SEC MEMORANDUM CIRCULAR NO. 23
Series of 2020

TO : ALL CONCERNED CORPORATIONS

SUBJECT : RULES ON CORPORATE DEBT VEHICLE

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;

WHEREAS, the ICA prescribes the regulation of investment companies and other parties offering investment companies' securities, and requires the registration of such securities with the Commission and to comply with certain standards, including, among others, the regular public disclosure of investment policies and objectives and their portfolios, as well as the pricing and costs incurred;

WHEREAS, in response to the dampened economy brought about by the 2019 Coronavirus Disease (COVID-19) pandemic and in order to avert credit and liquidity crises, the mutual fund industry proposed to allow it to offer or launch a new investment vehicle called Corporate Debt Vehicle (CDV) that invests in portfolios of corporate debt papers of large corporations and medium sized enterprises;

IN VIEW OF THE FOREGOING, without prejudice to the provisions of the ICA Implementing Rules and Regulations (ICA-IRR), the following rules are promulgated:

I. Coverage

These rules shall apply to a Corporate Debt Vehicle (CDV) classified as a closed-end Investment Company that offers shares or units of participation with the objective of investing in portfolios of corporate debt papers of (1) large corporations and medium-sized enterprises operating or deriving income in the Philippines; or (2) any company guaranteed by a large or medium-sized domestic corporations or by the Philippine government and/or its agencies or by multilateral agencies involving exempt securities under SRC Rule 9.1.2.3.

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Manila Bulletin, August 26, 2020
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II. Definition of Terms

Closed-end Company – shall mean an investment company that offers for sale of fixed number of units of participation or shares which cannot be redeemed at any time

Corporate Debt Vehicle (CDV) – shall mean a Closed-end Investment Company to be offered to any number of Qualified Buyers (QBs) and/or non-Qualified Buyers (non-QBs) not exceeding nineteen (19) persons in the Philippines during any twelve (12)-month period with the specific objective of investing in the Corporate Debts of large corporations and medium-sized enterprises.

Corporate Debt – shall mean any bonds, notes, commercial papers, debentures and other of evidence of indebtedness, whether secured or unsecured, of (1) large and medium-sized corporations operating or deriving income in the Philippines; or (2) any company guaranteed by a large or medium-sized domestic corporation or by the Philippine government and/or its agencies or by multi-lateral agencies involving exempt securities under SRC Rule 9.1.2.3.

CDV Securities – shall mean shares of stock or units of participation in a CDV

Large Corporations – are those corporations with total assets of more than Three Hundred Fifty Million Pesos (Php350,000,000.00) or total liabilities of more than Two Hundred Fifty Million Pesos (Php250,000,000.00).

Medium-sized Enterprises – are those corporations with more than One Hundred Million Pesos (Php100,000,000.00) to Three Hundred Fifty Million Pesos (Php350,000,000.00) in total assets or more than One Hundred Million Pesos (Php100,000,000.00) to Two Hundred Fifty Million Pesos (Php250,000,000.00) in total liabilities. If the entity is a parent company, the amounts shall be based on the consolidated figure.

Qualified Buyers – shall mean banks, registered investment house, insurance company, pension fund or retirement plan maintained by the Government of the Philippines or any political subdivision thereof or managed by a bank or other persons authorized by the Bangko Sentral ng Pilipinas to engage in trust functions, investment company, or such other persons, whether natural or juridical, as the Commission may by rule determine as qualified buyers, on the basis of such factors as financial sophistication, net worth, knowledge and experience in financial and business matters, or amount of assets under management, unless and until it is modified by changes specified by the Commission.

Qualified Individual Buyers (Natural Person) – shall mean those persons who (i) have an annual gross income of at least Ten Million Pesos (P10,000,000.00) at least two (2) years prior to the registration, or a total portfolio investment in securities registered with the Commission of at least Ten Million Pesos (Ph10,000,000.00), or a personal net worth of not less

than Thirty Million Pesos (Php30,000,000.00); and (ii) have been engaged in securities trading personally through a fund manager for a minimum period of one (1) year, or held for at least two (2) years a position of responsibility in any professional business entity that requires knowledge or expertise in securities trading such as that of legal consultant, financial adviser, salesperson, or associated person of a broker-dealer, bank finance or treasury officer, or other similar executive officers unless and until it is modified by changes specified by the Commission.

