

AN ACT TO REGULATE THE SALE OF CERTAIN CORPORATION SHARES, STOCKS, BONDS AND OTHER SECURITIES.

Act No. 2581., February 04, 1916

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By authority of the United States, be it enacted by the Philippine Legislature, that:

SECTION 1. Terms defined.-The term "securities" as used in this Act shall be taken to mean stock certificates, shares, bonds, debentures, certificates of participation, contracts, contracts or bonds for the sale and conveyance of lands on deferred payments or on the installment plan, or other instruments in the nature thereof, by whatsoever name known or called. The term "speculative securities" as used in this Act shall be deemed to mean and include:

- (a) All securities to promote or induce the sale of which profit, gain, or advantage unusual in the ordinary course of legitimate business is in any way advertised or promised;
- (b.) All securities the value of which materially depend upon proposed or promised future promotion or development rather than on present tangible assets and conditions;
- (c) All securities for promoting the sale of which a commission of more than five per cent is offered or paid;
- (d) The securities of any enterprise or corporation which has included, or proposes to include in its assets as a material part thereof patents, formulae, good-will, promotion or other intangible assets, or which has issued or proposes to issue a material part of its securities in payment for patents, formulae, good-will, promotion or other intangible assets.

SEC. 2. Sale of securities, when permitted.-It shall be unlawful for any person, partnership, association or corporation, either himself or through brokers or agents, directly or indirectly, to sell or cause to be sold, offer for sale, take subscriptions or negotiate for the sale, in any manner whatsoever except as herein provided, of any speculative securities in the Philippine Islands other than those expressly exempted without a written permit from the Treasurer of the Philippine Islands as hereinafter provided. Exclusive of the securities specifically excepted in section three of this Act, every person, partnership, association, or corporation attempting to offer to sell in the Philippines speculative securities of any kind or character whatsoever, shall be under obligation to file previously-with the Insular Treasurer, paying to the same the tax of twenty pesos:

- (a) A statement showing in detail the plan on which the proposed business or enterprise is to be conducted;
- (b) A copy of all contracts, bonds or other instruments which it is proposed to make with or sell to contributors;
- (c) A statement which will show the name and location of the person, partnership, association or corporation;
- (d) An itemized account of the actual financial condition and the amount of property, debts and liabilities of the person, partnership, association, or corporation, and any and all other information that may be desired by the said Treasurer of the Philippine Islands. Said statements shall be verified by the oath of a member of the partnership, association or corporation or by the oath of a duly authorized officer, if it be a corporation, or by a duly authorized agent of said person, partnership, association or corporation.

SEC. 3. Certain securities exempted.-The provisions of this Act shall not apply to:

- (a) Securities of the United States or of any foreign government, or of any State or territory thereof, or of any

province, city, municipality, township or other public taxing subdivision of the United States, of the Philippine Islands or of a foreign government.

(b) Securities of public or quasi-public corporations the issue of which are regulated by the Board of Public Utility Commissioners or other similar authority.

(c) Securities of banks, trust companies, mortgage companies dealing exclusively in bona fide mortgages on farm and city real estate, or insurance companies authorized to do business in the Philippine Islands.

SEC. 4. Circulars, and so forth, filing of.-While any such person, partnership, association or corporation is engaged in business in the Philippine Islands by authority of a certificate or permit issued hereunder, such person, partnership, association or corporation shall file copies of all its circulars, prospectuses and other advertisements with the said Treasurer.

SEC. 5. Examination.-It shall be the duty of the Treasurer of the Philippine Islands to examine the statements and documents filed, and if said Treasurer shall deem it advisable he shall make or have made a detailed examination of the affairs of any person, partnership, association or corporation desiring to engage in business in the Philippine Islands under this Act. The expenses of such examination, not to exceed twenty pesos per day with actual and necessary expenses, shall be paid by such person, partnership, association or corporation. Whenever the said Treasurer of the Philippine Islands is satisfied, either with or without the examination herein provided, that any person, partnership, association or corporation is entitled to the right to offer its securities as above defined and provided for sale in the Philippine Islands, he shall issue to such person, partnership, association or corporation a certificate or permit reciting that such person, partnership, association or corporation has complied with the provisions of this Act, and that such person, partnership, association or corporation, its brokers or agents are entitled to offer the securities named in said certificate or permit for sale. After the issuance of such certificate or permit the said Treasurer of the Philippine Islands shall have authority at any time to examine the affairs of such person, partnership, association or corporation as to the manner in which they are transacting business under such certificate or permit, and said Treasurer shall furthermore have authority, whenever in his judgment it is in the public interest, to cancel said certificate or permit. An appeal from the decision of the Insular Treasurer may be had within the period of thirty days to the Secretary of Finance and Justice.

SEC. 6. Service of summons.-Before any person, partnership, association or corporation being a non-resident of the Philippine Islands, shall sell or offer for sale any securities hereunder, such person, partnership, association or corporation shall file in the office of the Auditor of the Philippine Islands a power of attorney irrevocable, authorizing such Auditor to accept service of summons or other legal process on behalf of such person, partnership, association or corporation, said service to be binding in every case as personal service on such person, partnership, association or corporation.

SEC. 7. False statements.-Any person who shall knowingly make or file, or cause to be made or filed with said Treasurer of the Philippine Islands any statement, document, circular, advertisement or prospectus required by this Act or by the said Treasurer to be made or filed which is false in any material respect or manner; or who shall offer for sale or sell any of the securities by this Act prohibited without the certificate or license herein provided, shall be punished by fine of not more than ten thousand pesos or by imprisonment for not more than five years or by both such fine and imprisonment.

SEC. 8. This Act shall not apply to the holder of any speculative security who is not the issuer thereof, nor to the person who has acquired the same for his own account in the usual and ordinary course of business and not for the direct or indirect promotion of any enterprise or scheme within the purview of this Act, unless such possession is in good faith. Repeated and successive sales of any such speculative securities shall be prima facie evidence that the claim of ownership is not bona fide, but is a mere shift, device or plot to evade the provisions of this Act. Such

speculators shall incur the penalty provided for in section seven of this Act.

SEC. 9. Fees.-All fees herein provided shall be collected by the Treasurer of the Philippine Islands and by him turned into the Treasury of the Philippine Islands.

SEC. 10. Acts not affected.-Nothing in this Act shall be construed to repeal any portion of the provisions of Act Numbered Fourteen hundred and fifty-nine and of Act Numbered Twenty-three hundred and thirty-three.

SEC. 11. This Act shall take effect as of January first, nineteen hundred and sixteen.

Enacted, February 4, 1916;

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