Securities and Exchange Commission PHILIPPINES

BAGONG PILIPINAS

CORPORATE GOVERNANCE AND FINANCE DEPARTMENT

NOTICE

TO	**:**	**ALL INVESTMENT COMPANIES** **FUND MANAGERS**
SUBJECT	**:**	**REQUEST FOR COMMENTS ON THE EXPOSURE DRAFT OF THE MEMORANDUM CIRCULAR ON APPLICATION OF THE SINGLE BUSINESS GROUP INVESTMENT LIMIT IN SEC MEMORANDUM CIRCULAR NO. 15, SERIES OF 2020**

The Commission hereby requests comments and/or inputs on the attached draft Memorandum Circular on the Application of the Single Business Group Investment Limit in SEC Memorandum Circular No. 15, series of 2020 entitled, "*Rules on Investment in Financial Derivatives*".

The written comments on the exposure draft must be submitted to the Corporate Governance and Finance Department (CGFD) via electronic mail at cgfd_ld@sec.gov.ph **on or before 2 December 2024**.

Please use the attached template in submitting the comments, proposed revisions and estimated cost/s to comply with the Memorandum Circular.

Issued on 20 November 2024.

COMMENTS ON THE DRAFT MEMORANDUM CIRCULAR ON THE RULES ON SINGLE BUSINESS GROUP INVESTMENT LIMITATION

Name: ________________________________

Company: _____________________________

Provisions on the Draft Circular	Comments	Proposed Revision	Estimated Cost to Comply with Memorandum Circular
SECTION 1. Scope of Application of the SBG Limit under *SEC MC No. 15, series of 2020*			
SECTION 2. Waiver of Imposition of Penalty			
SECTION 3. Cross-Border Offering of Collective Investment Schemes			
SECTION 4. Effectivity			

SEC MEMORANDUM CIRCULAR NO. _____
SERIES OF 2024

TO : **ALL INVESTMENT COMPANIES**
FUND MANAGERS

SUBJECT: **RULES ON SINGLE BUSINESS GROUP INVESTMENT LIMITATION**

WHEREAS, *Rule 6.8(b) of the Implementing Rules and Regulations of the Investment Company Act (ICA-IRR)* prohibits Investment Companies from investing, in aggregate, more than twenty percent (20%) of its net assets in transferable securities, money market securities, deposits, and financial derivatives issued by a **single entity or issuer**;

WHEREAS, *SEC Memorandum Circular (MC) No. 15, series of 2020 or the Rules on Investment in Financial Derivatives,* which took effect on 15 May 2020, amended *Rule 6.8(b) of the ICA-IRR* by prohibiting Investment Companies from investing, in aggregate, more than twenty percent (20%) of its net assets in transferable securities, money market instruments, deposits, and OTC financial derivatives issued by any **single business group ("SBG Limit")**, with an exception that investments in OTC financial derivatives with non-investment grade or unrated counterparty shall not exceed five percent (5%) of the net assets of the Investment Company;

WHEREAS, the Commission has received requests from various Fund Managers on behalf of their respective managed Investment Companies, particularly equity and balanced funds, to be exempted from the application of the SBG Limit;

WHEREAS, *Section 35(a) of Republic Act No. 2629*, or the *Investment Company Act (ICA)*, and *Section 72 of Republic Act No. 8799*, or *The Securities Regulation Code (SRC)*, vest upon the Securities and Exchange Commission the authority to make, issue, amend, and rescind rules and regulations and orders which are necessary or appropriate to the exercise of the powers conferred upon it in the ICA and the SRC;

IN VIEW OF THE FOREGOING, the Commission hereby resolves as follows:

SECTION 1. Scope of Application of the SBG Limit under *SEC MC No. 15, series of 2020*

Except as otherwise provided herein, the following provisions of *SEC MC No. 15, series of 2020* shall apply to all Investment Companies with or without actual investments in financial derivatives:

"**SEC. 2. Investment Limits**

Single business group limit

1. An investment company must not invest, in aggregate, more than twenty (20%) of its net assets in:

   (a) Transferable securities;
   (b) Money market instruments;
   (c) Deposits; and
   (d) OTC financial derivatives

   issued by any single business group, provided the investments in OTC financial derivatives with non-investment grade or unrated counterparty shall not exceed five percent (5%) of the net assets of the investment company."

Until further notice by the Commission, equity and balanced funds that have no actual investment to financial derivatives shall be subject to the single entity or issuer investment limitation as set forth in *Rule 6.8(b) of the ICA-IRR*, which provides:

> "(b) The Investment Company must not invest, in aggregate, more than twenty percent (20%) of its net assets in transferrable securities, money market securities, deposits and financial derivatives issued by a single entity or issuer."

Provided, that all Investment Companies,with or without actual investments in financial derivatives, shall continue to be subject to all other investment limits and restrictions under existing Commission rules and regulations, as may be applicable.

SECTION 2. Waiver of Imposition of Penalty

The Commission hereby waives the imposition of penalties relating to any breach of the SBG Limit by equity and balanced funds with or without actual investments in financial derivatives from the effectivity date of *SEC MC No. 15, series of 2020* (*i.e.,* 15 May 2020) until the effectivity date of this Circular.

SECTION 3. Cross-Border Offering of Collective Investment Schemes

Should Investment Companies, including equity and balanced funds with or without actual investments in financial derivatives, decide to engage in the cross-border offering of their funds to other ASEAN member jurisdictions as Qualifying Collective Investment Schemes (Qualifying CIS) under the ASEAN CIS Framework, compliance with the twenty percent (20%) single business group limit in *Section 3(2) of the ASEAN Standards of Qualifying Collective Investment Schemes (ASEAN CIS)* shall be required.

SECTION 4. Effectivity

This Circular shall take effect immediately upon its publication in two (2) newspapers of general circulation.

Makati City, Philippines, ____ November 2024.

For the Commission:

EMILIO B. AQUINO
Chairperson