



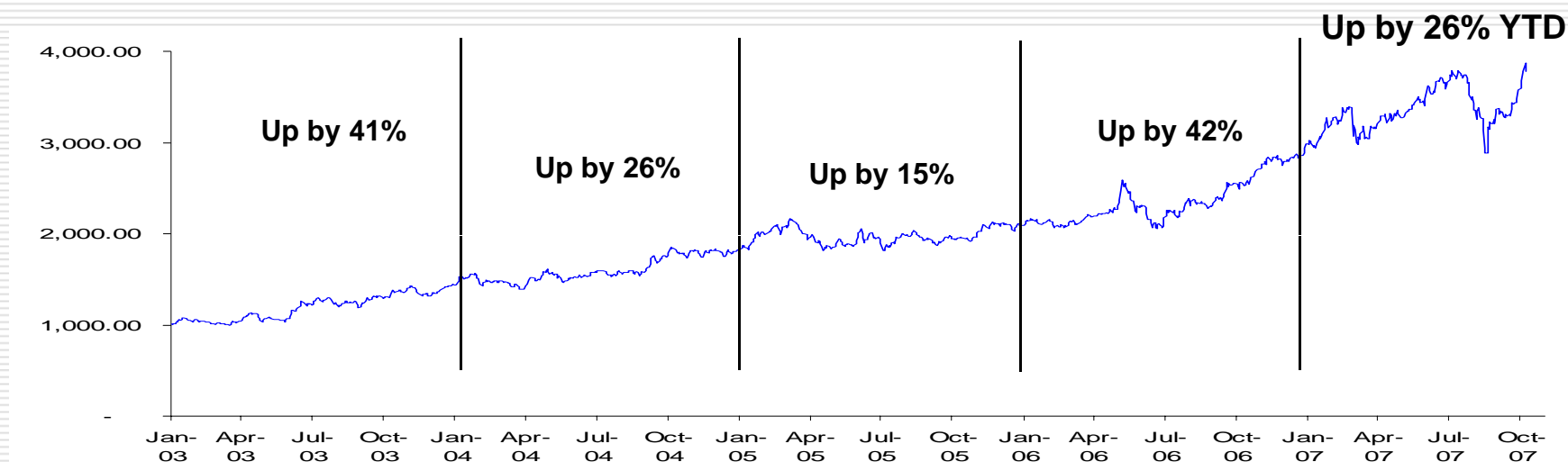
Francis Ed. Lim
President and CEO
The Philippine Stock Exchange, Inc.

