



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

Sixteenth Congress
First Regular Session

House Bill No. **4036**

Introduced by Congressman Enrique M. Cojuangco

EXPLANATORY NOTE

A number of countries, including the United Kingdom, Japan, Australia, Korea and Singapore, have adopted a single law to regulate all types of collective investment schemes ("CIS"). This is not so in the case of the Philippines where various laws govern investment companies (mutual funds), unit investment trust funds ("UITFs"), and separate account funds (the units of which are sold as part of variable unit linked insurance products).

As such, there are differences in regulatory requirements (regulatory arbitrage) and taxation among the different forms of CIS, even though the investment products they offer to the public are essentially the same. It is believed that this regulatory arbitrage gives rise to an uneven playing field which will prove unfavorable to the growth of the industry. More importantly, such regulatory arbitrage will result in uneven levels of protection to the investing public.

This bill proposes to establish a comprehensive regulatory and tax framework for all forms of CIS. This will eliminate existing differences in regulatory treatment. This bill also seeks to balance the interests of the investors, by incorporating mechanisms that would safeguard the public interest. At the same time, it recognizes

the interests of the other parties involved in the CIS industry, by giving them flexibility to expand their CIS businesses.

With the passage of this bill, it is anticipated that even middle to low income individuals will explore more investment opportunities in CIS. Gaining access to the capital markets has its benefits including diversification and better returns for investments. The economy, in turn, is expected to benefit greatly from an expanded capital base.

In view of the foregoing, approval of this bill is earnestly sought.


ENRIQUE M. COJUANGCO

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COLLECTIVE INVESTMENT SCHEMES LAW

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

TITLE I – GENERAL PROVISIONS

SECTION 1. *Short Title* - This Law shall be known as the "**Collective Investment Schemes Law**".

SECTION 2. *Declaration of Policy* – The policy of the state is to:

- (a) Promote investor protection by applying high governance standards in the establishment, management and operation of collective investment schemes and the registration and sale of CIS securities in order to prevent abuse and protect the interests of the investing public, including but not limited to, the setting of standards for the eligibility of persons who establish, manage or operate collective investment schemes and register and sell CIS securities; the prevention, disclosure and elimination of all conflicts of interest which may prejudice the investing public; and the provision of independent third party supervision over the operations of collective investment schemes;
- (b) Promote the growth of pooled investments and the development of the capital market by providing a favorable framework for collective investment schemes to facilitate the flow of investment capital from sources within the country and abroad;
- (c) Encourage the participation in the collective investment scheme industry of the best qualified fund managers and investment advisers regardless of origin;

- 1 (d) Broaden participation by Filipinos in ownership of securities and other
2 assets allowed in this law so that more are able to share in economic
3 growth; and
4 (e) Provide equal protection to investors in all similar collective investment
5 schemes, impose the same requirements and provide the same
6 competitive environment for such schemes and the participants
7 therein.

8 **SECTION 3. Purpose** – The purpose of this Law is to establish a
9 comprehensive regulatory and tax framework to enable collective investment
10 schemes and all the participants therein to play a key role in the development of
11 the capital market in a manner consistent with the policy declared in Section 2
12 hereof.

13 **SECTION 4. Coverage**—This Law shall apply to the establishment,
14 management and operation of all collective investment schemes and the
15 registration and sale of CIS securities in the Philippines.

16 **SECTION 5. Definitions**—When used in this Law, unless the context
17 otherwise requires:

18 (a) **"Affiliate"** of another person means:

- 19 1. any person directly or indirectly owning, controlling or holding with
20 power to vote, ten per centum (10%) or more of the outstanding
21 voting securities of such other person;
22 2. any person ten per centum (10%) or more of whose outstanding
23 voting securities are directly or indirectly owned, controlled, or held
24 with power to vote, by such other person;
25 3. any person directly or indirectly controlling, controlled by, or under
26 common control with, such other person;
27 4. any officer, director, partner, or employee of such other person; and
28 5. if such other person is a corporate CIS, any investment adviser,
29 fund manager, CIS distributor, CIS solicitor and custodian thereof.

30 (b) **"Appropriate regulatory agency"** refers to:

- 31 1. the *Bangko Sentral ng Pilipinas*, in the case of banks, trust entities
32 and other financial institutions supervised by the *Bangko Sentral*
33 *ng Pilipinas*;
34 2. the Insurance Commission, in the case of insurance companies
35 and other persons regulated by the Insurance Commission ; and

1 3. the Securities and Exchange Commission, in the case of
2 investment companies or other persons not under the regulation of
3 the *Bangko Sentral ng Pilipinas* or the Insurance Commission.

4 (c) "**Bank**" means an entity engaged in the lending of funds obtained from
5 the public through the receipt of deposits of any kind and duly authorized
6 to operate as a bank by the Monetary Board of the *Bangko Sentral ng*
7 *Pilipinas*.

8 (d) "**Broker**" means any juridical person duly licensed by the appropriate
9 regulatory agency and accredited by the appropriate self regulatory
10 organization to engage in the business of buying and selling securities for
11 the account of others, but does not include a bank or any person solely by
12 reason of the fact that such person is a CIS or a distributor of CIS
13 securities.

14 (e) "**CIS distributor**" means any stock corporation or broker licensed by the
15 appropriate regulatory agency to engage in the selling of CIS securities.

16 (f) "**CIS investor**" means any person who purchases or otherwise invests in
17 CIS securities.

18 (g) "**CIS plan**" means the plan for the registration and sale of CIS securities
19 filed with the Commission in accordance with Sections 24, 26, 29 and 30
20 hereof, which shall be in lieu of the registration statement required to be
21 filed pursuant to the Securities Regulation Code for the sale and offer for
22 sale of securities to the public.

23 (h) "**CIS securities**" means units of participation or similar interests in a
24 contractual CIS or shares of stock or similar interests in a corporate CIS.

25 (i) "**CIS solicitor**" means a natural person who is duly licensed as such by
26 the appropriate regulatory agency to sell CIS securities.

27 (j) "**Collective investment scheme**" or "**CIS**" shall have the meaning given
28 in Section 6 hereof.

29 (k) "**Commission**" means the Securities and Exchange Commission.

30 (l) "**Common stock**" of a corporation means a class of shares with general
31 voting rights.

32 (m) "**Company**" means a corporation, partnership, trust, or an association
33 duly registered with the Commission and lawfully transacting business in
34 the Philippines.

35 (n) "**Contractual CIS**" means a CIS:

- 36 1. organized pursuant to a contract, such as a trust indenture, or as
37 an investment component of an insurance contract;
38 2. engaged, or holds itself out as being engaged, or proposes to

- 1 engage, in the business of investing, reinvesting, and/or trading in
2 securities or other investment assets allowed under this Law; and
3 3. that issues units of participation each of which represents an
4 undivided interest in a pool of investment assets.
- 5 (o) **"Control"** is presumed to exist when the parent owns, directly or
6 indirectly through subsidiaries, more than one half of the voting power of
7 an entity unless, in exceptional circumstances, it can be clearly
8 demonstrated that such ownership does not constitute control. Control
9 also exists even when the parent owns half or less of the voting power of
10 an entity when there is:
- 11 1. power over more than one half of the voting rights by virtue of an
12 agreement with other investors;
13 2. power to govern the financial and operating policies of an entity
14 under a statute or an agreement;
15 3. power to appoint or remove the majority of the members of the
16 board of directors or equivalent governing body and control of the
17 entity is by that board or body;
18 4. power to cast the majority of votes at meetings of the board of
19 directors or equivalent governing body and control of the entity is by
20 that board or body; or
21 5. any other arrangement similar to any of the above.
- 22 (p) **"Convicted"** includes being the subject of a verdict, judgment, or plea of
23 guilty in the first instance, if such verdict, judgment or plea has not been
24 reversed, set aside, or withdrawn, whether or not sentence has been
25 served.
- 26 (q) **"Corporate CIS"** means a CIS:
- 27 1. organized as a stock corporation;
28 2. engaged, or holds itself out as being engaged, or proposes to
29 engage, in the business of investing, reinvesting, and/or trading in
30 securities or other investment assets allowed under this Law; and
31 3. that issues common stock each of which represents an undivided
32 interest in a pool of investment assets.
- 33 (r) **"Corporation Code"** means the Corporation Code of the Philippines,
34 Batas Pambansa Blg. 68, enacted on May 1, 1980, as may be amended
35 from time to time, or any law subsequently enacted in replacement or
36 substitution thereof.
- 37 (s) **"Custodian"** means an entity duly authorized by the Monetary Board of
38 the Bangko Sentral ng Pilipinas to engage in the business of safekeeping

- 1 investment assets, which is appointed and acts as the custodian of the
2 investment assets of a CIS pursuant to this Law and the relevant
3 regulations of the Monetary Board of the Bangko Sentral ng Pilipinas
4 and/or the Commission.
- 5 (t) **"Dealer"** means any person duly licensed by the appropriate regulatory
6 agency and accredited by the appropriate self regulatory organization to
7 buy and sell securities for his own account, in the ordinary course of
8 business whether through a broker or otherwise. The term excludes
9 banks, insurance companies, or CIS, or any person insofar as he is
10 engaged in investing, reinvesting, or trading in securities, or in owning or
11 holding securities, for his own account, either individually or in some
12 fiduciary capacity, but not as a part of regular business.
- 13 (u) **"Director"** means a director of a corporation or any person performing
14 similar functions with respect to any organization.
- 15 (v) **"Exchange"** means an organized marketplace or facility duly licensed by
16 the Commission that brings together buyers and sellers and executes
17 trades of securities and/or commodities.
- 18 (w) **"Fund manager"** means a juridical person engaged in the business of
19 managing the investment assets of a CIS and/or engaged in the business
20 of providing administrative and ancillary services for such CIS as licensed
21 by the appropriate regulatory agency in accordance with Section 7, and
22 having the duties and responsibilities enumerated in Section 8 hereof.
- 23 (x) **"General Banking Law"** means Republic Act No. 8791, as may be
24 amended from time to time, or any law subsequently enacted in
25 replacement or substitution thereof.
- 26 (y) **"Implementing Rules and Regulations"** means the uniform rules and
27 regulations jointly formulated and issued by the appropriate regulatory
28 agencies to implement the provisions of this Law, in accordance with
29 Section 56 hereof.
- 30 (z) **"Independent auditor"** means the independent external certified public
31 accountant referred to in Section 18 hereof.
- 32 (aa) **"Independent director"** refers to a person other than an officer or
33 employee of the corporation, its affiliates, or any other individual having
34 any relationship with the corporation which would materially interfere with
35 the exercise of independent judgment in carrying out the responsibilities
36 of a director. An independent director shall possess the degree of
37 independence and all the qualifications and none of the disqualifications
38 for independent directors as defined in the Securities Regulation Code

