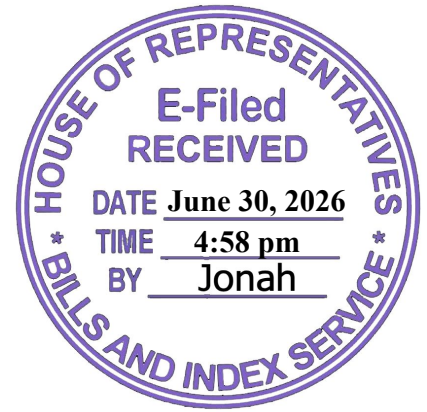


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. 9996



Introduced by Representative Jan “Atty. JP” D. Padiernos

EXPLANATORY NOTE

The integrity of the Philippine capital market relies entirely on public trust and investor confidence. For the market to thrive, investors must believe that everyone is playing by the same rules. At present, Sections 3.8 and 27 of Republic Act No. 8799, otherwise known as the Securities Regulation Code (SRC), define an "insider" to include individuals with a direct relationship to the company such as directors, officers, controlling shareholders, or individuals who obtain material non-public information directly from these sources.

However, this narrow definition leaves a dangerous regulatory blind spot. It cannot punish third-party bad actors who steal confidential, market-moving data from their own employers or clients to trade stocks, simply because they have no direct relationship with the company being traded. This loophole undermines market integrity and is insufficient to protect the investing public—a legal deficiency that international jurisdictions successfully addressed through the Misappropriation Theory.

This Act adopts the Misappropriation Theory which anchors liability on the breach of a duty of loyalty and confidentiality owed to the source of the information, rather than to the corporation whose shares are being traded.

By expanding the definition of an insider to include anyone who misappropriates material non-public information in breach of a duty of trust or confidence, this Act ensures that no one can legally profit from stolen secrets, and more importantly, safeguards the Philippine capital market for all investors.

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

Rep. Jan “Atty. JP” D. Padiernos
GP (GALING SA PUSO) Partylist

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TWENTIETH CONGRESS
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House Bill No. **9996**

Introduced by Representative Jan “Atty. JP” D. Padiernos

**AN ACT EXPANDING THE SCOPE OF INSIDER TRADING LIABILITY,
AMENDING FOR THIS PURPOSE SECTIONS 3.8 AND 27 OF REPUBLIC ACT
NO. 8799, OTHERWISE KNOWN AS THE SECURITIES REGULATION CODE,
AND FOR OTHER PURPOSES**

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

SECTION 1. Short Title. – This Act shall be known as "The Capital Market
Misappropriation and Insider Trading Act."

SECTION 2. Declaration of Policy. – It is the policy of the State to establish a socially
conscious and free market system that regulates itself, encourages the widest participation
of ownership in enterprises, and protects the investing public. To this end, the State shall
eliminate fraudulent, deceptive, and manipulative practices in the capital markets,
specifically ensuring that no person shall unfairly profit from the deceptive use of
material non-public information obtained in breach of any duty of trust, confidence, or
loyalty.

SECTION 3. Amendment of Section 3.8 of Republic Act No. 8799. – Section 3.8 of
Republic Act No. 8799 is hereby amended to read as follows:

*"SEC. 3. Definition of Terms Used in Rules and Regulations. – As used in
this Code, unless the context otherwise requires:*

xxx xxx xxx

3.8. 'Insider' means: (a) the issuer; (b) a director or officer (or person
performing similar functions) of, or a person controlling the issuer; (c) a
person whose relationship or former relationship to the issuer gives or gave
him access to material information about the issuer or the security that is not
generally available to the public; (d) a government employee, or a director,
or officer of an exchange, clearing agency and/or self-regulatory
organization who has access to material information about an issuer or a
security that is not generally available to the public; [or] (e) a person who
learns such information by a communication from any of the foregoing
insiders[.]; OR (F) A PERSON WHO OBTAINS, POSSESSES, OR
LEARNS OF MATERIAL NON-PUBLIC INFORMATION AND
MISAPPROPRIATES THE SAME FOR TRADING PURPOSES, OR
COMMUNICATES THE SAME IN BREACH OF A DUTY OF TRUST,

CONFIDENCE, OR LOYALTY, OWED TO THE SOURCE OF THE INFORMATION, REGARDLESS OF WHETHER SUCH SOURCE HAS A FIDUCIARY RELATIONSHIP WITH THE ISSUER OF THE SECURITY."