PHILIPPINE CAPITAL MARKET UPDATE

7th ANNUAL PACIFIC REGION INVESTMENT CONFERENCE

*18 October 2007
Mandarin Oriental Manila*

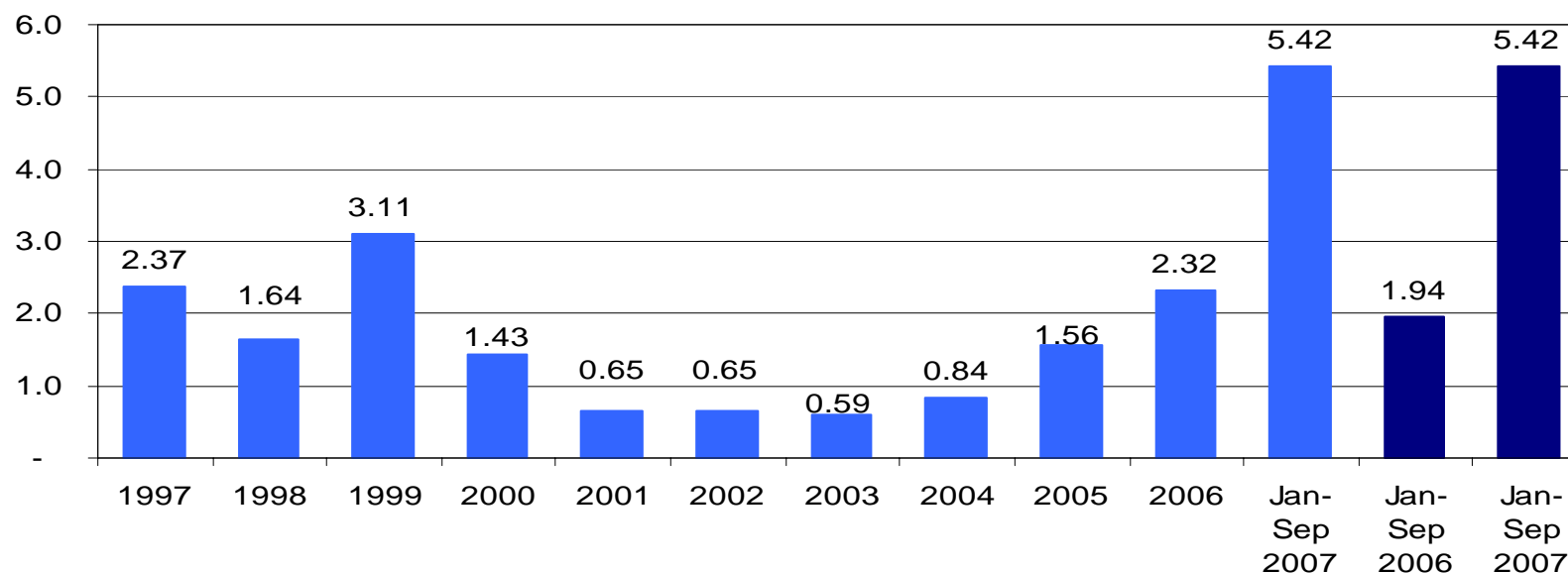
INDEX PERFORMANCE



- **The PSEi, the benchmark index has been steadily rising in the past five years**

RISING MARKET LIQUIDITY

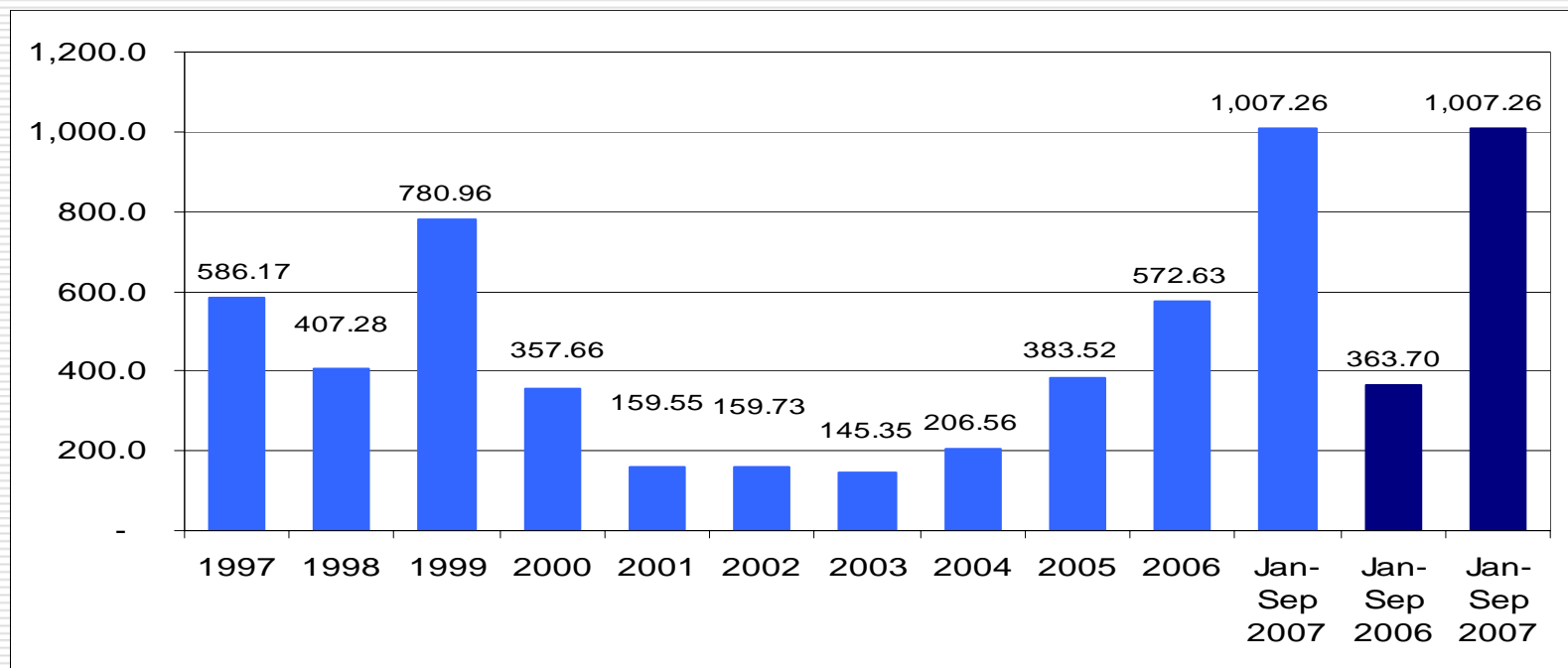
Average daily value turnover (in Php billion)



