



**THE PHILIPPINE ETF
INDUSTRY BRIEFING
FOCUS ON THE PHILIPPINE ETF
JUNE 28, 2013**



OUTLINE

- I. Background
- II. Parties to ETF
- III. ETF processes
- IV. PSE ETF Listing rules
- V. Market Making obligations



BACKGROUND

- SEC ETF rules: October 2012
- PSE rules (Parts A, B): March 2013
- PSE Part C (MM): June 2013.



GOVERNED BY ICA

Implications on Corporate Structure

- Company incorporated under ICA (Domestic Corporation)
- All Filipino Board of Directors
- Change in investment policy require majority approval from outstanding voting shares (Section 12, ICA)
[SEC ETF Rules: Index rebalancing and re-composition not considered change in investment policy.]

Suppletory Application of Corporation Code

- Investors purchase shares of the Company
- 2/3 Shareholder approval (and majority Board approval) necessary for any amendment in Articles of Incorporation (such as increase in authorized capital stock)

WHY LAUNCH THIS PRODUCT?

- To allow investors – local and foreign – to enjoy market returns at low entry cost
- Enhances liquidity of underlying
- Strategic plan: new products
- From 2010-2012, ETF products based on Philippine equities have been offered in the US and in HK (e.g. iShares MSCI Philippines ETF, XIE Shares Philippines PSEi ETF)



