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PRESIDENTIAL DECREE No. 129

February 15, 1973

GOVERNING THE ESTABLISHMENT, OPERATION AND REGULATION OF INVESTMENT HOUSES

WHEREAS, there were pending before Congress, prior to the promulgation of Proclamation No. 1081, dated September 21, 1972, urgent measures proposing the regulation of the so-called investment banks;

WHEREAS, an extensive survey and study of the Philippine financial system had been undertaken in order to determine its adequacy in Philippine economic development, and an integrated set of recommendations were submitted;

WHEREAS, the recommendations, as endorsed with modifications by the monetary authorities and made the basis of this Decree, advocated the enactment of the statutory framework within which the underwriting of securities may be governed and, to the extent that these entities perform quasi-banking functions, to harmonize their operations with national monetary goals.

NOW, THEREFORE, I, FERDINAND E. MARCOS, President of the Philippines, by virtue of the powers vested in me by the Constitution as Commander-in-Chief of all the Armed Forces of the Philippines, and pursuant to Proclamation No. 1081, dated September 21, 1972, and General Order No. 1, dated September 22, 1972, as amended, and in order to effect the desired changes and reforms in the social, economic, and political structure of our society, do hereby order and decree and make part of the law of the land the following:

Section 1. Title. This Decree shall be known as "The Investment Houses Law".

Section 2. Scope. Any enterprise which engages in the underwriting of securities of other corporations shall be considered an "Investment House" and shall be subject to the provisions of this Decree and of other pertinent laws.

Nothing in this Decree shall be understood to preclude other enterprises from engaging in the mere buying and selling of short-term securities of other persons or enterprises.

Section 3. Definitions. For the purpose of this Decree, unless the context otherwise indicates, the following definition of terms are hereby adopted:

(a) "Underwriting" is the act or process of guaranteeing the distribution and sale of securities of any kind issued by another corporation.

(b) "Securities" are written evidences of ownership, interest, or participation, in an enterprise, or written evidences of indebtedness of a person or enterprise. It includes, but is not limited to the instruments enumerated in Section 2 of the Securities Act (Commonwealth Act No. 83, as amended).

Section 4. Organization and registration. Investment Houses shall be organized in the form of stock corporations.

The Securities and Exchange Commission shall not register the articles of incorporation of any Investment House, or any amendment thereto, unless it is satisfied from the evidence submitted to it:

(a) That all the requirements of this Decree and of existing laws or regulations to engage in the business have been complied with;

(b) That the proposed enterprise will not be in conflict with public interest and economic growth;

(c) That the amount of capital, the proposed organization, direction and administration, as well as the integrity, experience and expertise of the organizers and the proposed managerial staff, provide reasonable assurance that the enterprise will be conducted with financial prudence.

In determining compliance with the provisions of subsections (b) and (c) above, the Securities and Exchange Commission shall consult the Monetary Board of the Central Bank of the Philippines.

All applications for registration of the articles of incorporation of Investment Houses shall be accompanied by:

1. At least three copies of the proposed articles of incorporation;
2. A statement under oath of the educational background and experience of the organizers, directors, and the proposed managerial staff, as well as in information on any position concurrently held by them in other financial or banking institutions, if any;
3. A projected statement of assets and liabilities of the proposed Investment House;
4. A tentative program of operation for one year, including its investment direction and volume; and
5. Such other information as the Securities and Exchange Commission may require in support of the application and to enable the Commission to determine the justifiability of establishing the proposed enterprise.

Any enterprise already in operation and exercising the powers of an Investment House prior to the effectivity of this Decree shall, within six months therefrom, file an information sheet with the Securities and Exchange Commission in such form and containing such data as the Securities and Exchange Commission may, at its discretion, require, to enable the Commission to determine, in consultation with the Monetary Board, whether the enterprise meets the requirements of this Decree.

