



MEMORANDUM – 2020-019

TO : THE TRADING PARTICIPANTS

SUBJECT : PROPOSED SEC RULES ON THE NUMBER OF INDEPENDENT DIRECTORS OF EXCHANGES AND OTHER ORGANIZED MARKETS

DATE : 26 June 2020

The Securities and Exchange Commission ("SEC") proposes to adopt and issue its *Rules on the Number of Independent Directors of Exchanges and Other Organized Markets*. Hence, the SEC invites all concerned to submit their comments on the proposed rules.

The draft *SEC Memorandum Circular* is attached herewith for reference.

The comments shall be addressed to the Markets and Securities Regulation Department (MSRD), Ground Floor Secretariat Building, PICC Complex, Roxas Boulevard, Pasay City, c/o Atty. Marlon Facun and Ms. Gretchen Lagonoy, **not later than 03 July 2020**.

The SEC, however, prefers that the comments be sent via electronic mail to msrd_covid19@sec.gov.ph, mrd@sec.gov.ph, mgfacun@sec.gov.ph, and gclagonoy@sec.gov.ph. For ease of tracking all the comments, please indicate in the "Subject" field in the email message box the following: Comments on Rules on IDs of Exchanges.

(original signed)

DAISY P. ARCE

President

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NOTICE

TO : ALL CONCERNED

SUBJECT : **REQUEST FOR COMMENTS ON THE PROPOSED SEC RULES ON THE NUMBER OF INDEPENDENT DIRECTORS OF EXCHANGES AND OTHER ORGANIZED MARKETS**

The Securities and Exchange Commission proposes to adopt and issue **SEC Rules on the Number of Independent Directors of Exchanges and Other Organized Markets**. Hence, the Commission invites all concerned to submit their views, comments, and inputs on the proposed Rules.

The draft SEC Memorandum Circular is attached herewith for reference.

Kindly address your comments to the **Markets and Securities Regulation Department (MSRD)**, Ground Floor Secretariat Building, PICC Complex, Roxas Boulevard, Pasay City, c/o **Atty. Marlon Facun and Ms. Gretchen Lagonoy** not later than **July 03, 2020**. We prefer that you email them to msrd_covid19@sec.gov.ph, mrd@sec.gov.ph, mgfacun@sec.gov.ph and gclagonoy@sec.gov.ph.

For ease of tracking all the comments, please indicate in the “**Subject**” field in your email message box the phrase – *Comments on Rules on IDs of Exchanges*.



SEC MEMORANDUM CIRCULAR NO. _____
Series of 2020

TO : ALL EXCHANGES AND OTHER ORGANIZED MARKETS

SUBJECT : SEC RULES ON THE NUMBER OF INDEPENDENT DIRECTORS OF EXCHANGES and OTHER ORGANIZED MARKETS

WHEREAS, Republic Act No. 11232, or the Revised Corporation Code of the Philippines ("RCC"), was approved on February 20, 2019 and took effect on February 23, 2019;

WHEREAS, Section 22 of the RCC prescribes that the number of independent directors of the board of directors of corporations vested with public interest constitute at least 20% of such board, institutionalizing the presence of persons who shall exercise independent judgment in carrying out the responsibilities as directors.

WHEREAS, the Supreme Court has declared that "it is undeniable that an Exchange is not an ordinary corporation, in that although it is clothed with the marking of a corporate entity, it functions as the primary channel through which the vessels of capital trade ply. The Exchange relevance to the continued operation and filtration of the securities transactions in the country gives it a distinct color of importance such that government intervention in its affairs becomes justified, if not necessary. Due to this special nature of stock exchanges, the country's lawmakers have seen it wise to give special treatment to the administration and regulation of stock exchanges. (*Philippine Stock Exchange, Inc. v. The Honorable Court of Appeals*, G.R. No. 125469, October 27, 1997, 281 SCRA 232, 246 [1997])

WHEREAS, Section 179 (m) of the RCC authorizes the Commission to, among others, "*prescribe the number of independent directors.*"

WHEREAS, Section 179 (d) of the RCC empowers the Commission to "*promote corporate governance and the protection of minority investors, through among others, the issuance of rules and regulations consistent with international best practices.*"

WHEREAS, based on the best practices of major and comparable markets in many economies, the number of independent directors of their exchanges comprise majority of the members of the board of directors.

NOW THEREFORE, the Commission hereby promulgates the following Rules on the number of independent directors of exchanges and other organized markets

Section 1. Coverage — These Rules shall cover the number of independent directors in the board of directors of exchanges and other organized markets in the Philippines.

Section 2. Number of Independent Directors — Independent Directors shall constitute at least a majority of the members of the board of directors of exchanges and other organized markets.

Section 3. Repealing Clause — All existing circulars, orders and other related issuances inconsistent with these Rules are hereby revoked or modified accordingly.

Section 4. Effectivity — These Rules shall take effect immediately upon publication in two (2) newspapers of general circulation.

_____ July 2020, Pasay City Philippines.

EMILIO B. AQUINO
Chairperson