- 1 and its implementing rules and regulations.
- 2 (bb) **"Independent oversight body"** refers to the body or entity
3 referred to in Section 50(b) (2) hereof.
- 4 (cc) **"Insurance Code of the Philippines"** means Presidential Decree
5 No. 1460 otherwise known as 'The Insurance Code of 1978', as
6 amended, or any law subsequently enacted in replacement or substitution
7 thereof.
- 8 (dd) **"Insurance company"** means a company engaged in the
9 insurance or reinsurance business and duly issued by the Insurance
10 Commission with a certificate of authority to transact such business, as
11 specifically defined under the Insurance Code of the Philippines."
- 12 (ee) **"Investment adviser"** means any person who regularly advises or
13 recommends investment decisions with regard to the securities or other
14 portfolio of a CIS pursuant to an advisory contract with such CIS through
15 the fund manager, trustee or insurance company.
- 16 (ff) **"Investment assets"** means the securities and other assets in
17 which the funds of a CIS may be invested in accordance with Section 38
18 hereof.
- 19 (gg) **"Investment company"** means the stock corporation organized as
20 a corporate CIS, which is engaged, or holds itself out as being engaged,
21 or proposes to engage, in the business of investing, reinvesting, and/or
22 trading in securities allowed under this Law.
- 23 (hh) **"Investment house"** means any enterprise which engages in the
24 underwriting of securities of other companies, as defined in Section 2 of
25 the Investment Houses Law, Presidential Decree No. 129, as may be
26 amended from time to time, and is registered pursuant to said law.
- 27 (ii) **"Net asset value"** means the value of all assets less all liabilities
28 of a CIS as determined in accordance with generally accepted accounting
29 principles and the provisions of this Law and its implementing rules and
30 regulations.
- 31 (jj) **"Organized Market"** refers to an exchange or an over-the- counter
32 market governed by transparent and binding market conventions on price
33 transparency, trade reporting, market surveillance and fair and orderly
34 conduct/operations of the market.
- 35 (kk) **"Person"** means a natural or juridical person as defined in the Civil
36 Code of the Philippines.
- 37 (ll) **"Redemption"** refers to the liquidation of a CIS security by returning
38 it to the issuer in exchange for its net asset value.

- (mm) **"Registrar"** means the fund manager or trustee or such other person or persons as may from time to time be appointed by the trustee, or the fund manager with the prior approval of the trustee, to perform all or any of the duties and functions of the registrar under Section 23 hereof.
- (nn) **"Sale", "sell" "offer to sell" or "offer for sale"** means every contract of sale or disposition of, attempt or offer to dispose of, or solicitation of an offer to buy a security or property or interest therein, for value. Any such security, property or interest therein, given or delivered with, or as a bonus on account of, any purchase of securities or any other thing, shall be conclusively presumed to constitute a part of the subject of such purchase and to have been sold for value.
- (oo) **"Security"** means any instrument or product defined as such by the Securities Regulation Code and its implementing rules and regulations.
- (pp) **"Securities Regulation Code" OR "SRC"** means Republic Act No. 8799, enacted on July 17, 2002, as may be amended from time to time.
- (qq) **"Separate account fund"** – means the segregated portfolio of investments established, maintained and invested in by an insurance company for its variable life insurance contracts and accounted for separately and apart from its other investments and accounts, pursuant to the Insurance Code of the Philippines, under which the income, gains and losses (whether or not realized) from, and expenses incurred on the acquisition, disposal and management of assets allocated to such account, are credited to or charged against such account without regard to the other income, gains, losses and other expenses of the insurance company. The Separate Account Fund shall be deemed a contractual CIS, and the units of participation therein shall be deemed as CIS securities, subject to this Law. The assets held in any such separate account shall be applied exclusively for the benefit of the owners or beneficiaries of the variable life insurance contracts.
- (rr) **"Shareholder"** means a stockholder of a corporate CIS.
- (ss) **"Trust institution"** – means any bank, investment house or a stock corporation duly authorized by the Monetary Board of the Bangko Sentral ng Pilipinas to engage in trust, investment management and fiduciary business.
- (tt) **"Trustee"** means a trust institution appointed and acting as the trustee of a contractual CIS pursuant to this Law.

- 1 (uu) **"Unit Holder"** – means a CIS investor in a contractual CIS.
- 2 (vv) **"Value"** means the market value or fair value of securities as may
- 3 be determined in accordance with such rules and regulations as the
- 4 appropriate regulatory agency may prescribe.

5 TITLE II - COLLECTIVE INVESTMENT SCHEMES

6 Chapter 1 – Nature and Structure of Collective Investment Schemes

7 SECTION 6. *Collective Investment Schemes* –

- 8 (a) A Collective Investment Scheme is any arrangement whereby
- 9 funds are solicited from the investing public for the purpose of
- 10 investing, re-investing and/or trading in securities or other assets
- 11 allowed under this Law. All CIS shall be covered by and regulated
- 12 pursuant to this Law and its implementing rules and regulations. A
- 13 CIS may have a corporate structure, such as an investment
- 14 company, or a contractual structure, such as a unit investment trust
- 15 fund or similar scheme held by a trust institution or a separate
- 16 account fund established pursuant to a variable unit linked life
- 17 insurance policy issued by an insurance company. All CIS shall be
- 18 governed by and shall comply with the requirements of this Law
- 19 and the pertinent provisions of the SRC.
- 20 (b) None of the following arrangements shall be deemed a collective
- 21 investment scheme subject to regulation under this Law:
- 22 1. Any arrangement whereby securities are issued to not more
- 23 than nineteen (19) beneficial owners within any twelve-month
- 24 period, and there is no current offering or intention to make a
- 25 public offering of such securities. For purposes of this
- 26 paragraph, beneficial ownership by a company shall be deemed
- 27 to be beneficial ownership by one person; except that, if such
- 28 company owns twenty-five per centum (25%) or more of the
- 29 outstanding voting securities of the issuer, the beneficial
- 30 ownership shall be deemed to be that of the holders of such
- 31 company's outstanding securities;
- 32 2. Any insurance company in the conduct of its ordinary business;
- 33 provided, however, that a separate account fund established by
- 34 an insurance company shall be deemed a contractual CIS as
- 35 defined under this Law;
- 36 3. Any employees' stock, bonus, pension, retirement, provident or

- 1 profit sharing plan or fund, engaged in the conduct of their
2 ordinary business;
- 3 4. Any fund which is employed by the trust entity solely as an aid
4 to the administration of existing trust or fiduciary accounts
5 covered by agreements separate from those in connection with
6 the CIS; provided that interests in such fund are not advertised
7 or offered for sale to the general public;
- 8 5. Any arrangement whereby an investment house, dealer, or
9 broker, registered as such with the Commission, primarily
10 engaged in the business of underwriting securities issued by
11 other persons, purchases and sells securities for its own
12 account, or effects transactions in securities for the account of
13 others;
- 14 6. Any arrangement whereby a company primarily engages in the
15 business of factoring or mortgage banking, by purchasing or
16 otherwise acquiring accounts receivable and similar obligations
17 or making loans in respect of goods or services of a business,
18 or by purchasing or otherwise acquiring mortgages and other
19 liens on or interests in real estate; provided that such
20 arrangement does not include the business of issuing
21 redeemable securities;
- 22 7. Any arrangement organized and operated by an entity
23 exclusively for religious, educational, benevolent, fraternal,
24 charitable, or reformatory purposes, where no part of the net
25 earnings from such arrangement inures to the benefit of any
26 shareholder or member of such entity;
- 27 8. Any arrangement whereby an issuer is primarily engaged in
28 investing in securities issued by a majority-owned subsidiary or
29 subsidiaries of such issuer, where each such subsidiary is not a
30 CIS; and
- 31 9. Any other arrangement that, pursuant to rule or order issued by
32 the Commission, is determined not to be a CIS, or is excluded
33 from the definition thereof as not necessary in the public interest
34 and for the protection of investors.
- 35 (c) A CIS may either be open-end or closed-end, defined as follows:
- 36 1. "Open-end CIS" means a CIS where securities are offered and
37 are redeemable by the CIS ; and
- 38 2. "Closed-end CIS" means a CIS where a fixed number of

1 securities are offered in an initial public offering and thereafter
2 may be traded in an organized market as determined by the
3 Commission, but may not be redeemed by the CIS. A closed-
4 end CIS shall not be allowed to increase its number of
5 securities.

6 Chapter 2 – Parties Involved In Collective Investment Schemes

7 **SECTION 7. *Fund manager***– No company shall act as a fund manager
8 for a CIS unless duly licensed by the appropriate regulatory agency, and no
9 company shall be licensed as a fund manager for purposes of this Law, unless:

- 10 (a) It is organized as a stock corporation;
- 11 (b) It has a minimum paid-up capital of not less than One Hundred Million
12 Pesos (P100,000,000.00);
- 13 (c) Provided, However, that the appropriate regulatory agency may
14 prescribe a higher minimum paid-up capital taking into consideration,
15 among other factors:
 - 16 1. the risk-based principles on capital adequacy based on
17 internationally accepted standards; and
 - 18 2. the number and/or total net asset values of all CIS managed;
- 19 (d) At least one-third (1/3) of the entire membership of the Board of
20 Directors of the fund manager shall be independent directors; and
- 21 (e) It has complied with such other requirements as may be prescribed by
22 the appropriate regulatory agency.

23 In licensing a fund manager, the appropriate regulatory agency
24 shall ensure that the requirements under this Law and its implementing
25 rules and regulations are complied with.

