

AN ACT TO REGULATE THE SALE OF SECURITIES, TO CREATE A SECURITIES AND EXCHANGE COMMISSION TO ENFORCE THE PROVISIONS OF THE SAME, AND TO APPROPRIATE FUNDS THEREFOR.

Commonwealth Act No. 83, October 26, 1936

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Be it enacted by the National Assembly of the Philippines:

CHAPTER I.—Short Title and Definitions

SECTION 1. Short title.—This Act may be cited as "Securities Act."

SEC. 2. Definitions.—When used in this Act, the following terms shall, unless the context otherwise indicates, have the following respective meanings:

- "Securities" shall include stock certificates, treasury stock certificates, bonds, debentures; certificates of participation in, or right to subscribe to, any of the foregoing; certificates of participation, collateral trust certificates, investment contracts, voting trust certificates, certificates of deposit for a security, premium or gift sharing certificates or tickets, preorganization certificates or subscriptions; certificates evidencing shares of, or interest in, trust estates or associations; certificates of interest or participation in any profit sharing agreement or in an agreement to incorporate or to form an association or in mutual incorporation or association contracts involving more than fifteen proposed incorporators or associates; any certificate, contract, or instrument whatsoever representing or constituting evidence of, or secured by, title to, or interest in, or any lien or charge upon, the capital or any property or assets of the issuer thereof, or in any oil, gas or mining lease and/or holding; and interest, units or shares in any such lease or leases and/or holdings or in an association, partnership, corporation, or combination of persons having interest in such lease or leases and/or holdings; contracts or bonds for the sale and conveyance of land on deferred payments or installment plan, or other instruments in the nature thereof by whatsoever name they may be known or called; promissory notes of any individual, firm, partnership, corporation, or association of any kind, the proceeds from the sale of which are to be used in capitalizing, furthering or promoting any manufacturing, selling, distributing, industrial, mercantile, mining, drilling for oil or gas, or development enterprise of any kind or nature whatsoever, where said promissory notes are accompanied by any oral or written promise or representation that the purchasers of said promissory note shall share in any of the profits of said enterprise, or benefit from the success of said enterprise either directly or indirectly; and, in general, certificates or instruments evidencing beneficial interest in title to property, profits, or earnings, or any other instrument commonly known as a security; including an interim or temporary bond, debenture, note certificate, or receipt for a security or for subscription to a security.

- "Speculative securities" shall mean and include:

- 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;

- All securities the value of which materially depends upon proposed or promised future promotion or

development rather than on present tangible assets and conditions;

- All securities for promoting the sale of which a commission of more than five per centum is offered or paid;
- All securities into the value of which the elements of chance or hazard or speculative profit or possible loss equals or predominates over the elements of reasonable certainty or safety of investment;
- 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; and
- The securities of any enterprise engaged in the business of promoting, exploring, developing, exploiting or operating mineral properties and/or mineral rights: Provided, however, That the following class of securities shall not be deemed to be speculative securities:

(1) Securities issued by a person owning a property, business or industry which has been in continuous operation not less than three years and which has shown during a period of not less than two years next prior to the close of its last fiscal year preceding the offering of such securities, average annual net earnings, after deducting all prior charges not including the charges upon securities to be retired out of the proceeds of sale, as follows:

- In the case of interest-bearing securities, not less than one and one-half times the annual interest charged thereon and upon all other outstanding interest-bearing obligations of equal rank;
- In the case of preferred stock, not less than one and one-half times the annual dividend requirements on such preferred stock and on all other outstanding stock of equal rank;
- In the case of common stock, not less than five per centum upon all outstanding common stock of equal rank together with the amount of common stock then offered for sale reckoned upon the price at which such stock is then offered for sale or sold.

The ownership by a person of more than fifty per centum of the outstanding voting stock of a corporation shall be construed as the proportionate ownership of the property, business or industry of such corporation, and shall permit the inclusion of the earnings of such corporation applicable to the payment of dividends upon the stock so owned in the earnings of the person issuing the securities sought to be registered.

- "Person" shall mean and include a natural person, firm, corporation, copartnership, limited partnership, sociedad anonima, joint stock company, syndicate, unincorporated organization or association, trust and trustee of a trust, excepting a trust created or a trustee designated by law or by a last will or by judicial authority, or any public charitable trust; or a government or political subdivision thereof. As used herein, the term "trust" shall include only a trust where the interest or interests of the beneficiary or beneficiaries are evidenced by a security.

- "Sale" or "sell" shall include every disposition, or attempt to dispose of a security or interest in a security for value. Any security given or delivered with, or as a bonus on account of, any purchase of securities or any other thing, shall be conclusively presumed to constitute a part of the subject of such purchase and to have been sold for value. "Sale" and "sell" shall also include a contract to sell, an exchange, an attempt to sell, an option of sale, a solicitation of a sale, a subscription or an offer to sell, directly or by an agent, or by a circular, letter, advertisement or otherwise: Provided, That a privilege pertaining to a security giving the holder the privilege to convert such security into another security of the same issuer shall not be deemed a sale of such other security within the meaning of this definition, and such privilege shall not be construed as affecting the status of the security to which such privilege pertains with respect to exemption or registration or licensing under the

provisions of this Act, but when such privilege of conversion shall be exercised, such conversion shall be subject to the limitations hereinafter provided in subsection (g) of section six of Chapter III hereof; And provided, further, That the issue or transfer of a right pertaining to a security and entitling the holder of such right to subscribe to another security of the same issuer, when such right is issued or transferred with the security to which it pertains, shall not be deemed a sale of such other security within the meaning of this definition and such right shall not be construed as affecting the status of the security to which such right pertains with respect to exemption or registration or licensing under the provisions of this Act; but the sale of such other security upon the exercise of such right shall be subject to the provisions of this Act.

- The terms "buy" and "purchase" shall include any contract to buy, purchase, or otherwise acquire.

- "Dealer" shall include every person other than a salesman who engages either for all or part of his time, directly or through an agent, in the business of selling any securities issued by another person or purchasing or otherwise acquiring such securities from another for the purpose of reselling them or of offering them for sale to the public, or offering, buying, selling or otherwise dealing or trading in securities for a profit, or who deals in futures or differences in market quotations of price or values of any securities, or accepts margins on purchases or sales or pretended purchases or sales of securities: Provided, That the word "dealer" shall not include a person having no place of business for the purpose, who sells or offers to sell securities exclusively to brokers or dealers actually engaged in buying and selling securities as a business.

- "Issuer" means every person who issues or proposes to issue any security; except that with respect to certificates of deposit, voting trust certificates, or collateral-trust certificates, or with respect to certificates of interest or shares in an unincorporated investment trust not having a board of directors (or persons performing similar functions), or of the fixed restricted management, or unit type, the term "issuer" means the person or persons performing the acts and assuming the duties of depositor or manager pursuant to the provisions of the trust or other agreement or instrument under which such securities are issued; except that in the case of an unincorporated association which provides by its articles for limited liability of any or all of its members, or in the case of a trust, committee or other legal entity, the trustees or members thereof shall not be individually liable as issuers of any security issued by the association, trust, committee, or other legal entity; and except that with respect to fractional undivided rights in oil, gas, or other mineral rights, or claims or properties, the term "issuer" means the owner of any such right or property or of any interest therein (whether whole or fractional) who creates fractional interests therein for the purpose of public offering.

- "Salesman" shall include every natural person, other than a dealer, employed or appointed or authorized by a dealer or issuer, to sell securities in any manner. The partners of a partnership and the executive officers of a corporation or other association registered as a dealer shall not be salesmen within the meaning of this definition.

- "Broker", means any person engaged in the business of effecting transactions in securities for the account of others, but does not include a bank.

- "Exchange" means any organization, association, or group of persons, whether incorporated or unincorporated, which constitutes, maintains, or provides a market place or facilities for bringing together purchasers and sellers of securities or for otherwise performing with respect to securities the functions commonly performed by a stock exchange as that term is generally understood, and includes the market place and the market facilities maintained by such exchange.

- "Facility," when used with respect to an exchange, includes its premises, tangible or intangible property whether on the premises or not, any right to the use of such premises or property or any service thereof for the purpose of effecting or reporting a transaction on an exchange (including, among other things, any system of communication

to or from the exchange, by ticker or otherwise, maintained by or with the consent of the exchange), and any right of the exchange to the use of any property or service.