Qualified Individual Buyers (Juridical Person) – shall mean those which have gross assets of One Hundred Million Pesos (Php100,000,000.00) or a total portfolio investment in securities registered with the Commission or financial instruments issued by the government of at least Sixty Million Pesos (Php60,000,000.00) unless and until it is modified by changes specified by the Commission.

III. Minimum Requirements and Registration of closed end CDV:

1. A CDV may only be offered by a closed-end investment company with the primary objective of investing in portfolios of corporate debt papers. A CDV may offer different share or unit classes with similar investment objective but managed as separate asset pools. Each class corresponds to a distinct part of the assets and liabilities of the CDV.

2. The following are the minimum requirements for the incorporation and registration of an Investment Company organized as a CDV:

    a. File documentary requirements for the registration of its Articles of Incorporation (AOI) and By-Laws (BL);

    b. File SEC Form ICA - CDV and pay the filing fee[1] of ₱10,000.00 plus Legal Research Fee (LRF);

    c. The name of the corporation shall contain *"Corporate Debt Vehicle" or "Unitized Corporate Debt Vehicle"* in case of those offering units;

    d. The primary purpose clause of the AOI shall state the CDV's classification as a closed-end investment company and provide the specific primary objective of investing in corporate debts;

    e. In case of a CDV that will offer share/unit classes, the AOI shall clearly indicate its structure as such, as well as the nature, type of classes, rights, privileges and restrictions of their holders;

    f. The AOI shall likewise provide that any amendment to the CDV's investment policies and objectives shall require prior approval of its

[1] The amount of filing fee to be paid for the application for a license to act and operate as an investment company (SEC Form ICA-CDV) was lifted from Rule 3.4 (b) of the Implementing Rules and Regulations (IRR) of the Investment Company Act (ICA).

shareholders representing a majority of its outstanding capital stock. The unitholders shall be notified of such change at least thirty (30) days before the change will be implemented;

g. All shares shall be common and voting and, in general, redeemable only after the end of the term of the fund share/unit class as disclosed in the Prospectus. For CDVs that will issue units, the unitholders shall have no voting rights but are entitled to be notified of any material change to the Prospectus, Product Highlight Sheet and the subscription agreement;

h. All members of the Board of Directors shall be Filipino citizens;

i. It shall have a minimum subscribed and paid-up capital of Fifty Million Pesos (₱50,000,000.00). However, if the CDV is one of or part of a group of investment companies to be created or already in existence to be managed or under management by the same Fund Manager with a track record of at least five (5) years, the subscribed and paid-up capital shall not be lower than One Million Pesos (₱1,000,000.00) provided the CDV shall submit an affidavit stating that the fund manager is operating for at least five years.

j. The original proponents of a newly formed CDV, which is not related to an existing fund or Fund Manager with a track record of at least five (5) years, shall not be allowed to sell, transfer, convey, encumber or otherwise dispose of their securities within twelve (12) months from the registration of the CDV;

k. The preemptive right of stockholders to all issues or disposition of shares in proportion to their respective shareholdings shall be denied in the AOI of an Investment Company; and

l. In the case of a CDV with share/unit classes, the BL must expressly provide for the power of the Board of Directors to create and set up new classes of shares/units not exceeding the total number of shares/units approved or confirmed by the Commission.