26
27 **SECTION 8. *Duties and Responsibilities of the Fund Manager*** - The
28 fund manager shall have the following duties and responsibilities:

- 29 (a) Manage the investment assets of the CIS and perform its functions in
30 accordance with the CIS plan, the provisions of this Law and its
31 implementing rules and regulations for the exclusive interest of the CIS
32 investors;
- 33 (b) Provide copies of financial and other records of CIS investments to the
34 CIS investors, trustee, CIS and auditor;
- 35 (c) Ensure that the fund and the CIS securities are accurately valued or
36 priced;

- 1 (d) Ensure that all payments out of CIS funds and investment assets are
2 made in accordance with the CIS plan, this Law and its implementing
3 rules and regulations;
- 4 (e) Comply with the instructions of the corporate CIS or the trustee to
5 remedy a breach of the provisions or covenants of the CIS plan, its
6 contract with the corporate CIS or trustee, the provisions of this Law or
7 its implementing rules and regulations;
- 8 (f) Furnish the corporate CIS or the trustee with all contracts and
9 agreements relating to the operation and management of the CIS;
- 10 (g) Report to the corporate CIS or the trustee and the CIS investors results
11 of the CIS operations;
- 12 (h) Call for and attend annual or special meetings of the unit holders of a
13 contractual CIS, or attend meetings of stockholders of a corporate CIS;
- 14 (i) Monitor the activities of the CIS distributors in the sale of the CIS
15 securities;
- 16 (j) Facilitate the redemption of CIS securities;
- 17 (k) Maintain proper accounting records and other records to:
- 18 1. enable a complete and accurate review of the CIS funds and
19 investment assets; and
- 20 2. ensure that the CIS funds and investment assets are managed and
21 administered in accordance with the CIS plan, its contract with the
22 corporate CIS or trustee, this Law and its implementing rules and
23 regulations;
- 24 (l) Propose amendments to the CIS plan and secure approval for those
25 amendments which require investor approval in accordance with the
26 provisions of this Law;
- 27 (m) Report to the appropriate regulatory agency, as soon as practicable,
28 any material development or breach of the provisions or covenants of
29 the CIS plan, the provisions of this Law or its implementing rules and
30 regulations, that:
- 31 1. relates to the establishment, management, operation or
32 dissolution of the CIS or to the registration and sale of CIS
33 securities, and
- 34 2. has had or is likely to have a material adverse effect on the
35 interests of the CIS investors;
- 36 (n) File such information and documents to keep reasonably current the
37 information and documents contained in the CIS Plan; and ,

- 1 (o) Such other duties and responsibilities that the appropriate regulatory
2 agency may prescribe.

3 **SECTION 9. *Prohibited Acts of the Fund Manager.*** - The fund manager
4 shall not:

- 5 (a) Purchase securities and investment assets for its own account which
6 may conflict with its obligations as fund manager;
7 (b) Invest CIS funds in any securities, property and assets in which such
8 fund manager or any of its directors, officers, employees and affiliates
9 have a substantial financial interest, subject to such exceptions and/or
10 guidelines as may be prescribed by the appropriate regulatory agency;
11 (c) Engage in a business other than the business of managing,
12 administering, marketing and distributing CIS funds and securities,
13 provided that this prohibition shall not apply if the fund manager is the
14 trust department of a bank or a non-bank financial institution;
15 (d) Pay or cause to be paid out of the CIS funds any fees, commissions
16 and other similar expenses that have not been, or exceed what have
17 been, provided for in the CIS plan, this Law and its implementing rules
18 and regulations or any other applicable laws and regulations;
19 (e) Retain any rebate from, or otherwise share in any commission with,
20 any broker or dealer in consideration of transactions or investments of
21 the CIS funds. Accordingly, any rebates or shared commissions shall
22 be for the account of the CIS fund concerned; and
23 (f) Engage in such other acts as may be prohibited by rule or order of the
24 appropriate regulatory agency.

25 **SECTION 10. *Fund Management Agreement*** - (a) The agreement
26 between the fund manager and the trustee or the corporate CIS shall contain,
27 among others, provisions pertaining to:

- 28 1. Extent of services to be rendered;
29 2. Any restrictions or prohibitions regarding the performance of the
30 functions of the fund manager;
31 3. All compensation to be paid thereunder which shall be clearly
32 described in a transparent manner, and which shall be in
33 accordance with such requirements and limitations as the
34 implementing rules and regulations may prescribe;
35 4. The term of the engagement and the manner of termination thereof,
36 which shall be in accordance with such requirements or limitations

1 as this law and its implementing rules and regulations may
2 prescribe;

3 5. Reporting requirements to the trustee, corporate CIS, CIS investors
4 and the appropriate regulatory agencies; and

5 6. Such other terms or conditions as the implementing rules and
6 regulations may prescribe.

7 (b) In all cases where the trustee or insurance company functions as a
8 fund manager, the foregoing provisions which should otherwise be contained in
9 the fund management agreement with the fund manager shall be contained in
10 the CIS plan.

11 **SECTION 11. *The Trustee*** – Only a trust institution shall act as a trustee
12 of a CIS. In authorizing a trust institution to engage in CIS activities, the Monetary
13 Board of the Bangko Sentral ng Pilipinas shall ensure that all relevant
14 requirements under this Law or its implementing rules and regulations shall be
15 complied with. The following, in addition to those prescribed under existing laws
16 and regulations, shall be the duties and responsibilities of a trustee of a CIS:

17 (a) Monitor the activities of the CIS distributors in the sale and/or
18 redemption of the CIS units and ensure that the provisions of any
19 marketing document relating to the sale or offer for sale of the CIS
20 securities do not contain any matter which is inconsistent with the
21 provisions of the CIS plan, this Law and its implementing rules and
22 regulations;

23 (b) Ensure that the management and investments of the CIS funds by the
24 fund manager are in accordance with the CIS plan;

25 (c) Ensure that the fund manager remedies any breach of the CIS plan or
26 the terms of its appointment as fund manager, or any contravention of
27 the provisions of this Law or its implementing rules and regulations;

28 (d) Appoint an independent third-party custodian;

29 (e) Ensure that CIS funds and investment assets are clearly identified and
30 held separately from its own properties and other properties held in
31 trust;

32 (f) Ensure that all payments out of CIS funds and investment assets are
33 made in accordance with the CIS plan, this Law and its implementing
34 rules and regulations;

35 (g) Monitor the existence of conflict of interest situations and address the
36 same for the best interests of the CIS investors;

(h) Report to the appropriate regulatory agency, as soon as practicable, any material development or breach of the provisions or covenants of the CIS plan, the provisions of this Law or its implementing rules and regulations that:

1. relates to the establishment, operation or dissolution of the CIS or to the registration and sale of CIS securities, and

2. has had or is likely to have a material adverse effect on the interests of the CIS investors;

(i) File such information and documents to keep reasonably current the information and documents contained in the CIS Plan ;

(j) Call for annual or special meetings of the CIS investors in the event the fund manager fails or refuses to do so;

(k) Propose amendments to the CIS plan and secure approval for those amendments which require investor approval in accordance with the provisions of this Law; and

(l) Such other duties and responsibilities that the appropriate regulatory agency may prescribe.

SECTION 12. Corporate CIS – (a) No company shall act as a corporate CIS unless duly licensed by the Commission, and no company shall be licensed as a corporate CIS for purposes of this Law, unless it shall:

1. Be organized in the form of a stock corporation;

2. Issue shares of stock consisting solely of common stock;

3. Provide in its articles of incorporation that shareholders shall not be entitled to pre-emptive rights;

4. Have, at the time of registration, an initial subscribed and paid-up capital of at least Fifty Million Pesos (P50,000,000.00) provided, however, that the Commission may prescribe a higher paid-up capital. The Commission may prescribe a lower minimum paid-up capital for any subsequent corporate CIS that is established and managed by the same fund manager;

5. Maintain unimpaired its initial paid-up capital for a period of twelve (12) months following its registration with the Commission as a corporate CIS, or such other period as the Commission may prescribe; and

6. Maintain at all times, if an open-end CIS, a reserve in liquid or semi-liquid assets, equal to at least ten per centum (10%) of its

1 total assets, or such other percentage and in such form as the
2 Commission may prescribe.

3 (b) Notwithstanding any provision of the Corporation Code to the contrary,
4 no corporate CIS shall be required to comply with the minimum
5 subscribed and paid-up capital relative to an increase in its authorized
6 capital stock.

7 (c) The incorporators of a corporate CIS shall, at incorporation, fully pay in
8 cash their respective subscriptions.

9 (d) The Commission may prescribe such other or additional requirements
10 under subsection (a) of this section respecting the form, share
11 structure, and level of restrictions on capitalization and reserves, as
12 necessary or appropriate in the public interest or for the protection of
13 investors.

14 (e) At least one third of the entire membership of the board of directors of
15 a corporate CIS shall be independent directors.

16 **SECTION 13. Custodian** – Only entities duly licensed by the Monetary
17 Board of the Bangko Sentral ng Pilipinas may act as custodian of assets of a
18 CIS. Unless otherwise authorized by the appropriate regulatory authority taking
19 into account the interest of the investing public, all CIS must appoint an
20 independent third party custodian which shall have custody of the investment
21 assets of the CIS. The following, in addition to those prescribed under existing
22 laws and regulations, shall be the duties and responsibilities of a custodian:

23 (a) Hold the investment assets of a CIS in accordance with its agreement
24 with the trustee or the corporate CIS; and

25 (b) Such other duties and responsibilities that the Monetary Board of the
26 Bangko Sentral ng Pilipinas may prescribe, which shall include:

27 1. Earmarking, segregation and hypothecation of the investment
28 assets of the CIS; and

29 2. Provisions for periodic or other inspections by employees and
30 agents of the Monetary Board of the Bangko Sentral ng Pilipinas.

31 **SECTION 14. Appointment of Custodian** – The agreement between the
32 custodian and the corporate CIS or the trustee of a contractual CIS shall contain,
33 among others, provisions pertaining to:

34 1. Extent of services to be rendered by the custodian;

35 2. Fees, remuneration and other expenses of the custodian;

3. Any restrictions or prohibitions regarding the performance by the custodian of its functions; and
4. Reporting requirements of the custodian.