- **Daily turnover went up by 49% in 2006. This year, it has gone up by 179% from the same period last year.**

RISING MARKET LIQUIDITY

Total value turnover (in Php billion)



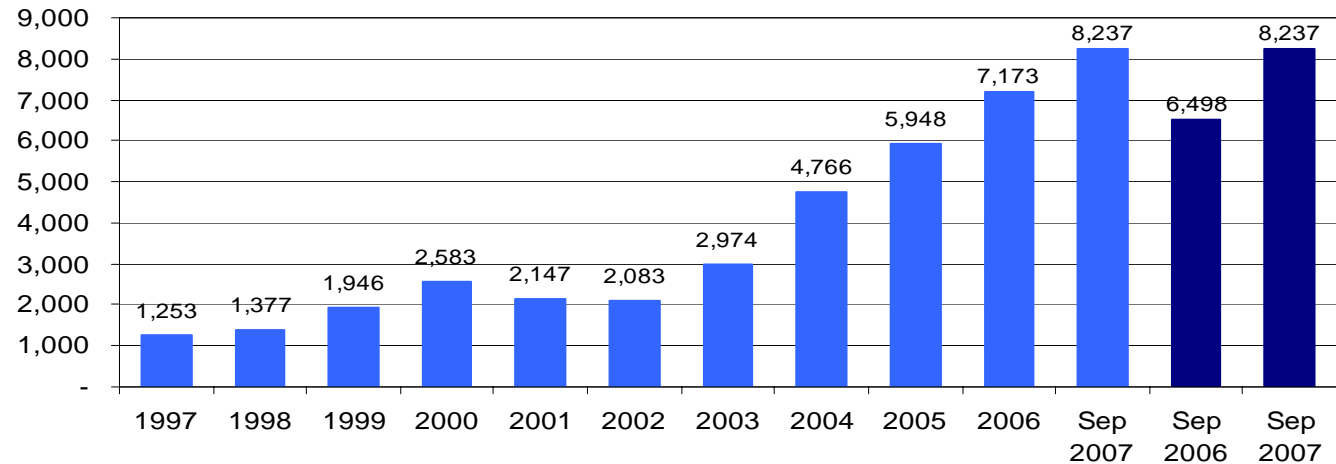
- **Total value turnover in 2007 has already breached the P1-trillion level during the first nine months alone**

MARKET CAPITALIZATION

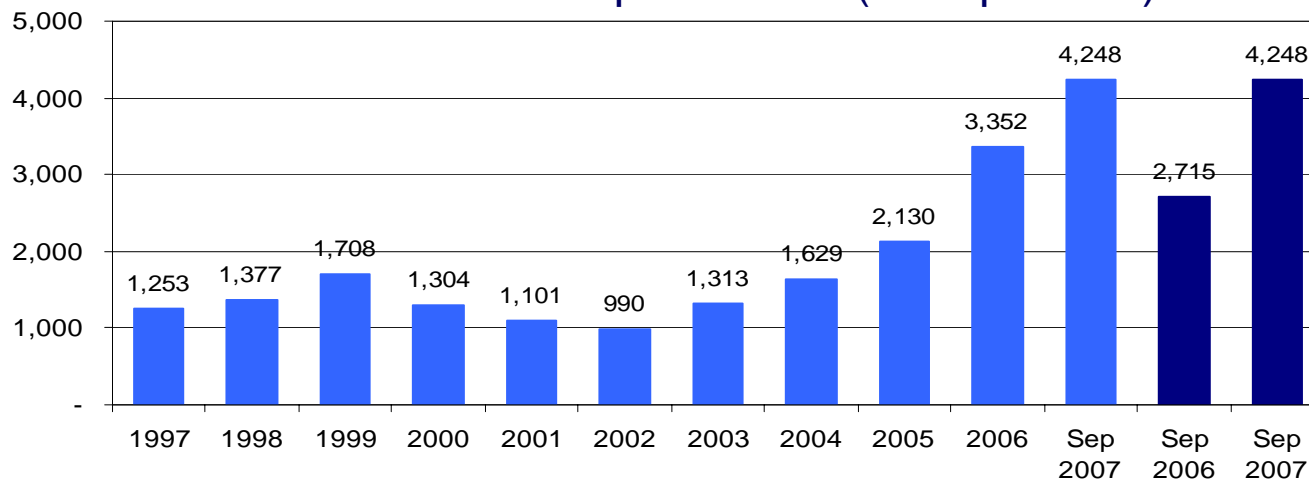


The total market capitalization has gone up by 27% this year from the same period last years.

