Republic of the Philippines
Securities and Exchange Commission
SEC Building, EDSA, Greenhills, Mandaluyong City

SEC MEMORANDUM CIRCULAR NO. 10
Series of 2012

SUBJECT: **RULES AND REGULATIONS ON EXCHANGE TRADED FUNDS**

WHEREAS, Republic Act No. 2629, otherwise known as the Investment Company Act ("ICA"), has been enacted to mitigate, if not eliminate the unfavorable conditions and harmful practices in investment companies that adversely affect the national public interest and the interest of investors;

WHEREAS, the ICA prescribes the regulation of investment companies and requires them to register as such investment companies with the Securities and Exchange Commission ("Commission") and to comply with certain standards including, among others, the regular public disclosure of financial situation, investment policies and objectives, and their fund portfolios as well as their pricing and fees.

WHEREAS, the ICA grants authority to the Commission to issue from time to time rules and regulations and orders as are necessary or appropriate to exercise its powers under the ICA;

WHEREAS, the ICA enables the Commission as part of its rule-making power to issue rules and regulations defining accounting, technical and trade terms and prescribing the form or forms in which information required in registration statements, applications, and reports to the Commission shall be set forth;

WHEREAS, under the ICA, the Commission shall have the power to classify persons, securities and other matters within its jurisdiction and prescribe different requirements for different classes of persons, securities, or matters;

WHEREAS, the Commission determines that a new investment product known as exchange traded fund ("ETF") is a type of open-end investment company whose operation differs significantly from the more common type of open-end investment company popularly known as mutual fund;

WHEREAS, there is a need to classify ETF as a type of open-end investment company having distinct characteristics making necessary the promulgation of these rules and regulations, among others, on the issuance and redemption as well as trading and settlement of ETF shares to ensure that the objectives of ICA are met as well as accommodate the distinct characteristics of ETF;

WHEREAS, ETF shares are required to be registered pursuant to the requirements of Sections 8 and 12 of the Securities Regulation Code ("SRC") and the trading thereof shall be governed by the pertinent provisions of the SRC;

WHEREAS, under the SRC, the Commission may by rule or order, conditionally or unconditionally exempt any person, security or transaction, or class or classes of persons, securities or transactions from any provision of the said laws;

NOW, THEREFORE, the Commission hereby issues and promulgates the following rules and regulations governing Exchange Traded Funds as well as the transactions, persons and all other activities and practices involved therein.

SECTION 1- Title of Rules and Regulations

These Rules and Regulations shall be entitled as the **"Rules and Regulations on Exchange Traded Funds."**

SECTION 2- Interpretation of Rules

Any doubt in the interpretation of these Rules and Regulations shall be resolved by the Commission in a manner which would establish a socially conscious free market that regulates itself, encourage the widest participation of ownership in enterprises, enhance the democratization of wealth, promote

the development of the capital market, protect investors and ensure full and timely disclosure of material information.

SECTION 3 – Coverage

These Rules and Regulations shall apply only to passively-managed ETFs. Amendments to these may be accordingly introduced to address issues such as but not limited to those affecting other forms of ETF, including actively-managed ETFs, upon determination by the Commission that such other forms of ETF are necessary for the development of the capital market.

SECTION 4 – Exchange Traded Fund

An Exchange Traded Fund or ETF is an open-end investment company that continuously issues and redeems its shares of stock in creation unit in exchange for delivery of a basket of securities representing an index whose performance the ETF endeavors to track; provided that, the terms and conditions relative to the issuance and redemption in creation unit shall be prescribed and disclosed in its Registration Statement.

SECTION 5 – Definition of Terms Used in the Rules and Regulations

When used herein, unless the context otherwise requires:

1. **Act** means the Investment Company Act, Republic Act 2629.

2. **Actively-Managed ETF** is an ETF that uses the services of a portfolio manager or certain mathematical model to actively select the securities to be included in an investment portfolio and make strategic changes in that portfolio within the framework of the fund.

3. **Authorized Participant** is a registered broker-dealer that entered into a participating agreement or any similar arrangement with the ETF, and participates in the creation and redemption of shares in the ETF in accordance with the terms provided under the agreement between the Authorized Participant and the ETF.

