SEC MEMORANDUM CIRCULAR NO. 2
SERIES OF 2025

TO : **ALL INVESTMENT COMPANIES**
FUND MANAGERS

SUBJECT: **RULES ON SINGLE BUSINESS GROUP INVESTMENT LIMITATION**

WHEREAS, Rule 6.8(b) of the Implementing Rules and Regulations of the Investment Company Act (ICA-IRR) prohibits investment companies from investing, in aggregate, more than twenty percent (20%) of its net assets in transferrable securities, money market securities, deposits, and financial derivatives issued by a **single entity or issuer;**

WHEREAS, SEC Memorandum Circular (MC) No. 15, Series of 2020, or the Rules on Investment in Financial Derivatives, which took effect on 15 May 2020, amended Rule 6.8(b) of the ICA-IRR by prohibiting investment companies from investing, in aggregate, more than twenty percent (20%) of its net assets in transferrable securities, money market instruments, deposits, and OTC financial derivatives issued by any **single business group ("SBG Limit"),** with an exception that investments in OTC financial derivatives with non-investment grade or unrated counterparty shall not exceed five percent (5%) of the net assets of the investment company;

WHEREAS, the Commission has received requests from various fund managers on behalf of their respective managed investment companies, particularly equity funds, balanced funds, and multi-asset funds, to be exempted from the application of the SBG Limit;

WHEREAS, Section 35(a) of Republic Act No. 2629, or the Investment Company Act (ICA), and Section 72 of Republic Act No. 8799, or The Securities Regulation Code (SRC), vest upon the Securities and Exchange Commission the authority to make, issue, amend, and rescind rules and regulations and orders which are necessary or appropriate to the exercise of the powers conferred upon it in the ICA and the SRC;

IN VIEW OF THE FOREGOING, the Commission hereby resolves as follows:

Section 1. Scope of Application of the SBG Limit under SEC MC No. 15, series of 2020

Except as otherwise provided herein and in existing regulations, the following provisions of SEC MC No. 15, Series of 2020 shall apply to all investment companies with or without actual investments in financial derivatives:

"**SEC. 2. Investment Limits**

Single business group limit

1. An investment company must not invest, in aggregate, more than twenty (20%) of its net assets in:

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(a) Transferrable securities;
(b) Money market instruments;
(c) Deposits; and
(d) OTC financial derivatives

issued by any single business group, provided the investments in OTC financial derivatives with non-investment grade or unrated counterparty shall not exceed five percent (5%) of the net assets of the investment company."

However, until further notice by the Commission, the following classes of investment companies that have no actual investment in financial derivatives shall not be subject to the SBG Limit:

(a) Equity funds;
(b) Balanced funds; and
(c) Multi-asset funds that have actual exposure to equity securities.

Instead, the abovementioned investment companies shall be subject to the single entity or issuer investment limitation as set forth in Rule 6.8(b) of the ICA-IRR, which provides:

"(b) The investment company must not invest, in aggregate, more than twenty percent (20%) of its net assets in transferrable securities, money market securities, deposits and financial derivatives issued by a single entity or issuer."

Provided, that all investment companies, including equity funds, balanced funds, and multi-asset funds (with actual exposure to equity securities), with or without actual investments in financial derivatives, shall continue to be subject to all other investment limits and restrictions under existing Commission rules and regulations, as may be applicable.

Section 2. Fines and Penalties

(a) No fines or penalties shall be imposed for any breach of the SBG Limit committed by equity funds, balanced funds, and multi-asset funds (with actual exposure to equity securities), whether or not such funds have actual investments in financial derivatives, from the effectivity date of SEC MC No. 15, Series of 2020 (i.e., 15 May 2020) until the day immediately preceding the effectivity date of this Circular.

(b) Accordingly, upon effectivity date of this Circular, any breach of the single entity/issuer limit in Rule 6.8(b) of the ICA-IRR committed by funds specified in Section 2 (a) which have no investments in financial derivatives shall result in the imposition of the corresponding fines and penalties under the ICA-IRR and other applicable laws, rules and regulations.

Section 3. Cross-Border Offering of Collective Investment Schemes

Should investment companies, including equity, balanced funds, and multi-asset funds (with actual exposure to equity securities), whether or not such funds have actual investments in

financial derivatives, decide to engage in the cross-border offering of their funds to other ASEAN member jurisdictions as Qualifying Collective Investment Schemes (Qualifying CIS) under the ASEAN CIS Framework, compliance with the twenty percent (20%) single business group limit in Section 3(2) of the ASEAN Standards of Qualifying Collective Investment Schemes (ASEAN CIS) shall be required.

Section 4. Effectivity

This Circular shall take effect immediately upon its publication in two (2) newspapers of general circulation.

Makati City, Philippines, 28 March 2025.

For the Commission:

EMILIO B. AQUINO
Chairperson