Total Market Capitalization (in Php billion)



Domestic Market Capitalization (in Php billion)

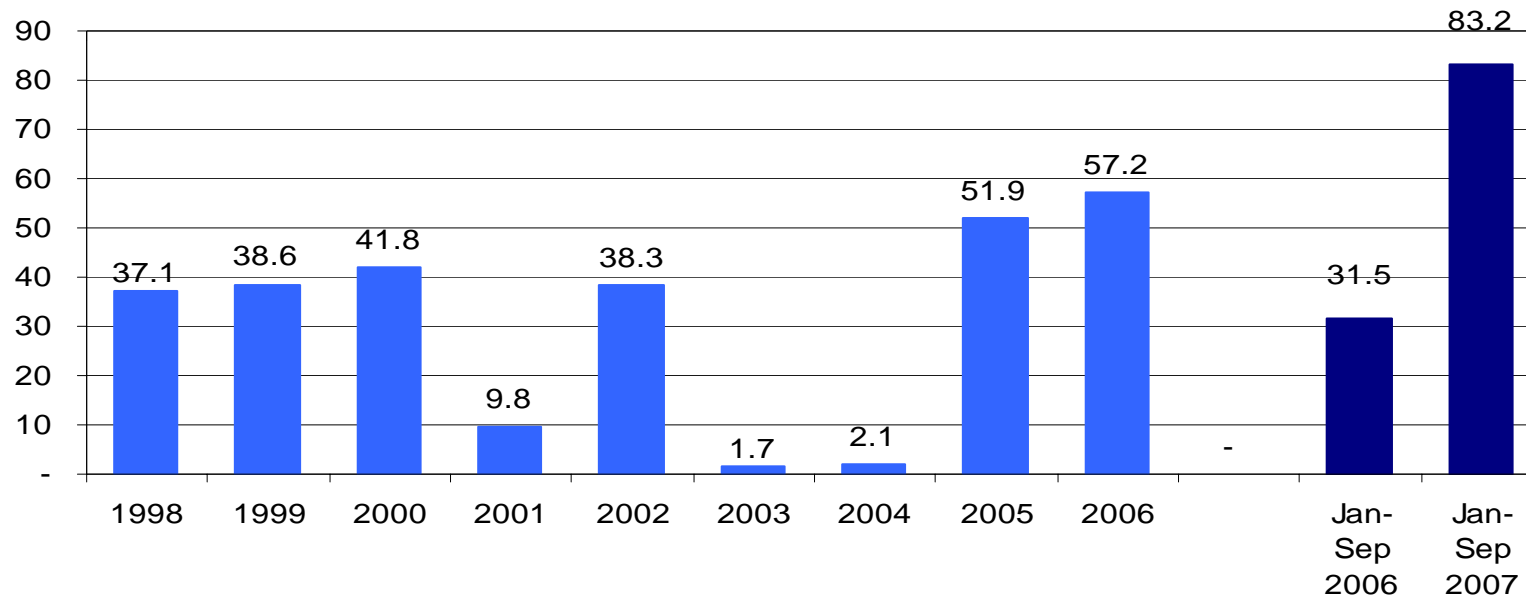


Domestic market capitalization has gone up by 57% this year from the same period last years.

CAPITAL RAISING ACTIVITIES



Total Capital Raised (in Php billion)