SECTION 15. *CIS Distributor* – (a) No entity shall be licensed by the Commission as a distributor of CIS securities, unless:

1. It is organized as a stock corporation;
2. It has a minimum paid-up capital of at least Ten Million Pesos (P10,000,000.00), or such higher capitalization to be prescribed by the appropriate regulatory agency taking into consideration (i) the risk-based principles on capital adequacy based on internationally accepted standards, and (ii) the number and/or total net asset value of all CIS distributed; and
3. It has complied with such other requirements as may be prescribed by the appropriate regulatory agency.

(b) For purposes of this Law, the following juridical persons may be licensed as a CIS distributor by the commission, provided that the requirements under this section and the implementing rules and regulations are complied with:

1. Any fund manager;
2. Any investment house;
3. Any bank, financial institution or trust institution under the supervision of the Bangko Sentral ng Pilipinas;
4. Any insurance broker under the supervision of the Insurance Commission;
5. Stockbrokers duly accredited by the Commission; and
6. Other persons as may be hereinafter allowed by the Commission.

(c) A corporate CIS is not permitted to act as a distributor of securities of which it is the issuer, unless it complies with such rules and orders as the appropriate regulatory agency may prescribe as necessary or appropriate in the public interest or for the protection of investors.

(d) Whenever a fund manager and/or its affiliate shall act as a CIS distributor of the CIS of which it is the fund manager, and whenever a trustee and/or its affiliate shall act as a CIS distributor of the CIS of which it is the trustee, the prior written consent of the appropriate regulatory agency shall be secured.

(e) The CIS distributor shall be principally responsible for marketing, distributing and selling CIS securities. It shall perform such other duties and responsibilities as the implementing rules and regulations may prescribe.

1 **SECTION 16. *Marketing and Distribution Agreement*** – (a) The
2 agreement between the CIS distributor and the corporate CIS or the trustee of a
3 contractual CIS shall contain, among others, provisions pertaining to:

- 4 1. Extent of services to be rendered by the CIS distributor;
- 5 2. Fees, remuneration and other expenses of the CIS distributor;
- 6 3. Any restrictions or prohibitions regarding the performance of the
7 functions by the CIS distributor;
- 8 4. Undertaking to employ or appoint only CIS solicitors duly licensed
9 by the appropriate regulatory agency; and
- 10 5. Reporting requirements.

11 (b) In all cases where the trustee or insurance company functions
12 as a CIS distributor, the foregoing provisions which should otherwise be
13 contained in the marketing and distribution agreement with the CIS shall be
14 contained in the CIS plan.

15 **SECTION 17. *CIS Solicitor*** – No person shall be allowed to solicit, sell or
16 offer to sell CIS securities unless duly licensed by the Commission after
17 compliance with such requirements and standards for eligibility as may
18 prescribed in this law and its implementing rules and regulations.

19 **SECTION 18. *Accountants and Auditors***.- (a) The financial statements
20 of every corporate CIS, fund manager and contractual CIS shall be audited and
21 certified by an independent auditor duly accredited by the appropriate regulatory
22 agency.

23 (b) The following, in addition to those prescribed under existing laws and
24 regulations, shall be the duties and responsibilities of the independent auditor:

- 25 1. Report to the Board of Directors or the trustee of the CIS any
26 irregularity or undesirable practice in the operation of the CIS which
27 has come to its knowledge. Any material finding shall be reported
28 by the independent auditor to the appropriate regulatory agency;
- 29 2. Report to the appropriate regulatory agency non-compliance by the
30 fund manager and trustee with its contractual and regulatory
31 requirements; and
- 32 3. Report to the appropriate regulatory agency whether the internal
33 control and audit structures in the operation of the CIS are at an
34 acceptable level.

35

1 **SECTION 19. *Common Duties and Responsibilities of Parties*** – In
2 addition to their specific duties and responsibilities, each of the corporate CIS,
3 fund manager, trustee, CIS distributor, CIS solicitor, and the CIS custodian shall
4 have the following common duties and responsibilities:

- 5 (a) Carry on and manage its business and the CIS in a proper, diligent
6 and efficient manner;
- 7 (b) Observe honesty, due care and diligence, utmost good faith and
8 high standards of integrity;
- 9 (c) Act in the best interests of the CIS investors;
- 10 (d) Establish systems, procedures and processes to be observed by its
11 officers and employees to ensure compliance with this Law and its
12 implementing rules and regulations and to protect the interests of
13 the CIS investors;
- 14 (e) Take responsibility for all actions and omissions of any third party to
15 whom it delegates any of its duties and responsibilities, except for
16 any resulting damage or liability arising from force majeure or other
17 similar occurrence beyond the control of such third party;
- 18 (f) Ensure that any person appointed or employed by it is of good
19 repute, having relevant expertise and experience to act in the
20 capacity so appointed or employed;
- 21 (g) Refrain from using its position to gain, directly or indirectly, an
22 advantage for itself or for any other person or to cause detriment to
23 the interests of CIS investors;
- 24 (h) Avoid and eliminate conflicts of interest in the performance of their
25 functions, which may be identified by the appropriate regulatory
26 agency as prejudicial to the interests of the investing public;
- 27 (i) Disclose all conflicts of interest in the performance of their
28 functions; and
- 29 (j) Comply with orders, rules and regulations as may be prescribed by
30 the appropriate regulatory agency.

31 Any contractual provision which protects or purports to protect the fund
32 manager, corporate CIS, trustee, CIS distributor, CIS solicitor, or CIS
33 custodian against any liability for willful misfeasance, malfeasance, fraud, bad
34 faith, or gross negligence in the performance of their duties shall be void.

35 **SECTION 20. *Revocation, Refusal or Suspension of License of the***
36 ***Fund Manager, Corporate CIS, Trustee, Insurance Company, Custodian,***
37 ***CIS Distributor and CIS Solicitor.*** – The licensing or authorization of a fund

1 manager, corporate CIS, trustee, insurance company, custodian, CIS distributor
2 or CIS solicitor to engage in CIS business under this Law may be refused, or any
3 license granted thereunder may be revoked, suspended, or limitations placed
4 thereon by the appropriate regulatory agency if, after due notice and hearing, the
5 appropriate regulatory agency which granted the license determines that the
6 applicant or licensee:

7 (a) Has willfully violated any provision of this Law, any rule, regulation or
8 order made hereunder, or any other law administered by the
9 appropriate regulatory agency, or has failed to supervise, with a view to
10 preventing such violation, another person who commits such violation;

11 (b) Has willfully made or caused to be made a materially false or
12 misleading statement in any application for license or report filed with
13 the appropriate regulatory agency, or has willfully omitted to state any
14 material fact that is required to be stated therein or necessary to make
15 the statement therein not misleading;

16 (c) Has failed to satisfy the qualifications or requirements for licensing
17 prescribed under this Law and its implementing rules and regulations;

18 (d) Any of its directors or officers has been convicted by a competent body
19 of an offense involving fraud, embezzlement, counterfeiting, theft,
20 estafa, misappropriation, forgery, bribery, false oath, perjury, or of a
21 violation of securities, commodities, banking, real estate or insurance
22 laws;

23 (e) Is enjoined or restrained by a competent body from engaging in
24 securities, commodities, banking, real estate, insurance or similar
25 activities;

26 (f) Is subject to an order of a competent body refusing, revoking or
27 suspending any license or other permit under this Law, the
28 implementing rules and regulations, any other law or regulation
29 administered by the appropriate regulatory agency or any other
30 governmental authority;

31 (g) Has been found by a competent body to have violated any provisions of
32 securities, commodities, banking, real estate or insurance laws, or has
33 aided, abetted, counseled, commanded, induced or procured such
34 violation; or

35 (h) Has been judicially declared insolvent.

36 For purposes of this subsection, the term "competent body" shall
37 include a foreign court of competent jurisdiction and a foreign financial
38 regulator.

1 **SECTION 21. *Fit and Proper Rule.*** To maintain the quality of
2 management of the CIS and afford better protection to CIS investors, the
3 appropriate regulatory agency shall prescribe or pass upon and review the
4 qualifications and disqualifications of individuals elected or appointed as directors
5 or officers of fund managers, trustees, insurance companies, corporate CIS or
6 CIS distributors and disqualify those found unfit. The appropriate regulatory
7 agency may disqualify, suspend or remove any director or officer who commits or
8 omits an act which renders him unfit for the position.

9 In determining whether an individual is fit and proper to hold the position of
10 a director or officer of the fund manager, trustee, insurance company, corporate
11 CIS or CIS distributor, regard shall be given to his integrity, experience,
12 education, training, and competence: Provided, however, that the following
13 persons, and those determined by the appropriate regulatory agency to be unfit,
14 shall in no case be allowed to serve or act in the capacity of officer, director,
15 consultant, of any fund manager, trustee, insurance company, corporate CIS or
16 CIS distributor:

- 17 (a) any person convicted of any crime involving any security or financial
18 product;
- 19 (b) any person convicted of an offense involving fraud or embezzlement,
20 theft, estafa or other fraudulent acts or transactions;
- 21 (c) any person who, by reason of any misconduct, is enjoined by order,
22 judgment, or decree by any court, quasi-judicial body or administrative
23 agency of competent jurisdiction from acting as a director, officer,
24 employee, consultant, or agent occupying any fiduciary position;
- 25 (d) any person found by the appropriate regulatory agency to have
26 violated, or aided, abetted, counseled, commanded, induced, or
27 procured the violation of this Law, the General Banking Law, the
28 Insurance Code, the Securities Regulation Code, or any related laws
29 and any rules, regulations or orders thereunder;
- 30 (e) any person judicially declared to be insolvent, or incapacitated to
31 contract; and
- 32 (f) any person found guilty by a foreign court, regulatory authority or
33 government agency of the acts or violations similar to any of the acts
34 or misconduct enumerated in the foregoing paragraphs.

