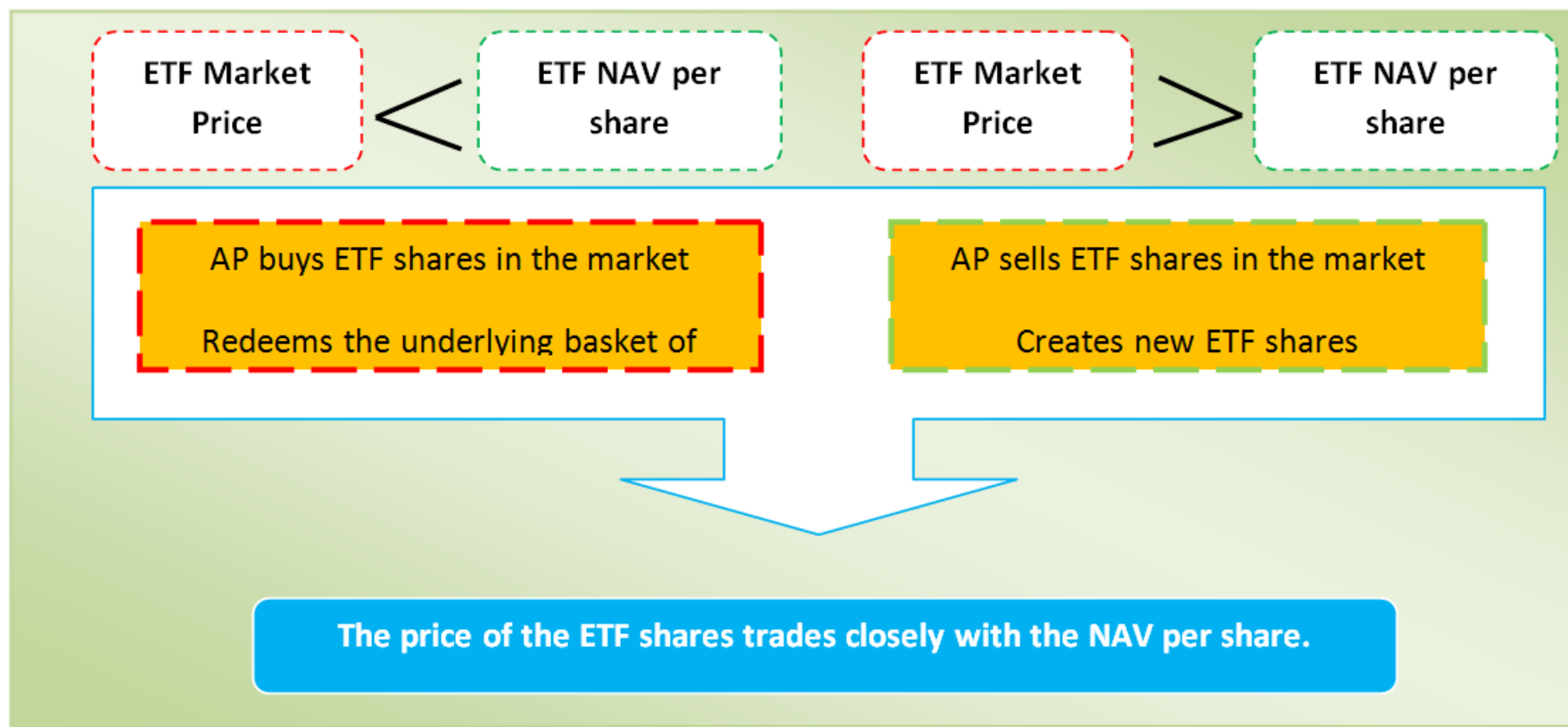
SECTION 23 – TRANSPARENCY OF INDEX AND PORTFOLIO HOLDINGS

23.1 An ETF shall maintain a website which shall be freely accessible by the public and which shall provide on a daily basis the following information:

- i. the index that the ETF plans to track;
- ii. the identities and weightings of the component securities and other assets held by the fund;
- iii. the identities and weightings of the component securities and other assets of the index;
- iv. the number and type of securities comprising the basket of securities with which the ETF could create or could redeem creation unit; and,
- v. the performance of the index and the ETF.



SECTION 24 – ARBITRAGE MECHANISM



iSHARES MSCI PHILIPPINES INVSTB MKT IDX (EPHE)

-NYSEARCA

34.83 0.32(0.91%) 4:00PM EDT

Holdings as of July 25, 2013

Overall Portfolio Composition (%)

Stocks:99.34

Bonds:0.00

Top 10 Holdings (63.96% of Total Assets)

Name	% of Fund
SM INVESTMENTS CORP	13.37%
AYALA LAND INC	8.82%
PHILIPPINE LONG DISTANCE TEL	6.81%
BDO UNIBANK INC	6.31%
SM PRIME HOLDINGS INC	5.91%
AYALA CORPORATION	5.62%
UNIVERSAL ROBINA CORP	5.27%
ABOITIZ EQUITY VENTURES INC	4.60%
INTL CONTAINER TERM SVCS INC	3.73%
BANK OF PHILIPPINE ISLANDS	3.52%
Total	63.96%



THANK YOU!

