

FOR APPROVAL OF THE SEC
PROPOSED AMENDMENTS TO THE PDEX RULES

PROPOSED REVISIONS TO : Rule 7.4 of the Listing and Enrollment Rules
[Listing of Exchange Traded Funds (ETFs)]

Reference No. : Rule Proposal No. 02-2010

Rationale for the Proposal :

- To provide increased liquidity in the market through the admission of other instruments for trading in PDEX
- To address queries of some prospective Fund Managers who have expressed interest in sponsoring the listing and trading of ETFs in PDEX

PROPOSED RULES

<i>Original Rule</i>	<i>Proposed Amendment</i>
Rule 7 Listing and Enrolment Rules	Rule 7 Listing and Enrolment Rules
<p><i>Rule 7.1. General Provisions</i> x x x</p> <p><i>Rule 7.3 Admission Criteria Relating to Securities</i> x x x</p> <p><i>Rule 7.4 Waiver</i> x x x</p>	<p><i>Rule 7.1. General Provisions</i> x x x</p> <p><i>Rule 7.3 Admission Criteria Relating to Securities</i> x x x</p> <p><u>Rule 7.4 Exchange Traded Fund</u></p> <p><u>In addition to the general rules for listing, the following shall be applied to Exchange Traded Fund as hereinafter defined.</u></p> <p><u>An Exchange-Traded Fund or ETF shall mean an open-end fund organized, structured and registered with the applicable government or regulatory agency, in accordance with applicable regulations and whose investment objective is to track a specified index or basket of securities. An ETF issues (or redeems) Creation Units or ETF Units (as hereinafter defined) in exchange for the deposit or delivery of cash or basket of assets, the current value of which is disseminated on a per share or unit basis by a registered securities exchange or registered securities trading market at regular intervals during the trading day.</u></p> <p><u>ETFs to be listed on PDEX shall track indexes or a basket of fixed income securities listed or enrolled in PDEX.</u></p>

	<p>1. <u>As used in these Rules, the following terms shall have the definitions given herein:</u></p> <ul style="list-style-type: none"> a. <u>'Authorized Participant' shall generally refer to a large institutional investor who buys or sells units of an ETF directly from/to the Fund Manager or its equivalent, and usually only in Creation Units, which may be exchanged for cash or in-kind with baskets of underlying securities.</u> b. <u>'Creation Unit' shall refer to large blocks of ETF units, as specified or defined by the ETF.</u> c. <u>'ETF Units' shall refer to a unit of or interest in the ETF whereby holders thereof receive a proportionate amount of any income, capital gains, or losses realized by the underlying securities.</u> d. <u>'Fund Manager' shall refer to an investment company manager or an equivalent person or entity sponsoring the creation of the ETF.</u> <p>2. <u>An ETF in order to be admitted for listing on PDEX must meet the following additional minimum requirements:</u></p> <ul style="list-style-type: none"> a. <u>The ETF may either be an investment company organized in accordance with the Investment Company Act and registered with the Securities and Exchange Commission (SEC) or a Unit Investment Trust Fund or its equivalent established in accordance with the rules of the Bangko Sentral ng Pilipinas (BSP) or an open fund established in accordance with applicable Philippine regulations.</u> b. <u>The ETF must have a minimum asset size as prescribed by applicable regulations.</u> c. <u>Securities underlying the ETF must consist of fixed income securities admitted for trading in PDEX or such other underlying securities as shall be determined by PDEX</u> d. <u>The ETF must have a Fund Manager, who shall have been responsible for sponsoring or constituting the ETF. It</u>
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shall have the following minimum qualifications and perform the following minimum functions:

i. The Fund Manager must have been in operation as such or as an entity performing equivalent functions for at least three (3) years and the persons responsible for managing the investments of the ETF must have a track record in managing investments or its equivalent for at least five (5) years.

ii. The Fund Manager shall submit to PDEX a copy of the written agreement entered into with the Authorized Participant/s, except in cases where the Authorized Participant and Fund Manager are the same.

iii. The Fund Manager shall accomplish and submit the application and agreement for listing, as applicable, as required under Rule 7.6.1 of the PDEX Rules.

e. The ETF must have at least two (2) Authorized Participants.

f. The underlying securities of the ETF must be placed in custody in accordance with applicable rules of the applicable regulatory body.

g. In addition to the qualifications of a Trustee under Rule 7.3.6 of the PDEX Rules, the appointed Trustee must have no interest in or relation to the Fund Manager or to the Authorized Participant.

h. The ETF shall engage an independent auditing firm duly accredited by the SEC to examine, verify and perform independent audit of the ETF's financial and accounting records.

i. The ETF must include in its prospectus or offering document the tax environment applicable to it.

The requirement under Rule 7.3.4 of the PDEX rules shall not apply.

3. Additional Continuing Obligations

In addition to the applicable continuing obligations of Issuers of Admitted Securities under Rule 7.8 of the PDEX Rules, the Fund Manager of admitted ETFs shall comply or ensure compliance by the ETF, with the following requirements as conditions for continued admission of the ETF with PDEX:

- a. The ETF shall maintain all applicable regulatory licenses and accreditation.
- b. Simultaneously as required by SEC or the applicable regulatory body, the Fund Manager shall furnish PDEX certified true copies of information, documents and reports submitted to SEC or the applicable regulatory body relating to the ETF listed. In the case of exempt securities, the Fund Manager shall furnish PDEX updated information in the form and frequency that the PDEX shall prescribe.
- c. The Fund Manager shall ensure that the ETF shall have all necessary facilities and information available to enable holders of the listed securities to exercise their rights. In particular, it must (i) inform holders of the holding of meetings which they are entitled to attend; (ii) enable them to exercise their right to vote where applicable; and (iii) publish in newspapers notices or distribute circulars giving details of the allocation and payment of interest in respect of such securities, the issue of new securities and the redemption of securities.

4. Reportorial and Disclosure requirements

In addition to the applicable disclosure obligations of Issuers of Admitted Securities under Rule 7.9 of the PDEX Rules:

- a. The Fund Manager of admitted ETFs shall submit to PDEX the following minimum information:
 - i. Net asset value (NAV) per unit of the ETF on a ~~daily~~ basis regular intervals as may be prescribed by PDEX.

ii. Number of units in circulation on a monthly basis

b. The Fund Manager shall disclose the following events requiring immediate disclosure:

i. Any change/proposed change in the control or management, or name, of the Trustee or Fund Manager

ii. Change or proposed change in rate of fees of the Fund Manager, Trustee, Custodian, Registry, and such other relevant entities

iii. Proposed change in general character or nature of the ETF

iv. Intention to renew, vary or terminate the ETF, and material developments of such proposal

v. Any intention to apply for an increase in the size of the ETF with the SEC or applicable regulator

vi. Material modification to the deed constituting the ETF

vii. Material change to the investment objectives set out for the ETF

viii. Change or proposed change to constituents and weightings of the index basket

ix. Change in methodology for compiling or calculating index

c. The Fund Manager shall submit to PDEX such periodic, quarterly and annual reports as may be required and in such form as may be specified, by PDEX.

Rule ~~7.4~~ 7.5 Waiver

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[Note: The succeeding provisions shall be re-numbered accordingly.]