35 **Chapter 3 - Provisions applicable to Contractual CIS**

36 **SECTION 22. *Establishment of a Contractual CIS.***

- 1 (a) Any fund manager may establish, administer and manage one or
2 more contractual CIS. Such fund manager shall enter into a fund
3 management contract with a trustee or insurance company that is
4 not an affiliate of the fund manager; Provided, that no director
5 and/or officer of the fund manager shall at the same time serve as
6 director and/or officer of the trustee or insurance company.
- 7 (b) In a contractual CIS, the trust agreement shall be between the
8 trustee and the CIS investors, and the insurance contract shall be
9 between the insurance company and policy holders. The trust
10 agreement or the insurance contract, as the case may be, shall
11 define the rights and obligations of the parties.
- 12 (c) Notwithstanding any provision of law to the contrary, the assets of
13 each contractual CIS shall be deemed separate and independent of
14 the assets of the fund manager, trustee and/or insurance company,
15 and shall not be available to the creditors of such fund manager,
16 trustee and/or insurance company in the event of attachment,
17 garnishment, execution, bankruptcy, insolvency or rehabilitation or
18 any form of action or claim against the fund manager, trustee
19 and/or insurance company.
- 20 (d) In case the functions of the fund manager, on the one hand, and
21 the trustee or insurance company, on the other hand, are
22 performed by the same or affiliated entities, there must be an
23 independent oversight body which shall be created pursuant to, and
24 shall perform the oversight duties and responsibilities enumerated
25 in Section 50(b)(2) hereof.

26 **SECTION 23. Register of CIS Investors** – An up-to-date register of all
27 CIS investors shall be kept and maintained by or under the control of a registrar,
28 which may be kept and maintained either in written form or by other means which
29 are capable of being reproduced in written form, including, but not limited to,
30 computer records, microfilm, microfiche or electronic recording, as the fund
31 manager shall from time to time determine. There shall be entered into the
32 register such relevant information as may be prescribed by the fund manager or
33 the trustee. Information about CIS investors shall be considered confidential in
34 nature and may not be inquired or looked into except upon order of a court of
35 competent jurisdiction or in the course of examination by the appropriate
36 regulatory agency.

1 **SECTION 24. *The Contractual CIS Plan.*** In addition to the matters
2 specified in Section 30, a Contractual CIS Plan shall contain the following
3 matters:

4 (a) In cases where the trustee or its affiliate, or insurance company or its
5 affiliate, performs the functions of the fund manager, a description of
6 the independent oversight body, as prescribed under Section 22 (d) of
7 this Law.

8 (b) Initial unit value and the basis thereof;

9 (c) Basis upon which the CIS may be terminated. The CIS plan shall state
10 the rights of participants in case of termination of the CIS; and

11 (d) Such other matters as the Commission may prescribe.

12 **Chapter 4 – Provisions Applicable to Corporate CIS**

13
14 **SECTION 25. *Engagement of Fund Manager.*** Corporate CIS shall
15 engage a duly registered fund manager to perform the functions prescribed in
16 Section 8 hereof; Provided, Further, that a majority of the directors of the
17 corporate CIS are not directors, officers or employees of the fund manager; and
18 Provided, Finally that no Chairman, Chief Executive Officer, President, Chief
19 Operating Officer or equivalent positions may be interlocking but officers with
20 lower rank may be common with prior approval of the appropriate regulatory
21 authority.

22 **SECTION 26. *The Corporate CIS Plan*** – (a) In addition to the matters
23 specified in Section 30, a corporate CIS plan shall contain the following matters:

24 (1) Par value of the shares of stock of the corporate CIS;

25 (2) The dissolution of the corporate CIS and the rights of shareholders in
26 case of dissolution of the corporate CIS;

27 (3) Borrowing of money in accordance with the rules and regulations as
28 may be prescribed by the Commission;

29 (4) Extension of loans to other persons in accordance with the rules and
30 regulations as may be provided by the Commission; and

31 (5) Such other matters as the Commission may prescribe.

32 (b) The corporate CIS shall file such information and documents to
33 keep reasonably current the information and documents contained in the CIS
34 Plan.

1 **SECTION 27. *Dividends.*** (a) Dividends shall be declared and paid in
2 accordance with the requirements of the Corporation Code and applicable laws
3 and regulations; Provided, that the Commission may prescribe other
4 requirements or restrictions in the declaration and payment of dividends by the
5 corporate CIS as necessary or appropriate in the public interest and for the
6 protection of the investors.

7 (b) Dividend payments shall be accompanied by a written statement which
8 adequately discloses the source or sources of such payment. The Commission
9 may prescribe the form of such statement as necessary or appropriate in the
10 public interest and for the protection of the investors.

11 **TITLE III – TAX PROVISIONS**

12 **SECTION 28 . *Tax treatment of the CIS.*** All CIS shall be subject only to
13 the following national internal revenue taxes:

14 a. *Imposition of Documentary Stamp Tax for CIS.* - Any original issuance of a
15 document evidencing interest or participation in a CIS Security as defined under
16 Section (5) hereunder shall be subject to documentary stamp tax prescribed
17 under Section 188, Title VII of the National Internal Revenue Code of 1997.

18 b. *Tax on Income or Gross Receipts of CIS.* - The income or gross receipts from
19 investments or reinvestments of funds received or accrued by any of CIS shall be
20 subject to all applicable taxes imposed under Title II of the National Internal
21 Revenue Code of 1997.

22 c. *Tax on gains upon creation, Redemption, Sale, Barter, Exchange or other*
23 *disposition of CIS Securities.* - Any gains realized by the investor upon
24 redemption of CIS securities, or from the sale, barter, exchange or other
25 disposition of listed CIS Securities through a local stock exchange, shall be
26 governed by Section 32(B)(7)(h) of the National Internal Revenue Code of 1997.

27 The same tax treatment shall apply to gains realized from the transfer of
28 securities and commodity products in exchange for original issuance of CIS
29 securities.

30 d. *DST on the creation, Redemption, Sale, Barter or Exchange of CIS Securities.*
31 The sale, barter, or exchange or other disposition of CIS securities listed and
32 traded through a local stock exchange shall be governed by Republic Act No.
33 9648. If not listed and trade, it shall be subject to Documentary Stamp Tax as

1 provided under Section 188, Title VII, of the National Internal Revenue Code of
2 1997.

3 The same tax treatment shall apply to the shares of stock transferred or
4 exchanged for the creation or redemption of CIS securities.

5 **TITLE IV - REGISTRATION OF CIS SECURITIES AND OPERATIONS OF CIS**

6 **Chapter 1 - Registration and Suspension of Offer and Sale of CIS Securities**

7 **SECTION 29. *Filing of CIS Plans.*** — (a) No CIS securities shall be sold
8 or offered for sale within the Philippines unless such securities have been
9 registered through the filing of a CIS plan which has been rendered effective by
10 the appropriate regulatory agency. The CIS Plan shall be filed together with a
11 sworn statement, in such form and containing such information and documents
12 as prescribed by this Law, the implementing rules and regulations or the
13 appropriate regulatory agency. The CIS plan shall include any prospectus as
14 required or permitted by the appropriate regulatory agency to be delivered to CIS
15 investors. It shall be unlawful for any person to sell or offer for sale CIS
16 securities unless the corresponding CIS plan has been duly filed with and
17 rendered effective by the appropriate regulatory agency.

18 (b) The CIS plan shall be signed by the executive officer, principal
19 operating officer, principal financial officer, comptroller, principal accounting
20 officer, corporate secretary or persons performing similar functions of the
21 corporate CIS, or the fund manager, trustee or insurance company in the case of
22 a contractual CIS, accompanied by a duly verified resolution of the board of
23 directors. The written consent of the expert named as having certified any part of
24 the CIS plan or any document used in connection therewith shall also be filed.

25 (c) Upon effectivity of the CIS plan, the corporate CIS, fund manager,
26 trustee or insurance company shall state in every sales material that all
27 registration requirements of the CIS securities have been met and that all
28 information are true and correct as represented by the corporate CIS, fund
29 manager, trustee or insurance company or the person making the statement. Any
30 untrue statement of fact or omission to state a material fact required to be stated
31 therein or necessary to make the statement therein not misleading shall
32 constitute fraud.

33 (d) The appropriate regulatory agency may refuse the registration of a CIS
34 security if:

- 1 1. It contains a false or misleading statement;
- 2 2. It omits to state a material fact required to be stated therein or
- 3 necessary to make the statement therein not misleading;
- 4 3. It does not comply with the requirements of this Law and applicable
- 5 laws and regulations; or
- 6 4. It is in the public interest to refuse the registration of such CIS
- 7 securities.
- 8 (e) If any change occurs in the facts set forth in the CIS plan, the
- 9 corporate CIS, fund manager, trustee or insurance company shall file an
- 10 amendment thereto setting forth the change.

11 **SECTION 30. Contents of the CIS Plan.** The CIS plan shall contain the
12 following matters:

- 13 a) Title of the CIS plan. This shall correspond to the product or brand
- 14 name by which the CIS is proposed to be known and made available to
- 15 its investors;
- 16 b) Name of the fund manager;
- 17 c) A statement of the CIS' investment objectives and policies including
- 18 limitations, if any, and risk factors in investing in the CIS;
- 19 d) Investment powers of the fund manager with respect to the CIS,
- 20 including the character and kind of investments which may be
- 21 purchased by the CIS;
- 22 e) Profile of the proposed investors;
- 23 f) Its classification, whether an open-end or closed-end fund;
- 24 g) Total value of the CIS securities to be issued in case of closed-end
- 25 CIS;
- 26 h) Terms and conditions governing the issuance and redemption of CIS
- 27 securities;
- 28 i) Provision for the external audit of the CIS;
- 29 j) Liabilities of the corporate CIS and the fund manager to the unit
- 30 holders or shareholders;
- 31 k) Amount of fees, commissions and other charges and expenses to be
- 32 deducted from the fund, in the case of a contractual CIS, or to be paid
- 33 by the shareholders, in the case of corporate CIS;
- 34 l) Annual meetings of unit/policy holders or shareholders;
- 35 m) Public disclosures and reports;
- 36 n) Plan of distribution of CIS assets in case of dissolution; and

1 o) Such other matters as the appropriate regulatory agency may
2 prescribe.

3 A copy of the CIS plan shall be made available during regular office hours to any
4 interested person at the principal office of the fund manager and corporate CIS in
5 case of a corporate CIS, and the fund manager or trustee in case of contractual
6 CIS. The CIS plan shall also be posted in the website, publication and/or other
7 mode of information dissemination of the commission and the CIS.

8 **SECTION 31. *Revocation of Registration or Suspension of Offer and***
9 ***Sale of Securities*** –The appropriate regulatory agency may revoke the
10 registration of the CIS securities in accordance with Section 13.1 of the SRC or
11 order the suspension of the offer and sale of the CIS securities in accordance
12 with Section 13.4 of the SRC and their implementing rules and regulations.

