

**IMPLEMENTING RULES AND REGULATIONS OF THE
SECURITIZATION ACT OF 2004 (REPUBLIC ACT NO. 9267)**

ARTICLE I

Rule 1 - Title

These Rules shall be known as "The Implementing Rules and Regulations of the Securitization Act of 2004", hereinafter referred to as the "Act".

Rule 2 - Declaration of Policy

These Rules are promulgated pursuant to Section 49 of the Act and consistent with the declared policy of the State to promote the development of the capital market by supporting securitization, by providing a legal and regulatory framework for securitization and by creating a favorable market environment for a range of asset-backed securities. For this purpose, the State shall rationalize the rules, regulations and laws that impact upon the securitization process, particularly on matters of taxation and sale of real estate on installment. Furthermore, the State shall pursue the development of a secondary market, particularly for residential mortgage-backed securities and other housing-related financial instruments, as essential to its goal of generating investment and accelerating the growth of the housing finance sector, especially for socialized and low-income housing; and pursue the development of a secondary market for other types of asset-backed securities (ABS).

Rule 3 - Definitions

For purposes of these Rules, the term:

- a) "Affiliate" refers to a juridical person that is directly or indirectly controlled by or is under common control with a specified person. It includes a parent company in relation to its subsidiary or vice versa, and a subsidiary, in relation to any other subsidiary, of a parent company common to such subsidiaries.
- b) "Asset-backed securities" (ABS) refers to certificates, whether written or electronic in character, issued by an SPE, the repayment of which shall be derived from the cash flow of assets in accordance with the Plan, duly approved by the SEC and/or the BSP.



- c) "Assets" whether used alone or in the term "Asset-backed securities" refers to loans, receivables or other similar financial assets with an expected cash payment stream. The term "Assets" shall include, but shall not be limited to, receivables, mortgage loans and other debt instruments.
- d) "Asset Pool" means the group of identified, homogeneous assets underlying the ABS.
- e) "Clean up Call" refers to an option granted to the Seller/Originator to purchase or buy back the remaining Assets in the Asset Pool, as provided in Rule 32.
- f) "Commission" refers to the Securities and Exchange Commission (SEC).
- g) "Control" is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. It is presumed to exist when the Parent owns, directly or indirectly through its subsidiaries and/or affiliates, more than one half (1/2) of the voting power of an enterprise unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control may also exist even when the Parent owns one half (1/2) or less of the voting power of an enterprise when there is:
- (i) power over more than one half (1/2) of the voting rights by virtue of an agreement with other investors in the enterprise;
 - (ii) power to govern the financial or operating policies of the enterprise under a statute or an agreement;
 - (iii) power to appoint or remove the majority of the members of the board of directors or equivalent governing body;
 - (iv) power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
 - (v) any other arrangement similar to any of the above as may be determined by the Commission.
- h) "Credit Enhancement" means any legally enforceable scheme intended to improve the marketability of the ABS and increase the probability that the holders of the ABS will receive payment of amounts due them under the ABS in accordance with the Plan.

- i) "Dealer" refers to any person, licensed by the Commission, who buys and sells ABS for his/her own account in the ordinary course of business. The term shall include a broker who buys and sells ABS for the account of others.
- j) "Eligible Instruments" means obligations issued or fully guaranteed by the Government of the Republic of the Philippines or issued by Bangko Sentral ng Pilipinas, registered securities and such other readily marketable investments which the Commission may, from time to time, approve or authorize.
- k) "Investible Funds" means proceeds of collections from the Asset Pool which are not yet due for distribution to holders of ABS.
- l) "Investment Adviser" refers to any person licensed by the Commission, who regularly provides advice to investors in the secondary market with respect to the desirability of investing in, purchasing or selling ABS. The term however shall not include the following:
- (i) a bona fide officer, director, trustee member of an advisory board, or employee of a corporate adviser;
 - (ii) a person whose advice is furnished solely through uniform publications distributed to subscribers thereto;
 - (iii) a person who furnishes only statistical and other factual information or advice regarding economic factors, trends or advice as to occasional transactions in ABS, but without generally furnishing advice or making recommendations regarding the purchase or sale of ABS;
 - (iv) a company furnishing such services at cost to less than twenty (20) investors;
 - (v) any person the character and amount of whose compensation for such services must be approved by a court; or
 - (vi) such other persons as the Commission may, by rules and regulations or order, determine not to be within the intent of this definition.
- m) "Issuer" refers to an SPE that issues ABS.
- n) "Originator" means the person or entity which was the original obligee of the Assets, such as a financial institution that grants a loan or a corporation in the books of which the Assets were created.

- o) "Parent" is a person who has control over another person directly or indirectly through one or more subsidiaries.
- p) "Plan" means the plan for securitization as approved by the Commission.
- q) "Secondary Mortgage Institution" (SMI)" means an entity created and registered pursuant to and with powers provided in Article V of these Rules for the purpose of enhancing a secondary market for residential mortgages and housing-related ABS.
- r) "SRC" means Securities Regulation Code or Republic Act No. 8799 including amendments thereto.
- s) "Securitization" means the process by which assets are sold on a without recourse basis by the Seller to a Special Purpose Entity (SPE) and the issuance of asset-backed securities (ABS) by the SPE which depend, for their payment, on the cash flow from the assets so sold and in accordance with the Plan.
- t) "Seller" means the person or entity which conveys to the SPE the Assets forming the Asset Pool in accordance with the Plan. The Seller may itself be the Originator.
- u) "Servicer" refers to the entity designated by the SPE to collect and record payments received on the assets, to remit such collections to the SPE, and perform such other services as may be specifically required by the SPE, excluding asset management or administration.
- v) "Special Purpose Entity" (SPE) means either a Special Purpose Corporation (SPC) or a Special Purpose Trust (SPT).
- w) "Special Purpose Corporation" (SPC) refers to a juridical person created in accordance with the Corporation Code of the Philippines solely for the purpose of securitization and to which the Seller makes a true and absolute sale of assets.
- x) "Special Purpose Trust" (SPT)" means a trust administered by an entity duly licensed to perform trust functions under the General Banking Law, created solely for the purpose of securitization and to which the Seller makes a true and absolute sale of assets.

- 5.
- y) "Subsidiary" of a specified person is an Affiliate controlled by such person directly or indirectly through one or more intermediaries.
 - z) "Underwriter" is a person who guarantees on a firm commitment and/or declared best effort basis the distribution and sale of ABS issued by an SPE.


Rule 4 – Declaration of Principles

The Commission shall exercise the powers provided for in the Act in consonance with the principles of full disclosure, transparency and accountability. It shall ensure that all parties to securitization transactions shall adhere to other leading principles and practices of good corporate governance.

It shall include in its annual report or registry the list of SPEs with the corresponding types and amounts of assets securitized.

ARTICLE II

Rule 5 – Special Purpose Entity (SPE)

- a) The SPE may either be a Special Purpose Corporation (SPC) or a Special Purpose Trust (SPT). It shall be created solely for the purpose of securitization and to which the Seller makes a true and absolute sale of assets.
- b) The Special Purpose Corporation
 - i. The SPC shall be organized as a stock corporation. Its Articles of Incorporation and By-Laws shall comply with the form hereto annexed.
 - ii. An SPC shall have a minimum paid-up capital of Five Million Pesos (P5,000,000.00) or such higher amount as the Commission may prescribe by regulation 

iii. It shall exist for a period not exceeding fifty (50) years from date of incorporation unless sooner dissolved as provided under Rules 15 and 16 hereof, or unless said period is extended.

iv. Restrictions on an SPC

1. It shall maintain a separate account for the collections from each Asset Pool and shall not commingle the collections of several Asset Pools;
2. Investible funds shall be invested only in Eligible Instruments as defined under the Rule 3(j) hereof;
3. It shall not engage in any activity other than owning and holding the Asset Pool and issuing ABS and other related and incidental activities as may be contemplated by the Issuer and disclosed in the Registration Statement.

c) The Special Purpose Trust

- i. An SPT shall be a trust constituted for the sole purpose of purchasing assets, owning and holding the Asset Pool for a definite period until all ABS issued for that particular asset pool shall have been paid. It shall be administered by an entity duly licensed to perform trust functions under the General Banking Law and need not be registered separately with the Commission. An entity duly authorized to perform trust functions may be the trustee of more than one (1) SPT.
- ii. The BSP shall, from time to time, determine the capitalization requirement of a bank, NBQB or non-bank licensed to engage in trust business that will administer an SPT/s.
- iii. The term of an SPT shall expire upon full payment of all ABS it has issued for a particular asset pool.