4. **Arbitrage**, for purposes of the ETF, is the practice of the Authorized Participant to cause the creation of more ETF shares for sale in the secondary market, or to purchase ETF shares in the secondary market for redemption, in order to take advantage of the price differential of the ETF's Net Asset Value per share ("NAVps") and the market price.

5. **Basket of securities** is the bundle of securities whose names and numbers are specified each business day by an ETF, in exchange for which, the ETF will issue, or in return for which it will redeem ETF shares; provided that the ETF may allow cash to be a part of the basket in accordance with the pertinent provisions of these Rules.

6. **Index** is a single number that is calculated based on known methodology and is used to gauge the price and/or volume movements of a list of selected securities traded in an Exchange.

7. **Commission** refers to the Securities and Exchange Commission.

8. **Creation Unit** is the smallest block of ETF shares that can be created or redeemed by an Authorized Participant from the ETF as prescribed and disclosed in the Registration Statement.

9. **Custodian** is an entity that performs the functions and meets the requirements under Section 17 of these Rules.

10. **Exchange** is an organized marketplace or facility that brings together buyers and sellers and executes trades of securities and/or commodities.

11. **Exchange traded fund share** or **ETF share** is an equity security issued by an ETF.

12. **Index Provider** is a person that performs the functions and meets the requirements under Section 14 of these Rules.

13. **Indicative Net Asset Value ("INAV")** is an approximation of the current value of the basket of securities on a per share

basis computed at a fifteen (15)- second interval throughout the trading hours of the Exchange.

14. **Market Maker** is an Authorized Participant that assumes the obligation of providing two-way quotes following the rules of the Exchange and the Commission for the purpose of ensuring liquidity and of maintaining a fair and orderly trading market to the ETF shares.

15. **Net Asset Value ("NAV")** is the aggregate value of a fund as determined by the market value of its underlying securities holdings, including any cash in the portfolio less liabilities, computed at the close of the trading hours of the Exchange.

16. **NAVps** or **Net Asset Value per Share** is the computed NAV on a per share basis. It is calculated by dividing an ETF's total net assets by its number of shares outstanding.

17. **Passively-managed ETF** is an index fund that tracks a specific benchmark and any changes thereto.

18. **Rules** shall refer to these Rules and Regulations on Exchange Traded Funds.

19. **Secondary market** is the market where previously issued ETF shares are bought and sold.

20. **SRC** refers to the Securities Regulation Code, Republic Act 8799.

21. **Tracking error** is the standard deviation of the difference in relative returns between the ETF and its underlying index.

Unless otherwise specifically provided, the terms used in these Rules shall have the same meaning as defined in the Act.

SECTION 6 – Incorporation and Registration of the ETF

6.1 No person shall create and operate an ETF unless the latter is registered as such ETF in accordance with the Act and its implementing rules and regulations.

6.2 Minimum Requirements:

An ETF applying for incorporation with this Commission shall comply with the following requirements:

A) The name of the corporation shall contain the words "Exchange Traded Fund" or "ETF";

B) The purpose clause of the Articles of Incorporation shall provide that the corporation shall engage in the business of investing, reinvesting or trading in securities and shall issue and redeem its shares of stock in a defined creation unit in exchange for delivery of a basket of securities representing an index;

C) All members of the Board of Directors shall be Filipino citizens;

D) It shall have a minimum paid up capital of Two Hundred Fifty Million Pesos (Php 250,000,000.00);

E) All shares of its capital stock shall be common, voting and, in general, redeemable in creation unit in accordance with the terms and conditions prescribed and disclosed in the Registration Statement; and,

F) The pre-emptive right of stockholders to all issues or disposition of shares in proportion to their respective shareholdings shall be denied in the Articles of Incorporation of the ETF.

SECTION 7 – Registration of ETF Shares under the SRC

7.1 No person shall sell or offer for sale or distribute the shares of stock of an ETF unless such shares of stock have been registered in accordance with the requirements of the SRC.

7.2 No shares of stock of an ETF shall be registered pursuant to the SRC unless the assets of the corporation shall be primarily in baskets of securities comprising the index that it represents to track.