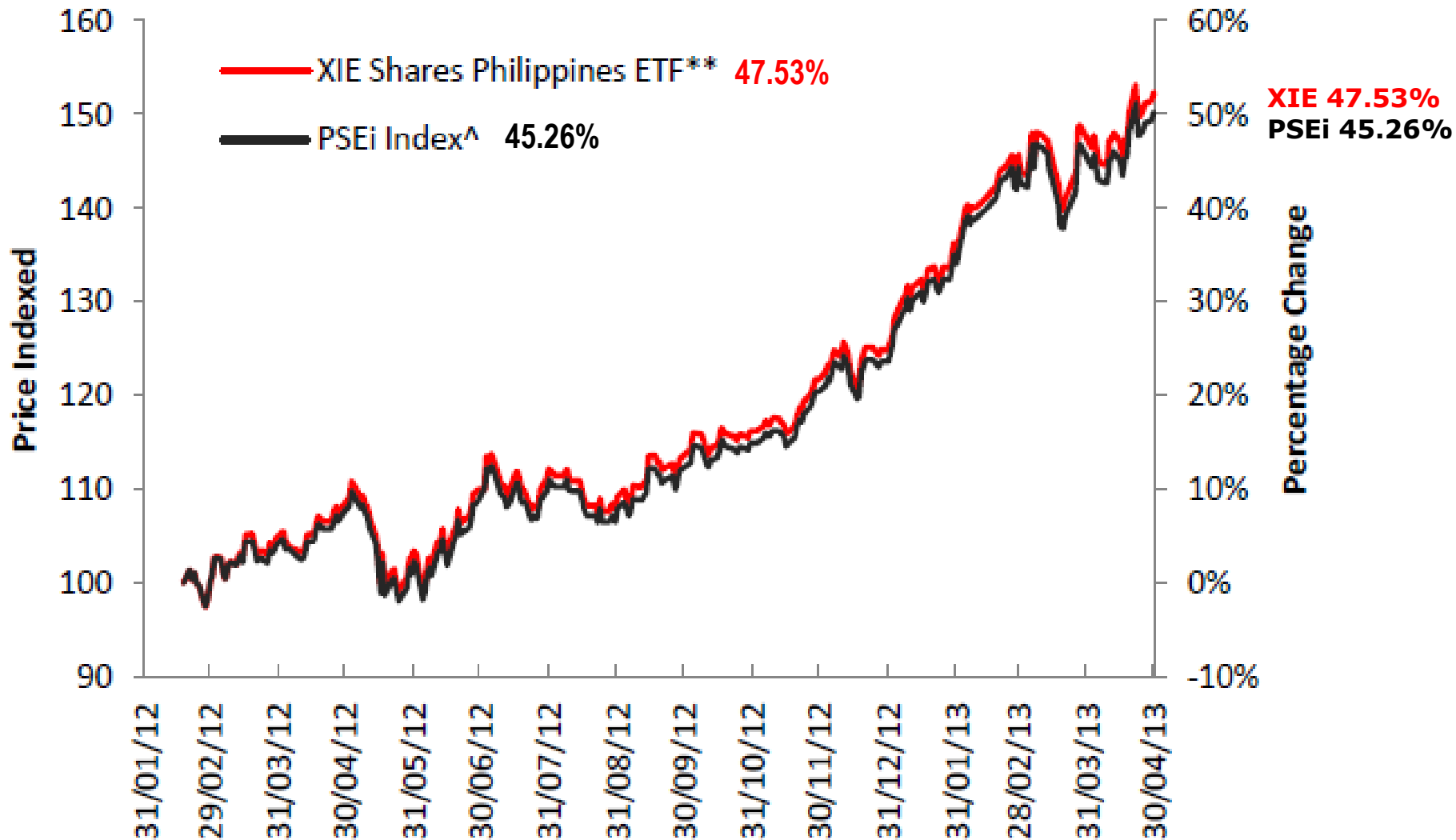
ISHARES MSCI PHILIPPINES ETF

ETF Chart for EPHE >>



Source: Bloomberg, June 26, 2013
<http://www.bloomberg.com/quote/EPHE:US>

XIE SHARES PHILIPPINES PSEI ETF



Source: XIE Shares factsheet, May 2013 (as of April 2013)

KEY PARTIES IN AN ETF

- ETF Company
- Fund Manager
- Custodian
- Transfer Agent
- Index Provider
- Exchange
- Authorized Participant
- Market Maker
- Auditor
- iNAV Calculator

ETF COMPANY – ESTABLISHED IN ACCORDANCE WITH ICA AND REGISTERED WITH SEC

PSE ETF Rules	SEC ETF Rules
Sec. 4.a Established in accordance with ICA and registered with SEC	Sec. 6 Incorporated and Registered as ETF
Sec. 5 Minimum ACS and Paid-up capital of P 250M	6.2 a) Name of corporation must contain Exchange Traded Fund or ETF
	b) Purpose to engage in business of investing, reinvesting or trading securities; shall issue and redeem its shares of stock in a defined creation unit in exchange for delivery of a basket of securities representing an index
	c) All Filipino Board of Directors
	d) Minimum paid up capital of P 250M

AUTHORIZED PARTICIPANT – CREATES AND REDEEMS ETF SHARES

PSE ETF Rules	SEC ETF Rules
Sec. 4c Registered Broker –dealers Active trading participants	Sec. 8 At least 2 AP shall be appointed by the ETF provided that at least 1 shall act as Market Maker
Php 100M minimum paid up capital	Sec. 16.2 Registered Broker – dealer Authorized trading participant of an Exchange
ETF must have 2 APs at all times	Adequate resources including competent staff and appropriate systems, procedures and processes to execute transactions in ETF shares in proper and efficient manner
Meet requirements in SEC ETF Rules: Sec. 16.2, 16.3, 16.4	Adequate and effective internal control procedures
	Formal written agreement with ETF
	Sec. 16.3 Provide measures for eliminating conflict
	Sec. 16.4 Other duties including acting as MM in accordance with agreement with ETF

FUND MANAGER - OPERATES AND ADMINISTERS THE ETF

PSE ETF Rules	SEC ETF Rules
Must comply with requirements in Sec.15 SEC ETF Rules	Sec. 15 Must be reputable Fund Manager
Must have been in operation for the last 2 years	FM shall register as Investment Company Adviser in accordance with the requirements of ICA
Satisfactory experience in managing funds	Majority of directors and officers shall have a track record of 5 years in managing funds
	Shall be compliant with ETF agreement, ICA, SRC, Corp Code, IRR including these rules, circulars, orders, terms and conditions prescribed by the Commission