Rule 6 – Approval of the Plan

The Plan, in addition to a prospectus and a registration statement, shall be filed with the Commission by a duly established SPE for the registration of its ABS. Said Plan shall include, among others, the following information:

- a) The nature and mechanics of the sale of assets from the Seller to the SPE, including the terms, conditions and circumstances specified in the Plan wherein the assets may be reverted to the Seller;

- b) The credit enhancements or liquidity support arrangements for the ABS which may be provided in the following manner:
 - (i) Standby letter of credit issued by a commercial bank or universal bank other than the trustee bank or the Originator or Seller or its subsidiary/affiliate, its parent company or the parent company's subsidiary/affiliate;

 - (ii) Surety bond issued by any insurance company other than the Originator or Seller or its subsidiary or affiliate, its parent company or the parent company's subsidiary or affiliate, or the parent or subsidiary of the trustee bank;

 - (iii) Guarantee issued by any entity other than the Originator or Seller or its subsidiary/affiliate, its parent company or the parent company's subsidiary/affiliate, or the trustee bank or its parent or subsidiary;

 - (iv) Over-collateralization provided by the Seller wherein the assets conveyed to the SPC or SPT exceed the amount of ABS to be issued;

 - (v) Subordinated securities issued by an SPE to any entity including those issued to the Seller that are lower ranking, or junior to other obligations, and are paid after claims to holders of senior securities are satisfied; and

 - (vi) Other credit enhancements as may be approved by the Commission.

- c) The identities and qualifications of the Originator, Seller, Servicer, Underwriter and Dealer of the ABS, and description of any compensation the issuer, seller or any underwriter has received, or will receive in the future, in connection with the ABS;

- d) The identity, qualifications and compensation of the trustee that will administer the assets conveyed to the SPE for the benefit of the ABS holders which trustee shall not be related



directly or indirectly to the Originator or Seller provided that this restriction shall not apply to SPEs created or established by an SMI pursuant to Rule 38(d);

- e) The aggregate principal amount of the value of ABS to be issued, the principal amount of each class within the ABS and the denominations thereof in which the ABS will be issued, provided that the denomination shall not be lower than Five Thousand Pesos (P5,000.00);
- f) The structure of the ABS to be registered, including the structure and payment priorities of each class of certificate within the ABS, anticipated payments and yields for each class and the circumstances under which the ABS may be redeemed or retired;
- g) A full description of the assets contained, or to be contained, in the asset pool supporting the ABS;
- h) The accredited rating agency/agencies for the ABS, the criteria used or to be used to rate the ABS and any limitation, qualifications or material risks not addressed by the rating agency/agencies;
- i) A full description of how the issuer will collect and maintain remittances from the assets pending distribution to holders of the ABS, including the issuer's investment policies and the identity of the issuer's investment advisor, if any;
- j) The plan for the management and administration of the assets, asset pool and the ABS, including the disposition of the foreclosed properties, if any; and
- k) The manner of disposal of any residual value or asset with the SPE after all obligations to holders of ABS shall have been settled.


Rule 7 – Registration of Asset-Backed Securities

- a) Registration Requirements
 - (i) All ABS proposed to be sold or distributed by an SPE within the Philippines, except those exempt under Sections 9 and 10 of the Securities Regulation Code,

shall be duly registered with the Commission. The SRC and its implementing rules and regulations on the issuance of securities shall be applicable, unless otherwise determined by the Commission.

- (ii) The ABS to be registered may be evidenced by a certificate, contract, instrument, whether written or electronic in character.

- (iii) The registration statement in the prescribed form and contents shall include exhibits and full disclosure of the following in the prospectus:
 - 1. Appropriate SEC Mandated Precaution;
 - 2. Risk Factors;
 - 3. Use of Proceeds;
 - 4. Legal Proceedings;
 - 5. Description of the ABS to be registered;
 - 6. Market of Securities;
 - 7. Directors and Officers;
 - 8. Securities Ownership;
 - 9. Certain Related Party Transactions;
 - 10. Adherence to and Compliance with Leading Practices in Corporate Governance;
 - 11. Audited and Interim Financial Statements in accordance with SRC Rule 68, as amended. The audited financial statements shall be examined and signed by an external auditor duly accredited by the Commission.

- (iv) In addition, the following information shall be disclosed in the registration statement:
 - 1. Details of the securitization plan;
 - 2. Description of the underlying assets of the ABS;
 - 3. Analysis of yields or investment returns from the ABS;
 - 4. Policy on redemption of ABS and or substitution in case of a breach of warranty and liquidation of underlying assets;
 - 5. Description of any relationship or interest of the selling financial institution's Parent, Subsidiaries, Affiliates or stockholders, directors or officers, with the SPE;
 - 6. Incentives and exemption privileges; and 

7. Clearance/endorsement from the BSP where the Seller/Originator is a bank or a subsidiary/affiliate of a bank or a financial intermediary which under special laws is under supervision of the BSP where it has or exercises control over said subsidiary/affiliate.

(v) The seller of the Asset Pool shall submit a certification signed under oath by its authorized officer/s as to the accuracy of any part of the registration statement contributed to by such seller.

(vi) The SPE shall pay a registration fee based on a percentage of the aggregate offering price of the ABS in accordance with the following schedule until otherwise set by the Commission:

Maximum aggregate price of ABS to be offered	Amount of filing fee
Not more than P500 Million	0.10% of the maximum aggregate price of the securities to be offered
More than P500 Million but not more than P750 Million	P500,000 plus 0.075% of the excess over P500 Million
More than P750 Million but not more than P1 Billion	P687,500 plus 0.05% of the excess over P750 Million
More than P1 Billion	P812,500 plus 0.025% of the excess over P1 Billion

(vii) The SPE shall cause the publication of a notice of filing of registration statement at its expense, in two newspapers of general circulation in the Philippines, once a week for two consecutive weeks.

(viii) The Commission may audit the financial statements, assets and other information of an SPE applying for registration of its ABS whenever it shall deem it necessary to insure full disclosure of information to protect the interest of the investors.

(ix) Upon the registration statement being declared effective by the Commission, the sale of the ABS subject thereto shall be commenced within two (2) business days and be continued until the end of the offering period or until the sale has been terminated by action of the issuer. The SPE may be granted exemption from this

requirement upon sufficient justification that compliance therewith will defeat its offering objective/s.

(x) The SPE shall ensure wide dissemination of the preliminary and final prospectuses in accordance with the SRC and its implementing rules and regulations.

(xi) Written notification shall be given by the SPE to the Commission within three (3) business days from completion or termination of the offering by the issuer, including therein the number of ABS sold.

b) Exempt Asset-Backed Securities/ABS Transactions

i) Any person claiming exemption from the registration requirements under Sections 9 and 10 of the Securities Regulation Code shall file with the Commission, not later than five (5) days prior to the offering of the ABS, a notice with a duly accomplished Disclosure Statement which contains the following information:

- 1) exact name of the SPE and its predecessor, if any;
- 2) address of its principal executive office;
- 3) place of incorporation;
- 4) exact title of the ABS;
- 5) issue price of the ABS;
- 6) number or total amount of ABS to be offered;
- 7) description of the asset pool under which the ABS shall be issued;
- 8) identities, domicile and the number of the proposed purchasers of the ABS;
- 9) name and address of financial adviser/underwriter, if any;
- 10) rating on the ABS and the name of the accredited rating agency;
- 11) nature of the issuer's business;
- 12) nature of products or services offered;
- 13) nature and extent of the issuer's facilities;
- 14) name of the chief executive officers and members of the board of directors;
- 15) issuer's summary of financial information based on the most recent financial statements for each of the two preceding fiscal years or such

shorter period as the issuer (including its predecessor) has been in existence;

16) whether the person offering or selling the ABS is affiliated, directly or indirectly, with the issuer;

17) whether the offering is being made directly or indirectly on behalf of the issuer or any director, officer or person who owns directly or indirectly more than ten percent (10%) of the outstanding shares of any equity security of the issuer and, if so, the name of such person.

ii) Said Disclosure Statement shall be accompanied by an exemption fee equivalent to $\frac{1}{2}$ of the rates provided in Rule 7 a) (vi) hereof.

iii) The ABS or transaction covered by the said disclosure statement shall not however be exempt from the rating requirement under Rule 43.

iv) A penalty equivalent to $\frac{1}{100}$ of the aggregate amount of the ABS offered or issued, or such other amount as the Commission may prescribe by subsequent regulation, shall be imposed for failure to comply with any of the foregoing requirements.