- "Member," when used with respect to an exchange, means any person who is permitted either to effect transactions on the exchange without the services of another person acting as broker, or to make use of the facilities of an exchange for transactions thereon without payment of a commission or fee or with the payment of a commission or fee which is less than that charged the general public, and includes any firm transacting a business as broker or dealer of which a member is a partner, and any partner of any such firm.

- "Bank" means (1) a banking or trust institution organized under the laws of the Philippines or of the United States, or any state, territory or possession thereof, or of a foreign country, whether incorporated or not, doing business in the Philippines, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers, and which is not operated for the purpose of evading the provisions of this Act, and (2) a receiver, or other liquidating agent of any banking or trust institution.

- "Director" means any director of a corporation or any person performing similar functions with respect to any organization, whether incorporated or unincorporated.

- "Commission" means the Securities and Exchange Commission established by this Act.

- The Commission hereby established shall have power, by rules and regulations, to define any technical, trade or accounting term used in this Act in so far as such definitions are not inconsistent with the provisions hereof.

CHAPTER II.—Securities and Exchange Commission

SEC. 3. Securities and Exchange Commission.—

- There is hereby established a Securities and Exchange Commission (hereinafter referred to as the "Commission") to be under the direction of a commissioner to be appointed by the President with the consent of the Commission on Appointments of the National Assembly. The commissioner shall not engage in any other business, vocation, or employment than that of serving as commissioner, nor shall he participate, directly or indirectly, in any stock market operations or transactions of a character subject to regulation by the Commission pursuant to this Act. The commissioner shall receive a salary at the rate of ten thousand pesos a year and shall hold office during good behavior. The Commission shall be under the executive supervision of the Department of Justice.

- The Commission is authorized to appoint and the compensation of such officers, attorneys, examiners, engineers, and other technical staff as may be necessary for carrying out its functions under this Act, and may, subject to the Civil Service laws, appoint such employees as are likewise necessary in the execution of its functions and fix their salaries, with the approval of the Secretary of Justice. Such officers, attorneys, examiners, engineers, employees and technical staff shall not participate directly or indirectly in any stock market operations or transactions of a character subject to regulation by the Commission pursuant to this Act. The President of the Philippines may transfer to the Commission all or some of the personnel of the various bureaus and offices of the Government who are now engaged in the enforcement of laws regulating securities and exchanges, together with such corresponding appropriations, records, equipment and other properties as may be necessary or convenient to carry out the provisions of this Act.

- The Commission shall report to the President annually or oftener as he may require. The report shall contain an account of the work of the Commission, during the period covered and such further data and information as may be deemed necessary or appropriate or may be called for by the President.

CHAPTER III.—Registration of Securities

SEC. 4. Sale and registration of securities.—No securities except of a class exempt under any of the provisions of section five hereof or unless sold in any transaction exempt under any of the provisions of section six hereof shall be sold within the Philippines unless such securities shall have been registered and/or licensed as hereinafter provided. Registration of stock shall be deemed to include the registration of rights to subscribe to such stock if the registration statement filed pursuant to section seven of this Act includes a statement that such rights are to be issued. A record of the registration of securities shall be kept in a Register of Securities to be kept in the office of the Commission, in which Register of Securities shall also be recorded any orders entered by the Commission with respect to such securities. Such register, and all information with respect to the securities registered therein, shall be open to public inspection.

SEC. 5. Exempt securities.—

- Except as hereinafter expressly provided, the provisions of this Act shall not apply to any of the following classes of securities:

- Any security which, prior to the taking effect of this Act, has been sold or disposed of by the issuer or bona fide offered to the public.

- Any security issued or guaranteed by the Government of the Philippines, or by the United States or any territory thereof, or by any political subdivision or agency of said Government, or by any of their public instrumentalities, or by any person controlled or supervised by, and acting as an instrumentality of, those Governments, or any certificate of deposit for any of the foregoing; or any security issued or guaranteed by any banking institution authorized to do business in the Philippines, the business of which is substantially confined to banking, and is supervised by the Bureau of Banking.

- Any security issued or guaranteed by any foreign government with which the United States is, at the time of the sale or offer of sale thereof, maintaining diplomatic relations, or by any state, province or political subdivision thereof having the power of taxation or assessment, which security is recognized at the time it is offered for sale in the Philippines as a valid obligation by such foreign government or by such state, province or political subdivision thereof issuing the same.

- Any security issued or guaranteed either as to principal, interest or dividend by a corporation owning or operating public service, whose financial transactions, including the issue and guaranteeing of securities, are subject to regulation and supervision by the Public Service Commission or by a board or officer of the Government of the Philippines.

- Any security issued by a building and loan association, savings and loan association, or similar institution, substantially all the business of which is confined to the making of loans to members (but the foregoing exemption shall not apply with respect to any such security where the issuer takes from the total amount paid or deposited by the purchaser, by way of any fee, cash value or other device whatsoever, either upon termination of the investment at maturity or before maturity, an aggregate amount in excess of 3 per centum of the face value of such security), or any security issued by rural credit associations or by cooperative marketing associations.

- Certificates issued by a receiver or by a trustee in bankruptcy, with the approval of the court.

- Any insurance or endowment policy or annuity contract or optional annuity contract, issued by a corporation subject to the supervision of the Insurance Commissioner.

- Any security exchanged by the issuer with its existing security holders exclusively, where no commission or

other remuneration is paid or given directly or indirectly for soliciting such exchange.

- The Commission may, from time to time, by its rules and regulations and subject to such terms and conditions as may be prescribed therein, add any class of securities to the securities exempted as provided in this section, if it finds that the enforcement of this Act with respect to such securities is not necessary in the public interest and for the protection of investors by reason of the small amount involved or the limited character of the public offering; but no issue of securities shall be exempted under this subsection where the aggregate amount at which such issue is offered to the public exceeds two hundred thousand pesos.

SEC. 6. Exempt transactions.—The provisions of this Act shall not apply to the sale of any security in any of the following transactions:

- At any judicial, executor's, administrator's, guardian's, or at any sale by a receiver or trustee in insolvency, or bankruptcy.

- By or for the account of a pledge holder or mortgagee, selling or offering for sale or delivery in the ordinary course of business and not for the purpose of avoiding the provisions of this Act, to liquidate a bona fide debt, a security pledged in good faith as security for such debt.

- An isolated transaction in which any security is sold, offered for sale, subscription or delivery by the owner thereof, or by his representative for the owner's account, such sale or offer for sale, subscription or delivery not being made in the course of repeated and successive transactions of a like character by such owner, or on his account by such representative, and such owner or representative not being the underwriter of such security.

- The distribution by a corporation, actively engaged in the business authorized by its charter, of securities to its stockholders or other security holders as a stock dividend or other distribution out of earnings or surplus; or the issuance of securities to the security holders or other creditors of a corporation in the process of a bona fide reorganization of such corporation made in good faith and not for the purpose of avoiding the provisions of this Act, either in exchange for the securities of such security holders or claims of such creditors or partly for cash and partly in exchange for the securities or claims of such security holders or creditors; or the issuance of additional capital stock of a corporation sold or distributed by it among its own stockholders exclusively, where no commission or other remuneration is paid or given directly or indirectly in connection with the sale or distribution of such increased capital stock.

- The transfer or exchange by one corporation to another corporation of their own securities in connection with a consolidation or merger of such corporations.

- Bonds or notes secured by mortgage upon real estate or tangible personal property, where the entire mortgage together with all of the bonds or notes secured thereby are sold to a single purchaser at a single sale.

- The issue and delivery of any security in exchange for any other security of the same issuer pursuant to a right of conversion entitling the holder of the security surrendered in exchange to make such conversion, provided that the security so surrendered has been registered or its sale licensed under this Act or was, when sold, exempt from the provisions of this Act, and that the security issued and delivered in exchange, if sold at the conversion price, would at the time of such conversion fall within the class of securities entitled to registration and licensing under this Act. Upon such conversion, the par value of the security surrendered in such exchange shall be deemed the price at which the securities issued and delivered in such exchange are sold.

- The sale, transfer or delivery of any securities to any bank, savings institution, trust company, insurance company or to any corporation or to any broker or dealer; provided, that such broker or dealer is actually engaged

in buying and selling securities as a business.

- Brokers' transactions, executed upon customers' orders on any exchange or in the open or counter market, but not the solicitation of such orders.
- Subscriptions for shares of the capital stock of a corporation prior to the incorporation thereof under the general Corporation Law, when no expense is incurred, or no commission, compensation or remuneration is paid or given in connection with the sale or disposition of such securities, and only when the purpose for soliciting, giving or taking, of such subscriptions is to comply with the requirements of such law as to the percentage of the capital stock of a proposed corporation which should be subscribed before it can be registered and duly incorporated, and only to such extent.