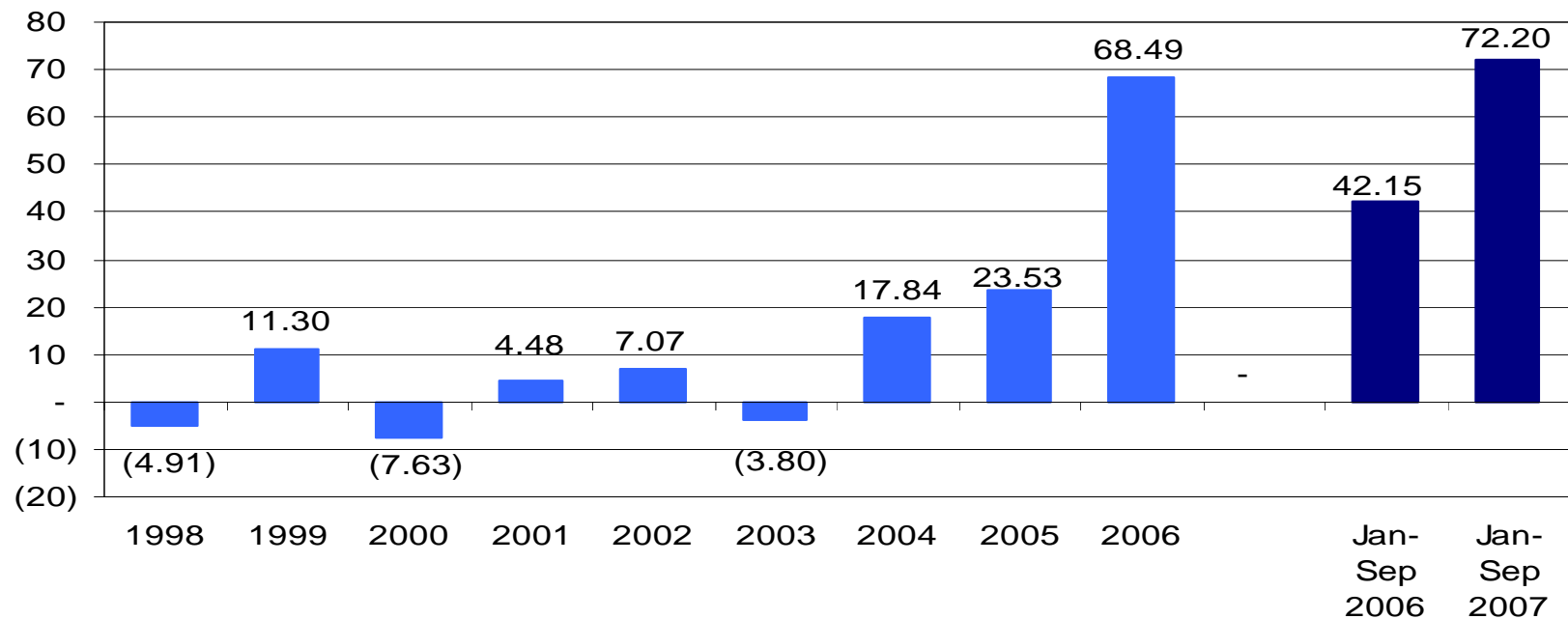


- **Proceeds from IPOs, follow-on offerings, stock rights offerings and private placements have gone up by 164% this year compared to the same period last year. As of July, total capital raised has already exceeded the total proceeds for the entire year last year.**

FOREIGN TRADING ACTIVITY



Net Foreign Buying/(Selling) (in Php billion)



Up 71% Year on Year

www.pse.com.ph

Enabling Legal Environment

- Personal Equity Retirement Act (PERA)**
- Credit Information System Act (CISA)**
- Corporate Recovery and Insolvency Act (CRIA)**
- Collective Investment Schemes Law (CISL)**
- Real Estate Investment Trust (REIT) Law**



MILESTONES

- BSP Guidelines on SBL involving Foreign Transactions issued in April 2006**
- SEC Memorandum Circular No. 7, Series of 2006 became effective 7 July 2006**
- BIR Revenue Regulations No. 10–2006 took effect on 4 August 2006**
- PSE Rules on SBL – SEC approval on 16 November 2006; Rules took effect on 15 February 2007**
- SBL Guidelines were issued on 5 February 2007**
- PSE Revised Rules on Short Selling – Approved by the SEC on 05 October 2007**



OVERVIEW OF THE PSE-SBL PROGRAM

□ Governed by Rules of the BIR, SEC and the PSE

□ Covers SBL transactions by and between:

- Local Borrowers and Local Lenders/Lending Agents**
- Local Borrowers and Foreign Lender/Lending Agents**
- Foreign Borrowers and Local Lender/Lending Agents**
- Foreign Borrowers and Foreign Lender/Lending Agents**

TAX EXEMPTIONS

- Securities covered by tax exemption:**
 - **Shares of stock and securities listed in the PSE**

- Exemption from stock transaction tax, capital gains tax and documentary stamp tax**
 - **Borrowing and lending**
 - **MSLA**
 - **Delivery of collateral**
 - **Return of borrowed securities**

TAX EXEMPTIONS

Receipt of lending fee by lender

- **by domestic or resident foreign corporation – subject to income tax**
- **by non-resident foreign corporation – tax treaty provisions apply**

