IPO DISTRIBUTION PROCESS

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The Commission has been receiving reports criticizing the Initial Public Offering (IPO) distribution process. There have been complaints on the fact that the general public could not gain access to IPOs if they are not existing clients of the PSE brokers/dealers or investment houses. Others criticize the fact that IPOs, particular those with foreign tranches, did not consider the local market sentiment. Over the last year, the SECIHAP and the PSE, exerted efforts to develop an IPO distribution process that will meet the concerns raised. Thus, in order to achieve the objectives of wider dispersal of shares IPOs and expansion of local investors, the SEC, in consultation with all concerned, hereby mandates the following IPO distribution process:

I. BOOK-BUILDING PROCESS (30%)

A "book-building" program for the domestic market shall be undertaken simultaneously with the international tranche, if any. Only qualified institutional buyers (QIBs) may be allowed to participate in the book-building QIBs shall be limited to the following: mutual funds; pension or retirement funds; commercial or universal banks; trust companies; investment houses; insurance companies; investment companies; finance companies; venture capital firms government financial institutions; trust departments of commercial or universal banks; non-bank quasi banking institutions; member-brokers of the PSE for their dealer accounts; non-stock savings and loan associations; educational assistance funds; and other institutions of similar nature.

Thirty percent (30%) of the amount of the IPO shall be available to QIBs under the book-building exercise. This percentage however may be adjusted depending upon the reception of the market to the IPO.

Since the book building will be done after the registration statement is filed but before it becomes effective, the following must be strictly observed:

1. Sales, payments or deposits on subscription and-contracts to sell are prohibited. No offer to buy the securities can be accepted and no part of the purchase price can be accepted and no part of the purchase price can be received until the registration statement has become effective, and any such offer may be withdrawn or revoked, without obligation or commitment of any kind, at any time prior to notice of its acceptance after the effective date.

2. A preliminary prospectus (red herring) which meets the requirements of RSA Rule 8(a)(10)-1: The Prospectus Delivery Rule and has been filed with the registration statement shall be circulated to potential investors.

II. LOCAL SMALL INVESTORS (10%)

The allocation to the "local small investors" shall be at least ten percent (10%) of the entire IPO which shall be offered only after the effectivity of the registration statement and during the formal offering period. The SEC, however, may prescribe a different percentage if warranted under prevailing market situation.

The term "local small investors" is defined as "share subscriber" who is willing to subscribe to a minimum board lot or whose subscription does not exceed P20,000.00. Depending on market conditions, however, this 10% allocation for the "local small investors" can be supplemented by subscriptions exceeding a minimum board lot or P20, 000.00. In the event of an over subscription in this 10% offer or under any other circumstances, priority shall

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be given to the "local small investors" as herein defined.

If the over subscription occurs for the subscriptions of a minimum board lot or whose subscription does not exceed P20, 000.00, a balloting/raffle shall be conducted to determine the applicants who will be given the opportunity to subscribe. To ensure fairness and transparency, the balloting process shall be supervised by an independent auditor.

The distribution outlets for the 10% offer to "local small investors" may be branches of participating universal banks, investment houses, as well as brokers. Application forms shall be published in newspapers of general circulation which can be cut out by an applicant and submitted to any distribution outlet together with the check payment.

III. GENERAL PUBLIC (60%)

The Balance of sixty percent (60%) may be distributed by the underwriters directly to their clients/general public, to include institutional investors and high net worth individuals.

Stock brokers/dealers may be allowed to subscribe to IPOs for their dealer accounts, provided, that if they opt to sell the shares to their customers during the offering period it must be at a price not higher than the IPO price. Likewise, stock brokers/dealers are prohibited from selling these shares after the offering period and before listing. While the stock brokers/dealers may be allowed to purchase IPO shares for their dealer accounts, their first responsibility is to give priority to customers' orders. Their books and records shall be subject to post listing audit by the SEC to make certain that they do not purchase IPO shares ahead of customers' orders.

Finally, it is hereby emphasized that the distribution of IPOs is the primary responsibility of the underwriters who are expected to implement the above IPO distribution system.

FOR IMMEDIATE AND STRICT COMPLIANCE.

Adopted: 20 Nov. 1997

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

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