

MARKET COMPLIANCE & DISCIPLINE COMMITTEE

INTERNAL RULES

Rule 1 Committee Membership, Powers & Duties

Article 1. *Statement of Policy and Objective.* It is the policy and objective of these Rules to provide a fair and expeditious determination of the commission of acts or practices in violation of any provision of the Securities Regulation Code (SRC) and its Implementing Rules and Regulations (IRR) (together “Securities Laws”) and the rules that shall be adopted by PDEX (the “PDEX Rules”), and the imposition of disciplinary sanctions, as may be warranted, pursuant to the role of PDEX as a self-regulatory organization.

Article 2. *Composition.* The membership of the Market Compliance & Discipline Committee (“Committee”) shall be as set forth in the PDEX By-Laws and Rules as these may be amended from time to time.

Article 3. *Powers and Duties of the Committee.*

- (a) To adopt rules of procedure for the conduct of its duties, and formulate policies and guidelines affecting the Committee’s functions; Provided, That the rules, policies and guidelines to be adopted hereunder shall be in accordance with Securities Laws and the PDEX Rules;
- (b) To give due course to complaints against a Trading Participant or an Issuer on matters endorsed to it, or on recommendation, by the Market Regulatory Services Group (“MRSG”);
- (c) To review, confirm, modify or reverse the MRSG and Hearing Panel’s actions and recommendations. The Committee may approve the recommended sanction or modify the same if, in its determination, the recommended sanction is incorrect or not warranted by the findings, or a higher sanction is required to achieve the desired penal and/or deterrent effect, Provided, However, That such modified sanction is not inconsistent with Securities Laws and the PDEX Rules;
- (d) To conduct hearings and receive evidence;
- (e) After the conduct of proceedings in accordance with these Rules, to impose appropriate sanction/s or dismiss the case if the evidence does not warrant further action;
- (f) To delegate the powers allowed under these Internal Rules; and
- (g) To perform such other functions and activities which are necessary for the effective accomplishment of the abovementioned functions.

Article 4. *Quorum.* The Committee shall, at all times, only act when there exists a quorum, which shall exist when a majority of its members are present. However, for purposes of hearing and receiving evidence of the respondent, the same may be performed by the Hearing Panel, upon direction of the Committee. In deciding cases, the decision of the majority of the members of the Committee shall prevail and shall be considered as the decision of the Committee.

Article 5. *Chairman.* The Chairman of the Committee shall be the Chairman of the Market Governance Board, or as PDEx By-Laws and Rules require.

1. *Qualifications.* The Chairman shall have such qualifications as are required under PDEx By-Laws and Rules.
2. *Powers and Functions.* The Chairman shall have the power and responsibility to:
 - (a) Convene the Committee in accordance with these Internal Rules;
 - (b) Constitute a Hearing Panel and delegate the powers allowed under these Internal Rules, with consent of the majority of the Committee members;
 - (c) Preside over the meetings of the Committee;
 - (d) Perform the functions of a Hearing Officer;
 - (e) Set the agenda for meetings;
 - (f) Perform such other functions as may be delegated or entrusted to him from time to time.

Article 6. *Secretary of the Committee.* The Committee shall appoint a secretary who shall perform the following functions:

- (a) Serve or cause the service of notices, orders and decisions;
- (b) Keep and maintain the minutes of the meetings and a written record of all of the Committee's proceedings;
- (c) Keep a Docket wherein shall be entered in the chronological order the cases and proceedings had thereon and a Book of Decisions which shall contain the original copy of the decisions or resolutions of the Committee in the order of their dates; and
- (d) Perform such other related functions as may be delegated or entrusted to him from time to time.

Article 7. *Cessation of Membership of Committee Members.* A Committee member who ceases to be an Independent Governor of the Market Governance Board shall cease to be a member of the Committee.—He shall be succeeded by the newly-appointed Independent Governor in the Market Governance Board.