Section 5. Citizenship requirements. The majority of the voting stock of any Investment House shall be owned by citizens of the Philippines. In determining the percentage of foreign-owned voting stocks in Investment Houses, the basis for the computation shall be the citizenship of each stockholder, and, with respect to corporate owners of voting stock, the citizenship of the individual owners of voting stock in the corporation holding shares in that Investment House.

The majority of the members of the Board shall be citizens of the Philippines.

Section 6. Prohibitions. Except as may be authorized by the Monetary Board, no director or officer of an Investment House shall concurrently be a director or officer of a bank, as defined in Section 2 of the Republic Act No. 337, as amended: Provided, however, That in no event can a person be authorized to be concurrently an officer of an Investment House and of a bank.

No Investment House shall engage in banking operations as defined in Section 2 of Republic Act No. 337, as amended.

Section 7. Powers. In addition to the powers granted to corporations in general, an Investment House is authorized to do the following:

1. Arrange to distribute on a guaranteed basis securities of other corporations and of the Government or its instrumentalities;
2. Participate in a syndicate undertaking to purchase and sell, distribute or arrange to distribute on a guaranteed basis securities of other corporations and of the Government or its instrumentalities;
3. Arrange to distribute or participate in a syndicate undertaking to purchase and sell on a best-efforts basis securities of other corporations and of the Government or its instrumentalities;
4. Participate as soliciting dealer or selling group member in tender offers, block sales, or exchange offering or securities; deal in options, rights or warrants relating to securities and such other powers which a dealer may exercise under the Securities Act (Act No. 83, as amended);
5. Promote, sponsor, or otherwise assist and implement ventures, projects and programs that contribute to the economy's development;
6. Act as financial consultant, investment adviser, or broker;
7. Act as portfolio manager, and/or financial agent, but not as trustee of a trust fund or trust property as provided for in Chapter VII of Republic Act No. 337, as amended;
8. Encourage companies to go public, and initiate and/or promote, whenever warranted, the formation, merger, consolidation, reorganization, or recapitalization of productive enterprises, by providing assistance or participation in the form of debt or equity financing or through the extension of financial or technical advice or service;
9. Undertake or contract for researches, studies and surveys on such matters as business and economic conditions of various countries, the structure of financial markets, the institutional arrangements for mobilizing investments;
10. Acquire, own, hold, lease or obtain an interest in real and/or personal property as may be necessary or appropriate to carry on its objectives and purposes;
11. Design pension, profit-sharing and other employee benefits plans; and
12. Such other activities or business ventures as are directly or indirectly related to the dealing in securities and other commercial papers, unless otherwise governed or prohibited by special laws, in which case the special law shall apply.

Nothing in this section shall preclude other enterprises not covered by this Decree from engaging in the activities listed under subsections (3) to (11) of this section, except as may otherwise be governed by special laws.

Section 8. Capital. The minimum initial paid-in-capital of any Investment House shall be twenty million (P20,000,000) pesos.

Section 9. Credit policies. Investment Houses shall coordinate their credit policies with the general credit policies of the Monetary Board of the Central Bank.

Section 10. Reports. Investment Houses shall submit to the Securities and Exchange Commission and to the Central Bank a semi-annual report of operations and financial condition, signed under oath by its chief accountant and verified by its president.

The Securities and Exchange Commission may, at its discretion, require Investment Houses to include their underwriting commitments as contingent accounts in their financial statements.

Section 11. Regulations. Within six months after the approval of this Decree, the Securities and Exchange Commission, in coordination with the Central Bank, shall promulgate the necessary rules and regulations implementing the provisions of this Decree.

Section 12. Central Bank regulatory powers. Investment Houses shall be subject to such regulations of the Central Bank or non-bank financial intermediaries as may be promulgated pursuant to Section 2-B of Republic Act No. 337, as amended. The regulations which may include, but need not be limited to (a) minimum size of fund acceptance or receipt, (b) methods of marketing and distribution, (c) terms of placement and maturities, and (d) uses of funds may be modified by the Monetary Board insofar as they apply to Investment Houses.