IV. Disclosure Requirements in the Simplified Prospectus

A notarized simplified Prospectus and Product Highlight Sheet shall be submitted to and approved by the Commission prior to the commencement of the offer. The prospectus must be prepared in accordance with the requirements set out in the Guidelines for CDV (Annex A) and provide the following minimum disclosures:

1. Business background of the Investment Company/CDV;

2. Description of the features of the securities to be offered, including the characteristics of each share/unit class, if any, rights, privileges and restrictions, as well as payment dates and probable yields for each class;

3. The date of commencement of the offering of the CDV, as well as the commencement/ offering date of each unit/share class, if any;

4. The tenure and maturity of the CDV, as well as the tenure and maturity of each unit/share class, if any;

5. Policy on the payment of the value of the underlying investments of each share/unit in a class upon maturity of said underlying investments;

6. Policy on the pretermination of investment prior to maturity, including charges/penalties, as well as the use of proceeds derived from such pretermination by investors, if applicable;

7. Target investors;

8. Investment objective, strategy and limitations, including a disclosure of information on the CDV's underlying investments, including the minimum credit rating and steps to be taken when the ratings are downgraded below the predetermined rating;

9. Valuation methodology;

10. Level of protection for the investors, including the rights of each holder;

11. Key risks and risk management, including the CDV's policies and risk monitoring process on the pretermination of investment in corporate debts prior to maturity, if any;

12. Plan of distribution;

13. Investment powers of the Fund Manager with respect to the Fund;

14. Power of the Board of Directors to create and set up new classes of shares/units not exceeding the total number of shares/units approved or confirmed by the Commission;

15. Liability clause for the Investment Company and Fund Manager;

16. Brief background of the parties involved in the offering of CDV securities; and

17. Charges and fees chargeable against the Fund and investors.

V. Offering of the CDV

1. Product Feature

    a. A CDV is a closed-end fund and subscription is done only on initial public offering and redemption at maturity.

b. The CDV may offer several share or unit classes managed as separate asset pools with the same investment objectives.

c. A CDV may make periodic distribution of income to investors of the fund on a pro-rata basis; provided, that the distribution of income shall be made only from cash received from interest income earned after deduction of applicable taxes and expenses. For CDV issuing units of participation, it shall be exempt from SEC Memorandum Circular No.11, series of 2008[2] or any amendment thereto.

d. The CDV may pay out the value of the underlying investments of each share/unit in a class upon maturity of said underlying investments.

e. The accounting business model of the corporate debt portfolio shall follow the Hold-to-Collect Business Model considering that the investments are held to maturity. The business model for the corporate debt portfolio is amortized cost, in which the contractual cash flows under the instruments represent Solely Payments for Principal and Interest (SPPI).

f. The CDV need not be listed or traded in an exchange.

g. The sale of CDV securities to any number of any qualified buyers (QBs) and/or non-qualified buyers (non-QBS) not exceeding nineteen (19) persons in the Philippines during any twelve (12)-month period are exempt from the registration requirement under Section 8.1 of the SRC. Notwithstanding its exemption, the conduct by any person in the purchase, sale, distribution of such securities, settlement and other activities shall comply with the provisions of the SRC and any applicable rules.

2. Target Investors

a. A CDV may only be offered to any number of QBs under private placements; however, CDV securities may also be offered to non-QBs not exceeding nineteen (19) in number in the Philippines during any twelve (12)-month period.

b. Every investor shall be given an evidence of participation, which clearly indicates the terms and conditions of the CDV.

3. Distribution of CDV Securities

a. Shares or units of a CDV may be issued in tranches at more than one instance after the securities have been approved or confirmed by the Commission; provided, that all the requirements in these Rules have been complied with and the corresponding filing fee has been paid.

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[2] Guidelines on the Determination of Retained Earnings Available for Dividend Declaration

b. The first tranche of CDV securities must be issued within six (6) months from approval of the Commission while the subsequent tranches shall be issued within three (3) months from the submission of the Current Report and Updated Simplified Prospectus.

c. At least thirty (30) days prior to the offering or sale of the securities of the subsequent tranches, the CDV shall inform the Commission through a Current Report of the material changes in the Simplified Prospectus previously approved or confirmed by the Commission; submit and reflect such changes in the Simplified Prospectus on file with the Commission; and update those being distributed to prospective investors, including the relevant information in the website and other selling or advertising materials.

d. Unless the Commission shall prescribe otherwise, the initial minimum investment and additional investment by any single investor in any CDV shares or units issued shall be provided in the Simplified Prospectus.

e. Unless otherwise provided in the prospectus and approved by the Commission, CDV securities shall be sold on a cash basis. Installment sales are prohibited.

f. The distribution shall be performed only by a registered Mutual Fund Distributors and Certified Investment Solicitor.