SEC. 7. Procedure for registration.—

- All securities shall be registered through the filing by the issuer or by any dealer interested in the sale thereof, in the office of the Commission, of a sworn registration statement with respect to such securities, containing or having attached thereto, the following:
 - Name of issuer and, if incorporated, place of incorporation.
 - The location of the issuer's principal business office, and if such issuer is a nonresident or its place of office is outside of the Philippines, the name and address of its agent in the Philippines authorized to receive notice.
 - The names and addresses of the directors or persons performing similar functions, and the chief executive, financial and accounting officers, chosen or to be chosen, if the issuer be a corporation, association, trust, or other entity; of all the partners, if the issuer be a partnership; and of the issuer, if the issuer be an individual; and of the promoters in the case of a business to be formed.
 - The names and addresses of the underwriters.
 - The general character of the business actually transacted or to be transacted by the issuer.
 - A statement of the capitalization of the issuer, including the authorized and outstanding amounts of its capital stock and the proportion thereof paid up; the number and classes of shares in which such capital stock is divided; par value thereof, or if it has no par value, the stated or assigned value thereof; a description of the respective voting rights, preferences, conversion and exchange rights, rights to dividends, profits, or capital of each class, with respect to each other class, including the retirement and liquidation rights or values thereof.
 - A copy of the security for the registration of which application is made.
 - A copy of any circular, prospectus, advertisement, letter, or communication to be used for the public offering of the security.
 - The specific purposes in detail and the approximate amounts to be devoted to such purposes, so far as determinable, for which the security to be offered is to supply funds, and if the funds are to be raised in part from other sources, the amounts thereof and the sources thereof shall be stated.
 - A statement of the amount of the issuer's income, expenses, and fix charges during the last fiscal year, or if in actual business less than one year, then for such time as the issuer has been in actual business.
 - A balance sheet showing the amount and general character of its assets and liabilities on a day not more than sixty days prior to the date of such balance sheet.
 - The remuneration, paid or estimated to be paid, by the issuer or its predecessor, directly or indirectly, during the

past year and ensuing year to (a) the directors or persons performing similar functions, and (b) its officers and other persons, naming them wherever such remuneration exceeded six thousand pesos during any such year.

- The amount of issue of the security to be offered.
- The estimated net proceeds to be derived from the security to be offered.
- A statement showing the price at which such security is proposed to be sold, together with the maximum amount of commission or other form of remuneration to be paid in cash or otherwise, directly or indirectly, for or in connection with the sale or offering for sale of such security.
- The amount or estimated amounts, itemized in reasonable detail, of expenses, other than commissions specified in the next preceding paragraph, incurred or to be borne by or for the account of the issuer in Connection with the sale of the security to be offered or properly chargeable thereto, including legal, engineering, certification, authentication, and other charges.
- A detailed statement showing the items of cash, property, services, patents, good-will, and any other consideration for which securities have been or are to be issued in payment.
- The amount of cash to be paid as promotion fees, or of capital stock which is to be set aside and disposed of as promotion stock, and a statement of all stock issued from time to time as promotion stock.
- In connection with speculative securities issued by a person engaged in the business of developing, exploiting or operating mineral claims, a sworn statement of a mining engineer stating the ore possibilities of the mine and such other information in connection therewith as the Commission may, by regulations, require, which will show the quality of the ore in such claim, and the unit cost of extracting it.
- Unless previously filed and registered under the provisions of this Act, and brought up to date, (a) a copy of its articles of incorporation, with all amendments thereof and its existing by-laws or instruments corresponding thereto, whatever the name, if the issuer be a corporation; (b) copy of all instruments by which the trust is created or declared and in which it is accepted and acknowledged, if the issuer is a trust; (c) a copy of its articles of partnership or association and all the papers pertaining to its organization, if the issuer is a partnership, unincorporated association, joint-stock company, syndicate, or any other form of organization.
- In case of the certificates of deposit, voting trust certificates, collateral trust certificates of interest or shares in unincorporated investment trusts, equipment trust certificates, interim or other receipts for certificates, and like securities, the Commission shall establish rules and regulations requiring the submission of information of a like character applicable to such cases, together with such other information as it may deem appropriate and necessary regarding the character, financial or otherwise, of the actual issuer of the securities and/or the person performing the acts and assuming the duties of depositor or manager.
- However, the Commission may by rules or regulations provide that any of the above information or document need not be included in respect of any class of issuer of securities, if it finds that the requirement of such information or document is inapplicable to such class and that disclosure fully adequate for the protection of investors is otherwise included in a registration statement filed in accordance with such rules.

Upon filing of such registration statement, the issuer or dealer shall pay to the Treasury of the Philippines a fee of one-tenth of one per centum of the maximum aggregate price at which such securities are proposed to be offered, but in no case shall such fee be less than fifty pesos or more than one thousand pesos; and the fact of such filing shall be immediately published by the Commission, at the expense of the issuer or dealer, in two newspapers of general circulation in the Philippines, one published in English and another, in Spanish, once a week for two

consecutive weeks, reciting that a registration statement for the sale of such security has been filed with it, and that the aforesaid registration statement, as well as the papers attached thereto, are open to inspection during business hours, by interested parties, under such regulations as the Commission may prescribe; and copies thereof, photostatic or otherwise, shall be furnished to every applicant at such reasonable charge as the Commission may prescribe.

The filing of such statement in the office of the Commission, the payment of the fee hereinabove prescribed, and the publication made as above stated, shall constitute the registration of such security, and seven days after the expiration of the period for publication above referred to, the registration shall take effect, and the security, if not a speculative security, may be sold in the Philippines, subject, however, to the further orders of the Commission as hereinafter provided. The Commission shall, upon the filing of the registration statement above referred to, determine, by order, whether or not the security sought to be registered is speculative within the meaning of this Act, and shall forthwith advise the issuer or dealer.

SEC. 8. Suspension of registration.—If, at any time, in the opinion of the Commission, the information contained in the statement filed is or has become misleading, incorrect, inadequate or incomplete, or the sale or offering for sale of the security may work or tend to work a fraud, the Commission may require from the person filing such statement such further information as may in its judgment be necessary to enable the Commission to ascertain whether the registration of such security should be revoked on any ground specified in section twelve, and the Commission may also suspend the right to sell such security pending further investigation, by entering an order specifying the grounds for such action, and by notifying by mail, or personally, or by telephone confirmed in writing, or by telegraph, the person filing such statement and every dealer who shall have notified the Commission of an intention to sell such security. The refusal to furnish information required by the Commission within a reasonable time to be fixed by the Commission, may be a proper ground for the entry of such order of suspension. Upon the entry of any such order of suspension, no further sales of such security shall be made until the further order of the Commission.

In the event of the entry of such order of suspension, the Commission shall give a prompt hearing to the parties interested. If upon such hearing, the Commission shall determine that the sale of any such security should be revoked on any ground specified in section twelve, it shall enter a final order prohibiting sales of such security, with its findings with respect thereto. Until the entry of such final order, the suspension of the right to sell, though binding upon the persons notified thereof, shall be deemed confidential, and shall not be published, unless it shall appear that the order of suspension has been violated after notice.

Appeals from such final order may be taken to the President of the Philippines, within the period of thirty days from the date of notification of such order. If, however, upon such hearing, the Commission shall find that the sale of the security will neither be fraudulent nor result in fraud, it shall forthwith enter an order revoking such order of suspension, and such security shall be restored to its status as a security registered under this Act, as of the date of such order of suspension.

SEC. 9. License to sell speculative securities.—With respect to speculative securities, if the Commission shall find after an examination of the registration statement filed by the issuer or dealer, together with all the other papers and documents attached thereto, that the issuer is of good repute, and that the sale of the security would not be fraudulent and would not work or tend, to work a fraud upon the purchaser, and that the enterprise or business of the issuer is not based upon unsound business principles, it shall record the registration of such security in the Register of Securities, and, after the effective date of such registration as above stated, it shall issue to the issuer or dealer a license to sell those securities in the Philippines, and shall issue to such issuer a certificate of permit reciting that such person, its brokers or agents, are entitled to offer the securities named in said certificate for sale

in the Philippines. Every permit shall recite in bold type that the issuance thereof is permissive only and does not constitute a recommendation or endorsement of the securities permitted to be issued.

With respect to speculative securities, the Commission shall, by order duly recorded, fix the amount of commission or other form of remuneration to be paid in cash or otherwise, directly or indirectly, for or in connection with the sale or offering for sale of such securities in the Philippines in no case to exceed ten per centum of the value of the securities sold; and shall fix the maximum amount of compensation which the issuer shall pay for mining claims and/or mineral rights for which provision is made by the issuer for payment in cash or securities. It may issue the permit subject to other conditions, to the end that this power may become effective. The amount of compensation which shall be paid the owner and/or holder of such mining claims and/or mineral rights shall be a fair valuation thereof, as may be fixed by the Commission, after consultation with the Bureau of Mines, and after receiving such technical information as the issuer or dealer and/or the owner or owners of such claims may care to submit in the premises.

SEC. 10. Consent to service.—Upon any application for dealer, registration, whether made by an issuer or registered dealer, where the issuer is not domiciled in the Philippines, there shall be filed with such application the irrevocable written consent of the issuer that in suits, proceedings and actions growing out of the violation of any provision of this Act, the service on the Commission of any notice, process, or pleading therein, authorized by the laws of the Philippines, shall be as valid and binding as if due service had been made on the issuer. Any such action shall be brought either in the province of the plaintiff's residence or in the City of Manila. Said written consent shall be authenticated by the seal of issuer, if it has a seal, and by the acknowledged signature of a member of the copartnership or company, or by the acknowledged signature of any officer of the incorporated or unincorporated association, if it be an incorporated or unincorporated association, duly authorized by resolution of the board of directors, trustees or managers of the corporation or association, and shall in such case be accompanied by a duly certified copy of the resolution of the board of directors, trustees or managers of the corporation or association, authorizing the officers to execute the same. In case any process or pleadings mentioned in this Act are served upon the Commission, it shall be duplicate copies, one of which shall be filed in the office of the Commission and another immediately forwarded by the Commission by registered mail to the principal office of the issuer against which said process or pleadings are directed.

SEC. 11. Financial statements, circulars, and so forth, filing of.—While any person, whose securities have been sold pursuant to registration and/or permit issued hereunder, is engaged in business in the Philippines, such person shall file with the Commission not later than February fifteen of each year, a statement under oath of assets and liabilities as of December thirty-first of the last previous year. Provided, That at the request of such person or his duly authorized agent or of a member or duly authorized officer or agent of such person, the Commission may grant an extension of time not to exceed thirty days within which such statement shall be submitted to it. Such person shall also file with the Commission, before or at the time of their issuance for publication, copies of all circulars, prospectuses and other advertising matter to be issued from time to time by or on behalf of such person.

SEC. 12. Revocation of registration of securities and of license to sell.—The Commission may revoke the registration of any security and the license to sell a speculative security by entering an order to this effect, with its findings in respect thereto, if upon examination into the affairs of the issuer of such security, it shall appear that the issuer:

- Is insolvent; or
- Has violated any of the provisions of this Act or any order of the Commission of which the issuer has notice; or
- Has been or is engaged or is about to engage in fraudulent transactions; or

- Is in any other way dishonest or has made any fraudulent representations in any prospectus or in any circular or other literature that has been distributed concerning the issuer or its securities; or
- Is of bad business repute; or
- Does not conduct its business in accordance with law; or
- Has its affairs in an unsound condition; or
- Has his enterprise or business based upon unsound business principles.

In making such examination, the Commission shall have access to and may compel the production of all the books and papers of such issuer, and may administer oaths to, and examine the officers of such issuer or any other person connected therewith as to its business and affairs, and may also require a balance sheet exhibiting the assets and liabilities of any such issuer or his income statement, or both, to be certified to by a certified public accountant.

Whenever the Commission may deem it necessary, it may also require such balance sheet or income statement, or both, to be made more specific in such particulars as the Commission shall point out or to be brought down to the latest practicable date.

If any issuer shall refuse to permit an examination to be made by the Commission, it shall be proper ground for revocation of registration and license.

If the Commission shall deem it necessary, it may enter an order suspending the right to sell securities pending any investigation, provided that the order shall state the grounds for taking such action, but such order of suspension, although binding upon the persons notified thereof, shall be deemed confidential, and shall not be published. Upon the entry of such order of suspension, no further sale of such security shall be made until further order of the Commission.

Notice of the entry of such order shall be given by mail, or personally, or by telephone, confirmed in writing, or by telegraph, to the issuer and every dealer who shall have notified the Commission of an intention to sell such security.

Before such order is made final, the issuer or dealer shall be entitled to a hearing; and such order may, within thirty days after notification thereof to the issuer and/or dealer, be appealed to the President of the Philippines.

SEC. 13. Promotion fees.—If the statement containing information as to securities to be registered, as provided for in section seven of this Act, shall disclose that any such securities or any securities senior thereto shall have been or shall be intended to be issued for good-will, or for organization or promotion fees or expenses, or that payment in cash shall have been or will be made for organization or promotion fees or expenses or for good-will, the amount and nature thereof shall be fully set forth in the notification published by the Commission as required in section seven of this Act, and in all prospectuses, circulars, or other advertisements of the issuer, and should also appear upon the face or on the back of the security itself.

CHAPTER IV.—Brokers, Dealers, and Salesmen

SEC. 14. Registration of brokers, dealers, and salesmen.—No broker, dealer, or salesman shall engage in business in the Philippines as such broker, dealer or salesman or sell any securities, including securities exempted in section five of this Act, except in transactions exempt under section six of this Act, unless he has been registered as a broker, dealer or salesman in the office of the Commission pursuant to the provisions of this section.

An application for registration in writing shall be filed in the office of the Commission in such form as the

Commission may prescribe, duly verified by oath, which shall state the principal office of the applicant, wherever situated, and the location of its principal office and all branch offices in the Philippines, if any; the name or style of doing business, the names, residence and business addresses of all persons interested in the business as principals, copartners, officers and directors, specifying as to each his capacity and title; the general plan and character of business and the length of time the dealer has been engaged in business. The Commission may also require such additional information as to applicant's previous history, record and association, as it may deem necessary to establish the good repute in business of the applicant.

There shall be filed with such application an irrevocable written consent to the service of process upon the Commission in actions against such broker or dealer in manner and form as hereinabove provided in section ten.

If the Commission shall find that the applicant is of good repute and has complied with the provisions of this section, including the payment of the fee hereinafter provided, he shall register such applicant as a broker or dealer upon his filing a bond or other security in lieu thereof, in such sum as may be fixed by the Commission based upon its judgment as to the amount required for the due protection of the public, running to the Government of the Philippines, and conditioned upon the faithful compliance with the provisions of this Act by said broker or dealer and by all salesmen registered by the latter while acting for him. Such bond shall be executed by a surety company authorized to do business in the Philippines. In lieu of such bond, he may file bonds of the Government of the Philippines or of the United States, or other security acceptable to the Commission. If a bond is filed, any person damaged by the failure of such broker or dealer or of any salesman registered by the latter while acting for him, to comply with the provisions of this Act, shall be entitled to sue the sureties under such bond and to recover the damages so suffered thereunder. If other securities are filed in lieu thereof, such person may subject such securities to the payment of such damage.

Upon the written application of a registered dealer or broker and general satisfactory showing as to good character and the payment of the fee prescribed in this Act, the Commission shall register as salesmen of such dealer or broker such natural persons as the dealer or broker may request. Such registration shall cease upon the termination of the employment of such salesmen by such dealer or broker.

The names and addresses of all persons approved for registration as brokers, dealers or salesmen and all orders with respect thereto shall be recorded in a Register of Brokers, Dealers and Salesmen kept in the office of the Commission which shall be open to public inspection. Every registration under this section shall expire on the thirty-first day of December in each year, but new registration for the succeeding year shall be issued upon written application and upon payment of the fee as hereinafter provided, without filing of further statements or furnishing any further information unless specifically required by the Commission. Application for renewals must be made not less than thirty nor more than sixty days before the first day of the ensuing year, otherwise they shall be treated as original applications. The fee for such registration and for each annual renewal shall be fifty pesos in the case of brokers, fifty pesos in the case of dealers and ten pesos in the case of salesmen.

Changes in registration occasioned by changes in the personnel of a partnership or in the principals, copartners, officers or directors of any broker or dealer may be made from time to time by written application setting forth the facts with respect to such change.

Every registered broker or dealer who intends to offer any security for sale shall notify the Commission in writing of his intention so to do. The notice shall contain the name of the broker or dealer and shall state the name of the security to be offered for sale, and whenever a broker or dealer shall have prepared such notice and shall have forwarded the same by registered mail, postage prepaid and properly addressed to the Commission, such dealer or broker, as to the contents of such notice and the filing thereof, shall be deemed to have complied with the

requirements of this paragraph. Any issuer of a security required to be registered under the provisions of this Act, selling such securities except in exempt transactions as defined in section six hereof, shall be deemed a dealer within the meaning of this section and required to comply with all the provisions hereof.

SEC. 15. Revocation of brokers', dealers' and salesmen's registration.—Registration under section fourteen may be refused or any registration granted may be revoked by the Commission if, after a reasonable notice and a hearing, the Commission determines that such applicant or registrant so registered:

- Has violated any provision of this Act or any regulation made hereunder; or
- Has made a material false statement in the application for registration; or
- Has been guilty of a fraudulent act in connection with any sale of securities, or has been or is engaged or is about to engage in making fictitious or pretended sales or purchases of any of such securities or has been or is engaged or is about to engage in any practice or sale of securities which is fraudulent or in violation of the law; or
- Has demonstrated his unworthiness to transact the business of broker, dealer or salesman.

In cases of charges against a salesman, notice thereof shall also be given the broker or dealer employing such salesman.

Pending the hearing, the Commission shall have the power to order the suspension of such broker's, dealer's or salesman's registration; provided, that such order shall state the cause for such suspension.

Until the entry of a final order, the suspension of such broker's or dealer's registration, though binding upon the persons notified thereof, shall be deemed confidential, and shall not be published, unless it shall appear that the order of suspension has been violated after notice.

In the event the Commission determines to refuse or revoke a registration as hereinabove provided, he shall enter a final order with his findings on the Register of Brokers, Dealers and Salesmen; and suspension or revocation of the registration of a dealer or broker shall also suspend or revoke the registration of all his salesmen.

It shall be sufficient cause for refusal or cancellation of registration in case of a partnership or corporation or any unincorporated association, if any member of a partnership or any officer or director of the corporation or association has been guilty of any act or omission which would be cause for refusing or revoking the registration of an individual dealer, broker or salesman.

CHAPTER V.—Registration of Exchanges

SEC. 16. Use of facilities of unregistered exchanges prohibited.—It shall be unlawful for any broker, dealer, salesman or exchange, directly or indirectly, to make use of any facility of an exchange in the Philippines to effect any transaction in a security or to report such transaction, unless such exchange is registered as a securities exchange under section seventeen of this Act, or is exempted from such registration upon application by the exchange because, in the opinion of the Commission, by reason of the limited volume of transactions effected on such exchange, it is not practicable and not necessary or appropriate in the public interest or for the protection of investors to require such registration.

SEC. 17. Registration of exchanges.—

- Any exchange may be registered with the Commission as a securities exchange under the terms and conditions hereinafter provided in this section, by filing a registration statement in such form as the Commission may prescribe, containing the agreements, setting forth the information, and accompanied by the documents below specified:

- An agreement (which shall not be construed as a waiver of any constitutional right or any right to contest the validity of any rule or regulation) to comply, and to enforce, so far as is within its powers, compliance by its members, with the provisions of this Act, and any amendment thereto, and any rule or regulation made or to be made thereunder;
- Such data as to its organization, rules of procedure, and membership, and such other information as the Commission may by rules and regulations require as being necessary or appropriate in the public interest or for the protection of investors;
- Copies of its constitution, articles of incorporation with all amendments thereto, and of its existing by-laws or rules or instruments corresponding thereto, whatever the name, which are hereinafter collectively referred to as the "rules of the exchange"; and
- An agreement to furnish to the Commission copies of any amendments to the rules of the exchange forthwith upon their adoption.
- No registration of an exchange shall be granted or remain in force unless the rules thereof include provision for the expulsion, suspension, or disciplining of a member for conduct or proceeding inconsistent with just and equitable principles of fair trade, and declare that the willful violation of any provision of this Act or any rule or regulation thereunder shall be considered conduct or proceeding inconsistent with just and equitable principles of fair trade.
- Nothing in this Act shall be construed to prevent any exchange from adopting and enforcing any rule not inconsistent with this Act and with the rules and regulations thereunder, or with any other law.
- If it appears to the Commission that the exchange applying for registration is so organized as to be able to comply with the provisions of this Act and the rules and regulations thereunder, and that the rules of the exchange are just and adequate to insure fair dealing and to protect investors, the Commission shall cause such exchange to be registered as a securities exchange.
- Within thirty days after the filing of the application, the Commission shall enter an order either granting or, after appropriate notice and opportunity for hearing, denying registration as a securities exchange, unless the exchange applying for registration shall withdraw its application or shall consent to the Commission's deferring action on its application for a stated longer period after the date of filing. The filing with the Commission of an application for registration by an exchange shall be deemed to have taken place upon the receipt thereof. Amendments to an application may be made upon such terms as the Commission may prescribe.
- Upon the registration of a securities exchange pursuant to the provisions of this Act, it shall pay a registration fee of one thousand pesos.
- An exchange may, upon appropriate application in accordance with the rules and regulations of the Commission and upon such terms as the Commission may deem necessary for the protection of investors, withdraw its registration.

Sec. 18. Margin requirements.—

- For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Commission shall prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security) registered on a securities exchange. For the initial extension of credit, such rules and regulations shall be based upon the following standard:

An amount not greater than whichever is the higher of—

- Fifty per centum of the current market price of the security, or
- One hundred per centum of the lowest market price of the security during the preceding thirty-six calendar months, but not more than sixty-five per centum of the current market price.
- It shall be unlawful for any member of a securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member, directly or indirectly to extend or maintain credit or arrange for the extension or maintenance of credit to or for any customer—
- On any security (other than an exempted security) registered on a securities exchange, in contravention of the rules and regulations which the Commission shall prescribe under the provisions of this section.
- This section and the rules and regulations thereunder shall not apply (A) to a loan made by a person not in the ordinary course of his business, (B) to a loan on an exempted security, (C) to a loan to a dealer to aid in the financing of the distribution of securities to customers not through the medium of a securities exchange, (D) to a loan by a bank on a security, or (E) to such other loans as the Commission shall, by such rules and regulations as it may deem necessary or appropriate in the public interest or for the protection of investors, exempt, either unconditionally or upon specified terms and conditions, or for stated periods, from the operation of this section and the rules and regulations thereunder.
- The provisions of this section or the rules and regulations thereunder shall not apply to any loan or extension of credit made prior to the effective date of this Act

SEC. 19. Restriction on borrowing by members, brokers, and dealers.—It shall be unlawful for any member of a securities exchange, or any broker or dealer who transacts a business in securities through the medium of any such member, directly or indirectly—

- To permit in the ordinary course of business as a broker his aggregate indebtedness to all persons, including customers' credit balances (but excluding indebtedness secured by exempted securities), to exceed such percentage of the net capital (exclusive of fixed assets and value of exchange membership) employed in the business, but not exceeding in any case two thousand per centum, as the Commission may by rules and regulations prescribe as necessary or appropriate in the public interest or for the protection of investors.
- In contravention of such rules and regulations as the Commission shall prescribe for the protection of investors, to hypothecate or arrange for the hypothecation of any security carried for the account of any customer under circumstances—
- That will permit the commingling of his securities, without his written consent, with the securities of any other customer;
- That will permit such securities to be commingled with the securities of any person other than a bona fide customer; or
- That will permit such securities to be hypothecated or subjected to any lien or claim of the pledge, or for a sum in excess of the aggregate indebtedness of such customers in respect of such securities.
- To lend or arrange for the lending of any security carried for the account of any customer without the written consent of such customer.

SEC. 20. Manipulation of security prices.—

- It shall be unlawful for any person, directly or indirectly—
- For the purpose of creating a false or misleading appearance of active trading in any security registered on a securities exchange, or a false or misleading appearance with respect to the market for any such security:
- To effect any transaction in such security which involves no change in the beneficial ownership thereof, or
- To enter an order or orders for the purchase of such security with the knowledge that an order or orders of substantially the same size, at substantially the same time, and at substantially the same price, for the sale of any such security, has been or will be entered by or for the same or different parties, or
- To enter any order or orders for the sale of any such security with the knowledge that an order or orders of substantially the same size, at substantially the same time, and at substantially the same price, for the purchase of such security, has been or will be entered by or for the same or different parties.
- To effect, alone or with one or more other persons, a series of transactions in any security registered on a securities exchange creating actual or apparent active trading in such security or raising or depressing the price of such security, for the purpose of inducing the purchase or sale of such security by others.
- If a dealer or broker, or other person selling or offering for sale, or purchasing or offering to purchase, the security, to induce the purchase or sale of any security registered on a securities exchange by the circulation or dissemination in the ordinary course of business of information to the effect that the price of any such security will or is likely to rise or fall because of market operations of any one or more persons, conducted for the purpose of raising or depressing the prices of such security.
- If a dealer or broker or other person selling or offering for sale or purchasing or offering to purchase the security, to make, regarding any such security, for the purpose of inducing the purchase or sale thereof, any statement which was at the time and in the light of the circumstances under which it was made, false or misleading with respect to any material fact, and which he knew or had reasonable ground to believe was so false or misleading.
- For a consideration received directly or indirectly from a dealer or broker or other person selling or offering for sale or purchasing or offering to purchase the security, to induce the purchase or sale of such security by the circulation or dissemination of information to the effect that the price of any such security will or is likely to rise or fall because of the market operations of any one or more persons conducted for the purpose of raising or depressing the price of such security.
- To effect, either alone or with one or more other persons, any series of transactions for the purchase or sale of any security registered on a securities exchange for the purpose of pegging, fixing or stabilizing the price of such security in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors.
- It shall be unlawful for any person to effect, by the use of any facility of a securities exchange, in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors—
- Any transaction in connection with any security whereby any party to such transaction acquires any put, call, straddle, or other option or privilege of buying the security from or selling the security to another without being bound to do so; or
- Any transaction in connection with any security with relation to which he has, directly or indirectly, any interest in any such put, call, straddle, option or privilege; or

- Any transaction in any security for the account of any person who he has reason to believe has, and who actually has, directly or indirectly, any interest in any such put, call, straddle, option, or privilege with relation to such security.
- It shall be unlawful for any member of a securities exchange, directly or indirectly, to endorse or guarantee the performance of any put, call, straddle, option or privilege in relation to any security registered on a securities exchange, in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors.
- The terms "put," "call," "straddle," "option," or "privilege" as used in this section shall not include any registered warrant, right or convertible security.
- Any person who willfully participates in any act or transaction in violation of subsection (a), (b) or (c) of this section shall be liable to any person who shall purchase or sell any security at a price which was affected by such act or transaction, and the person so injured may sue in any court of competent jurisdiction to recover the damages sustained as a result of any such act or transaction. In any such suit, the court may assess reasonable costs, including reasonable attorney's fees, against either party litigant. Every person who becomes liable to make payment under this subsection may recover contribution as in cases of contract from any person who, if joined in the original suit, would have been liable to make the same payment. No action shall be maintained to enforce any liability created under this section, unless brought within one year after the discovery of the facts constituting the violation and within three years after such violation.
- The provisions of this section shall not apply to an exempted security.

SEC. 21. Manipulative and deceptive devices.—It shall be unlawful for any person, directly or indirectly, by the use of any facility of any securities exchange—

- To effect a short sale, or to use or employ any stop-loss order in connection with the purchase or sale of any security registered on a securities exchange, in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors.
- To use or employ, in connection with the purchase or sale of any security, any manipulative or deceptive device or contrivance, in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors.

SEC. 22. Segregation and limitation of functions of members, brokers, and dealers.—

- The Commission shall prescribe such rules and regulations as it deems necessary or appropriate in the public interest or for the protection of investors (1) to regulate floor trading by members of securities exchanges, directly or indirectly for their own account or for discretionary accounts, and (2) to prevent such excessive trading on the exchange but off the floor by members, directly or indirectly for their own account, as the Commission may deem detrimental to the maintenance of a fair and orderly market. It shall be unlawful for a member to effect any transaction in a security in contravention of such rules and regulations, but such rules and regulations may make such exemptions for arbitrage transactions, for transactions in exempted securities, and, within the limitations of subsection (b) of this section, for transactions by odd-lot dealers and specialists, as the Commission may deem necessary or appropriate in the public interest or for the protection of investors.
- When not in contravention of such rules and regulations as it deems necessary or appropriate in the public interest or for the protection of investors (1) to regulate floor trading by members of securities exchanges directly or indirectly for their own account or for discretionary accounts, and (2) to prevent such excessive trading on the

exchange but off the floor by members, directly or indirectly for their own account, as the Commission may deem detrimental to the maintenance of a fair and orderly market. It shall be unlawful for a member to effect any transaction in a security in contravention of such rules and regulations, but such rules and regulations may make such exemptions for arbitrage transactions, for transactions in exempted securities, and, within the limitations of subsection (b) of this section, for transactions by odd-lot dealers and specialists, as the Commission may deem necessary or appropriate in the public interest or for the protection of investors.

- When not in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors, the rules of a securities exchange may permit—

- A member to be registered as an odd-lot dealer and as such to buy and sell for his own account so far as may be reasonably necessary to carry on such odd-lot transactions, or

- A member to be registered as a specialist. If under the rules and regulations of the Commission, a specialist is permitted to act as a dealer, or is limited to acting as a dealer, such rules and regulations shall restrict his dealings so far as practicable to those reasonably necessary to permit him to maintain a fair and orderly market, or to those necessary to permit him to act as an odd-lot dealer. It shall be unlawful for a specialist or an official of the exchange to disclose information in regard to orders placed with such specialist which is not available to all members of the exchange, to any person other than an official of the exchange, a representative of the Commission, or a specialist who may be acting for such specialist; but the Commission shall have power to require disclosure to all members of the exchange of all orders placed with specialists, under such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors. It shall also be unlawful for a specialist acting as a broker to effect on the exchange any transaction except upon a market or limited price order.

- If, because of the limited volume of transactions effected on an exchange, it is, in the opinion of the Commission, impracticable and not necessary or appropriate in the public interest or for the protection of investors to apply any of the foregoing provisions of this section or the rules and regulations thereunder, the Commission shall have power, upon application of the exchange and on a showing that the rules of such exchange are otherwise adequate for the protection of investors, to exempt such exchange and its members from any such provision or rules and regulations.

- It shall be unlawful for a member of a securities exchange who is both a dealer and a broker, or for any person who both as a broker and a dealer transacts a business in securities through the medium of a member or otherwise, to effect through the use of any facility of a securities exchange, or otherwise, in the case of a member—

- Any transaction in connection with which, directly or indirectly, he extends or maintains or arranges for the extension or maintenance of credit to or for a customer on any security (other than an exempted security) which was a part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within six months prior to such transaction: Provided, That credit shall not be deemed extended by reason of a bona fide delayed delivery of any such security against full payment of the entire purchase price thereof upon such delivery within thirty-five days after such purchase, or

- Any transaction with respect to any security (other than an exempted security) unless, if the transaction is with a customer, he discloses to such customer in writing at or before the completion of the transaction whether he is acting as a dealer for his own account, as a broker for such customer, or as a broker for some other person.

SEC. 23. Transactions in unregistered securities on securities exchange prohibited.—It shall be unlawful for any member, broker or dealer to effect any transaction in any security (other than an exempted security) on a

securities exchange unless a registration is effective as to such security in accordance with the provisions of this Act and the rules and regulations thereunder.

SEC. 24. Proxies.—It shall be unlawful for any member of a securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member, to give a proxy, consent or authorization in respect of any security carried for the account of a customer in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors.

SEC. 25. Over-the-counter markets.—It shall be unlawful, in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or to insure to investors protection comparable to that provided by and under authority of this Act in the case of securities exchanges—

- For any broker or dealer, singly or with any other person or persons, to make or create, or enable another to make or create, a market, otherwise than on a securities exchange, for both the purchase and sale of any security, other than an exempted security or commercial paper, bankers' acceptances, or commercial bills, or securities which have not previously been registered or listed with an exchange, or
- For any broker or dealer to use any facility of any such market.

Such rules and regulations may provide for the regulation of all transactions by brokers and dealers on any such market, for the registration with the Commission of dealers or brokers making or creating such a market, and for the registration of the securities for which they make or create a market, and may make special provision with respect to securities or specified classes thereof listed, or entitled to unlisted trading privileges, upon any exchange on the effective date of this Act, which securities are not registered under the provisions hereof.

SEC. 26. Directors, officers, and -principal stockholders.—

- Every person who is directly or indirectly the beneficial owner of more than ten per centum of any class of security (other than an exempted security), or who is a director or an officer of the issuer of such security, shall file, at the time of the registration of such security or within ten days after he becomes such beneficial owner, director, or officer, a statement with the exchange (and a duplicate original thereof with the Commission) of the amount of all securities of such issuer of which he is the beneficial owner, and within ten days after the close of each calendar month thereafter, if there has been any change in such ownership during such month, shall file with the exchange a statement (and a duplicate original thereof with the Commission) indicating his ownership at the close of the calendar month and such changes in his ownership as have occurred during such calendar month.
- Any profit realized by a beneficial owner, director, or officer, through the unfair use of information received as such, from any purchase and sale, or any sale and purchase, of any security of such Issuer (other than an exempted security), within any period of less than six months of the issue thereof, unless such security was acquired in good faith in connection with a debt previously contracted, shall inure to and be recoverable by the issuer.

SEC. 27. Account and records, reports, examinations of exchanges, members, and others.—

- Every securities exchange member thereof, every broker or dealer who transacts a business in securities through the medium of any such member, shall make, keep and preserve for such periods, such accounts, correspondence, memoranda, papers, books and other records, and make such reports as the Commission by its rules and regulations may prescribe as necessary or appropriate in the public interest or for the protection of investors. Such accounts, correspondence, memoranda, papers, books, and other records shall be subject at any time or from time to time to such reasonable, periodic, special or other examinations by examiners or other representatives of the

Commission as the Commission may deem necessary or appropriate in the public interest or for the protection of investors, provided that the Commission give notice of the purpose of such examination, and if such examination is for the purpose of investigating any complaint filed with the Commission or any information received by the Commission, that a copy of such complaint or a statement of such information be furnished by the Commission to such exchange, member, broker or dealer at least five days prior to the commencement of such examination.

- Any broker, dealer or other person extending credit, who is subject to the rules and regulations prescribed by the Commission pursuant to this Act, shall make such reports to the Commission as may be necessary or appropriate to enable it to perform the functions conferred upon it by this Act.

SEC. 28. Powers with respect to exchanges and securities.—

- The Commission is authorized, if in its opinion such action is necessary or appropriate for the protection of investors:

- After appropriate notice and opportunity for hearing, by order, to suspend for a period not exceeding twelve months or to withdraw the registration of a securities exchange, if the Commission finds that such exchange has willfully violated any provision of this Act or of the rules and regulations thereunder, or has willfully failed to enforce, so far as is within its power, compliance therewith by a member or by an issuer of a security registered thereon.

- After appropriate notice and opportunity for hearing, by order, to suspend for a period not exceeding twelve months or to expel from a securities exchange any member or officer thereof whom the Commission finds has willfully violated any provision of this Act or the rules and regulations thereunder, or has effected any transaction for any person who, he has reason to believe, is violating in respect of such transaction any provision of this Act or the rules and regulations thereunder.

- And if in its opinion the public interest so requires, summarily to suspend trading in any registered security on any securities exchange for a period not exceeding ten days or, with the approval of the President, summarily to suspend all trading on any securities exchange for a period not exceeding ninety days.

- The Commission is further authorized, if after making appropriate request in writing to a securities exchange that such exchange effect on its own behalf specified changes in its rules and practices and, after appropriate notice and opportunity for hearing, the Commission determines that such exchange has not made the changes so requested, and that such changes are necessary or appropriate for the protection of investors or to insure fair dealing in securities traded in upon such exchange or to insure fair administration of such exchange, by rules or regulations or by order, to alter or supplement the rules of such exchange (insofar as necessary or appropriate to effect such changes) in respect of such matters as—

- Safeguards in respect of the financial responsibility of members and adequate provision against the evasion of financial responsibility through the use of corporate forms or special partnerships;

- The limitation or prohibition of the registration or trading in any security within a specified period after the issuance or primary distribution thereof;

- The listing or striking from listing of any security;

- Hours of trading;

- The manner, method, and place of soliciting business;

- Fictitious accounts;

- The time and method of making settlements, payments, and deliveries, and of closing accounts;
- The reporting of transactions on the exchange and upon tickers maintained by or with the consent of the exchange, including the method of reporting short sales, stopped sales, sales of securities of issuers in default, bankruptcy or receivership, and sales involving other special circumstances;
- The "fixing of reasonable rates of commission, interest, listing, and other charges;
- Minimum units of trading;
- Odd-lot purchases and sales; and
- Minimum deposits on margin accounts.

CHAPTER VI.—General

SEC. 29. Liabilities of controlling persons.—

- Every person who, directly or indirectly, controls any person liable under any provision of this Act or of any rule or regulation thereunder shall also be liable jointly and severally with and to the same extent as such controlled person to any person to whom such controlled person is liable, unless the controlling person acted in good faith and did not directly or indirectly induce the act or acts constituting the violation or cause of action.
- It shall be unlawful for any person, directly or indirectly, to do any act or thing which it would be unlawful for such person to do under the provisions of this Act or any rule or regulation thereunder through or by means of any other person.
- It shall be unlawful for any director or officer of, or any owner of any of the securities issued by, any issuer of any security registered in accordance with this Act without just cause, to hinder, delay, or obstruct the making or filing of any document, report, or Information required to be filed under this Act or any rule or regulation thereunder.

SEC. 30. Remedies.—

- Every sale made in violation of any of the provisions of this Act or wherein the purchaser shall have relied upon any statement which was at the time and in the light of the circumstances under which it was made false and misleading with respect to any material fact contained in any application, report, or document filed pursuant to this Act or any rule or regulation thereunder, shall be voidable at the election of the purchaser; and the person making such sale and every director, officer or agent of or for such seller, if such director, officer or agent shall have personally participated or aided in any way in making such sale, shall be jointly and severally liable to such purchaser in an action in any court of competent jurisdiction upon tender of the securities sold or of the contract made for the full amount paid by such purchaser, with interest, together with all taxable court costs and reasonable attorney's fees: Provided, That no action shall be brought for the recovery of the purchase price after two years from the date of such sale: And provided, further, That no purchaser otherwise entitled shall claim or have the benefit of this section who shall have refused or failed within thirty days from the date thereof to accept an offer in writing of the seller to take back the security in question and to refund the full amount paid by such purchaser, together with interest on such amount for the period from the date of payment by such purchaser down to the date of repayment, such interest to be computed:
- In case such securities consist of interest-bearing obligations, at the same rate as provided in such obligations; and
- In case such securities consist of other than interest-bearing obligations, at the rate of six per centum per annum;

less, in every case, the amount of any income from said securities that may have been received by such purchaser.

- Any person having a right of action against a dealer, broker or salesman under this section shall have a right of action under the bond provided in section fourteen.

SEC. 31. Investigations, injunctions and prosecution offense.—

- The Commission may, in its discretion, make prosecution of such investigations as it deems necessary to determine whether any person has violated or is about to violate any provision of this Act or any rule or regulation thereunder, and may require or permit any person to file with it a statement in writing, under oath or otherwise as the Commission shall determine, as to all the facts and circumstances concerning the matter to be investigated. The Commission is authorized, in its discretion, to publish information concerning any such violations, and to investigate any fact, condition, practice, or matter which it may deem necessary or proper to aid in the enforcement of the provisions of this Act, in the prescribing of rules and regulations thereunder, or in securing information to serve as a basis for recommending further legislation concerning the matters to which this Act relates: Provided, however, That no such investigation shall be conducted unless the person investigated is furnished with a copy of any complaint which may have been the cause of the initiation of the investigation or is notified in writing of the purpose of such investigation.

- For the purpose of any such investigation,, or any other proceeding under this Act, the Commission or any officer designated by it is empowered to administer oaths and affirmations, subpoena witnesses, compel attendance, take evidence, and require the production of any book, paper, correspondence, memorandum, or other record which the Commission deems relevant or material to the inquiry. Any person who shall, without just cause, fail or refuse to attend and testify or to answer any lawful inquiry or to produce books, papers, correspondence, memoranda, and other records, if in his power so to do, in obedience to the subpoena of the Commission, shall be guilty of an offense and, upon conviction, shall be subject to discipline as in case of contempt of court and, upon application of the Commission, shall be dealt with by the Court of First Instance where such person resides, in the manner provided by law.