Article 8. *Filling of Vacancies.* Any vacancies shall be filled under the pertinent provisions of the Internal Rules of the Market Governance Board for filling of vacancy of Independent Governors. The Independent Governor selected to fill a vacancy shall automatically fill the vacancy in the Market Compliance & Discipline Committee.

Rule 2 MEETINGS

Article 1. *Meetings.* The Committee shall meet at least once a month, or on call of the Chairman, by request of the Market Regulatory Services Group (“MRSG”) of PDEX where the same is deemed necessary. However, a majority of all the members of the Committee may call a special meeting to discuss and decide on urgent and vital matters which need immediate action.

Article 2. *Venue.* The proceedings and meetings of the Committee shall take place in the offices of PDEX, unless otherwise indicated in the notice.

Rule 3 HEARING PANEL

Article 1. *Delegation of Powers.* The Committee may delegate its functions to a Hearing Panel for purposes of hearing and receiving evidence and making a recommendation to the Committee. Nothing herein shall be construed to deprive the Committee of its powers under the By-Laws and the PDEX Rules.

Article 2. *Composition.* The Hearing Panel shall be composed of at least three (3) members of the Committee, upon appointment of the Chairman.

Article 3. *Quorum.* The presence of at least two (2) members of a Hearing Panel shall constitute a quorum. The concurrence of two (2) members of a Hearing Panel shall be necessary for the adoption of its recommendation to the Committee.

Article 4. *Tenure.* The Hearing Panel and its members shall serve as such until otherwise provided.

Article 5. *Powers and Responsibilities of the Hearing Panel.*

1. To send notices to parties;
2. To conduct clarificatory hearings in accordance with these Internal Rules;
3. To receive evidence and administer oaths;
4. To recommend to the Committee whether or not to sanction the respondent/s and the penalties to be imposed.

5. The Hearing Panel shall have no power to compromise the case without the consent of the Committee by affirmative vote of a majority of its members;
6. To rule on propriety of reporting any matter to the appropriate regulatory bodies, in view of their jurisdiction and recommend the same for approval of the Committee; and
7. Such other powers as are deemed necessary and appropriate to carry their powers into effect.

Article 6. *Findings and Recommendations to the Committee.* The Hearing Panel shall conclude its proceedings and make its findings and recommendations to the Committee, stating the basis for their recommendation, and the violations found, if any.

Article 7. *Recusal.* Any member of the Hearing Panel or the Committee shall recuse himself in cases of conflict of interest.

Rule 4 Resource Persons

Article 1. *Function.* One or more Resource Persons may be appointed by the Committee to act as industry expert or legal resource persons during disciplinary proceedings as described in Rule 6 of these Rules.

Article 2. *Qualifications.* The following are the qualifications for Resource Persons:
(a) Must be a known industry expert;
(b) Must not be a member of the MRSG, the Committee or the Market Governance Board; and
(c) Must be a person of integrity and judgment.

Article 3. *The Pool of Resource Persons.* The Committee may appoint one or more Resource Persons for each proceeding, from a Pool of at least ten (10) accredited qualified persons nominated by the Trading Participants. The Committee shall accept nominations and replacements to incumbent nominees at the beginning of each year, and shall have sole discretion and authority to choose qualified nominees to admit into the Pool of Resource Persons. The Committee may appoint one or more Resource Persons for each disciplinary proceeding, provided that no person may be appointed Resource Person in a proceeding where he or she is the respondent/s or the officer or employee or associate of the respondent/s.

Article 4. *Areas of Expertise.* The Pool of Resource Persons shall be composed of industry experts in the following fields:
(a) sales
(b) trading
(c) settlement
(d) law.

Article 5. *Manner of Referral of Queries to a Resource Person.* The Resource Person shall provide the Committee or the Hearing Panel, as the case may be, with expert opinion on any matter that is relevant or material to the disciplinary proceeding. The Committee or the Hearing Panel may refer such matters by means of specific queries propounded orally or in writing to such Resource Person. Pursuant thereto, the Resource Person may, at the sole discretion of the Committee or the Hearing Panel, be furnished copies of pertinent documents, or be allowed to observe the proceedings.