Cash dividends received by borrower subject to existing laws, *e.g.*,

- **If recipient is individual – subject to income tax**
- **If recipient is domestic or resident foreign corp. - tax-exempt**
- **If recipient is non-resident foreign corp. - tax treaty provisions apply.**

TAX EXEMPTIONS

- Receipt of manufactured dividends by lender not subject to income tax**
 - Payment of manufactured dividends not a deductible expense of borrower**

- Sale of borrowed securities not exempt from Stock Transaction Tax but exempt from Documentary Stamp Tax**

TAX EXEMPTIONS

Requirements for tax exemption

- A valid MSLA is registered with, and approved by, the BIR;
- The SBL Program is in accordance with the rules and regulations of the SEC; and
- The SBL Program is under the administration and supervision of the PSE

SALIENT FEATURES OF THE REGULATIONS



Documentation

- **SLAA**
- **BIR-registered MSLA**
- **Confirmation Notice (SBLF 3)**
- **Certification Filing with the BIR of the Bi-annual report (SBLF 5)**

Lending Agent requirements

- **Duly registered with the SEC**
- **Submission to the PSE of a certified true copy of its registration as a Lending Agent with the SEC**

DOCUMENTARY REQUIREMENTS



DOCUMENTARY REQUIREMENTS	LENDER		BORROWER		LENDING AGENT
	TPs	Non-TPs	TPs	Non-TPs	
For SBL Program Participation (Local & Foreign)					
SLAA Execution (no registration required)	X	X			X
MSLA Execution	X	X	X	X	X
MSLA Registration – BIR			X	X	
Notification of MSLA Execution (Lender or Agent)	X	X			X
Registration Fee – BIR			X	X	
Lending Agent Registration and Fee – SEC [1]					X
Certificate as registered Lending Agent - PSE					X
Proof of MSLA registration – PSE			X	X	
Issuance of Confirmation Notice (Lender or Agent)		X			X

[1] Ongoing discussions with the SEC on treatment for offshore participants

REPORTING REQUIREMENTS



REPORTS	LENDER		BORROWER		LENDING AGENT
	TPs	Non-TPs	TPs	Non-TPs	
Recordkeeping & Reporting (Local & Foreign)					
Maintenance of SBL Ledgers	X	X	X	X	X
SBL Transactions Report & Confirmation Notices (Bi-annual) – BIR Appendices E, F and SBLF3			X	X	
SBL Transactions Report (Bi-annual) – SEC Appendices E (direct lenders & registered agents)		X			X
Certification of Bi-annual filing of reports – PSE SBLF5			X	X	
SBL Ledgers to PSE-MRD (Bi-annual)	X		X		

SALIENT FEATURES OF THE REGULATIONS *(continuation)*



Collateral

■ SEC Memo Circular No 7, Section 14 –

“The value of the collateral must be maintained at levels agreed upon by the parties; *Provided, however,* that in the absence of such agreement, the value of the collateral shall be maintained at an amount not less than the prescribed market value of the securities borrowed.”

Cash or Government Securities collateral – 102% minimum

Equity Securities collateral – 105% minimum

SALIENT FEATURES OF THE REGULATIONS *(continuation)*



Restriction on Foreigners

- **Foreigners are allowed to borrow from Filipinos' shares of stock (listed in PSE) in Philippine companies, provided foreign ownership restrictions are observed.**
- **“Lending Agents and direct lenders shall ensure that SBL transactions entered into by foreigners are properly accounted for ...”**

Maximum borrowing period

- **2 years maximum borrowing period (BIR Revenue Regulations No. 10-2006, Sections 2 and 3[a])**



UPDATE *(continuation)*

Revenue Memorandum Circular

- **To clarify the provisions of Revenue Regulations (Rev. Regulations) 10-2006 dated June 23, 2006 on the registration of the MSLA executed by participating borrowers and lenders of the PSE- SBL Program**

BIR Registration Process

- **MSLA review by the PSE**
- **PSE issues favorable endorsement of the MSLA**



PLANS AND PROSPECTS

- Relaxation of the repatriation restrictions of the Bangko Sentral ng Pilipinas**

- Online Reporting System**
 - System implementation for PSE trading participants within the year**
 - System development to cater to non-trading participants (local and foreign) in 2008**

INFORMATION ON PSE-SBL PROGRAM



PSE Securities Lending Program Webpage

http://www.pse.ph/SBL_FINAL/index_final.html

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Thank you!

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