13 **Chapter 2 – Dealings in CIS Securities**

14 **SECTION 32. *Rights and Privileges of CIS Investors.*** Each share of
15 stock of a corporate CIS and each unit of participation of a contractual CIS shall
16 be equal in all respects to every other share or unit belonging to the same class
17 of shares or units.

18 **SECTION 33. *Proxies; Voting Trust.*** The Commission may prescribe
19 rules and regulations for the solicitation of proxies and the issuance and transfer
20 of voting trust certificates in accordance with the requirements of the Corporation
21 Code and applicable laws and regulations; Provided, That the Commission may
22 prescribe other requirements or restrictions as may be necessary or appropriate
23 in the public interest and for the protection of the investors; Provided, Further,
24 that no proxies shall be used as a device to control the management of any CIS.

25 **SECTION 34. *Payment for CIS Securities.*** No CIS shall issue any of its
26 securities for services or for property other than cleared funds.

27 **SECTION 35. *Distribution, Redemption and Pricing of CIS Securities.***
28 (a) Unless otherwise allowed in this law, CIS securities shall be sold only through
29 a licensed CIS distributor and by licensed CIS solicitors. Notwithstanding the
30 pertinent provision of Section 65 of the Corporation Code, CIS securities may be
31 issued at the net asset value computed in accordance with Section 43.

1 (b) CIS investors have the right to surrender their securities for redemption in
2 accordance with the CIS plan. Redemption shall not be suspended except
3 pursuant to the CIS plan as approved by the appropriate regulatory agency in the
4 public interest or for the protection of investors. The redemption price of CIS
5 securities shall be at the applicable price described in the CIS plan.

6 **SECTION 36. *Transferability of Securities.*** No CIS shall restrict the
7 transferability or negotiability of its CIS securities except as provided in the CIS
8 plan or by any rule or regulation prescribed by the appropriate regulatory agency.

9 **Chapter 3 – Operations of CIS**

10 **SECTION 37. *Custody of Investment Assets.*** Every CIS shall place and
11 maintain its investment assets in the custody of a custodian in accordance with
12 Sections 13 and 14 hereof.

13 **SECTION 38. *Investment Limitations.*** (a) The CIS funds may be
14 invested only in the following liquid or semi-liquid assets tradeable through an
15 organized market, subject to limitations as may be provided by this Law, the
16 implementing rules and regulations or the appropriate regulatory agency:

- 17 1. Bank deposits;
- 18 2. Securities issued by or guaranteed by the Philippine government, or
19 the *Bangko Sentral ng Pilipinas*;
- 20 3. Tradable securities issued by the government of a foreign country,
21 any political subdivision of a foreign country or any supranational
22 entity;
- 23 4. Exchange-listed securities;
- 24 5. Marketable instruments that are traded in an organized exchange or
25 market;
- 26 6. Loans traded in an organized market;
- 27 7. Exchange traded funds;
- 28 8. Derivatives as may be authorized by the appropriate regulatory
29 agency;
- 30 9. Real estate investment trusts or companies;
- 31 10. Other CIS; and
- 32 11. Such other investments or instruments as the appropriate regulatory
33 agency may allow.

34 Provided, however, that no CIS shall, directly or indirectly:

- 35 1. acquire more than ten per centum (10%) of another CIS or

- 1 any one company; or
- 2 2. acquire securities of any issuer having an aggregate value in
- 3 excess of twenty per centum (20%) of the net asset value of
- 4 the acquiring CIS, or the weight of the security in a
- 5 recognized benchmark or index, whichever is higher.
- 6 (b) The appropriate regulatory agencies may jointly issue such
- 7 implementing rules and regulations, in accordance with Section 56 hereof, as
- 8 may be necessary or appropriate in the public interest or for the protection of
- 9 investors, that provide for different percentages or further restrictions with respect
- 10 to investments in other CIS or the concentration of investments by a CIS.

11 **SECTION 39. *Prohibited Acts of CIS.*** It shall be unlawful for any CIS to -

- 12 i. Purchase any security on margin, except such short-term credits as
- 13 are necessary for the clearance of transactions;
- 14 ii. Participate on a joint or a joint and several basis in any trading
- 15 account in securities; or
- 16 iii. Generate funds for promoting the private business or industry of
- 17 any employee, officer, director, promoter or stockholder thereof; or
- 18 iv. Allow any of its employees, officers, directors, organizers,
- 19 incorporators or stockholders to sell real estate, personal property
- 20 or any other kind of property to the CIS at a price higher than the
- 21 procurement cost or the market value thereof, or sell to any of the
- 22 aforementioned persons any property of the CIS, or a portion
- 23 thereof, at a price below the market value thereof.

24 The appropriate regulatory agency may, by rules and regulations prohibit

25 CIS from engaging in such other acts as it may deem necessary or appropriate in

26 the public interest or for the protection of investors, taking into account the policy

27 and purpose of this Law.

28 **SECTION 40. *Meetings of CIS Investors.*** (a) Meetings of CIS investors

29 shall be held at least annually. The following matters shall be presented to the

30 CIS investors:

- 31 1. Proposals to change investment policies in the CIS plan which shall
- 32 require the approval of the CIS investors;
- 33 2. Report to the CIS investors of the engagement or replacement of
- 34 the fund manager, trustee, CIS distributor, custodian and
- 35 independent auditors;

1 3. Report of the fund manager of the financial condition of the fund
2 and results of its operations; and

3 4. Any other matter pertaining to the management and operation of
4 the CIS.

5 (b) CIS investors may attend meetings in person or by proxy. A quorum at
6 meetings shall consist of unit holders or stockholders owning or representing
7 at least ten per centum (10%) of the total number of units in the fund or the
8 outstanding capital stock, respectively, or such other percentage as the
9 appropriate regulatory agency may prescribe taking into account the size of
10 the CIS and the number of its CIS investors. At least a majority vote of those
11 present or represented shall be required to constitute a valid act of the CIS
12 investors.

13 (c) The appropriate regulatory agency shall prescribe by rule or regulation
14 the requirements for the conduct of meetings.

15 **SECTION 41. *Requirements for selling materials and advertisements.***

16 Sales and marketing documents and advertisements shall be subject to such
17 requirements as the implementing rules and regulations or the appropriate
18 regulatory agency may prescribe. All sales and marketing documents, and
19 advertisements shall:

20 (a) Not contain any untrue statement of fact or omit to state any fact that is
21 necessary in order to prevent the statements made, in the light of the
22 circumstances in which they were made, from being misleading;

23 (b) The CIS performance information in advertisements should be
24 calculated and presented from the viewpoint of the average investor to
25 whom the CIS is targeted;

26 (c) All CIS should calculate and present their performance information in
27 advertisements in a substantially similar manner so that CIS investors
28 may (i) make meaningful comparisons among various CIS, and (ii) not
29 be misled by differences in the method of calculation and presentation;
30 and

31 (d) Comply with such other terms and conditions prescribed by the
32 appropriate regulatory agency which are necessary or appropriate in
33 the public interest or for the protection of CIS investors.

34 **SECTION 42. *Reports and Financial Statements of CIS.*** (a) Every CIS
35 shall file with the appropriate regulatory agency, if any:

1 1. Such information and documents including financial statements as the
2 implementing rules and regulations and the appropriate regulatory
3 agency may require, to keep reasonably current the information and
4 documents contained in the CIS plan filed under this Law; and
5 2. Copies of every periodic or interim report or similar communication
6 transmitted to the CIS investors.

7 (b) Every CIS shall transmit to its CIS investors, at least annually, reports
8 containing such of the following information and financial statements or their
9 equivalent, as of the latest fiscal year, which reports shall not be misleading in
10 any material respect in the light of the reports required to be filed pursuant to
11 subsection (a):

12 1. a balance sheet accompanied by a statement of the aggregate
13 value of investments on the date of such balance sheet;
14 2. a list showing the amounts and values of securities owned on the
15 date of such balance sheet;
16 3. a statement of income, for the period covered by the report, which
17 shall be itemized at least with respect to each category of income
18 and expense representing more than five *per centum* of total
19 income or expense;
20 4. a statement of surplus, which shall be itemized at least with respect
21 to each charge or credit to the surplus account which represents
22 more than five *per centum* of the total charges or credits during the
23 period covered by the report;
24 5. a statement of the aggregate fees or remuneration paid by the CIS
25 during the period covered by the report to (i) the fund manager,
26 trustee, CIS distributor and independent auditor; and (ii) each
27 director and all officers as regular or special compensation; and
28 6. a statement of the aggregate amounts of purchases and sales of
29 investment assets made during the period covered by the report.

30 *Provided*, That the implementing rules and regulations may permit, in lieu
31 of any item required under this subsection which may be inapplicable or
32 inappropriate to any specified type or types of CIS, the inclusion of such item of a
33 comparable character as it may deem applicable or appropriate to such type or
34 types of CIS.

35 *Provided*, further, that the reports and financial statements mentioned
36 above, or such other material information as the appropriate regulatory agency
37 may determine, shall also be posted in the website, publication and/or other

1 mode of information dissemination of the appropriate regulatory agency and the
2 CIS.

3 The appropriate regulatory agency shall prescribe the forms for the
4 reports and financial statements, or such other material information as the
5 appropriate regulatory agency may determine, so that CIS investors may make
6 meaningful comparisons among various CIS, and will not be misled by
7 differences in the method of calculation and presentation.

8 **SECTION 43. *Net Asset Value.*** (a) A CIS shall compute and post its net
9 asset value per share/unit at such frequency as may be prescribed by the
10 implementing rules and regulations or the appropriate regulatory agency.

11 (b) The computation of the net asset value per share or unit shall be made
12 in accordance with the valuation method prescribed by the implementing rules
13 and regulations or the appropriate regulatory agency and shall be applied
14 consistently.

15 **SECTION 44. *Accounts and Records.*** (a) Every CIS, and every fund
16 manager and trustee shall maintain and preserve for such period or periods as
17 may be prescribed by the implementing rules and regulations, such accounts,
18 books, and other documents as constituting the record forming the basis for
19 financial statements required to be filed pursuant to this Law.