Article 6. *Opinion.* The Resource Person may, *motu proprio* or upon the direction of the Committee or Hearing Panel, submit to the Committee or Hearing Panel a written Opinion setting forth therein his expert opinion or evaluation of the evidence presented, as well as his recommendation as to the disposition of the case.

Rule 5

DISCIPLINARY PROCEEDINGS

Article 1. *Commencement of Disciplinary Proceedings.* All disciplinary proceedings before the Committee and the Hearing Panel shall be commenced by the filing of a Charge Memorandum by the MRSG, if such a proceeding is warranted, in such form as shall be prescribed by the Committee. Such filing shall include all evidence obtained from all fact-finding efforts undertaken, and shall state the violations noted, both with respect to the PDEX Rules and the Securities Laws. The Committee shall assume jurisdiction upon receipt of the Charge Memorandum.

Article 2. *Summary Proceedings.* In cases involving Non-Posting by PDST Market-Making Bank, Non-Execution of Trades in the PDEX Trading System, Delayed Execution, Failure to Submit Associated Person's Sworn Certification, and offenses of a similar nature, respondent shall have the opportunity to respond to the charges in writing and the procedure below may be dispensed with. In such cases, the MRSG shall evaluate the respondent's response and recommend to the Committee the applicable sanction.

Article 3. *Docket Number.* All Charge Memoranda shall be numbered and docketed consecutively and entered into an appropriate docket book. Corresponding code numbers may be used for reference.

Article 4. *Duty of the Committee Upon Filing of the Charge Memorandum.* Upon the filing of the Charge Memorandum, the Committee, from a consideration of the allegations thereof, may:

- (a) dismiss the case outright if it finds the Charge Memorandum to be insufficient in form and substance; or
- (b) give due course to the Charge Memorandum and immediately direct the Secretary to serve the required notice on the respondent/s; and
- (c) if the Charge Memorandum is given due course, appoint one or more Resource Persons in accordance with Rule 4 of these Rules; or

- (d) if the Charge Memorandum is given due course, and the charge when proven may result in the involuntary suspension or involuntary termination of an Issuer's listed or enrolled securities, act in accordance with the summary procedure under the applicable PDEX Rules.

Article 5. *Filing of Verified Comment.* The Secretary of the Committee shall serve a Notice to the respondents containing:

- (a) a brief statement of the violations charged,
- (b) a directive that the respondent/s file their verified Comment to the Charge Memorandum within ten (10) days from receipt of the Notice; and
- (c) a notice that unless the respondent/s so comment/s, the Committee may, *motu proprio* or on motion of the MRSG, render a decision as warranted by the facts alleged in the Charge Memorandum. The Notice shall include a copy of the Charge Memorandum.

Article 6. *Modes of Service.* Service of the Charge Memorandum, pleadings, motions, notices, orders, judgments and other papers shall be made either personally or by registered mail. Personal service shall be deemed effected by delivering personally a copy of the papers, or by leaving the same at the respondent/s' office address during business hours with a person having charge thereof. If no person is found at respondent/s' office, or the same is not known, then by leaving the copy thereof at respondent/s' last place of residence as reflected in PDEX records with a person of sufficient age and discretion then residing thereat. Service by registered mail shall be made by depositing a copy in the post office, in a sealed envelope, plainly addressed to the respondent/s at the aforesaid office address, if known, or otherwise at respondent/s' place of residence.

Article 7. *Respondent's Comment to the Charge Memorandum.* Within ten (10) days from service of the Notice, the respondent/s' shall file with the Committee its verified Comment on the Charge Memorandum, in five (5) legible copies, and serve a copy thereof on the MRSG. The verified Comment shall include all supporting documents relied on by the respondent/s in the Comment and affidavits in support of its allegations. The verified Comment shall indicate specifically which assertions of fact and charges in the Charge Memorandum are denied and which are admitted; and shall also contain any specific facts in contradiction of the charges and any affirmative defenses. A general denial without more shall not be deemed to satisfy this requirement. Any assertions of fact not specifically denied in the verified Comment may be deemed admitted and failure to file a Comment in the form prescribed herein may be deemed an admission of any facts asserted in the Charge Memorandum.