4. Payment of Filing Fees

a. The approval or confirmation by the Commission of the CDV shares as an exempt transaction shall be subject to a fee[3] equivalent to one-tenth (1/10) of one percent (1%) of the maximum aggregate price based on the net asset value per share (NAVPS) of the CDV plus LRF but in no case shall be less than Php1,000.00.

b. Fees for issuance of units

The processing fee[4] for every application for approval of units of participation shall be Ten Thousand Pesos (₱10,000.00) plus LRF, or such amount as may be prescribed by the Commission, regardless of the quantity of units to be confirmed or approved. Each year thereafter, an annual fee equivalent to 1bps of the average net asset value of the unitized funds shall be paid within thirty (30) days from the recently ended calendar year, or not later than 31 January of every year after the approval or confirmation of the units.

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[3] The amount to be paid for the approval or confirmation of CDV shares as an exempt transaction is based on Securities Regulation Code (SRC) Rule 10.3.1.

[4] The amount to be paid for the approval or confirmation of CDV units of participation as an exempt transaction is based on Rule 4.5 (b) of the Implementing Rules and Regulations (IRR) of the Investment Company Act (ICA).

In case of shares intended to be issued in tranches at more than one instance after the Prospectus has been approved or confirmed by the Commission, the filing fee shall be paid as follows:

a. Upon filing of the Prospectus, a filing fee of 1/10 of 1% of the issued value based on the NAVPS of the CDV of the first tranche of securities shall be paid. The same amount shall apply to subsequent tranches.

b. The filing fees for the subsequent tranches shall be payable within thirty (30) days prior to the commencement of the offer/sale of the particular tranche of the securities.

c. The registrant shall execute an undertaking to:

   i. Pay the remaining registration fees no later than thirty (30) business days prior to the expiry of the three (3)-year period reckoned from the date of the approval or confirmation of the Prospectus; and

   ii. Not offer the unpaid portion of the securities to the public until the payment of the required fees.

5. Permissible Investments

   a. Proceeds from the issuance of CDV securities shall be invested in corporate debts of large corporations and medium-sized enterprises; however, pending the deployment of the CDV in accordance with its investment objectives, the CDV can invest in deposits and money market instruments.

   b. The Investment Company/CDV and Fund Manager must ensure that the proceeds from the issuance of CDV securities are used in accordance with the investment policies and objectives provided in the Prospectus.

   c. The remaining term of corporate papers where the fund invests must not exceed the term of the CDV offered. In case of unit/share class, the corporate papers where the CDV invests shall not also exceed the term of such unit/share class.

   d. The Investment Company and/or Fund Manager must ensure that the issuer of the corporate debt security is regulated by the relevant regulatory authority.

6. Investment Limitations

   a. The value of a CDV's investments in Corporate Debt issued by a single enterprise must not exceed 25% of the fund's NAV and 50% in single group entities. The investment limit shall be computed based on the total proceeds of securities sold within the initial offering period.

Payout of the proceeds of underlying investments under a share/unit class upon their maturity shall not affect the calculation of the single enterprise and single group investment limit provided there is no new class of share/unit added or launched by the CDV until the termination or maturity of the remaining classes.

However, in case of any additional launch of new share/unit class and issuance of securities thereunder by the CDV after the maturity of one share/unit class, the computation of the investment limit shall be based on the total proceeds of securities sold by the remaining classes and those of the new share/unit class.

b. The single issuer limit may be increased to 30% if either the Corporate Debt or the issuer is assessed by any domestic or global rating agency with the highest credit rating, or may be waived if the CDV has a capital protection feature in which the return of the investor's capital is guaranteed at a predetermined date in the future, with some returns, if any.

c. The CDV shall be prohibited from investing in the securities it is issuing.

d. The CDV shall not invest in corporate debts of corporations in which any of its directors or officers or directors or officers of its investment advisor/s, manager/s or distributor/s are members.

