INTERIM GUIDELINES GOVERNING THE INVESTIGATION AND AUDIT FUNCTIONS OF THE PSE

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Provisions in the By-Laws of the PSE to the contrary notwithstanding, the Commission by its authority granted under BP 178, otherwise known as the Revised Securities Act and PD 902-A, as amended, hereby prescribes the following interim guidelines to assure and maintain a high degree of investors' confidence in the stock market, to strengthen the professionalization of its Compliance and Surveillance Department (CSD) staff, and to lay the fundamentals for teamwork between the professional management and the Exchange members:

1. The CSD shall undertake its investigative and audit functions without the need of any clearance or approval from the Board or the President. Such functions, however, shall be pursued along the following guidelines:

- Audit objectives shall be prepared and approved by the Department head and furnished the President;

- CSD staff shall always wear their Identification Cards and present their audit authority duly signed by their Department Head and shall exercise due courtesy at all times;

- The team shall make a report at the end of each day to their Department head and the latter shall promptly notify the President of the progress of the investigation or audit, and

- Investigations/audit shall be terminated within 30 days but may be extended upon approval of the Department head, who shall notify the President of such action.

2. In addition to a showing of integrity, probity, and having possessed appropriate academic background, the CSD staff should be highly competent in the field of audit and/or investigation.

3. The members of the CSD shall always be impartial in the discharge of their assigned duties and shall be guided with the appropriate rules and regulations of the Exchange, exercising prudence and good faith in all their actions.

4. Upon completion of its audit or investigation, the Department head shall immediately forward the results thereof and its recommendations to the President. The President shall decide whether to refer the matter to the Business Conduct and Ethics Committee (BCEC) for proper prosecution of the errant member for violations of the rules and regulations of the Exchange in accordance with its procedures. All decisions and actions of the BCEC completely disposing the case must be promptly reported to the Commission for review, attaching therewith copies of records and the evidence gathered supporting its findings and decision. In case the President decides not to refer the matter to BCEC, he shall submit a written report to the Board of Governors and the SEC justifying his action.

The findings of the CSD where it involves violation of the securities laws and the rules and regulations of the Commission must be promptly reported to the SEC for appropriate action.

5. The CSD shall make regular progress reports of all their investigations and audits to the President.

6. The President in the exercise of its executive functions shall have the authority to order the discontinuance of any investigation audit should he find compelling and justifiable grounds to do so. In such event, he shall immediately make a written report of the same to the PSE Board of Governors and to the Commission.

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7. The Commission shall assign a team of its staff members to the PSE to monitor and evaluate the progress at which the PSE complies with the requirements for SRO status and in order to insure the effective implementation and compliance of these Interim Guidelines.

This Circular shall be effective immediately and may be withdrawn upon proper Orders of the Commission after a showing that these provisions shall have been incorporated in the internal rules of the PSE.

SO ORDERED.

Adopted: 7 April 1998

(SGD.) PERFECTO R. YASAY, JR.
Chairman

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