c) Amendments or Rejection

i) Within forty-five (45) days after the date of filing of the registration statement, or at such later date to which the issuer has consented, the Commission shall declare the registration statement effective or rejected, unless the applicant is allowed to amend the registration statement as provided in Section 14 of the SRC and its Rule 14. The Commission shall enter an order declaring the registration statement to be effective if it finds that the registration statement, together with all the other papers and documents attached thereto, is on its face complete and that the requirements have been complied with.

ii) The Commission may impose such terms and conditions as may be necessary or appropriate for the protection of the investors.

iii) The Commission, after due notice and hearing, may reject a registration statement and refuse registration of the security thereunder, or revoke the effectivity of a registration statement and the registration of the security thereunder by issuing an order to such effect, setting forth its findings in respect thereto, if it finds that:

1. The SPE has been judicially declared insolvent;
2. It has violated any of the provisions of the Corporation Code, the rules promulgated pursuant thereto or any order of the Commission of which the issuer has notice in connection with the offering for which a registration statement has been filed;
3. It has been, or is engaged, or is about to engage, in fraudulent transactions;
4. It has made any false or misleading representation of material facts in any prospectus concerning the issuer or its securities;
5. It has failed to comply with any requirement that the Commission may impose as a condition for registration of the security for which the registration statement has been filed;
6. The registration statement is on its face incomplete or inaccurate in any material respect, includes any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading; or
7. The SPE, any of its officer, director or controlling person, or person performing similar functions or any underwriter has been convicted by a competent judicial or administrative body, upon plea of guilty or otherwise, of an offense involving moral turpitude and/or fraud or is enjoined or restrained by the Commission or other competent judicial or administrative body for any violation of securities, commodities, and other related laws.

iv) If the Commission deems it necessary, it may issue an order suspending the offer and sale of the securities pending any investigation. The order shall state the grounds for taking such action but such order of suspension although binding upon the persons notified thereof, shall be deemed confidential and shall not be published. Upon the issuance of the suspension order, no further offer or sale of

such security shall be made until the same is lifted or set aside by the Commission. Otherwise, such sale shall be void.

d) Restrictions

- (i) The investible funds, as defined in Rule 3 k) hereof, shall only be invested in eligible instruments or in such obligations issued or fully guaranteed by the Government of the Republic of the Philippines or issued by the *Bangko Sentral ng Pilipinas*, registered securities and such other readily marketable investments which the Commission may, from time to time, approve or authorize.
- (ii) No receivables that are to arise in the future and other receivables of similar nature shall be considered as Assets unless approved by the Securities and Exchange Commission (SEC) or the *Bangko Sentral ng Pilipinas* (BSP), as the case may be.
- (iii) The Asset Pool shall exclude receivables from future expectation of revenues by government, national or local, arising from royalties, fees or imposts.

e) Violations

- i) Any SPE which offers to sell or distribute ABSs to the public within the Philippines without prior registration thereof shall be subject to the penalties provided under Sec. 54 of the SRC and its implementing rules and regulations.
- ii) The imposition of the foregoing administrative sanctions shall be without prejudice to the filing of criminal charges against the individuals responsible for the violation.
- iii) If there shall be violation of these Rules by the SPE or any responsible person by providing misleading statements or incomplete material information on the ABS, or by offering or sale of ABS to the public without prior registration or by violating any of the restrictions set forth under paragraph (d) above, the Commission may nullify the said transaction and direct the refund of the full investment to the purchaser or to the aggrieved party thereof.

- f) The requirements on the subsequent amendments to the registration statements and the reporting obligations of issuers of ABS to the public shall be governed by the SRC and its implementing rules and regulations.

Rule 8 - Approval

The Commission shall issue to an SPE the corresponding order and permit to sell ABS only after compliance with all the registration requirements and approval of the Plan by the Commission, as set forth under Rules 6 and 7 hereof.

Rule 9 – Originator is a Bank; Special Purpose Trust

In case the originator of the assets is a bank or any other financial intermediary which under special laws is subject to the supervision of the BSP, or an entity that is controlled by said bank or financial intermediary, or in the event the SPE is constituted in the form of an SPT, an endorsement by the BSP of the Plan shall be required before its approval by the Commission.

Rule 10 – Powers of the SPE

Each SPE shall have the following powers:

- a) Accept the sale or transfer of assets;
- b) Issue and offer the ABS for sale to investors;
- c) Undertake on its own, or through contracts with any person, such activities as contained in the approved Plan. It is however understood that only such obligations as may be incidental, inherent or necessary to carry out its business as such shall be the subject of such contracts;
- d) Create any indebtedness or encumbrances to defray administrative or other necessary expenses as specified in the Plan; and
- e) Pay out or invest its funds in accordance with the Plan or as approved by the Commission.

Rule 11 – Restrictions on the SPE

The SPE shall not undertake any activity other than that contained in the approved Plan except upon a written approval of the Commission and the written consent of the holders of the ABS

representing at least two-thirds (2/3) of the outstanding amount of the ABS: *Provided*, That in case the originator of the assets is a bank or any other financial intermediary which under special laws is subject to the supervision of the BSP, or an entity controlled by said bank or other financial intermediary, or in the event the SPE is constituted in the form of an SPT, prior endorsement by the BSP is necessary.

Rule 12 – Transfer of Assets and Security

The conveyance of the Assets to the SPE shall be absolute and on a without recourse basis and shall be deemed to be a "true sale" when it results in the following:

- a) The transferred Assets are legally isolated and put beyond the reach of the Originator or Seller and its creditors;
- b) The SPE has the right to pledge, mortgage or exchange the transferred Assets;
- c) The transferor relinquishes effective control over the transferred assets;
- d) The transfer shall be effected by either a sale, assignment or exchange, in any event on a without recourse basis to the Originator or Seller;
- e) The SPE shall have the right to profits and disposition with respect to the assets;
- f) The transferor shall not have the right to recover the assets and the transferee shall not have the right to reimbursement of the price or other consideration paid for the assets;
and
- g) The SPE shall undertake the risks associated with the assets. This shall not, however, prevent the transferor from giving normal representations or warranties in respect of the assets sold.

It is however understood that a "clean up call" under Rule 32 hereof shall not be regarded as a violation of the aforementioned provisions.



Rule 13 – Withdrawal of Registration

The following shall be the procedures in the withdrawal or cancellation of registration of the ABS and SPE:

- a) If the Commission finds prima facie evidence that the Originator or Seller has undertaken the securitization so as to seek the benefits of the Act without a true intention to carry it out, the Commission, shall immediately issue Cease and Desist Order and, after due notice and hearing, withdraw or cancel the registration of the ABS and the registration of the SPE as issuer and cause the dissolution of the SPC or termination of the SPT. The Originator or Seller and, as the case may be, the trustee, shall pay a fine equal to the amount of taxes from which the SPE has been exempted plus a surcharge of twenty-five percent (25%) of the face value of the ABS issued, without prejudice to the imposition of other penalties provided under the Act and the National Internal Revenue Code of 1997.
- b) The Commission shall publish a notice and order of withdrawal/cancellation of registration in a newspaper of general circulation in the Philippines and/or post it in its website and shall simultaneously furnish the SPE with a copy of said notice. Upon receipt of said notice, said SPE and all persons acting on its behalf in the distribution of said ABS, shall immediately terminate the offering and return any and all payments received from purchasers within ten (10) days after the notice is published.

Rule 14 – Inheritance and Donor's Tax Evasion

It shall be unlawful for any person, whether or not in contemplation of death, to cause directly or indirectly, the issuance, for the benefit of another or others, of ABS and avail of the tax incentives granted by the Act for the purpose of evading the payment of donor's or estate taxes.

Rule 15 - Dissolution of the Special Purpose Entity (SPE)

The SPE shall be dissolved in the following cases:

- a) It fails to accept the transfer of assets or issue ABS to investors within six (6) months from the date of approval of the Plan, unless extended by the Commission; or

- b) Holders of at least two thirds (2/3) of the total amount of its ABS still outstanding have resolved, in a meeting duly called for the purpose or through written assent after receipt of proper notice, to dissolve the SPE and the approval of the Commission has been obtained. In case the Originator of the assets is a bank or any other financial intermediary which, under special laws, is subject to the supervision of the BSP; or an entity controlled by said bank or other financial intermediary, or in the event the SPE is constituted in the form of an SPT, an endorsement by the BSP shall be required prior to approval of the Commission; or
- c) Conditions for dissolution that are specified in the Plan occur; or
- d) The Commission orders dissolution in accordance with Rules 13 and 19.

Rule 16 - Effects of Dissolution of SPE

The registration of the ABS shall be automatically terminated, cancelled or withdrawn in any of the cases provided for under the last preceding section. Said dissolution shall have the same effects as the withdrawal by the Commission of the registration of the ABS.