7. Other Limitations

a. The total operating expenses of the CDV shall not exceed 10% of its average investment fund or net worth as shown in its previous audited financial statements covering the immediately preceding year.

b. The CDV may borrow, on a temporary basis, for the purpose of meeting redemptions and bringing requirements provided that:

i. The borrowing period should not exceed one month; and

ii. The aggregate borrowing shall not exceed 10% of the net assets of the CDV.

8. Parties to the Offer

The following parties to the offering of CDV securities shall comply with the basic qualification requirements and responsibilities provided in the ICA-IRR and any amendments thereto:

a) Fund Manager;

b) Mutual Fund Distributor;

c) Certified Investment Solicitor;

d) Transfer Agent;

e) Independent NAV Calculator; and

f) Custodian Bank, as applicable.

VI. Reports and Records Requirements

1. A CDV shall submit to the Commission a Monthly Report showing the net assets of the CDV, details of corporate debts acquired for the month, the outstanding balance of the investments held in the portfolio and the total number of individual and institutional account holders or investors as of the reporting period.

2. Annual Audited Financial Statements and Interim Financial Statements must present a combined statement of net assets and include a detailed breakdown of the financial statement for each class of share/unit. The former must be submitted within 120 calendar days after the end of the fiscal year, as indicated in the Financial Statements or pursuant to the applicable Rules as may be provided by the Commission, and the latter within 45 calendar days after the interim period ends.

3. A CDV shall submit a report on the commencement and completion of the termination of the fund disclosing the actual date of commencement and termination period of the offering including the securities offered under a share/unit class and number and total amount of CDV securities sold.

4. A CDV shall submit other reports and records as may be required by the Commission from time to time.

5. An Investment Company that offers CDV securities and/or a Fund Manager that manages a CDV shall ensure proper booking and recording of transactions to separate the assets, liabilities, income and expenses corresponding to each type of securities issuance.

6. The daily NAVPS/Net Asset Value Per Unit (NAVPU) of the CDV securities shall be posted on the Fund Manager's and distributor's website/s provided the NAVPS/NAVPU must be calculated for each class of share/unit.

VII. Applicability of certain regulations

The provisions of the ICA and the SRC, and their implementing rules and regulations, as well as other regulations insofar as they are applicable and not inconsistent herewith, shall apply.

IX. Effectivity.

These rules shall take effect immediately after publication in two (2) newspapers of general circulation in the Philippines.

Pasay City, Philippines, 18 August 2020.

For the Commission:

EMILIO B. AQUINO
Chairperson

Annex A

Guidelines on the Submission of Simplified Prospectus

General Requirements:

1. Applications may only be submitted to the SEC by the following:

   a) Investment Company; and

   b) Fund Managers, if authorized by the Board of Director of the investment company.

2. An application must be submitted in accordance with the requirements set out under these guidelines, unless otherwise specified. An application, which does not comply with the requirements or which is incomplete will be returned.

3. The submitting party and any other person accepting responsibility for all or part of the information and documents submitted to the Commission must exercise due diligence for all or any part of the information submitted relating to, or in connection with the application.

4. The information provided in the submitted documents must be correct as of the latest practicable date.

5. The Commission must immediately be informed of (a) any material change in circumstances that would affect the Commission's evaluation of the application; and/or (b) any material change or development in circumstances relating to the application, occurring subsequent to the Commission's approval.

6. All applications must be accompanied with proof of payment of appropriate fee, where applicable. An application is deemed incomplete if the appropriate fee is not paid.

7. Payment of filing fee must be made in the form of cash, Manager/Cashier's Checks, or Postal Money Orders in favor of the Securities and Exchange Commission.

8. The submission of documents to the Commission must comprise the following:

   a. Cover letter, specifying:

      i. The application for approval of the exempt transaction;

      ii. A confirmation that the accompanying documents are complete, signed and dated; and

iii. A declaration stating that the offer complies with the requirements of the applicable rules in the ICA-IRR, Rules on CDV and the minimum requirements stipulated under these Guidelines; and

b. Simplified Prospectus and Supporting documents.