Article 8. *Affidavits.* The affidavits required to be submitted under these Rules shall state only facts of personal knowledge to the affiants that are admissible in evidence, and shall show their competence to testify to the matters stated therein. A violation of this requirement may subject the party or the counsel who submits the same, to

disciplinary action, and shall be cause to expunge the inadmissible affidavit or portion thereof from the record.

Article 9. *Respondent's Failure to File a Verified Comment.* Should the respondent/s fail to file a verified Comment, the Committee may, *motu proprio* or on motion of the MRSB, render a decision as warranted by the facts alleged in the Charge Memorandum.

Article 10. *Respondent's Admission of the Facts Charged.* Should the respondent admit in its verified Comment the facts charged in the Charge Memorandum, the case shall proceed in accordance with the immediately preceding article.

Article 11. *Notice of Preliminary Conference.* Not later than ten (10) days after the verified Comment is filed, the Secretary of the Committee shall serve on the respondent/s and the MRSB a notice, setting the case for preliminary conference. The failure of a sole respondent to appear shall be cause to allow the Committee to proceed in accordance with Article 8 hereof; however this rule shall not apply where one (1) or more respondents of a common Charge Memorandum who had pleaded a common defense shall appear at the preliminary conference.

Article 12. *Preliminary Conference.* In cases where there is no default under the preceding provision, the respondent/s, by appearance of its/their designated representatives, shall participate in a preliminary conference on such date and at such place as specified in the Notice. Matters to be resolved during the preliminary conference shall be at least the following:

1. The possibility of a settlement in accordance with these Internal Rules;
2. The simplification of the issues;
3. The necessity or desirability of amendments to the pleadings;
4. The possibility of obtaining stipulations or admissions of facts and of documents to avoid unnecessary proof;
5. The limitation of the number of witnesses and a brief statement of their testimony; and
6. Such other matters as may aid in the prompt disposition of the action.

Article 13. *Record of Preliminary Conference.* Within five (5) days after the termination of the preliminary conference, the Committee shall issue an order stating the matters taken up therein, which includes the following:

- (a) The terms of any amicable settlement entered into;
- (b) Stipulations or admissions entered into by the parties;
- (c) Whether, on the basis of the pleadings, stipulations and admissions, a decision may be rendered without need of further proceedings, in which event a decision shall be rendered within fifteen (15) days therefrom;
- (d) Material facts which remain controverted; and
- (e) Other matters intended to expedite the disposition of the case.

Article 14. *Position Papers.* Within fifteen (15) days from receipt of the order mentioned in the next preceding section, the parties shall submit their verified position papers, setting forth the facts and the law relied upon by them.

Article 15. *Decision; Hearing, when ordered.* Should the Committee find, upon a consideration of the documents and evidence filed by the MRSG and the respondent/s, and position papers filed by the parties, that a decision may be rendered thereon without need of a formal hearing, it may proceed to render decision not later than fifteen (15) days from submission of the position papers of the parties. In cases where the Committee deems it necessary to hold a hearing to clarify specific factual matters before rendering decision, the Committee may direct the Hearing Panel to set the case for hearing for the purpose, and the hearing shall be conducted by the Hearing Panel. At such hearing, witnesses whose affidavits were previously submitted may be asked clarificatory questions. The order setting the case for hearing shall specify the witnesses who will be called to testify and the matters on which their examination will deal.

Article 16. *Hearing and Decision.* In cases where a hearing is ordered, the same must be finished on the same date set therefor, insofar as practicable. Extensions of this period shall be allowed at the sole discretion of the Committee or the Hearing Panel, as the case may be; Provided, that the hearings shall be concluded within 30 days from the first hearing, after which no further reception of evidence shall be allowed.