Rule 17 - Appointment of an Interim Representative

- a) If the Commission finds, upon verified information, that an SPE has no authorized representative to act on its behalf or such persons cannot act for any reason resulting in the interruption of its activities pursuant to the approved Plan, the Commission shall have the power to appoint any person or persons to act as interim representative for the SPE. The interim representative shall have full and exclusive authority to implement the approved Plan.
- b) In the event of an appointment of replacement of an interim representative, the Commission shall post the notice at the Commission's office and order its publication in at least two (2) newspapers of national circulation.

Rule 18 - Delivery of Property and Records to Interim Representative

Where an interim representative has been appointed in accordance with Section 17:

- a) The directors, officers, or any employees of the SPE shall take all appropriate steps to safeguard the property and the benefits of the holders of the ABS of the SPE and shall deliver the property, accounts, documents, and seals of the SPE to the interim representative; and
- b) Any person who possesses property or documents of the SPE shall notify the representative of such possession.

Rule 19 - Failure to Continue Business

- a) The Commission, after due notice and hearing, shall withdraw the registration of the ABS of an SPE upon finding that the SPE cannot continue to undertake its business. The procedures to be taken shall be in accordance with Rule 13.
- b) Thereafter, it shall proceed with the permanent closure of the account in the case of an SPT, or revocation of its registration as a corporation, in the case of an SPC, and shall proceed to liquidate the latter in accordance with the Corporation Code.

Rule 20 - Power of Inspection

The Commission, in the exercise of its power to inspect or order the production of the records of the SPE, may request the assistance of the BSP, OIC and the BIR, and for that purpose, the latter shall have the same power with respect to the SPE.

ARTICLE III

THE SERVICER

Rule 21 - Duties

The Servicer shall collect and record payments received on the assets, remit such collections to the SPE, and perform such other duties pursuant to the terms and conditions of the servicing agreement and such other written instructions as the SPE, the trustee or its interim representative

may issue on a case-to-case basis. Collections made by the Servicer shall be remitted promptly to the SPE or as may be agreed upon by the parties in the servicing agreement, but in no case shall the remittance period be longer than one (1) month.

Rule 22 - Reports


- a) The Servicer shall prepare periodic reports as may be required by the SPE, the trustee or its interim representative within thirty (30) days, including reports of any borrower or obligor which fails to pay its debt or obligation at maturity date or any adverse development that may affect the collectibility of any loan account or receivable comprising the asset pool.
- b) It shall make and keep books, records, and accounts which, in reasonable detail accurately and fairly reflect the transactions. A Servicer shall comply with the requirements on the keeping of its books of accounts and records under Chapter I of Title IX of the National Internal Revenue Code, as amended.
- c) The Commission and/or the BSP may order the examination and/or submission of the copies of the foregoing books, records or reports.

Rule 23 - Extent of Authority

The Servicer shall have such authority as is expressly stated in the servicing agreement and, unless otherwise specifically provided therein, such authority shall encompass the general powers of administration excluding asset management or administration. The Servicer shall have no authority to waive penalties and charges, except with a written authority from the Board of the SPE, the trustee or the interim representative, should one be appointed.

Rule 24 - Qualifications

- a) As to Form

The Servicer shall be a corporation duly incorporated under Philippine law and its Articles of Incorporation and By-Laws shall conform to the form prescribed by the Commission. 

b) Capitalization


It shall have a minimum authorized capitalization of Ten Million Pesos (P10,000,000.00) or such higher amount as the Commission may prescribe.

- c) The Servicer shall be independent of the SPC or the trustee and shall not share common ownership, officers, or directors with SPC or the trustee. The Originator or seller may act as the Servicer as may be approved by the Commission or the BSP, as the case may be.

Rule 25 – Standard of Conduct

The Servicer shall act with utmost good faith and shall perform its obligations under the servicing agreement with the diligence of a good father of a family.

Rule 26 - Penalties

- a) Breach by the Servicer of its obligations arising from the failure to abide by the standard of conduct set forth in the preceding section shall:
- i. subject the Servicer to the penalty of revocation of its corporate registration and a fine of not less than One Million Pesos (P1,000,000.00) as may be imposed by the Commission; and/or
 - ii. subject its officers and employees responsible for such noncompliance with the standard of conduct referred to above, to a penalty of imprisonment for not more than five (5) years and a fine of not less than One Hundred Thousand Pesos (P100,000.00) at the discretion of the Court.
- b) Breach by the Servicer arising from bad faith or gross negligence shall:
- i. subject the Servicer to revocation of its corporate registration and a fine of not less than Five Million Pesos (P5,000,000.00) as may be imposed by the Commission; and/or
- 

- ii. subject the officers and employees responsible for such breach to a penalty of imprisonment for not less than six (6) years and one (1) day up to a maximum of twenty (20) years and a fine of not less than Five Hundred Thousand Pesos (P500,000.00) at the discretion of the Court.

ARTICLE IV

TAX AND OTHER RELATED ISSUES

Rule 27 - Income Taxation of Special Purpose Entity

The SPE in the form of an SPC shall be subject to income tax under Section 27(a), Chapter IV of the National Internal Revenue Code and to all rules and regulations. An SPE constituted as an SPT shall be subject to income tax in accordance with the provisions of Section 61, Chapter X of the same Code and to all rules and regulations.

Rule 28 – Transfer of Assets

- a) The sale and transfer of assets to the SPE, or transfer of any and all security interest thereto (i. e. mortgage, pledge, other credit enhancements or any form of lien), if made for securitization in accordance with an approved Plan and is a true sale as herein defined shall enjoy the following benefits:
 - (i) Exemption from the value-added tax (VAT);
 - (ii) Exemption from the documentary stamp tax;
 - (iii) Exemption from any other taxes imposed in lieu of the VAT and DST;
 - (iv) 50% deduction in applicable registration and annotation fees to be paid to the Register of Deeds in relation or incidental to said sale or transfer.

- b) The transfer of assets by dation in payment by the obligor to an SPE shall likewise be exempt from the payment of capital gains tax as provided under Section 27(d)(5) of the National Internal Revenue Code of 1997.

Rule 29 – Issuance and Transfer of Securities

- a) The original issuance of ABS and related forms of credit enhancement by way of original issuance of securities related solely to the securitization transaction, such as, but not

limited to, seller's equity, subordinated debt instruments purchased by the Originator and other credit enhancement shall be exempt from VAT or any other taxes imposed in lieu thereof, but subject to DST.

- b) All secondary trades and subsequent transfers of ABS, including all forms of credit enhancement in such instruments, shall be exempt from DST and VAT, or any other taxes imposed in lieu thereof.

Rule 30 - Non-Classification of SPE as a Bank, Quasi-Bank or Financial Intermediary

The SPE, created pursuant to a Plan, shall not be classified as a bank, quasi-bank or financial intermediary under the provisions of the New Central Bank Act and the General Banking Law and the National Internal Revenue Code of 1997 and shall not be subject to the gross receipts tax (GRT) or any other tax imposed in lieu thereof.

Rule 31 - Securities not to be Categorized as Deposit Substitute

The ABS issued by an SPE pursuant to the Plan approved by the Commission shall not be considered as deposit substitutes under the provisions of the New Central Bank Act, the General Banking Law and the National Internal Revenue Code of 1997. *Provided, however,* That for purposes of taxation, the yield from the ABS shall be subject to a twenty percent (20%) final withholding tax, except those held by tax-exempt investors.

Rule 32 - Re-transfer of Assets

- a) The re-transfer of assets from the SPE to the Originator/Seller, including interest thereto (i. e. mortgage, pledge, other credit enhancements or any form of lien), if made in accordance with a Plan approved by the SEC and/or the BSP shall enjoy the following benefits:
- i. Exemption from the value-added tax (VAT);
 - ii. Exemption from the documentary stamp tax;
 - iii. Exemption from any other taxes imposed in lieu of the VAT and DST;
 - iv. 50% deduction in applicable registration and annotation fees to be paid to the Register of Deeds in relation or incidental to said sale or transfer.

- b) The exemption from the DST shall apply notwithstanding that the Originator/Seller is not exempt from the DST.
- c) Said re-transfer may be made by the SPE or in the exercise of a "clean-up call" as a consequence of a breach of warranty or once the outstanding principal balance of the Asset Pool falls to ten percent (10%) or less of the original principal balance of the Asset Pool including foreclosed and other assets. The consideration thereof shall be at current market value. Such a "clean-up call" shall not be considered recourse or in violation of Rule 12 hereof.