9. For an application to establish more than one fund, a separate application must be submitted for each fund.

10. The Prospectus is a document intended to provide investors and party to the offer with key information and disclosures to facilitate better understanding of the Fund.

11. The following format serve as a standard template in preparing the prospectus. The headings, layouts and disclosures shall be strictly followed; however, the issuer may opt to add sub-headings provided that these additions will result to clearer disclosure of key information.

SEC Form ICA – CDV

APPLICATION FOR CORPORATE DEBT VEHICLE

1. SEC Identification Number .....

2. .....
   Exact name of registrant as specified in its charter

3. ..... 4. .....
   .....
   Province, country or other jurisdiction of incorporation or organization — BIR Tax Identification Number

5. .....
   General character of business of registrant.

6. Industry Classification Code: [ ] (SEC Use Only)

7. .....
   Address, including postal code, telephone number, FAX number including area code, of registrant's principal offices

8. Fiscal Year Ending Date (Month and Day): .....

INFORMATION REQUIRED IN THE PROSPECTUS

Item 1. General Information

a. Name of the issuer
b. Form of organization and date of registration
c. General character of business of registrant (whether closed-end or open-end)

Item 2. Fundamental Policies of the Fund

Describe the policy or proposed policy of the issuer and the securities to be offered with respect to each of the following activities:

a. Description of Features of the Securities to be Offered including the characteristics of each share/unit class if any, as well as payment dates and probable yields for each class;
b. The commencement offering date of the CDV as well as commencement/ offering date of each unit/share class, if any
c. Tenure of the Fund as well as the maturity of each share/unit class, if any
d. Policy on payment of value of the underlying investments of each share/unit in a class upon maturity of the said underlying investments;
e. Policy on pre-termination of investment prior to maturity including charges/penalties as well as use of proceeds by CDV derived from such pre-termination by investors
f. Target Investors
g. Investment Objective, Strategy and Limitations. Include disclosures of information on the CDV's underlying investments, including the minimum credit rating and steps to be taken when the ratings are downgraded below the pre-determined rating;
h. Valuation Methodology of Investments
i. Level of protection for the investors including the rights of each holder;
j. Plan of Distribution
k. Investment powers of the Fund Manager with respect to the Fund
l. Power of the Board of Directors to create and set up new classes of shares/units not exceeding the total number of shares/units approved or confirmed by the Commission.
m. Liability Clause of the Investment Company and Fund Manager
n. Charges and Fees Chargeable to the Fund and Investors

Item 3. <u>Key Risks and Risk Management</u>

Disclose the key risks of the fund and provide short illustrations/explanations and the risk management processes employed in managing the Fund, as necessary.

Item 4. **Financial Information of the Fund**

Furnish the Issuer's most recent financial statement for the two preceding fiscal years, if applicable, or such shorter period of existence.

Item 5. **Fund Manager, Distributor and other participants**

Disclose brief background for each participants and the nature of services to be rendered to the Fund.

PART II

Item 6. **Exhibits**

a. Sample Product Highlight Sheet
b. Board Resolution of the Investment Company approving the offering and authorizing the filing of the application;
c. Board Resolution of the Investment Company approving the creation of new class of shares/units
d. Board Resolution of the Investment Company and Fund Manager approving the disclosures contained in the simplified prospectus and assuming the responsibility for the information contained therein;
e. Contracts/ Agreements
f. Curriculum Vitae of Board of Directors and officers of the Fund and Fund Manager

PART III

Item 7. **Signature**

The application shall be signed by the President, Treasurer, Corporate Secretary, or any officer occupying a position equivalent to any of the foregoing or performing similar functions, and a majority of the Board of Directors of the Investment Company and the Fund Manager

SIGNATURES

Pursuant to the requirements of the rule, this simplified Prospectus is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of _____on_____, 20__.

By:

_____ _____

_____ _____

SUBSCRIBED AND SWORN to before me this _____ affiants exhibiting to me his/her _____ as follows:

Name	Type of Identification	I.D. Number	Date/Place of Issue

NOTARY PUBLIC

Page No. _____
Doc. No. _____
Book No. _____
Series of _____