The Monetary Board may, at its discretion, determine whether Investment Houses may be permitted to perform quasi-banking functions as defined in Section 2-D, subsection (b) of Republic Act No. 337, as amended. The Monetary Board is hereby authorized, at its discretion, to require any enterprise which is engaged or proposes to engage in quasi-banking functions to incorporate as an Investment House. If the Monetary Board decides to permit Investment Houses to engage in quasi-banking functions, the Board may require as a condition precedent the obtaining of a certificate of authority for the purpose from the Monetary Board.

Whenever the Monetary Board authorizes an Investment House to engage in quasi-banking functions, in accordance with the provisions of this section, the Board may subject Investment Houses to further regulations, pursuant to Republic Act 337, as amended, which may include but need not necessarily be limited to (a) liquidity reserve requirements; (b) capital-to-risk assets ratios; (c) interest rate ceilings; and (d) such other constraints as the Board may deem necessary.

In the exercise of its authority in this section, the Monetary Board may, whenever, it determines that the circumstances so warrant subject an Investment House to special examination.

Whenever on the basis of the reports submitted by, or upon examination of the books and records of, an Investment House, the Central Bank finds that the Investment House is not complying with the provisions of this section, with the pertinent provisions of this Decree, of other laws, or of orders, instructions, rules or regulations issued by the Monetary Board pertaining non-bank financial intermediaries and quasi-banking activities, said Board shall forthwith issue a cease-and-desist order upon the Investment House concerned. Failure on the part of an Investment House to comply with the cease-and-desist order shall subject said Investment House to a fine not exceeding two hundred (P200) pesos for every day the order is violated, to be imposed by the Monetary Board, without prejudice to the penalties provided in Section 16 of this Decree.

Section 13. Applicability of Securities Act. An Investment House may engage in the business of a dealer or a broker under the Securities Act without obtaining a separate license for the purpose as required in Section 14 of the Securities Act (C.A. No. 83, as amended).

Section 14. Applicability of Corporation Law. The provisions of the Corporation Law (Act No. 1459, as amended) insofar as they are not in conflict or inconsistent with the provisions of this Decree shall apply to Investment Houses.

Section 15. Transitory provisions. Existing enterprises which are operating as Investment Houses shall, within one year following the approval of this Decree, comply with the

requirements hereof, except with respect to the filing of an information sheet which shall be complied with within six months as provided in the last paragraph of Section 4 of this Decree.

Section 16. Penalties for violation. Upon proof that an Investment House is violating or not complying with the provisions of this Decree, of other pertinent laws, of the terms or conditions of its certificate of registration or charter, or of orders, decisions, rulings or regulations issued by the Securities and Exchange Commission or by the Central Bank of the Philippines, the Securities and Exchange Commission shall impose upon the Investment House and collect a fine not exceeding two hundred (P200) pesos per day for every day during which such violation or non-compliance continues, and/or suspend its certificate of registration. The officer or director of the Investment House who ordered or authorized the violation or non-compliance shall be solidarily liable. The fine so imposed shall be paid to the Government of the Philippines through the Securities and Exchange Commission.

Without prejudice to the provisions of the preceding paragraph any person, or any director or officer of an Investment House who violates or does not comply with the provisions of this Decree, of other pertinent laws, of the terms or conditions of its certificate of registration or charter, or of orders, decisions, rulings or regulations issued by the Securities and Exchange Commission or by the Central Bank of the Philippines, shall be punished by a fine of not more than twenty thousand (P20,000) pesos, or an imprisonment of not more than five years or both, at the discretion of the Court.

Section 17. Separability clause. The provisions of this Decree are hereby declared separable, and if any clause, sentence, provision or section hereof, or its application to any person or circumstance should be declared invalid, such invalidity shall not affect the other provisions of this Decree which can be given force and effect without the provisions which have been declared invalid.

Section 18. Repeal. All Acts and existing laws inconsistent with this Decree are hereby repealed.

Section 19. Effectivity. This Decree shall take effect immediately.

Done in the City of Manila, this 15th day of February, in the year of Our Lord, nineteen hundred and seventy-three.