Rule 33 – Incentives for Securitization

In order to promote the securitization of the mortgage and housing-related receivables of the government housing agencies, as may be determined by the Department of Finance (DOF) and the Housing and Urban Development Coordinating Council (HUDCC), the yield or income of the investor from any low-cost or socialized housing-related ABS shall be exempt from income tax.

Rule 34 – Waiver of Rights

For purposes of securitization pursuant to the Act, the buyer of real estate on installment payments may agree to waive his rights under Republic Act No. 6552, the provision of Section 7 of the said Act notwithstanding.

ARTICLE V

SECONDARY MORTGAGE INSTITUTION

Rule 35 - Registration of Secondary Mortgage Institution (SMI)

An SMI, which shall be primarily responsible for providing liquidity mechanism to primary mortgage lenders/holders as well as in developing a secondary market for mortgage and housing-related ABS, shall also be registered with the Commission. Its Articles of Incorporation and by-laws shall conform with the form and contents of the articles and by-laws prescribed by the Commission.



Rule 36 – Registration of Business and Operational Plans

A duly incorporated SMI shall, upon filing a registration statement for the registration of its ABS, likewise submit its business and operational plans and feasibility study thereof with the Commission and shall be subject to the same disclosure requirements as SPCs.

Rule 38 - Powers of the SMI

For purposes of securitization under the Act and pursuant to the Plan submitted to the Commission, the SMI may perform any or all of the following:

- a) Wholesale purchase of residential mortgages and housing-related contract receivables;
- b) Buy and sell any residential mortgage and housing-related ABS;
- c) Provide loans to primary lending institutions against residential mortgages;
- d) Issue housing-related ABS through an SPE and issue bonds and other debt instruments;
- e) Perform ancillary functions including, but not limited to, title insurance, through a subsidiary, wholly or partially owned by an SMI, and loan servicing; and
- f) Perform such other functions as the Commission may deem necessary to mobilize and channel funds from the capital markets to the mortgage and housing finance sector.

It is understood that nothing in these Rules shall prevent the SMI from establishing its own SPC.

Rule 39 - SMI Capitalization and Organizational Requirements

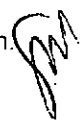
- a) Organization

Any SMI for the housing sector shall be established as a stock corporation in accordance with existing laws and their implementing rules and regulations.

- b) Capitalization

An SMI shall have an initial paid-up capital stock of Two Billion Pesos (P2,000,000,000.00)



- c) Restrictions
- (i) The total obligations of the SMI, including both actual and contingent obligations, shall not exceed fifteen (15) times its paid-up capital; and
 - (ii) The actual obligations of the SMI shall not exceed ten (10) times its paid-up capital.
- d) The ratios indicated under paragraph (c) above may be adjusted by the Commission, with the approval of the Department of Finance and the BSP, upon a showing that the conditions of the secondary and primary markets and the financial viability of the SMI warrant such adjustment. *Provided, finally,* That the investment of financial entities in the SMI shall be subject to, and be made to comply with, the rules and regulations of the appropriate regulatory agency.
- e) Other Limitations
- (i) Government financial institutions and government-owned or-controlled corporations may collectively hold and own up to a maximum of thirty percent (30%) of the SMI's capital: *Provided,* such investment does not conflict with their existing charters;
 - (ii) A government financial institution may invest up to a maximum of ten percent (10%) of its total investible funds in housing-related assets or five percent (5%) in non-housing related assets; *Provided,* That such investment does not exceed five percent (5%) of the total amount of each ABS issue.
- f) Offering of Securities to the Public
- i. Within ten (10) years from its incorporation, the SMI shall offer and list, in accordance with existing laws, rules and regulations, at least twenty percent (20%) of its common shares in the stock exchange, which period shall be extendible only upon approval of the Commission in instances where the lack of financial viability of the SMI warrants such extension. 

- ii. The common shares to be offered by SMI shall be registered in accordance with the registration requirements of Sections 8 and 12 of the Securities Regulation Code and its implementing rules and regulations.

Rule 40 - Prohibited Activities of the SMI

The SMI shall be prohibited from:

- a) Originating or financing individual mortgage loans;
- b) Providing loans to other parties engaged in a business other than that approved in the Plan submitted to the Commission; and
- c) Providing capital equity to other companies except companies which will provide ancillary services.

Rule 41 - Extension of Benefits to the SMI

- a) The sale and transfer of assets to the SMI, including the sale or transfer of any and all security interest thereto (i. e. mortgage, pledge, other credit enhancements or any form of lien), if made in accordance with the Plan and a true sale as defined herein and solely for the purpose of securitization, shall enjoy the following benefits:
 - (i) Exemption from the value-added tax (VAT);
 - (ii) Exemption from the documentary stamp tax (DST);
 - (iii) Exemption from any other taxes imposed in lieu of the VAT and DST;
 - (iv) 50% deduction in applicable registration and annotation fees to be paid to the Register of Deeds in relation or incidental to said sale or transfer.
- b) The exemption from the DST shall apply notwithstanding that the Originator/Seller is not exempt from the DST.
- c) The transfer of assets by dation in payment by the obligor to an SMI shall not be subject to the capital gains tax as provided under Section 27(d)(5) of the National Internal Revenue Code of 1997.

- d) The issuance of ABS, the related forms of credit enhancement by way of original issuance of securities related solely to the securitization transaction, such as, but not limited to, seller's equity, subordinated debt instruments purchased by the Originator, shall be subject to DST but exempt from VAT or any other taxes imposed in lieu thereof.
- e) In accordance with Section 41 in relation to Section 30 of the Act, the SMI, created pursuant to a Plan, shall not be classified as a bank, quasi-bank or financial intermediary under the provisions of the New Central Bank Act and the General Banking Law and the National Internal Revenue Code of 1997 and all rules and regulations, in respect solely of transactions that are for the purpose of securitization; accordingly, such transactions shall not be subject to the gross receipts tax (GRT) or any other tax imposed in lieu thereof.
- f) The re-transfer of assets from the SMI to the Originator/Seller, including the re-transfer of any and all security interest thereto (i. e. mortgage, pledge, other credit enhancements or any form of lien), if made in accordance with an approved Plan shall enjoy the following benefits:
- (i) Exemption from the value-added tax (VAT);
 - (ii) Exemption from the documentary stamp tax;
 - (iii) Exemption from any other taxes imposed in lieu of the VAT and DST;
 - (iv) 50% deduction in applicable registration and annotation fees to be paid to the Register of Deeds in relation or incidental to said sale or transfer.
- g) The re-transfer may be made by the SMI or in the exercise of a "clean-up call" by the Seller as a consequence of a breach of warranty or once the outstanding principal balance of the Asset Pool falls to ten percent (10%) or less of the original principal balance of the Asset Pool including foreclosed and other assets. The consideration thereof shall be at current market value. Such a "clean-up call" shall not be considered recourse or in violation of Rule 12 hereof.
- h) In order to promote the securitization of the mortgage and housing-related receivables of the government housing agencies, as may be determined by the Department of Finance (DOF) and the Housing and Urban Development Coordinating Council

(HUDCC), the yield or income of the investor from any low-cost or socialized housing-related ABS shall be exempt from income tax.

Rule 42 - Dissolution of the SMI

The Commission shall order the dissolution and liquidation of the SMI upon a finding that it:

- a) Cannot continue to undertake its business; or
- b) Is not operating actively; or
- c) Is engaging in activities that conflict with its objectives as an SMI; or
- d) Has fulfilled a condition for dissolution specified in its Articles of Incorporation.

ARTICLE VI

RATING SYSTEM

Rule 43 - Rating of ABS

No ABS shall be issued unless such ABS has been rated by a duly accredited credit rating agency.

Rule 44 - Credit Rating Agency

Every credit rating agency which now exists, or which may hereafter be formed, shall be subject to the provisions of the Act.

Rule 45 - Accreditation of Credit Rating Agency

No credit rating agency shall commence rate-making operations pursuant to the Act until it shall have obtained an accreditation from the Commission pursuant to its rules.

Rule 46 - Examination of Credit Rating Agency

Credit rating agencies shall be subject to examination by the Commission as the latter may deem warranted: *Provided*, That the Commission shall conduct an examination of the credit rating agencies at least once every three (3) years.



Rule 47 - Non-compliance of Accredited Rating Agency

The Commission after due notice and hearing, may suspend or revoke the accreditation given to any credit rating agency which fails to comply with the existing rules and regulations of the Commission or its lawful order within the time limited by such order or any extension thereof which the Commission may grant.