7.3 Relative to the above requirements:

A. An ETF shall file a Registration Statement ("RS") using SEC Form 12-1 ETF signed by the principal executive officer or officers, its principal financial officer, its comptroller or principal accounting officer, and the majority of its board of directors or persons performing similar functions;

B. Shelf Registration

Securities covered by an effective RS may continue to be offered or sold under the same terms and conditions within three (3) years from the effective date.

If the remaining registered but unsold securities shall be offered after the 3-year period mentioned in the immediately preceding paragraph, the registrant shall comply with the following requirements:

1. At least five (5) business days prior to the offering or sale of the securities, it shall inform the Commission in writing, through a prescribed format, the material changes, if any, in the RS previously rendered effective by the Commission; and,

2. Pay a fee in such amount as the Commission may determine for the subsequent sale of securities within seven (7) business days prior to the commencement of the sale.

7.4 Nothing herein shall preclude the Commission from requiring other information that it may deem consistent with public interest.

7.5 Investment of the Fund:

A. Investment Objective and Policy. An ETF shall explicitly state in the RS its investment objective and policy.

B. Changes in Investment Objective and Policy. Any change in the investment objective and policy shall be made in accordance with ICA. A rebalancing of the index or change

in its composition shall not be construed as a change in the investment policy of ETF.

C. Investment Limitations. An ETF shall not be subject to the maximum or minimum investment limitations provided under ICA Rule 35-1.

D. Liquidity Requirements. An ETF shall not be subject to the liquidity requirements provided under ICA Rule 35-1.

SECTION 8 – Liquidity of the ETF Shares and the Underlying Securities

An ETF applying for the registration of its shares of stocks shall be able to demonstrate to the satisfaction of the Commission that there shall be proper price formation in a secondary market for said shares by ensuring that:

1. the shares of stock of ETF shall be listed and traded in a registered Exchange;

2. At least two (2) Authorized Participants shall be appointed by the ETF, provided that at least one (1) of them shall act as market maker;

3. The underlying securities comprising the index are listed and traded in a registered Exchange and have sufficient liquidity; provided, that securities that are part of the main index of the Exchange shall be deemed to have sufficient liquidity; provided further, that the Exchange has considered liquidity as a criterion in the selection of securities for inclusion in the index, provided finally, that the ETF may provide for its own liquidity criteria and methodology which shall be disclosed in its RS;

4. The NAV and the NAVps shall be calculated daily after the trading in the Exchange closes. It shall be made available to the investing public by publishing it in the Exchange website and on the website of the ETF or such other location as may be approved by the Commission.

5. The INAV per share shall be calculated and published every fifteen (15) seconds or such other frequency as may be prescribed by the Commission from time to time or as proposed by the Exchange in its rules and approved by the Commission. It shall be made available to the investing public by publishing it in the Exchange board and website and on the website of the ETF or such other location as may be approved by the Commission.

SECTION 9 - Offering of the ETF shares

9.1 An ETF shall sell or offer for sale its shares of stock in any of the following manner:

1. An offer for sale to its designated Authorized Participants, provided, that the latter shall sell the ETF shares through the Exchange; and,

2. Such other method as may be prescribed herein by the Commission.

9.2 The manner of offering shall be fully provided for in the RS.

SECTION 10 - Listing of the ETF shares in an Exchange

Notwithstanding Section 9 of these Rules, no Exchange shall accept the listing of the shares of stock of an ETF unless said shares have been registered under the SRC.

SECTION 11 - In-Kind Issuance and Redemption of ETF Shares

11.1 As a general rule, shares of stock of an ETF shall be issued only upon delivery by the Authorized Participant of the basket of securities underlying an index, or redeemed, by delivering to the Authorized Participant the basket of securities after surrender of the ETF shares.

11.2 In relation to the issuance and redemption of ETF shares, the ETF shall disclose in its RS the following:

1. The terms and conditions for the in-kind issuance and redemption of ETF shares shall include among others, the valuation methodology, the price, timing, and procedures thereof;

2. Instructions to issue or redeem ETF shares in creation unit or multiples thereof shall be in writing;

3. Only an Authorized Participant shall be allowed to submit said issuance and redemption instructions to the ETF, provided that, any person who has accumulated the basket of securities comprising the index or the ETF shares equivalent to a creation unit may cause the Authorized Participant to present said basket of securities or ETF shares for issuance or redemption on his behalf; and,

4. The ETF shall prescribe the terms and conditions for the redemption of shares accumulated by an investor through the Authorized Participant, including the general manner by which such redemption shall be implemented. The more detailed procedures shall be agreed upon between the ETF and the Authorized Participant and stipulated in the written agreement between the two and disclosed to the investors.