CUSTODIAN - TAKES CUSTODY AND CONTROL OF ETF ASSETS

PSE ETF Rules	SEC ETF Rules
Sec. 4 Must comply with the requirements in Sec. 17 SEC ETF Rules	Sec. 17.1 Appoint a qualified custodian
	17.2.1 Registered universal or commercial bank with trust license or a non-bank entity with a trust license or a registered securities depository
	17.2.2 Adequate resources, competent staff, appropriate systems, procedures and processes
	17.2.3 Adequate and effective internal control procedures, independence between and among its different office units, satisfactory risk management procedures
	17.3 Measures to eliminate conflict of interest

TRANSFER AGENT – MAINTAINS REGISTRY FOR RECORDING TRANSFERS OF SHARES

PSE ETF Rules	SEC ETF Rules
Sec. 4.f Paid in capitalization of P 100M	Sec. 18 Registered Transfer Agent
Compliant with SEC ETF Rule Sec. 18	

AUDITOR – PERFORMS INDEPENDENT AUDIT OF ETF'S FINANCIAL RECORDS

PSE ETF Rules	SEC ETF Rules
Sec. 4.g Independent Accredited by SEC Acceptable to PSE	

INDEX PROVIDER - RESPONSIBLE FOR CONSTRUCTION CALCULATION OF ETF'S UNDERLYING INDEX

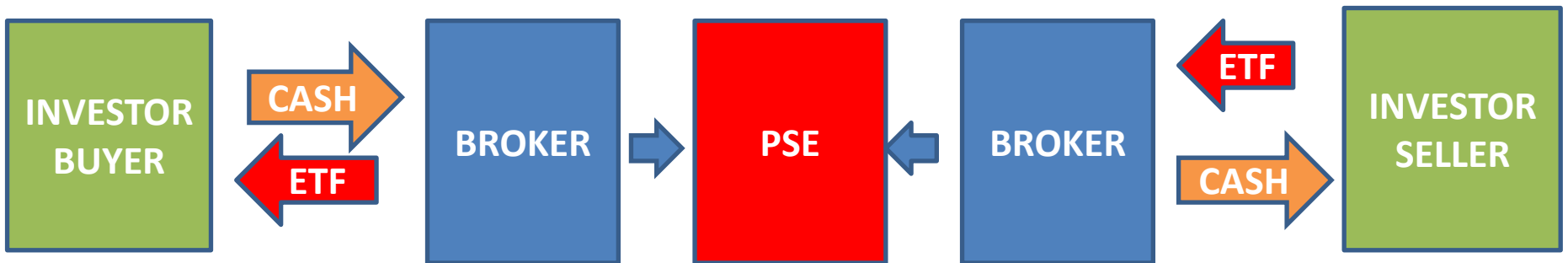
PSE ETF Rules	SEC ETF Rules
Sec. 4.h Independent	Sec.14 Must have an agreement with ETF
Compliant with Sec. 14 SEC ETF Rules	Shall adopt measures reasonably designed to prevent misuse of non-public information between ETF and Index Provider

MARKET MAKER – ENSURES LIQUIDITY

PSE ETF Rules	SEC ETF Rules
Sec. 4 d At least 1 of the designated AP of the ETF shall be designated as ETF Market Maker	Sec. 5.14 Market Maker is an Authorized Participant
Sec. 13 a. Must be a Trading Participant, Must have at least 1 Licensed Salesman accredited as a Designated Specialist	Sec. 8.2 At least 1 of the appointed APs shall act as the ETF Market Maker
13.b Must be registered as authorized ETF Market Maker	
Implementing Guidelines of ETF MM Rules:	
Sec.1.a (i) Licensed to act as a broker/dealer by the Commission	
Sec.1.a (ii) Registered as a trading participant of the Exchange	
Sec.1.a (iii) Has been continuously operating as broker/dealer for the 5 year period preceeding filing of application	
Sec.1.a (iv) Has at least one Designated Specialist	
Sec.1.a (v) Has no violations of laws or serious non-compliance with rules and regulations for the last 2 years prior to filing the application	