SECTION 4. Amendment of Section 27 of Republic Act No. 8799. – Section 27 of Republic Act No. 8799 is hereby amended to read as follows:

"SEC. 27. *Insider's Duty to Disclose When Trading.* –

27.1. It shall be unlawful for an insider to sell or buy a security of the issuer, while in possession of material information with respect to the issuer or the security that is not generally available to the public, unless: (a) The insider proves that the information was not gained from such relationship; or (b) If the other party to the transaction is identified, the insider proves that he disclosed the information to the other party, or that the other party had known or reasonably could be expected to know the information from the same source.

27.2. IT SHALL LIKEWISE BE UNLAWFUL FOR ANY PERSON TO PURCHASE OR SELL ANY SECURITY, OR COMMUNICATE MATERIAL NON-PUBLIC INFORMATION TO OTHERS FOR THE PURPOSE OF TRADING, IN BREACH OF A DUTY OF TRUST, CONFIDENCE, OR LOYALTY, OWED TO THE SOURCE OF SUCH INFORMATION. LIABILITY UNDER THIS SUBSECTION SHALL ATTACH EVEN IF THE DEFENDANT OWES NO FIDUCIARY DUTY TO THE ISSUER CORPORATION, ITS SHAREHOLDERS, OR THE COUNTERPARTY TO THE TRADE. THE DECEPTIVE MISAPPROPRIATION OF SUCH INFORMATION SHALL CONSTITUTE A FRAUD CONCURRENT WITH THE PURCHASE OR SALE OF A SECURITY.

27.3.[27.2.] For purposes of this Section, information is 'material non-public' if: (a) It has not been generally disclosed to the public and would likely affect the market price of the security after being disseminated to the public and the lapse of a reasonable time for the market to absorb the information; or (b) A reasonable investor would consider it important under the circumstances in determining whether to buy, sell or hold the securities.

27.4.[27.3.] xxx (*Renumbering of subsequent subsections accordingly*)"

SECTION 5. Presumption of Duty of Trust or Confidence. – For purposes of implementing Section 27.2 of the SRC, a duty of trust or confidence shall be presumed to exist in any of the following circumstances:

1. Whenever a person agrees to maintain information in confidence;
2. Whenever the person providing the material non-public information and the person receiving it have a history, pattern, or practice of sharing confidences, such that the recipient of the information knows or reasonably should know that the speaker expects that the recipient will maintain its confidentiality; or
3. Whenever a person receives or obtains material non-public information from his or her spouse, parent, child, sibling, professional employer, client, or legal partner,

unless it is affirmatively demonstrated that no duty of confidentiality existed under the circumstances.

SECTION 6. Penalties. – Any person found guilty of violating the provisions of this Act shall suffer the penalties prescribed under Section 73 of Republic Act No. 8799. If the offender is a juridical person, the penalty shall be imposed upon the officers of the corporation responsible for the violation.

SECTION 7. Implementing Rules and Regulations (IRR). – Within sixty (60) days from the effectivity of this Act, the Securities and Exchange Commission (SEC) shall promulgate the necessary rules and regulations for the effective implementation of this Act.

SECTION 8. Separability Clause. – If any provision of this Act is declared invalid or unconstitutional, the remaining provisions not affected thereby shall continue to be in full force and effect.

SECTION 9. Repealing Clause. – Sections 3.8 and 27 of Republic Act No. 8799 are hereby amended. All other laws, decrees, executive orders, rules and regulations, or parts thereof inconsistent with the provisions of this Act are hereby repealed, amended, or modified accordingly.

SECTION 10. Effectivity. – This Act shall take effect fifteen (15) days after its publication in the *Official Gazette* or in at least two (2) newspapers of general circulation.

Approved,