ARTICLE VII

PENAL PROVISIONS

Rule 48 - Penalties

a) Any person who violates any of the provisions of the Act, or the rules and regulations promulgated by the Commission under authority hereof, or any person who, in a registration statement, notice, or Plan filed under the Act, makes any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, shall, upon conviction, suffer a fine of not less than Fifty Thousand Pesos (P50,000.00) nor more than Five Million Pesos (P5,000,000.00) or imprisonment of not less than six (6) years and one (1) day nor more than twenty-one (21) years, or both, in the discretion of the court. If the offender is a corporation, partnership or association or other juridical entity, the penalty may, in the discretion of the court, be imposed upon such juridical entity and upon the officer or officers of the corporation, partnership, association or entity responsible for the violation, and if such officer is an alien, he shall, in addition to the penalties prescribed, be deported without further proceedings after service of sentence.

b) Administrative Sanctions

If after due notice and hearing, the Commission finds that: (i) There is a violation of these rules, or its orders; (ii) Any registrant or other person has, in a registration statement or in other reports, applications, accounts, records or documents required by law or rules to be filed with the Commission, 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, in the case of an underwriter, has failed to conduct an inquiry with reasonable diligence to insure that a registration statement is accurate and complete in all material respects; or (iii) Any person has refused to permit any lawful examinations

into its affairs, it shall, in its discretion, and subject only to the limitations hereinafter prescribed, impose any or all of the following sanctions as may be appropriate in light of the facts and circumstances:

- (i) Suspension, or withdrawal of registration, in accordance with Rule 13;
 - (ii) A fine of no less than Ten thousand pesos (P10,000.00) nor more than One million pesos (P1,000,000.00) plus not more than Two thousand pesos (P2,000.00) for each day of continuing violation;
 - (iii) Other penalties within the power of the Commission to impose.
- c) The foregoing penalties shall be without prejudice to the imposition of penalties warranted under other applicable laws.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

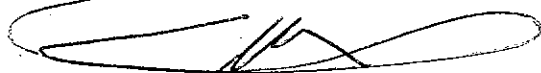
Rule 53 – Effectivity Clause

- a) These Rules shall take effect fifteen (15) days after its complete publication in two (2) newspapers of general circulation.
- b) All existing rules and regulations of the Commission and BSP on securitization, which are inconsistent with any provision of these Rules are hereby repealed or modified accordingly.

APPROVED, this 25th day of May 2005 at the City of Makati.

BY THE CONGRESSIONAL OVERSIGHT COMMITTEE ON THE SECURITIZATION ACT

HOUSE OF REPRESENTATIVES

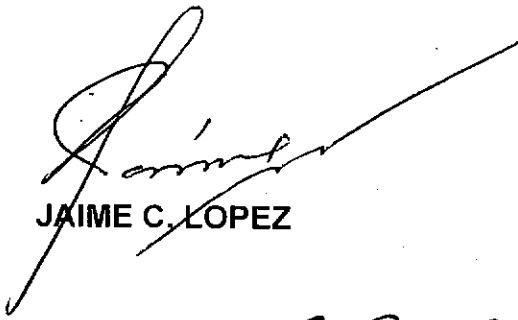


JOEY SARTE SALCEDA
Chairman
House Panel

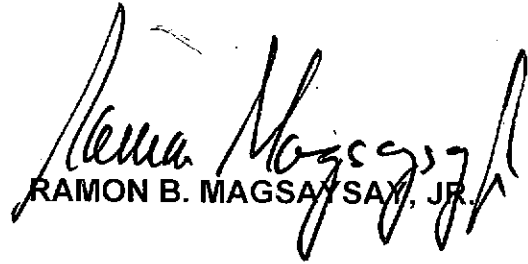
SENATE OF THE PHILIPPINES



SERGIO R. OSMEÑA III
Chairman
Senate Panel



JAIME C. LOPEZ



RAMON B. MAGSAYSAY, JR.



TEODORO L. LOCSIN, JR.



JUAN M. FLAVIER

MICHAEL "JOHN" R. DUAVIT



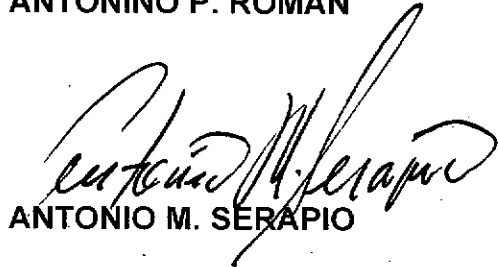
RALPH G. RECTO



ANTONINO P. ROMAN



MAR ROXAS

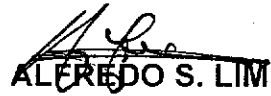


ANTONIO M. SERAPIO

EDGARDO J. ANGARA



BAISENDIG G. DILANGALEN



ALREDO S. LIM

ARTICLES OF INCORPORATION

OF

_____ (SPC), INC.

Know All Men By These Presents:

The undersigned incorporators, all of legal age and majority of whom are residents of the Philippines, have this day voluntarily agreed to form a stock corporation under the laws of the Republic of the Philippines.

THAT WE HEREBY CERTIFY :

FIRST: The name of this corporation shall be:

_____ (SPC), INC.

SECOND:

- A. The primary purpose of the above-named corporation shall be securitization of assets which shall include, but shall not be limited to, receivables, mortgage loans and other debt instruments.
- B. It shall have the following powers:
 - f) To accept sale or transfer of assets;
 - g) To issue and offer asset-backed securities for sale to investors;
 - h) To undertake its own, or through contracts with any person, such activities as contained in the approved Plan of Securitization ("Plan");
 - i) To create any indebtedness or encumbrances to defray administrative or other necessary expenses as specified in the Plan; and
 - j) To pay out or invest its funds in accordance with the Plan or as approved by the Commission.
- C. Transactions or contractual obligations of an SPE other than the foregoing shall not made unless the same are incidental, inherent or necessary to carry out its business as such.
- D. That the corporation shall have all the express powers of a corporation as provided for under Section 36 of the Corporation Code of the Philippines.

THIRD: That the place where the principal office of the corporation is to be established is at :

No./Street _____ (If applicable)

City/Town _____ Province _____

WITNESSES:

(All incorporators appearing on the fifth article and the two witnesses should affix their signatures on the blanks provided in this page above their respective names.)

ACKNOWLEDGEMENT

Republic of the Philippines)

S.S.

_____)

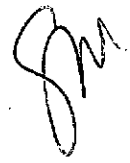
BEFORE ME , a Notary Public in and for _____ Philippines, this _____ day of _____, 200 _____ personally appeared :

Name	Community Tax Certificate No.	Date & place Issued
_____	_____	_____
_____	_____	_____
_____	_____	_____

all known to me and to me known to be the same persons who executed the foregoing Articles of Incorporation and they acknowledged to me that the same is their free and voluntary act and deed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my notarial seal on the date and at the place first above written.

NOTARY PUBLIC
 Until December 31, 200__



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

BY - LAWS

OF

(SPC), INC.

(Name of Corporation)

ARTICLE I

SUBSCRIPTION, ISSUANCE AND TRANSFER OF SHARES

Section 1. Subscriptions - Subscribers to the capital stock of the corporation shall pay the value of the stock in accordance with the terms and conditions prescribed by the Board of Directors. Unpaid subscriptions shall not earn interest unless determined by the Board of Directors.

Section 2. Certificate - The stockholder shall be entitled to one or more certificates for fully paid stock subscription in his name in the books of the corporation. The certificates shall contain the matters required by law and the Articles of Incorporation. They shall be in such form and design as may be determined by the Board of Directors and numbered consecutively. The certificate shall be signed by the President, countersigned by the Secretary or Assistant Secretary, and sealed with the corporate seal.

Section 3. Transfer of Shares - Subject to the restrictions, terms and conditions contained in the Articles of Incorporation, shares may be transferred, sold, assigned or pledged by delivery of the certificates duly indorsed by the stockholder, his attorney-in-fact, or other legally authorized person. The transfer shall be valid and binding on the corporation only upon record thereof in the books of the corporation. The Secretary shall cancel the stock certificates and issue new certificates to the transferee.

No share of stock against which the corporation holds unpaid claim shall be transferable in the books of the corporation.

All certificates surrendered for transfer shall be stamped "Cancelled" on the face thereof, together with the date of cancellation, and attached to the corresponding stub with the certificate book.

Section 4. Lost Certificates - In case any stock certificate is lost, stolen, or destroyed, a new certificate may be issued in lieu thereof in accordance with the procedure prescribed under Section 73 of the Corporation Code.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. Annual / Regular Meetings - The annual / regular meetings of stockholders shall be held at the principal office on any day in March of each year, if a legal holiday, then on the day following.