ETF PROCESSES

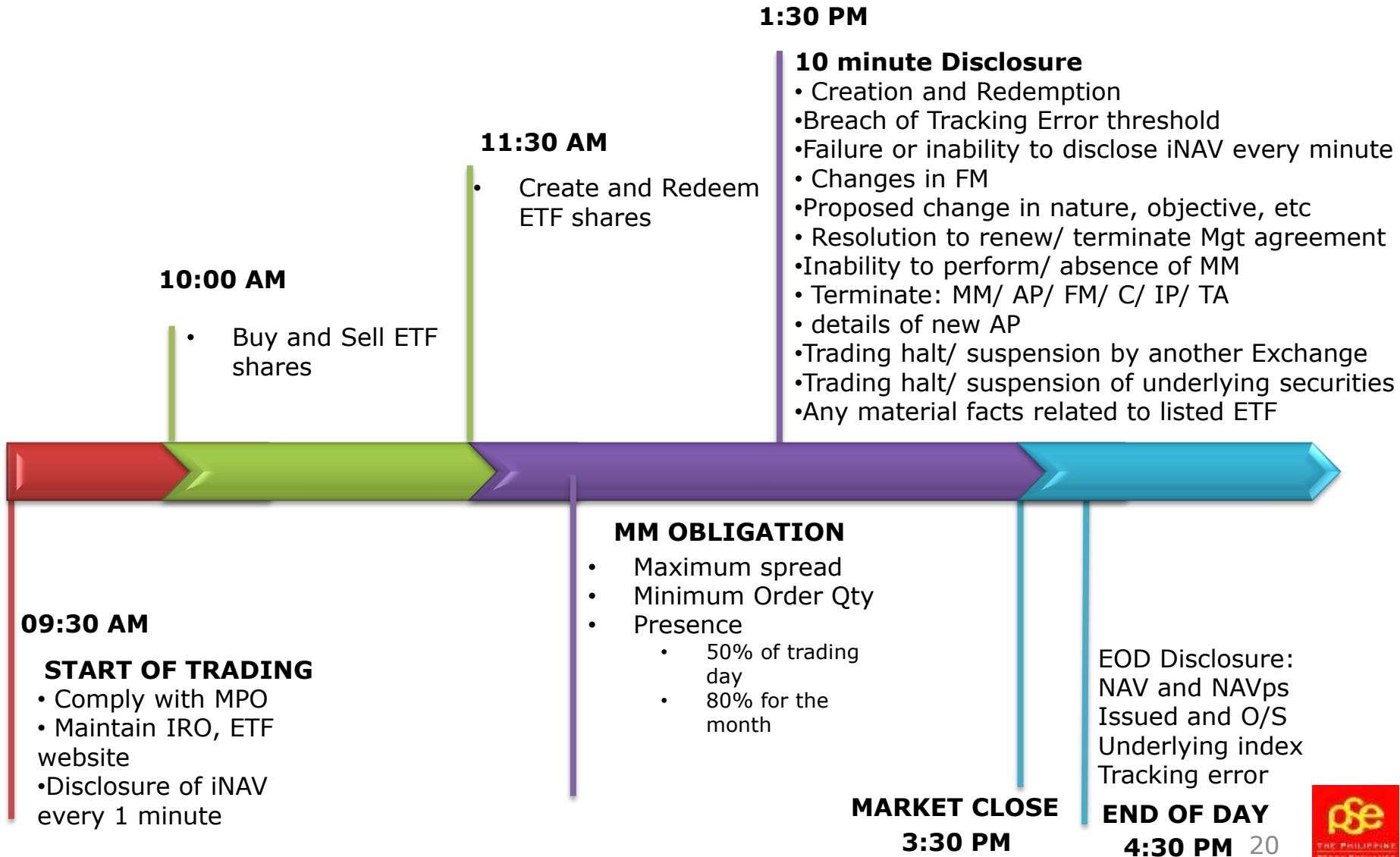
ETF Shares trade like existing shares



ETF Vital Stats

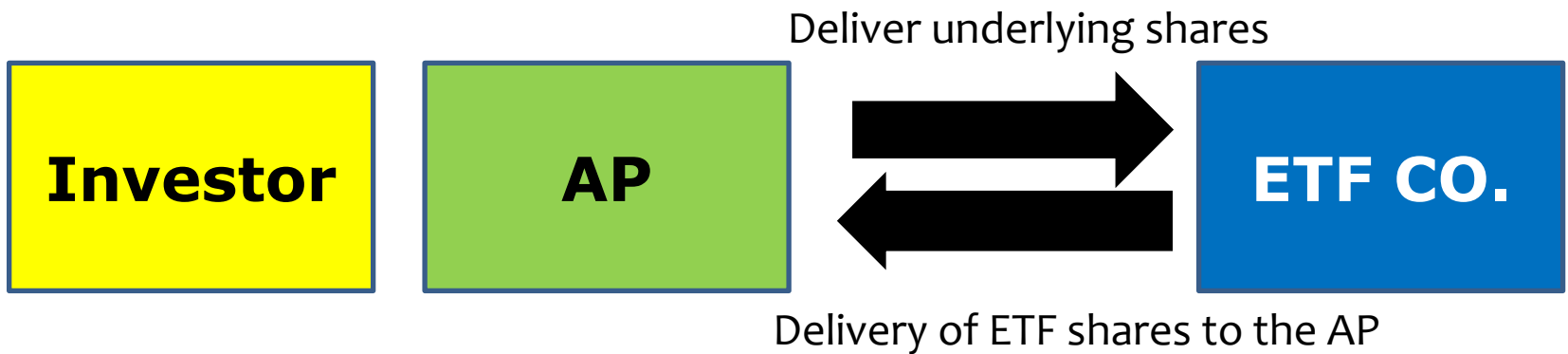
- ETF price – market price
- NAV – total value of the net assets of the fund
(Market Value of U/S + Cash – Liabilities) at EOD
- iNAV – approximation of NAVps
- Underlying Index
-
- Tracking Error
- Arbitrage