11.2 Notwithstanding the foregoing paragraphs, an ETF may accept cash to account for the fractional value of the portfolio of underlying securities.

Section 12 - Issuance of ETF Shares in Exchange for Cash

In exceptional cases, an ETF may allow the issuance of ETF shares in exchange for cash subject to the following conditions:

1. This option, when exercised, is not prejudicial to the interest of existing shareholders and will not result in the disruption of an orderly market;

2. Any expenses or fees that are incurred in relation to such issuance shall be for the account of the person/investor causing such issuance;

3. Such an option is prescribed in the RS, including the exceptional cases under which said option may be exercised;

4. Only Authorized Participants, for their own accounts, are allowed to exercise such option;

5. The ETF shall purchase fully the underlying securities within the period prescribed in the RS;

6. The ETF shall fully record the exercise of such option and shall make said record available to the Exchange and the Commission upon request; and,

7. The Commission reserves the right to disallow the exercise of said option after determining that the in-cash arrangement is not consistent with the interest of the public, the protection of investors and/or the conduct of an orderly market.

Section 13 – Direct Redemption

Subject to the approval of the Commission, an ETF may provide for a direct redemption mechanism for the secondary market investors in exceptional circumstances such as, but not limited to:

i. when an ETF is delisted;

ii. when the secondary trading of ETF shares is disrupted over an extended period; or

iii. when the market price of the ETF shares varies significantly from NAVps.

The threshold for said price variation and such other market circumstances as well as the manner and procedure for Direct Redemption shall be stated in the RS.

Section 14 - Index and the Index Provider

14.1 An ETF shall have entered into an agreement with an Index Provider before using the index designed, constructed and calculated by said Index Provider.

14.2 An ETF shall identify and fully describe the index that it plans to track and the provider of said index.

14.3 An ETF shall not be allowed to select or use indices whose rebalancing frequency is less than six (6) month period.

14.4 An ETF shall provide in its RS, among others, the following information:

1. Initial composition of the index and the corresponding weights;
2. Methodology used in the selection of the securities comprising the index and the rationale thereto;
3. Methodology used in the calculation of the index and the rationale thereto;
4. Name and brief educational and professional background of the owners, directors, officers and persons directly responsible for the design and review of the index; and,
5. Other indices designed, constructed and calculated by the index provider, current and for the last five (5) years, if any.

14.5 An ETF shall immediately disclose in a current report any change in the above-stated items and in accordance with the requirements of Section 17 of the SRC.

14.6 An ETF shall also accordingly disclose the information required under Section 23 hereof on Transparency of Index and Portfolio Holdings.

14.7 An ETF and its Index Provider shall disclose the anticipated level of tracking error in normal market conditions and the description of factors that may affect the ability of the

ETF to track the performance of the index. The ETF and its Index Provider shall also disclose the size of the tracking error in the annual and quarterly reports together with an explanation of any divergence between the anticipated and realized tracking error for the period.

14.8 An ETF and its Index Provider shall adopt measures reasonably designed to prevent misuse of non-public information between the ETF and the affiliated Index Provider.

Section 15 – Appointment of Fund Manager

15.1 An ETF shall appoint a reputable Fund Manager who shall register as Investment Company Adviser in accordance with the requirements of the ICA.

15.2 Majority of the directors and officers of the fund management company shall have a track record of at least five (5) years in managing funds.

15.3 The Fund Manager shall operate and administer the ETF in accordance with all the agreements that it entered into with the ETF and in compliance with the provisions and requirements of ICA, SRC, and Corporation Code and their implementing rules and regulations, including these rules, circulars, orders, and terms and conditions prescribed by the Commission.

