



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

SIXTEENTH CONGRESS
Second Regular Session

HOUSE BILL NO. **4942**



Introduced by Honorable **MARK A. VILLAR**

**AN ACT ESTABLISHING THE SMALL AND MEDIUM ENTERPRISES
STOCK EXCHANGE**

EXPLANATORY NOTE

Comprising ninety percent (90%) of the total number of business establishments and about ninety-seven percent (97%) of exporters, small and medium enterprises are the engines of the country's economic growth and development. They provide essential products and services and generate needed employment in a developing economy. In fact, it is the entrepreneurial energies unleashed by small and medium enterprises that underpin our country's quest for industrialization by the turn of the century.

Yet the growth and momentum of SMEs are hobbled by capital constraints. Unlike large companies, SMEs experience more difficulties in obtaining finance to fund their capitalization or expansion requirements.

It is for these reasons that this bill is filed to assist SMEs in obtaining their financing requirements from the developing capital market in the country.

In one report, it stated that listing with the stock exchange is one way for small businesses to get capital to fund growth and expansion. The small-and medium-sized enterprises (SMEs) are urged to conduct an initial public offering (IPO) and take advantage of the stock market's strong capital inflows. Further, tapping the SME sector, which accounts for more than 90 percent of the country's total establishments, will help expand the investor base in the country.

In fact, in a recent report this year, the Government-run Development Bank of the Philippines (DBP) has signed an agreement with the Philippine Stock Exchange Inc. (PSE) to spur the listing of small and medium enterprises (SMEs) in the local bourse.

Under the agreement, DBP and PSE will come up with a framework for cooperation and coordination in the area of capital market development, particularly in raising capital market awareness among SMEs.

Thus, it is an opportune time to consider the measure establishing a stock exchange that will cater to SMEs. A Small and Medium Enterprises Stock Exchange (SMEX) can be the equities market of growing businesses that may still not meet the capitalization requirements for public listing by the Philippine Stock Exchange (PSE). Public listing in the SMEX may well provide SMEs with a cheap and steady pool of funds for their business requirements.

Creation of the SMEX will also provide SMEs their benchmarks for business accomplishments, in making them aware of the processes and demands of making their enterprises "investment-ready."

The SMEX at the same time will broaden and deepen the capital markets by providing both foreign and local investors another window of investment opportunity. This has been the experience of the United States when they set up the National Association of Securities Dealers Automated Quotations (NASDAQ) stock market for growing companies, which has been the market for the public listing of phenomenal companies such as Intel and Microsoft.

In sum, alternative equities market like the SMEX can provide crucial institutional support to SMEs while at the same time laid the groundwork for more investment opportunities in the country today.

For these, immediate approval of this bill is recommended.



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

SECTION 1. Title. - This Act shall be known as the "*Small and Medium
Enterprises Stock Exchange (SMEX) Act of 2014.*"

SECTION 2. Declaration of Policy. - It is the declared policy of the State to recognize the indispensable role of the private sector, encourage private enterprise, and provide incentives to needed investments. And in compliance with this policy, the State shall encourage the establishment of small and medium enterprises; develop an effective and efficient stock exchange for small and medium enterprises; provide for increased access to financing for small and medium enterprises in order to facilitate funds necessary for their expansion; and stimulate investors and private firms, both local and foreign, to invest in small and medium enterprises.

SECTION 3. Definition of Terms: - When used in this Act and for purposes of SMEX, the following definitions shall apply:

- (1) Small Enterprise refers to any business of whatever nature whose net capital amounts to 2-19.999 million pesos;
- (2) Medium Enterprise refers to any business of whatever nature whose net capital amounts to 20-99.999 million pesos;
- (3) 100-300 million pesos (for the SMEX primary board).

SECTION 4. Creation of the Small and Medium Enterprises Stock Exchange (SMEX). - There is hereby established a Small and Medium Enterprises Stock Exchange, (hereinafter referred to as the "SMEX"), which shall be a stock market catering to small and medium enterprises. The SMEX shall be primarily self-regulatory but shall be under the supervision of the Office of the President for purposes of policy coordination.

SECTION 5. Board of Governors. - To carry out the purposes of this Act, there is hereby created a Board of Governors, which shall be organized within sixty days after the approval of this Act. It shall operate as an independent entity but shall be attached to the Office of the President for budgetary purposes. The operations and activities of the SMEX shall be managed and controlled by the Board of Governors (hereinafter referred to as the "Board" composed of the Governor of the Bangko Sentral ng Pilipinas, the Securities and Exchange Commission (SEC) representative, the Philippine Stock Exchange representative, and five members from the SMEX.

The five members from the SMEX shall be selected from the officers of the Board, which shall include one stockbroker or securities dealer coming from the registered brokers or securities dealers of the SMEX.

SECTION 6. Transaction of Business. - Only registered members shall transact business on the floors of the SMEX and such members shall deal or otherwise transact business only with registered brokers or securities dealers of the exchange. The five members from the SMEX shall be selected from the officers of the Board, which shall include one stockbroker or securities dealer coming from the registered brokers or securities dealers of the SMEX.

SECTION 7. Issuance of Implementing Rules and Regulations - The Board, in consultation with the Philippine Stock Exchange, Securities and Exchange Commission, Board of Investments and representatives from the small and medium-sized business sector shall promulgate and adopt a Code of By-Laws which shall, among others, contain the organizational structure; the rules and regulations on the listing and issuance of securities; the code of ethics for all members of the exchange, including grounds for disciplinary sanctions or suspension and expulsion of any member, and standards to ensure strict adherence thereto.

SECTION 8. Appropriation. - The amount necessary to carry out the provisions of this Act is hereby authorized to be appropriated in the General Appropriations Act of the fiscal year following its enactment into law and thereafter.

SECTION 9. Accountability. - To ensure accountability of the Board and the SMEX, all funds of and held in trust by the SMEX from the National Government, pursuant to the provisions of this Act, shall be audited by the Commission on Audit and all disbursements shall be made in accordance with existing auditing rules and regulations.

SECTION 10. Transitory Provision. - After a period of five years, the SMEX shall be privatized in order to ensure the efficient and effective functioning of the stock exchange.

SECTION 11. Separability Provision. - If any provision of this Act shall be held invalid, the reminder of the Act not otherwise affected thereby shall remain in full force and effect.

SECTION 12. Repealing Clause. - All laws, executive orders, decrees, rules and regulations, or part thereof, contrary to or inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SECTION 13. Effectivity. - This Act shall take effect fifteen days after its publication in the Official Gazette or at least two national newspapers of general circulation

Approved,