A DAY IN THE LIFE OF AN ETF



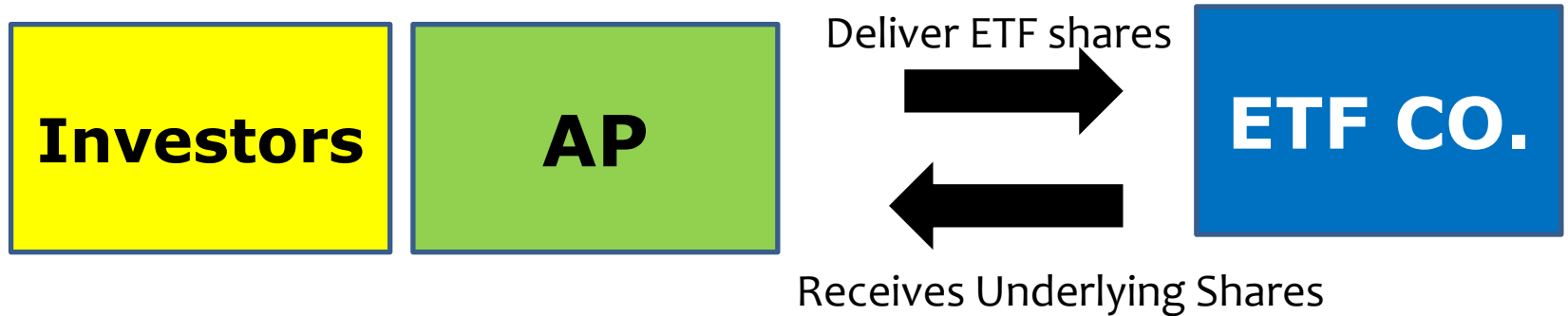
CREATION PROCESS

ETF SHARE PRICE > iNAV



REDEMPTION PROCESS

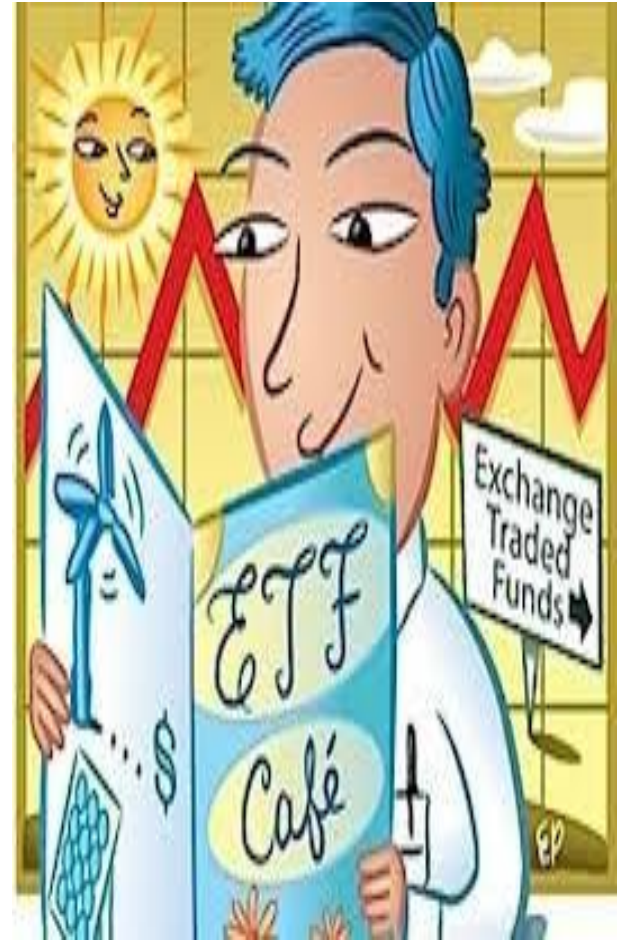
ETF SHARE PRICE < iNAV



PSE RULES OVERVIEW

GENERAL RULES FOR LISTING

1. Minimum authorized capital stock and paid-up capital of Php250 million.
2. May undertake offering of its shares;
3. May apply for shelf listing equivalent number of shares subject of SEC Registration Statement;
4. Underlying securities comprising the index which the ETF Co. intends to track must be listed and traded in a registered exchange and have sufficient liquidity.
5. PSE Suitability rules apply.



CONTINUING LISTING REQUIREMENTS

MPO 10%. ETF shares held by APs are considered public.

IRO. IR program, including website with information on financial reports, disclosures/news and stock data.

Shelf-listing. shares will be eligible for issuance upon confirmation by TA that ETF shares have been created & issued.



CONTINUING LISTING REQUIREMENTS

Periodic Reports

- iNAV disclosure every 1 minute
- End of day disclosure, no later than 4:30PM of NAV, issued and outstanding shares, underlying index and tracking error
- Annual and Quarterly Reports
- Monthly issuance and redemption report of ETF creation units
- End of each dividend distribution period: net amount per share and record date



PSE RULES CONTINUED

Fees:

- Processing fee: **Php50,000.00**
- Listing fee: **Php100,000.00**
- Annual Listing Maintenance Fee:
1/200 of 1% of total market cap
but no more than **Php250,000.00**



MARKET MAKER OBLIGATIONS

The ETF Market Maker shall be obliged, upon occurrence of Wide Spread, to perform the following:

Ensure two-sided ETF Orders into the System in quantities not less than the minimum volume required by the Exchange; (5 board lots)

Observe a maximum bid and offer spread throughout a mandatory period; and

Price		Maximum Spread
From	To	
0.0001	0.4950	20 ticks
0.5000	19.9800	15 ticks
20.0000	999.5000	10 ticks
1000.0000	UP	5 ticks

Presence in the market within the period required by the Exchange (50% each trading day, 80% each month)

MARKET MAKER OBLIGATIONS

Definition of a Wide Spread

- Wide spread shall mean the occurrence of **any** of the following situations:
 - the bid and ask spread is larger than a limit specified by the Exchange from time to time; OR
 - there is only one-sided quotation; OR
 - there is no existing quotation on both the bid and ask queues.



THANK YOU!