20 (b) All accounts, books and other records required to be maintained and
21 preserved by any person pursuant to subsection (a) shall be subject to
22 examination by the appropriate regulatory agency.

23 **SECTION 45. *Management and Trust Fees; Expenses Chargeable to***
24 ***Fund/CIS Investors.*** The management or trust fees shall cover the CIS' fair and
25 equitable share of the routine administrative expenses of the fund manager,
26 trustee and/or insurance company such as directors' fees, salaries and wages,
27 supplies, credit investigation, collateral appraisal, security, messengerial and
28 janitorial services, information technology expenses, annual report preparation,
29 supervision fees, regulatory reporting expenses, and internal audit fees.
30 Marketing, advertising, and other publicity or promotional related expenses shall
31 be for the account of the fund manager, trustee, and insurance company and
32 shall be considered covered by the management or trust fee.

33 However, the fund manager, trustee, and insurance company may charge
34 special or reimbursable expenses from the CIS in case such expenses are (1)
35 necessary to preserve or enhance the value of the CIS, (2) payable to an

1 independent or non-related third party covered by a separate contract, and (3)
2 disclosed to CIS investors. the fund manager, trustee, and insurance company
3 shall secure prior approval of the appropriate regulatory agency for outsourcing
4 services provided under existing regulations of the concerned regulatory
5 agency.no other fees shall be charged to the fund/CIS investors, except in case
6 of a corporate CIS, the directors fees shall be chargeable to the fund.

7 **SECTION 46. *Changes in Investment Policy*** - Proposals to change the
8 investment policies shall be subject to approval by the CIS investors pursuant to
9 Section 40 hereof and by the appropriate regulatory agency. The fund manager,
10 trustee or insurance company shall disseminate to all CIS investors all material
11 information pertaining to proposals to amend the investment policies and
12 objectives. The appropriate regulatory agency shall prescribe by rule or
13 regulation the requirements for changes in investment policies.

14 **SECTION 47. *Dissolution*** - (a) The corporate CIS, trustee or insurance
15 company shall cause the dissolution of the CIS whenever any of the following
16 grounds is present:

- 17 1. Dissolution is required by the CIS plan, when the specified
18 conditions or time for dissolution have been met or reached;
- 19 2. Dissolution is agreed upon in a resolution of the CIS investors
20 owning at least two-thirds (2/3) of the outstanding CIS securities in
21 a CIS at a meeting duly called for the purpose; Provided, that the
22 implementing rules and regulations may prescribe a different
23 percentage interest taking into account the nature and size of the
24 CIS and the number of CIS investors; Provided, Finally, that there
25 has been prior publication of the notice of time, place and object of
26 the meeting for two (2) consecutive weeks in a newspaper of
27 general circulation in the Philippines;
- 28 3. Dissolution is required by a final and executory order of the court;
- 29 4. Dissolution is ordered by the appropriate regulatory agency for non-
30 compliance with the conditions for the lifting of a suspension or
31 revocation order previously issued; provided that the appropriate
32 regulatory agency shall not issue an order of dissolution within six
33 months from the issuance of the suspension or revocation order;
34 and

1 5. Dissolution is deemed necessary in view of the dissolution or the
2 revocation of the license of the fund manager, trustee or insurance
3 company;

4 Provided, that the CIS may not be dissolved whenever:

5 (i) The appropriate regulatory agency orders the transfer of the CIS
6 to a willing and qualified fund manager, trustee or insurance
7 company;

8 (ii) The dissolution or the loss of license of the trustee, insurance
9 company or fund manager is due to a merger and the surviving
10 company in such merger is also an authorized trustee,
11 insurance company or fund manager, as the case may be; or

12 (iii) The new company that is established as a result of the
13 consolidation of trust institutions, insurance companies or fund
14 managers promptly obtains a license to act as trustee,
15 insurance company or fund manager, as the case may be.

16 (b) Upon dissolution, the fund manager, trustee or insurance company
17 shall distribute the investment assets of the CIS to the CIS investors as
18 prescribed by the CIS plan and in accordance with the implementing rules and
19 regulations.

20 **SECTION 48. *Merger or Consolidation*** – No merger or consolidation of
21 CIS will be authorized by the appropriate regulatory agency unless the following
22 conditions are met:

23 (a) The merger or consolidation plan has been prepared in accordance
24 with the requirements as may be prescribed by the appropriate
25 regulatory agency; and

26 (b) The merger plan has been approved by the CIS investors owning at
27 least two-thirds (2/3) of the outstanding CIS securities in each of the
28 CIS to be merged or consolidated in a meeting duly called for the
29 purpose;

30 The implementing rules and regulations shall prescribe the procedures
31 and requirements for merger or consolidation in the public interest and for the
32 protection of investors.

33 **TITLE V– CIS INVESTORS PROTECTION FUND**

34 **SECTION 49. *Establishment of the CIS Investors Protection Fund*** -

35 The appropriate regulatory agency shall, define the rules and procedures for the

1 creation and management of an investors protection fund, the contribution to
2 which shall be determined as a proportion of the CIS, which shall be segregated
3 from the CIS, for the purpose of compensating investors who suffer material loss
4 in investment due to fraud, gross negligence or mismanagement; provided that,
5 any contribution to the investor's protection fund shall not be chargeable to the
6 CIS. A CIS that maintains an existing fund for the same purpose shall not be
7 required to make contributions to the CIS investors protection fund, provided, that
8 the appropriate regulatory agency has determined that the existing fund is of
9 equivalent purpose, and the contributions to such fund are of equivalent value, as
10 that of the CIS investors protection fund established pursuant to this section.

11 **TITLE VI- SPECIAL RULES GOVERNING ESTABLISHMENT OF**
12 **CONTRACTUAL CIS BY TRUST INSTITUTIONS AND INSURANCE**
13 **COMPANIES**

14 **SECTION 50. *Establishment of Contractual CIS by Trust Institutions***
15 ***and Insurance Companies-*** (a) Any trust institution or insurance company may
16 establish a contractual CIS, subject to the following provisions:

17 The trust institution or insurance company may engage the services of a
18 fund manager; Provided, that no director and/or officer of the trust institution or
19 insurance company shall at the same time serve as director and/or officer of the
20 fund manager; Provided, further, that the trust institution or insurance company
21 shall not engage a fund manager which is an affiliate of the trust institution or
22 insurance company, unless it complies with the requirements of paragraph (b) (2)
23 of this Section.

24 (b) The engagement of a fund manager shall not be required in cases
25 where:

- 26 1. In addition to the functions of a trustee prescribed under this Law,
27 the trust institution or insurance company shall comply with and
28 observe the duties, responsibilities and prohibitions of a fund
29 manager under Sections 8 and 9 hereof;
- 30 2. The CIS plan provides for the creation of an Independent Oversight
31 Body. The independent oversight body shall be composed of at
32 least three (3) members who shall be appointed in accordance with
33 such rules as the implementing rules and regulations shall
34 prescribe, all of whom shall have the degree of independence and
35 possess all the qualifications and none of the disqualifications of an

1 independent director, or may be a juridical entity organized and
2 existing pursuant to the implementing rules and regulations.
3

4 The independent oversight body shall have the following duties and
5 responsibilities:

- 6 i. Monitor the activities of the CIS distributors in the sale and/or
7 redemption of the CIS units and ensure that the provisions of
8 any marketing document relating to the sale or offer for sale
9 of the CIS units do not contain any matter which is
10 inconsistent with the provisions of the CIS plan, this Law and
11 its implementing rules and regulations;
- 12 ii. Ensure that the management and investments of the CIS
13 funds are in accordance with the CIS plan;
- 14 iii. Ensure that the trust institution or insurance company
15 remedies any breach of the CIS plan or any contravention of
16 the provisions of this Law or its implementing rules and
17 regulations;
- 18 iv. Ensure that CIS funds, assets and properties are clearly
19 identified and held separately from the trust institution's or
20 insurance company's own properties and other properties
21 held in trust;

22 **SECTION 51. Administrative Sanctions.**(A) If, after due notice and
23 hearing, the appropriate regulatory agency finds that: (1) there is a violation of
24 this Law and its implementing rules and regulations, or the rules or orders of the
25 appropriate regulatory agency; (2) any fund manager, trustee, insurance
26 company, corporate CIS, CIS distributor or CIS solicitor has failed reasonably to
27 supervise, with a view to preventing violations, another person subject to
28 supervision who commits any such violation; (3) any person has, in a CIS plan or
29 in other reports, applications, accounts, records or documents required by this
30 law and its implementing rules and regulations to be filed with the appropriate
31 regulatory agency, made any untrue statement of a material fact, or omitted to
32 state any material fact required to be stated therein or necessary to make the
33 statements therein not misleading; or (4) any person has refused to permit any
34 lawful examination into its affairs, including the refusal to produce books, records
35 or documents upon demand by the CIS investor or the appropriate regulatory
36 agency, it shall, in its discretion, and subject only to the limitations hereinafter

prescribed, impose any or all of the following sanctions as may be appropriate in light of the facts and circumstances:

- (a) A fine of no less than Ten thousand Pesos (P10,000.00) nor more than One million Pesos (P1,000,000.00);
- (b) Disqualification from being an officer, member of the board of directors, or person performing similar functions, of the fund manager, trustee, insurance company, corporate CIS or CIS Distributor;
- (c) Suspension the license of such person;
- (d) Revocation of the license of such person; and
- (e) Other penalties within the power of the appropriate regulatory agency to impose.

(B) The imposition of the foregoing administrative sanctions shall be without prejudice to the filing of criminal charges and civil cases against the entities and individuals responsible for the violation.

(C) The appropriate regulatory agency shall have the power to issue writs of execution to enforce the provisions of this section and to enforce payment of the fines, penalties, fees and other dues collectible under this Law.

(D) If the offender is a corporation or other juridical entity, the administrative sanctions may in the discretion of the appropriate regulatory agency be imposed upon such corporation or other juridical entity and upon the officer or officers of the corporation, or entity responsible for the violation, Provided, That in case of the imposition of administrative fines, the appropriate regulatory agency may, in its discretion, impose such fines solely upon the officer or director responsible for the violation; and Provided, Further, that if such officer is an alien, he shall in addition to the penalties prescribed, be deported without further proceedings after service of sentence.