- No person shall be excused from attending and testifying or from producing books, papers, contracts, agreements and other records and documents before the Commission or in obedience to the subpoena of the Commission or any officer designated by it, or in any cause or proceeding instituted by the Commission, on the ground that the testimony or evidence, documentary or otherwise, required of him may tend to incriminate him or subject him to a penalty or forfeiture; but no individual shall be prosecuted or subjected to any penalty or forfeiture for or on account of any transaction, matter, or thing concerning which he is compelled, after having claimed his privilege against self- incrimination, to testify or produce evidence, documentary or otherwise, except that such individual so testifying shall not be exempt from prosecution and punishment for perjury committed in so testifying.

- Whenever it shall appear to the Commission that any person is engaged or about to engage in any act or practice which constitutes or will constitute a violation of the provisions of this Act, or of any rule or regulation thereunder, it may in its discretion bring an action in the Court of First Instance of Manila to enjoin such acts or practices, and upon a proper showing, a permanent or temporary injunction or restraining order shall be granted without bond. The Commission may transmit such evidence as may be available concerning such acts or practices to the Secretary of Justice, who may, in his discretion, order or institute the necessary proceedings, criminal or civil, under this Act.

- Upon application of the Commission, the Court of First Instance of Manila shall also have jurisdiction to issue mandatory injunctions commanding any person to comply with the provisions of this Act or any order of the

Commission made in pursuance thereof.

SEC. 32. Hearing by Commission.—Hearings may lie and may be held before the Commission, or any officer or officers of the Commission designated by it, and appropriate records thereof shall be kept.

SEC. 33. Rules and regulations.—The Commission shall have power to make such rules and regulations as may be necessary for the execution of the functions vested in it by this Act.

SEC. 34. Revelation of information filed with the Commission.—

- Nothing in this Act shall be construed to require, or to authorize the Commission to require, the revealing of trade secrets or processes in any application, report, or document filed with the Commission.

- Any person filing any such application, report or document may make written objection to the public disclosure of information contained therein, stating the grounds for such objection, and the Commission is authorized to hear objections in any such case as it deems advisable. The Commission may, in such cases, make available to the public the information contained in any such application, report, or document only when a disclosure of such information is required in the public interest or for the protection of investors; and copies of information so made available may be furnished to any person having a legitimate interest therein at such reasonable charge and under such reasonable limitations as the Commission may prescribe,

- It shall be unlawful for any member, officer, or employee of the Commission to disclose to any person other than a member, officer, or employee of the Commission; or to use for personal benefit, any information contained in any application, report, or document filed with the Commission which is not made available to the public pursuant to subsection (b) of this section.

SEC. 35. Court review of orders.—

- Any person aggrieved by an order issued by the Commission in a proceeding under this Act to which such person is a party or who may be affected thereby may obtain a review of such order in the Supreme Court of the Philippines by filing in such court, within sixty days after the entry of such order, a written petition praying that the order of the Commission be modified or set aside in whole or in part. A copy of such petition shall be forthwith served upon the Commission, and thereupon the Commission shall certify and file in the court a transcript of the record upon which the order complained of was entered. Upon the filing of such transcript, such court shall have exclusive jurisdiction to affirm, modify, and enforce or set aside such order, in whole or in part. No objection to the order of the Commission shall be considered unless such objection shall have been urged before the Commission, provided that opportunity therefor has been afforded. The finding of the Commission as to the facts shall be conclusive. If either party shall apply to the court for leave to adduce additional evidence and shall show to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for failure to adduce such evidence in the hearing before the Commission, the court may order such additional evidence to be taken before the Commission and to be adduced upon the hearing in such manner and upon such terms and conditions as to the court may seem proper. The Commission may modify its findings as to the facts, by reason of the additional evidence so taken, and it shall file such modified or new findings, which shall be conclusive, and its recommendation, if any, for the modification or setting aside of the original order.

The judgment and decree of the court, affirming, modifying, and enforcing or setting aside, in whole or in part, any such order of the Commission, shall be final, subject to review by the Supreme Court of the United States in cases where and upon the grounds by which a petition for a writ of certiorari to the Supreme Court of the Philippines may be presented in the Supreme Court of the United States.

- The commencement of proceedings under subsection (a) hereof shall not operate as a stay of the Commission's order unless specifically ordered by the Court.

SEC. 36. Effect of action of Commission and unlawful representations with respect thereto.—No action or failure to act by the Commission in the administration of this Act shall be construed to mean that the Commission has in any way passed upon the merits of or given approval to any security or any transaction or transactions therein, nor shall such action or failure to act with regard to any statement or report filed with or examined by the Commission pursuant to this Act or the rules and regulations thereunder be deemed a finding by the Commission that such statement or report is true and accurate on its face or that it is not false or misleading. It shall be unlawful to make, or cause to be made, to any prospective purchaser or seller of a security any representation that any such action or failure to act by the Commission is to be so construed or has such effect.

SEC. 37. Effect on existing law.—The rights and remedies provided by this Act shall be in addition to any and all other rights and remedies that may now exist, but no person permitted to maintain a suit for damages under the provisions of this Act shall recover, through satisfaction of judgment in one or more actions, a total amount in excess of his actual damages on account of the act complained of.

SEC. 38. Validity of contracts.—

- Any condition, stipulation, or provision binding any person to waive compliance with any provision of this Act or of any rule or regulation thereunder, or of any rule of an exchange required thereby, shall be void.

- Every contract made in violation of any provision of this Act or of any rule or regulation thereunder, and every contract (including any contract for listing a security on an exchange) heretofore or hereafter made, the performance of which involves the violation of, or the continuance of any relationship or practice in violation of, any provision of this Act or any rule or regulation thereunder, shall be void,

- As regards the rights of any person who, in violation of any such provision, rule or regulation, shall have made or engaged in the performance of any such contract, and

- As regards the rights of any person who, not being a party to such contract, shall have acquired any right thereunder with actual knowledge of the facts by reason of which the making or performance of such contract was in violation of any such provision, rule or regulation. (c) Nothing in this Act shall be construed—

- To affect the validity of any loan or extension of credit made or of any lien created prior or subsequent to the effectiveness of this Act, unless at the time of the making of such loan or extension of credit or the creating of such lien, the person making such loan or extension of credit or acquiring such lien shall have actual knowledge of the facts by reason of which the making of such loan or extension of credit or the acquisition of such lien is a violation of the provisions of this Act or any rule or regulation thereunder, or

- To afford a defense to the collection of any debt, obligation or the enforcement of any lien by any person who shall have acquired such debt, obligation, or lien in good faith for value and without actual knowledge of the violation of any provision of this Act or any rule or regulation thereunder affecting the legality of such debt, obligation or lien.

SEC. 39. Additional fee of stock exchanges.—In addition to the registration fee prescribed in section seventeen of this Act, every securities exchange shall pay to the Treasurer of the Philippines, on or before March fifteen of each calendar year, a fee in an amount equal to one five-hundredth of one per centum of the aggregate amount of the sales of securities transacted on such securities exchange during the preceding calendar year, for the privilege of doing business as a securities exchange, during the preceding calendar year or any part thereof.

SEC. 40. Penalties.—Any person who willfully violates any provision of this Act, or any lawful rule or regulation thereunder, the violation of which is made unlawful or the observance of which is required under the terms of this Act, or any person who willfully and knowingly makes, or causes to be made, any statement in any application, report, or document required to be filed under this Act, or any lawful rule or regulation thereunder, which statement is false or misleading with respect to any material fact, shall, upon conviction, be sentenced to suffer imprisonment for a period not exceeding two years, or a fine not exceeding twenty thousand pesos, or both, in the discretion of the court, except that when such person is an exchange, the penalty shall be a fine which shall not exceed one hundred thousand pesos.

SEC. 41. Separability of provisions.—If any provision of this Act shall be held invalid, the remainder of the Act shall not be affected thereby.

SEC. 42. Repealing clause.—All Acts or parts of Acts inconsistent with this Act are hereby repealed.

SEC. 43. Appropriation.—The sum of fifty thousand pesos, together with all the collections under the provisions of this Act, or so much thereof as may be necessary, are hereby appropriated out of any funds in the Philippine Treasury not otherwise appropriated, to be disbursed upon order of the Department Head, for the payment of salaries and travel expenses of the officers and personnel of the Commission, for the purchase of equipment and supplies, and for such other incidental expenses as may necessarily be incurred to carry into effect the provisions of this Act.

SEC. 44. Effective date.—Chapters I, II, and III of this Act, and so much of Chapter VI thereof as are necessary to carry into effect the provisions of Chapter III, shall take effect on the date of the approval of this Act; all the other Chapters and provisions shall take effect on January first, nineteen hundred and thirty-seven.

Approved, October 26, 1936.

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