15.4 Responsibilities of a Fund Manager. The duties and responsibilities of a Fund Manager shall include but not limited to the following:

(a) perform its duties and responsibilities with due skill, care and diligence that a good father of a family would exercise in the position of being a Fund Manager;

(b) uphold the best interests of shareholders in any of its acts at all times and shall avoid conflict of interest situations; if unavoidable, a disclosure shall be promptly made to the ETF board of directors; in any case, the ETF shall act accordingly to protect the shareholders' interests;

(c) act honestly and fairly in managing the fund to the best and exclusive interest of the ETF and its shareholders;

(d) not misappropriate information acquired as Fund Manager to gain an advantage for itself or for other person;

(e) ensure the segregation of the ETF assets and other properties from those of its own account, physically and in the relevant records, by clearly and properly identifying and labeling the said assets and properties;

(f) have sufficient resources, including competent manpower complement, and proper systems, procedures and processes to effectively and efficiently perform its business activities and its duties and responsibilities, and to ably supervise and ensure compliance with the regulatory requirements and other obligations;

(g) comply with all the regulatory requirements and any other obligations set forth in all the agreements and arrangements that it entered into as Fund Manager;

(h) not to perform activities that shall cause harm to the ETF and its shareholders.

The abovementioned duties and responsibilities shall also be imposed on the directors, officers and staff of the Fund Manager.

15.5 Oversight Responsibility of ETF over the acts of Fund Manager. An ETF, on its behalf, may authorize a Fund Manager to appoint and enter into agreement with other parties necessary in the operation of an ETF. However, the ETF shall still perform oversight responsibility over such appointment and shall undertake the necessary measures if, upon proper finding, the appointment of a party to an ETF, is not in the interest of the ETF shareholders.

Section 16 – Appointment of Authorized Participant

16.1 An ETF or its appointed Fund Manager shall appoint at least two (2) Authorized Participants (APs) which shall directly participate in the issuance and redemption of ETF shares, for its

own accounts or for the account of other persons, and which shall deal with investors in the distribution and secondary trading of the ETF shares.

16.2 An ETF or its appointed Fund Manager shall ensure that before it enters into an agreement with an AP, it shall have determined that said AP meets the following requirements:

1. It is a registered broker-dealer and an authorized trading participant of an Exchange;

2. It has adequate resources, including competent staff, and appropriate systems, procedures and processes to execute transactions in ETF shares in a proper and efficient manner;

3. It adopts adequate and effective internal control procedures, including the necessary measures to maintain independence of its different office units, and satisfactory risk management procedures; and,

4. It has entered into a formal written agreement with the ETF or the appointed Fund Manager which specifies, among others, its duties and responsibilities as such AP.

16.3 In case of an AP handling more than one exchange traded fund, the ETF, before appointing the AP, shall have identified areas that may give rise to conflict of interest issues to the AP and have discussed and provided measures to avoid, if not eliminate, such conflict.

16.4 An AP shall perform such additional duties and responsibilities, including acting as a market maker, in accordance with the agreement with the ETF, the rules of the Exchange and those of the Commission.

Section 17 – Appointment of Custodian

17.1 An ETF or its appointed Fund Manager shall appoint a qualified Custodian which shall take custody and control of the ETF assets and properties. The Custodian shall cause the release of said assets upon the proper instruction of the ETF or its Fund Manager.

17.2 An ETF or its appointed Fund Manager shall ensure that before it enters into an agreement with a Custodian, it shall have determined that said Custodian meets the following requirements:

1. It is either a registered universal or commercial bank with trust license, or a non-bank entity with a trust license, or a registered securities depository;

2. It has adequate resources, including competent staff, and appropriate systems, procedures and processes to ensure that the ETF assets and properties are held in the following manner:

    a. Clearly identified and properly labeled as assets and properties of the ETF;

    b. ETF assets and properties are properly segregated physically and/or on the records of the Custodian;

    c. Unless otherwise authorized in writing by the Commission upon proper application, the assets and properties are registered in the name of or for the account of the ETF;

3. It adopts adequate and effective internal control procedures, including the independence between and among its different office units, and satisfactory risk management procedures; and,

4. It has entered into a formal written agreement with the ETF or its Fund Manager which specifies, among others, its other duties and responsibilities as such Custodian.

17.3 In case of a Custodian handling more than one exchange traded fund, the ETF or its Fund Manager, before appointing the Custodian, shall have discussed with said Custodian and identified areas that may give rise to conflict of interest issues and shall have provided measures to avoid, if not eliminate, such conflict of interest.