(E) The director/s and other officer/s of a corporation held administratively liable under this section shall in no case recover the administrative liability from the CIS or corporation of which he/they is a director/s or officer/s.

SECTION 52. Criminal penalties. (A) The following acts are criminal in nature and shall be penalized as follows:

- (a) Refusal to comply with the orders of the appropriate regulatory agency, for the production of books, records or documents, or to undergo an examination shall be penalized by imprisonment of one (1) month to six (6) months or fine in the amount of One Hundred Thousand Pesos

- 1 (P100,000.00) to Two Million Pesos (P2,000,000.00), or both
2 imprisonment and fine, at the discretion of the court;
- 3 (b) Selling or offering for sale a CIS security by unregistered sellers,
4 distributors or solicitors shall be penalized by imprisonment of six (6)
5 years and one day to twelve (12) years or fine equivalent to triple the
6 contract price of each of the CIS securities sold, or both imprisonment
7 and fine, at the discretion of the court;
- 8 (c) Selling or offering for sale CIS securities by the issuer of a CIS plan
9 that has not been registered pursuant to this Law shall be penalized by
10 imprisonment of six (6) years and one day to twelve (12) years or fine
11 equivalent to triple the contract price of each of the CIS securities sold
12 or offered for sale, or both imprisonment and fine, at the discretion of
13 the court;
- 14 (d) Any negligent act or omission that is prejudicial or injurious to the CIS
15 investors shall be penalized by imprisonment of one (1) year and one
16 (1) day to six (6) years and fine in the amount of Fifty Thousand Pesos
17 (P50,000.00) to Five Million Pesos (P5,000,000.00), or both
18 imprisonment and fine, at the discretion of the court;
- 19 (e) Any fraudulent act or omission that is prejudicial or injurious to the CIS
20 investors shall be penalized by imprisonment of six (6) years and one
21 (1) day to twelve (12) years and fine in the amount of Five Hundred
22 Thousand Pesos (500,000.00) to Ten Million Pesos (P10,000,000.00),
23 or both imprisonment and fine, at the discretion of the court; and

24 Violation of the provisions of this Law, the implementing rules and
25 regulations or orders of the appropriate regulatory agency shall be penalized by
26 imprisonment of six (6) years and one (1) day to twelve (12) years and a fine in
27 the amount of One Hundred Thousand Pesos (P100,000.00) to Five Million
28 Pesos (P5,000,000.00), Provided, That repeated violations shall constitute *prima*
29 *facie* evidence against the offender.

30 (B) **Solidary Liability** – (1) The fund manager, trustee and/or insurance
31 company shall be jointly and severally liable for actual losses and damages that
32 CIS investors may directly suffer as a result of bad faith, gross negligence and/or
33 willful misconduct by the fund manager, trustee and/or insurance company
34 resulting in the violation of any of the provisions of this Law, its implementing
35 rules and regulations, or their failure to observe and comply with the terms and
36 conditions of the CIS plan.

(2) The directors and/or officers of the Corporate CIS, fund manager, trustee and/or insurance company shall also be jointly and severally liable for all losses and damages that CIS investors may suffer as a result of bad faith, gross negligence and/or willful misconduct by the corporate CIS, fund manager, trustee and/or insurance company resulting in the violation of any of the provisions of this Law, its implementing rules and regulations, or their failure to observe and comply with the terms and conditions of the CIS plan. Notwithstanding any provision of law to the contrary, in no case shall such directors and officers recover their liability from the Corporate CIS, fund manager, trustee and/or insurance company.

(C) If the offender is a corporation or other juridical entity, the criminal penalties may in the discretion of the court be imposed upon such corporation or other juridical entity and upon the officer or officers of the corporation or entity responsible for the violation; Provided, That in case of the imposition of the fines, the court may, in its discretion, impose such fines solely upon the officer or director responsible for the violation; Provided, Further, that if such officer is an alien, he shall in addition to the penalties prescribed, be deported without further proceedings after service of sentence.

(D) The director/s and other officer/s of a corporation held administratively liable under this section shall in no case recover the administrative liability from the CIS or corporation of which he/they is a director/s or officer/s.

SECTION 53. *Small Claims Clause.*(a) The appropriate regulatory agency shall have the power to adjudicate any and all claims involving CIS amounting to not more than One Million Pesos (P1,000,000.00) or such higher amount as may be determined by the appropriate regulatory agency, for each CIS Investor. The proceedings before the appropriate regulatory agency shall be summary in nature, and the decision of the appropriate regulatory agency shall be final and immediately executory, unless restrained by the Court of Appeals or the Supreme Court.

(b) Claims filed with the appropriate regulatory agency shall not be subject to the payment of filing fees.

(c) The authority to adjudicate granted to the appropriate regulatory agency under this section shall be concurrent with that of the civil courts, but the filing of a complaint with the appropriate regulatory agency shall preclude the civil courts

1 from taking cognizance of a suit involving the same subject matter.

2 (d) The appropriate regulatory agency, having due regard to the facts and
3 circumstances of each claim, may refer the claim to compulsory arbitration, under
4 such rules and regulations as the appropriate regulatory agency may prescribe.

5 **SECTION 54. *Duty of the Regulators*** – In view of the nature of the CIS
6 as one impressed with public interest, the officers and employees of the
7 appropriate regulatory agencies are strictly enjoined to monitor and enforce
8 compliance with the provisions of this Law and its implementing rules and
9 regulations. Failure to do so shall be dealt with under existing laws and
10 regulations in the gravest degree.

11 **TITLE VII – MISCELLANEOUS PROVISIONS**

12 **SECTION 55. *Transitory Provisions***.- Any CIS which at the time of the
13 effectivity of this Law has been established, authorized, licensed or registered by
14 the appropriate regulatory agency and has continued to exist, shall be deemed
15 to have been authorized, licensed and registered under the provisions of this Law
16 and its implementing rules and regulations and shall be subject to and governed
17 by the provisions hereof; Provided, however, that where any such CIS is affected
18 by the new requirements of this law and its implementing rules and regulations,
19 said CIS shall, unless otherwise herein provided, be given a period of not more
20 than two (2) years from the effectivity of the implementing rules and regulations
21 within which to comply with such new requirements.

22 **SECTION 56. *Implementing Rules and Regulations***.- Consistent with
23 the declaration of policy contained in Section 2 and the other relevant provisions
24 of this law, the appropriate regulatory agencies, with the commission as lead
25 agency, shall coordinate and jointly establish uniform rules and regulations
26 implementing this law, including but not limited to the following matters:

- 27 (1) Qualification and disqualification standards for fund managers, CIS
28 distributors and CIS solicitors;
29 (2) Qualification and disqualification standards for directors and officers of
30 fund managers, trustees, insurance companies, corporate CIS or CIS
31 distributor;
32 (3) Revocation, refusal or suspension of licenses of the fund manager,
33 corporate CIS, trustee, insurance company, custodian, CIS distributor
34 and CIS solicitor;

- 1 (4) Filing, amendment and suspension of CIS plans;
- 2 (5) Registration, distribution, sale and marketing of CIS securities;
- 3 (6) Disclosure requirements relating to the CIS;
- 4 (7) Regulation, supervision and monitoring of the operations, management
- 5 and/or activities of all CIS, fund managers, CIS distributors, CIS
- 6 solicitors and other parties involved in CIS;
- 7 (8) Ascertainment of client suitability for CIS securities;
- 8 (9) Limitations or restrictions on the investment of CIS funds and on the
- 9 other activities in which a CIS may engage;
- 10 (10) Requirements for selling materials and advertisements;
- 11 (11) Record-keeping, reporting and audit requirements for CIS fund
- 12 manager and trustees;
- 13 (12) Valuation standards and methods to be observed by CIS;
- 14 (13) Requirements for changing investment policies;
- 15 (14) Requirements for merger or consolidation of CIS;
- 16 (15) Establishment of the CIS investors protection fund;
- 17 (16) Minimum requirements for inculcating financial literacy in investors;
- 18 (17) Recognition of accreditation or license extended by the appropriate
- 19 regulatory authority pursuant to this law; and
- 20 (18) Other pertinent matters to be determined by the regulatory authorities.

21 The implementing rules and regulations may be repealed, amended or
22 supplemented at any time in the same manner as the original implementing rules
23 and regulations are adopted and issued pursuant to this Section.

24 The implementing rules and regulations and its amendments or
25 supplements shall be published once a week for two (2) consecutive weeks in
26 two newspapers of general circulation.

27 **SECTION 57. Cooperation and Coordination.** – The appropriate
28 regulatory agencies, with the Commission as the lead agency, shall adopt all
29 other appropriate measures as may be necessary or desirable for the effective
30 implementation and enforcement of this Law, taking into full account declaration
31 of policy contained in Section 2.

32 The coordination shall cover such concerns as, but not limited to:

- 33 (a) Ensuring that avoidable market failures are prevented;
- 34 (b) Instilling measures that nurture systemic stability;
- 35 (c) Providing equal access to relevant market information to stakeholders;
- 36 and

1 (d) Overseeing the conduct of CIS issuers to institutionalize consumer
2 protection and address anti-competitive behavior.

3 **SECTION 58. *Effect on Existing Laws and Contracts.*** - The rights and
4 remedies provided by this Law shall be in addition to any and all other rights and
5 remedies that exist under existing laws.

6 Nothing in this Law shall impair the obligation of existing contracts nor
7 affect or be construed to affect existing criminal, civil or administrative cases.

8 **SECTION 59. *Separability Clause.*** - Any portion or provision of this Law
9 that may be declared unconstitutional or invalid shall not have the effect of
10 nullifying other portions or provisions hereof as long as such remaining portion or
11 provision can still subsist and be given effect in their entirety.

12 **SECTION 60. *Suppletory Effect*** - This Law shall apply suppletorily to
13 any law that may be hereinafter enacted on collective investment schemes
14 governing specialized products or investments.

15 **SECTION 61. *Repealing Clause.*** - All acts, laws, executive orders and/or
16 rules and regulations or any part thereof which are inconsistent with the
17 provisions of this Law are hereby repealed or modified accordingly.

18 **SECTION 62. *Effectivity Clause.*** - This Law shall take effect upon its
19 approval.

20 *Approved,*