Section 2. Special Meeting - The special meetings of stockholders, for any purpose or purposes, may at any time be called by any of the following: (a) Board of Directors, at its own instance, or at the written request of stockholders representing a majority of the outstanding capital stock. (b) President.

Section 3. Place of Meeting - Stockholders meetings, whether regular or special, shall be held in the principal office of the corporation or at any place designated by the Board of Directors in the city or municipality where the principal office of the corporation is located.

Section 4. Notice of Meeting - Notices for regular or special meetings of stockholders may be sent by the Secretary by personal delivery or by mail at least two (2) weeks prior to the date of the meeting to each stockholder of record at his last known address. The notice shall state the place, date and hour of the meeting, and the purpose or purposes for which the meeting is called.

When the meeting of stockholders is adjourned to another time or place, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the reconvened meeting, any business may be transacted that might have been transacted on the original date of the meeting.

Section 5. Quorum - Unless otherwise provided by law, in all regular or special meeting of stockholders, a majority of the outstanding capital stock must be present or represented in order to constitute a quorum. If no quorum is constituted, the meeting shall be adjourned until the requisite amount of stock shall be present.

Section 6. Conduct of Meeting - Meeting of the stockholders shall be presided over by the President, or in his absence, by a chairman to be chosen by the stockholders. The Secretary, shall act as Secretary of every meetings, but if not present, the chairman of the meeting shall appoint a secretary of the meeting.

Section 7. Manner of Voting - At all meetings of stockholders, a stockholder may vote in person or by proxy. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Secretary. All proxies must be in the hands of the Secretary before the time set for the meeting. Proxies filed with the Secretary may be revoked by the stockholders either in an instrument in writing duly presented and recorded with the Secretary, prior to a scheduled meeting or by their personal presence at the meeting.

Section 8. Closing of Transfer Books or Fixing of Record Date - For the purpose of determining the stockholders entitled to notice of, or to vote at, any meeting of stockholders or any adjournment thereof or to receive payment of any dividend, the Board of Directors may provide that the stock and transfer books be closed for ten (10) working days immediately preceding such meeting.

ARTICLE III

BOARD OF DIRECTORS

Section 1. Powers of the Board - Unless otherwise provided by law, the corporate powers of the corporation shall be exercised, all business conducted and all property of the corporation controlled and held by the Board of Directors to be elected by and from among the stockholders. Without prejudice to such powers as may be granted by law, the Board of Directors shall also have the following powers:

- a.) From time to time, to make and change rules and regulations not inconsistent with these by-laws for the management of the corporation's business and affairs;
- b.) To purchase, receive, take or otherwise acquire for and in the name of the corporation, any and all properties, rights, or privileges, including securities and bonds of other corporations, for such consideration and upon such terms and conditions as the Board may deem proper or convenient;
- c.) To invest the funds of the corporation in other corporations or for purposes other than those for which the corporation was organized, subject to such stockholders' approval as may be required by law;
- d.) To incur such indebtedness as the Board may deem necessary, to issue evidence of indebtedness including without limitation, notes, deeds of trust, bonds, debentures, or securities, subject to such stockholders approval as may be required by law, and/or pledge, mortgage, or otherwise encumber all or part of the properties of the corporation;



- e.) To establish pension, retirement, bonus, or other types of incentives or compensation plans for the employees, including officers and directors of the corporation;
- f.) To prosecute, maintain, defend, compromise or abandon any lawsuit in which the corporation or its officer are either plaintiffs or defendants in connection with the business of the corporation;
- g.) To delegate, from time to time, any of the powers of the Board which may lawfully be delegated in the course of the current business of the corporation to any standing or special committee or to any officer or agent and to appoint any person to be agent of the corporation with such powers and upon such terms as may be deemed fit;
- h.) To implement these by-laws and to act on any matter not covered by these by-laws, provided such matter does not require the approval or consent of the stockholders under the Corporation Code.
- i.) To install a process of selection to ensure a mix of competent directors and officer;
- j.) To determine the Corporation's purpose, its vision and mission and strategies to carry out its objectives.
- k.) To ensure that the Corporation complies with all relevant laws, regulations and codes of best business practices;
- l.) To identify the Corporation's major and other stakeholders and formulate a clear policy on communicating or relating with them through an effective investor relations program;
- m.) To adopt a system of internal checks and balances;
- o.) To identify key risk areas and key performance indicators and monitor these factors with due diligence;
- p.) To properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted;
- q.) To keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulation.

Section 2. Qualifications of the Members -

- a.) **He shall preferably be a college graduate;**
- b.) **He shall have an adequate competency and understanding of the Corporation's business;**
- c.) **He shall be at least twenty one (21) years old;**
- d.) **He shall possess proven integrity/probity; and**
- e.) **He shall be assiduous.**

Section 3. Disqualifications of the Members – The following shall be disqualified to become a director of the company.

- a.) **Any person finally convicted judicially of an offense involving moral turpitude or fraudulent act or transgressions;**
- b.) **Any person finally found by the Commission or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or any rule, regulation or order of the Commission or Bangko Sentral ng Pilipinas;**
- c.) **Any person judicially declared to be insolvent;**



- d.) Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs; and
- e.) Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment

Any of the following shall be a ground for the temporary disqualification of a director:

- a.) Refusal to fully disclose the extent of his business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists;
- b.) Absence or non-participation for whatever reason/s for more than fifty percent (50%) of all meetings, both regular and special, of the Board of directors during his incumbency, or any twelve (12) month period during said incumbency. This disqualification applies for purposes of the succeeding election;
- c.) Dismissal/termination from directorship in another listed corporation for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity;
- d.) Being under preventive suspension by the Corporation;
- e.) If the independent director becomes an officer or employee of the same corporation he shall be automatically disqualified from being an independent director;
- f.) Conviction that has not yet become final referred to in the grounds for the disqualification of directors.

Section 4. Duties and Responsibilities of a Director- A director shall have the following duties and responsibilities:

- a.) To conduct fair business transactions with the Corporation and to ensure that personal interest does not bias Board decisions;
- b.) To devote time and attention necessary to properly discharge his duties and responsibilities;
- c.) To act judiciously;
- d.) To exercise independent judgment;
- e.) To have a working knowledge of the statutory and regulatory requirements affecting the Corporation, including the contents of its Articles of Incorporation and By-Laws, the requirements of the Commission, and where applicable, the requirements of other regulatory agencies.
- f.) To observe confidentiality;
- g.) To ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment.

Section 5. Election and Term - The Board of Directors shall be elected during each regular meeting of stockholders and shall hold office for one (1) year and until their successors are elected and qualified.

Section 6. Training - Each director shall be required to undergo comprehensive training on corporate governance and best practices conducted by accredited training providers of the Securities and Exchange Commission.

Section 6. Vacancies - Any vacancy occurring in the Board of Directors other than by removal by the stockholders or by expiration of term, may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, the vacancy must be filled by the stockholders at a regular

or at any special meeting of stockholders called for the purpose. A director so elected to fill a vacancy shall be elected only for the unexpired term of his predecessor in office.

The vacancy resulting from the removal of a director by the stockholders in the manner provided by law may be filled by election at the same meeting of stockholders without further notice, or at any regular or at any special meeting of stockholders called for the purpose, after giving notice as prescribed in these by-laws.

Section 7. Meetings - Regular meetings of the Board of Directors shall be held once a month on such dates and at places as may be called by the Chairman of the Board, or upon the request of a majority of the Directors.

Section 8. Notice - Notice of the regular or special meeting of the Board, specifying the date, time and place of the meeting, shall be communicated by the Secretary to each director personally, or by telephone, telegram, or by written message. A director may waive this requirement, either expressly or impliedly.

Section 9. Quorum - A majority of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business and every decision of at least a majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of a majority of all the members of the Board.

Section 10. Conduct of the Meetings - Meetings of the Board of Directors shall be presided over by the Chairman of the Board, or in his absence, by any other director chosen by the Board. The Secretary, shall act as secretary of every meeting, if not present, the Chairman of the meeting, shall appoint a secretary of the meeting.

Section 11. Compensation - The compensation of each director shall be in accordance with the manner determined and amount set by the Remuneration and Compensation Committee. He shall receive a reasonable per diem allowance for his attendance at each meeting of the Board. The compensation of each member of the Board shall not be more than ten percent (10%) of the net income before income tax of the corporation during the preceding year. Such compensation shall subject to the approval of stockholders representing at least a majority of the outstanding capital stock at a regular or special meeting of the stockholders.