Section 18 – Appointment of a Transfer Agent

The ETF or its appointed Fund Manager shall appoint a registered transfer agent which shall maintain an accurate registry for recording the initial and subsequent transfer of shares.

SECTION 19 – Prospectus

An ETF, upon request by a prospective investor, shall provide the relevant prospectus which shall contain the data required under SRC Rule 12 and these rules. In addition, the following information shall be provided in the prospectus:

(a) the name of the ETF share or instrument or its ticker code in the Exchange which shall contain the term "ETF";

(b) the terms, features, rights, and privileges of the ETF shares;

(c) the number of shares contained in a creation unit;

(d) the terms on which their securities are to be offered to the public;

(e) ETF shares can be bought and sold on the secondary market at the quoted market price through a trading participant of an Exchange which may require payment of brokerage commissions;

(f) enumeration of the associated fees and expenses to be charged by Fund Manager, Authorized Participants, Custodian and Transfer Agent;

(g) the anticipated level of tracking error in normal market conditions and the description of factors that may affect the ability of the ETF to track the performance of the index;

(h) the procedure for Direct Redemption and the costs involved, if any;

(i) the directors, officers, and any person holding more than ten per centum (10%) of any class of any equity security of the ETF;

(j) the remuneration and interests in the securities of the individuals indicated in paragraph (i) above, and their material contracts with the ETF and any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the ETF;

(k) bonus and profit-sharing arrangements;

(l) management and service contracts;

(m) options existing or to be created in respect of the securities of the individuals indicated in paragraph (i) above;

(n) dividend policy;

(o) material contracts, not made in the ordinary course of business, which are to be executed in whole or in part at or after the filing of the application or which were made not more than two (2) years before such filing, and every material patent or contract for a material patent right shall be deemed a material contract;

(p) balance sheets for not more than the three preceding fiscal years, if applicable, certified by a registered public accounting firm;

(q) profit and loss statements for not more than the three preceding fiscal years, if applicable, certified by an accredited public accounting firm;

(r) copies of articles of incorporation, by-laws, trust indentures, or corresponding documents by whatever name known, underwriting arrangements, and other similar documents of, and voting trust agreements with respect to, the ETF and any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the ETF as the Commission may

require as necessary or appropriate for the proper protection of investors and to ensure fair dealing in the security; and,

(s) Any further financial statements which the Commission may deem necessary or appropriate for the protection of investors.

SECTION 20 – Summary Prospectus

20.1 An ETF may provide a summary prospectus. However, upon request by an investor, an ETF shall also provide the statutory prospectus.

20.2 The key information in the summary prospectus shall include:

a. Investment objective and policy;

b. Costs (same as the risk/return summary fee table and example);

c. Principal investment strategies, risks and performance;

d. The fund's top ten (10) portfolio holdings as of the end of its most recent calendar quarter;

e. Identity of investment advisers and portfolio managers;

Disclose the name of each investment adviser and sub-adviser of the fund, followed by the name, title, and length of service of the fund's portfolio managers.

f. Brief purchase and sale and tax information;

g. Financial intermediary compensation.

A fund must provide disclosure that if an investor purchases the fund through a broker-dealer or other financial intermediary (such as a bank), the fund and its related companies may pay the intermediary for the sale of fund shares and related services, and state that these

payments may influence the broker-dealer or other intermediary and the salesperson to recommend the fund over another investment.

h. The cover page of the Summary Prospectus shall contain the following:

1) The fund's name and the share classes to which the summary prospectus relates;

2) a statement identifying the document as a "summary prospectus";

3) the approximate date of the summary prospectus' first use; and,

4) the following legend:

Before you invest, you may want to review the Fund's prospectus, which contains more information about the Fund and its risks. You can find the Fund's prospectus and other information about the Fund online at [_____]. You can also get this information at no cost by calling [_____] or by sending an email request to [_____].

SECTION 21 – Delivery of Prospectuses to Investors

Broker-dealers selling ETF shares are obliged, upon request, to deliver a prospectus to interested parties.

SECTION 22 – Registration of Salesman and Associated Person

A registered salesman of an Authorized Participant or trading participant in an Exchange, prior to trading ETF shares, shall present a certification to the Commission that he has undergone a relevant training on ETF provided for by the Commission and/or any person authorized by the Commission.

SECTION 23 – Transparency of Index and Portfolio Holdings

23.1 An ETF shall maintain a website which shall be freely accessible by the public and which shall provide on a daily basis the following information:

(i) the index that the ETF plans to track;

(ii) the identities and weightings of the component securities and other assets held by the fund;

(iii) the identities and weightings of the component securities and other assets of the index;

(iv) the number and type of securities comprising the basket of securities with which the ETF could create or could redeem creation unit; and,

(v) the performance of the index and the ETF.

23.2 Premium/Discount Information. An ETF shall disclose on its website the following information:

a) the extent and frequency with which market prices of ETF shares have tracked the fund's NAVps;

b) the prior business day's last determined NAV;

c) the market closing price of its shares; and,

d) the premium/discount of the closing price to NAVps.

23.3 The above disclosures are designed to alert investors to the current relationship between NAVps and the market price of the ETF's shares, and that they may sell or purchase ETF shares at prices that do not correspond to the NAVps of the fund.

SECTION 24 – Arbitrage Mechanism

An ETF shall operate with an arbitrage mechanism designed to minimize the potential deviation between the market price and NAVps or INAV per share of ETF shares. The ETF shall establish creation unit sizes, the number of shares of which are reasonably designed to facilitate arbitrage, which is described in the

definition of creation unit as the purchase (or redemption) of shares from the ETF with an offsetting sale (or purchase) of shares on an Exchange at as nearly the same time as practicable for the purpose of taking advantage of a difference in the NAVps and INAV per share and the current market price of the ETF shares.

SECTION 25 – Securities Lending Activity

An ETF may engage in securities lending provided it shall have expressed approval by the Commission. Provided, further, that:

a) The securities lending activity shall be disclosed in the RS;

b) The guidelines for securities lending shall provide that the net revenue arising from the activity shall be returned to the ETF;

c) On-going disclosures thereon shall be included in the Annual Report; and,

d) The ETF shall be able to recall any securities lent or terminate any securities lending agreement it has entered.

Provided, finally, that the ETF shall comply with the Rules on Securities Borrowing and Lending issued by the Commission and the Exchange.

SECTION 26 – Time for Delivering Redemption Proceeds

Redemptions shall be satisfied within the settlement period of the Exchange or the relevant Clearing Agency or such other period that the Commission may prescribe.

SECTION 27 – Reports and Records Requirements

27.1 An ETF shall comply with the following requirements:

a) Monthly Issuance and Redemption Report of ETF creation units;

b) Periodic and current reports and records required under the SRC and ICA; and,

c) Other reports and records as may be required by the Commission from time to time.

27.2 The ETF annual and quarterly reports shall include the ETF return information. The ETF shall use the market price of fund shares in addition to the NAVps to determine its return and include a table with premium/discount information for the five recently completed fiscal years. It shall compare its performance to its underlying index.

SECTION 28 – Administrative Sanctions

If the Commission finds that there is a violation of any provision of the Act, or this Rule or any applicable rules under the SRC, or that any person, in a registration statement or its supporting papers and the prospectus, as well as in the periodic reports required to be filed with the Commission has made any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or refuses to permit any lawful examination into its corporate affairs, the Commission shall, in its discretion impose additional sanctions provided by law aside from those established by existing regulations.

SECTION 29 – Applicability of certain regulations

29.1 The provisions of ICA, SRC and their implementing rules and regulations, and other relevant regulations insofar as they are applicable and not inconsistent herewith, shall apply suppletorily hereto.

29.2 The requirement under ICA Rule 35-1 mandating that sale of securities by investment companies shall be on cash basis shall not apply to ETF.

29.3 ETF shall not be subject to any Lock-Up requirement under ICA Rule 35-1.

29.4 ETF shall be exempt from the mandatory tender offer rule under Section 19 of the SRC.

SECTION 30 – Effectivity

These rules shall take effect fifteen (15) days after the date of last publication in two (2) newspapers of general circulation in the Philippines.

Mandaluyong City, Metro Manila, October 19, 2012.

For the Commission:

COMMISSIONER MA. JUANITA E. CUETO
Officer In Charge