Article 17. *Endorsement of Matters to Regulators.* Whenever necessary or appropriate, especially in a case where PDEX does not have the authority to take disciplinary action against the parties to the case, the Committee shall cause the endorsement of the case to the Commission with the relevant findings, recommendations and/or conclusions of the MRSG for appropriate action by the Commission. Such endorsement shall be effected upon the affirmative vote of the Committee.

Article 18. *Compromises.* Any case that may be subject of a settlement offer under the SRC, may be compromised under the following conditions:

- (a) Any acceptance of a settlement offer shall be with the consent of the Committee;
- (b) The settlement offer is within the parameters acceptable to the Commission; and
- (c) Such other conditions as may be imposed by the Committee.

Article 19. *Hearing Panel's Determination.* After hearing all the witnesses and considering all the evidence, the Hearing Panel shall determine whether the respondent is guilty of the charges, make the proper recommendation and elevate the matter for the determination of the Committee.

Article 20. *Decision.* The Committee shall decide the cases before it based on the evidence presented or gathered in the course of the examination and/or investigation

and found in the disciplinary proceedings conducted under these Internal Rules. The Committee shall weigh evidence for or against a party in accordance with the rule on substantial evidence in administrative investigations. Substantial evidence shall mean such relevant evidence as a reasonable mind might accept as adequate to support a conclusion. The Committee shall resolve each case in writing, stating in the decision the basis therefor, providing copies thereof to the Commission, the MRSG, and the respondent/s to the case.

Article 21. Confidentiality of Information. Unless required by law or the relevant authorities, the MRSG and/or the Committee shall not disclose to persons not parties to the case or not members or representatives of the Commission or the Committee any information, which MRSG and/or the Committee receives, gathers or otherwise acquires in the course of its examination, investigation and resolution of the case. Nothing herein shall preclude the MRSG and/or the Committee to allow PDEx to release information of a summary nature to the public, where the same does not identify the parties involved.

Article 22. Committee Action. In the disposition of cases, the Committee may take any or all of the following actions:

- (a) Immediately impose sanctions on the party found to be in violation pursuant to pertinent PDEx Rules;
- (b) Give the relevant party time to take all actions necessary to ensure full compliance with pertinent rules and regulations of the Commission and PDEx or directives of the MRSG or the Committee; and
- (c) Resolve the case in a manner that the Committee may deem equitable and appropriate under the circumstances.

Article 23. Motion for Reconsideration. An aggrieved party may move only once for reconsideration of the decision by filing with the Committee, through the MRSG a written motion stating the grounds therefor within a non-extendible period of fifteen (15) calendar days from receipt by the aggrieved party of the decision.

Article 24. Decisions Executory. All Committee decisions shall be immediately executory: (a) upon the lapse of the period to file a motion for reconsideration without a party filing a motion for reconsideration; or (b) upon resolution by the Committee of the motion for reconsideration filed by a party. An appeal by an aggrieved party of a decision of the Committee to the Commission shall not stay the execution of the decision unless the Commission restrains or enjoins the same.

Article 25. Appeals. An aggrieved party may appeal the case to the Commission in accordance with the Commission's rules pertinent thereto.

Article 26. Regular Submission of Decisions/Reports to Commission. The Committee, through the MRSG, shall submit to the Commission's Market Regulation Department a monthly report on the matters taken up, resolved and decided by the Committee under these Internal Rules, in accordance with the requirements of Securities Laws.

Article 27. *Records of Proceedings.* The Committee, through its Secretary, shall keep and maintain a written record of all its proceedings, for the period provided under Securities Laws.

Rule 7
MISCELLANEOUS PROVISIONS

Article 1. *Periods Given.* All periods given in these Internal Rules shall be non-extendible without the consent of the Committee.

Article 2. *Rules of Court Suppletory Effect.* The Rules of Court of the Philippines shall apply in a suppletory manner to these Internal Rules.

Rule 8
MODIFICATION OF INTERNAL RULES

These Internal Rules may be modified by affirmative vote of the majority of the membership of the Committee, with consent of the majority of the membership of the Market Governance Board, in accordance with its own procedures.