Section 12. Multiple Board Seats or Directorships in Other Entities - The Board shall consider the following guidelines in the determination of the number of directorships for its members:

- a.) The nature of the business of the Corporation of which he is a director;
- b.) Age of the director;
- c.) Number of directorships/active memberships and officerships in other corporations or organizations; and
- d.) Possible conflict of interest.

The optimum number shall be related to the capacity of a director to perform his duties diligently in general.

The Chief Executive Officer and other executive directors shall submit themselves to a low indicative limit on membership in other corporate Boards. The same low limit shall apply to independent, non-executive directors who serve as full-time executives in other corporations. In any case, the capacity of directors to serve with diligence shall not be compromised.

Section 13. Board Committees. - The Board shall constitute the following Committees in aid of good corporate governance:

- a.) **Audit Committee**
 - (i) The audit committee shall be composed of at least three (3) members of the Board who have adequate understanding at least or competence at most of the company's financial management systems and environment.
 - (ii) The audit committee must check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards.

- (iii) The audit committee may perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the corporation.
 - (iv) The audit committee must pre-approve all audit plans, scope and frequency one (1) month before the conduct of external audit.
 - (v) The audit committee must perform direct interface functions with the internal and external auditors.
- b. **Nomination Committee**
- (i) Must have at least three (3) voting (one of whom must be independent) and one (1) non-voting Director in the person of the HR Director/Manager.
 - (ii) The nomination committee pre-screens and shortlists all candidates nominated to join the corporate governance team itself or any of its action teams and thus may put in place screening policies and parameters that may enable it to effectively review the qualifications and competencies of persons submitted for their evaluation.
- c. **Compensation and Remuneration Committee**
- (i) The Compensation or Remuneration Committee shall be composed of at least three (3) members, one of whom shall be an independent director.
 - (ii) It shall establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the corporation's culture, strategy and control environment.
 - (iii) The remuneration shall be in a sufficient level to attract and retain directors and officers who are needed to run the company successfully.
 - (iv) Through the committee, the company shall avoid paying more than what is necessary for this purpose. A proportion of executive directors' remuneration shall be structured so as to link rewards to corporate and individual performance.

ARTICLE IV

OFFICER

Section 1. Election / Appointment - Immediately after their election, the Board of Directors shall formally organize by electing the President, the Vice-President, the Treasurer, and the Secretary at said meeting.

The Board may, from time to time, appoint such other officers as it may determine to be necessary or proper. Any two (2) or more positions may be held concurrently by the same person, except that no one shall act as President and Treasurer or Secretary at the same time.

Section 2. President - The President shall be the Chief Executive Officer of the corporation and shall exercise the following functions:

- a.) To preside at the meetings of the stockholders;
- b.) To initiate and develop corporate objectives and policies and formulate long range projects, plans and programs for the approval of the Board of Directors, including those for executive training, development and compensation;
- c.) To supervise and manage the business affairs of the corporation upon the direction of the Board of Directors;

- d.) To implement the administrative and operational policies of the corporation under his supervision and control;
- e.) To appoint, remove, suspend or discipline employees of the corporation, prescribe their duties, and determine their salaries;
- f.) To oversee the preparation of the budgets and the statements of accounts of the corporation;
- g.) To represent the corporation at all functions and proceedings;
- h.) To execute on behalf of the corporation all contracts, agreements and other instruments affecting the interests of the corporation which require the approval of the Board of Directors.
- i.) To make reports to the Board of Directors and stockholders;
- j.) To sign certificates of stock;
- k.) To perform such other duties as are incident to his office or are entrusted to him by the Board of Directors.

Section 4. The Vice-President - He shall, if qualified, act as President in the absence of the latter. He shall have such other powers and duties as may from time to time be assigned to him by the Board of Directors or by the President.

Section 5. The Secretary - The Secretary must be a resident and a citizen of the Philippines. He shall have the following specific powers and duties:

- a.) To record the minutes and transactions of all meetings of the directors and the stockholders and to maintain minute books of such meetings in the form and manner required by law;
- b.) To keep record books showing the details required by law with respect to the stock certificates of the corporation, including ledgers and transfer books showing all shares of the corporation subscribed, issued and transferred;
- c.) To keep the corporate seal and affix it to all papers and documents requiring a seal, and to attest by his signature all corporate documents requiring the same;
- d.) To attend to the giving and serving of all notices of the corporation required by law or these by-laws to be given;
- e.) To certify to such corporate acts, countersign corporate documents or certificates, and make reports or statements as may be required of him by law or by government rules and regulations.
- f.) To act as inspector at the election of directors and, as such, to determine the number of shares of stock outstanding and entitled to vote, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and to receive votes, ballots or consents, hear and determine questions in connection with the right to vote, count and tabulate all votes, determine the result, and do such acts as are proper to conduct the election.
- g.) To perform such other duties as are incident to his office or as may be assigned to him by the Board of Directors or the President.

He shall have the administrative skills of the chief administrative officer of the corporation and the interpersonal skills of the chief human resources officer. If the secretary is not the general counsel, then he must have the legal skills of a chief legal officer. He must also have the financial and accounting skills of a chief financial officer, and, lastly the vision and decisiveness of the CEO. He shall be fully informed and be part of the scheduling process of the different activities of the corporation. As to agenda, he shall have the schedule thereof at least for the current year and shall put the Board on notice before every meeting.

The secretary shall assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations. He shall attend all Board meetings.

Section 6. The Treasurer - The Treasurer of the corporation shall have the following duties:

- a.) To keep full and accurate accounts of receipts and disbursements in the books of the corporation;
- b.) To have custody of, and be responsible for, all the funds, securities and bonds of the corporation;
- c.) To deposit in the name and to the credit of the corporation, in such bank as may be designated from time to time by the Board of Directors, all the moneys, funds, securities, bonds, and similar valuable effects belonging to the corporation which may come under his control;
- d.) To render an annual statements showing the financial condition of the corporation and such other financial reports as the Board of Directors, or the President may, from time to time require;
- e.) To prepare such financial reports, statements, certifications and other documents which may, from time to time, be required by government rules and regulations and to submit the same to the proper government agencies;
- f.) To exercise such powers and perform such duties and functions as may be assigned to him by the President.

Section 7. Term of Office - The term of office of all officers shall be one (1) year and until their successors are duly elected and qualified.

Section 8. Vacancies - If any position of the officers becomes vacant by reason of death, resignation, disqualification or for any other cause, the Board of Directors, by majority vote may elect a successor who shall hold office for the unexpired term.

Section 9. Compensation - The officers shall receive such remuneration as the Remuneration and Compensation Committee may determine. A director, except an independent director, shall not be precluded from serving the corporation in any other capacity as an officer, agent or otherwise, and receiving compensation therefor.

ARTICLE V

OFFICES

Section 1. The principal office of the corporation shall be located at the place stated in Article III of the Articles of Incorporation. The corporation may have such other branch offices, either within or outside the Philippines as the Board of Directors may designate.

ARTICLE VI

AUDIT OF BOOKS, FISCAL YEAR AND DIVIDENDS

Section 1. External Auditor - At the regular stockholders' meeting, the external auditor of the corporation for the ensuing year shall be appointed upon recommendation of the Audit Committee. The external auditor shall examine, verify and report on the earnings and expenses of the corporation.

The reason/s for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be properly recorded. The same shall include a discussion of any disagreement

with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

The external auditor of the company shall not at the same time provide the services of an internal auditor to the same client. The corporation shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor.

The company's external auditor shall be rotated or the handling partner shall be changed every five (5) years or earlier.

Section 2. Fiscal Year - The fiscal year of the corporation shall begin on the first day of January and end on the last day of December of each year.

Section 3. Dividends - Dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine and in accordance with law.

ARTICLE VII

SEAL

Section 1. Form and Inscriptions - The corporate seal shall be determined by the Board of Directors.

ARTICLE VIII

AMENDMENTS

Section 1. These by-laws may be amended or repealed by the affirmative vote of at least a majority of the Board of Directors and the stockholders representing a majority of the outstanding capital stock at any stockholders' meeting called for that purpose. However, the power to amend, modify, repeal or adopt new by-laws may be delegated to the Board of Directors by the affirmative vote of stockholders representing not less than two-thirds of the outstanding capital stock; provided, however, that any such delegation of powers to the Board of Directors to amend, repeal or adopt new by-laws may be revoked only by the vote of stockholders representing a majority of the outstanding capital stock at a regular or special meeting.

IN WITNESS WHEREOF, we, the undersigned stockholders have adopted the foregoing by-laws and hereunto affixed our signatures this 10th day of July 2002 at Metro Manila, Philippines: