



MEMORANDUM – 2025-003

TO : ALL TRADING PARTICIPANTS AND THE INVESTING PUBLIC

SUBJECT : AMENDMENTS TO ARTICLE XII OF THE CMIC RULES
(DISCIPLINARY GUIDELINES AND SANCTIONS)

DATE : 30 JANUARY 2025

The Capital Markets Integrity Corporation (“CMIC”) hereby announces that the Securities and Exchange Commission (“SEC”) has approved the proposed amendments to Article XII of the CMIC Rules.

For your perusal, attached is a signed copy of the provisions as amended.

These amendments shall take effect fifteen (15) calendar days after publication on the CMIC website or on **14 February 2025**.

GERARD B. SANVICTORES
President

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ARTICLE XII.
DISCIPLINARY GUIDELINES AND SANCTIONS

Section 1. *Disciplinary Powers of CMIC.* CMIC shall have authority to discipline a Trading Participant for violations of the Securities Laws or for acts or omissions inconsistent with just and equitable principles of fair trade, in accordance with these rules. To avoid any ambiguity on the application of this Article XII and unless the context requires otherwise, the term "Trading Participant" under this Article XII shall include directors, officers, Associated Person, Salesmen and other agents of a Trading Participant.

Section 2. *Purposes of Disciplinary Sanctions.* Disciplinary sanctions are remedial in nature and are designed to:

- (a) Ensure compliance by Trading Participants with applicable provisions of the Securities Laws;
- (b) Prevent fraudulent and manipulative acts and practices and deter misconduct of Trading Participants and in the proper case, Issuers;
- (c) Promote just and equitable principles of trade among market participants in general, and open and fair business practices among Trading Participants in particular; and
- (d) Improve overall business standards in the securities market.

Section 3. *Classification of Violations.* Violations of these rules and Securities Laws may be grave, major or minor.

- (a) The following are considered grave violations:
 - (i) Simulation or improper use of Subordination Agreement;
 - (ii) Unauthorized use or disposition of funds or securities entrusted by a client to a Trading Participant in the course of its trading business including violation of securities borrowing and lending rules;
 - (iii) Trading-related Irregularities;
 - (iv) Failure to comply with a final and executory decision or order of CMIC, the CMIC Board or the Commission, in cases considered as grave or major violation; and

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(v) Such other violations similar to the foregoing.

(b) The following are considered major violations:

(i) Violation of capitalization requirements of a Trading Participant, subject to SEC Memorandum Circular No. 16 Series 2004 and the provision of Article VIII of these Rules;

(ii) Violation of the Ethical Standards Rule;

(iii) Violation of the Code of Conduct and Professional Ethics for Traders and Salesmen;

(iv) Violation of SRC Rule 49.2 on Customer Protection Reserves and Custody of Securities other than the violation set out in subparagraph (ii) of Section (3) (a) of this Article XII;

(v) Making untrue statements or the omission of any material fact required or necessary to be stated in CAIF, reports, records, books and documents submitted to CMIC for such not to be misleading; and

(vi) Such other violations similar to the foregoing.

(c) All violations other than those mentioned in paragraphs (a) and (b) shall be considered minor violations of the Securities Laws.

Section 4. Types of Sanctions. CMIC or the CMIC Board may impose the following disciplinary sanctions for violations of the Securities Laws by a Trading Participant in accordance with the following:

(a) Grave Violations

(i) First violation - Written reprimand and fine in the amount of at least Php25,000.00 but not exceeding Php200,000.00;

(ii) Second violation - Fine of at least Php200,000.00 but not more than Php500,000.00 and/or denial of (1) the exercise of the Trading Right and (2) access to the facilities and systems of the Exchange for a period not exceeding fifteen (15) trading days;

(iii) Third violation - Fine of at least Php500,000.00 but not more than Php1,000,000.00 and/or denial of (1) the exercise of the Trading Right and (2)

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access to the facilities and systems of the Exchange for a period not exceeding thirty (30) trading days;

- (iv) Fourth and subsequent violations - Bar the erring Trading Participant from entry to or employment in or any kind of commercial association with the Exchange or other Trading Participant.

(b) Major Violations

- (i) First violation - Fine of at least Php10,000.00 but not more than Php30,000.00;
- (ii) Second violation - Fine of at least Php30,000.00 but not more than Php50,000.00;
- (iii) Third violation - Fine of at least Php50,000.00 but not more than-Php100,000.00;
- (iv) Fourth and subsequent violations - Fine of at least Php100,000.00.

(c) Minor Violations

- (i) First violation - Written reprimand;
- (ii) Second and subsequent violations - A fine of at least Php10,000.00 but not more than Php50,000.00.

Section 5. Aggravating Circumstances. In imposing disciplinary sanctions for violations of the Securities Laws by a Trading Participant, CMIC shall determine the presence of the following aggravating circumstances:

- a) a previous violation or recurring breaches by the Trading Participant of the rules subject of the investigation or examination within a period of six (6) years from the issuance of the relevant decision by CMIC, as proven by prior resolutions issued thereby;
- b) at least three (3) infringements of securities laws not subject of the investigation or examination within a period of six (6) years from the issuance of the relevant decision by CMIC, as proven by prior resolutions issued thereby;
- c) attempt by the Trading Participant to conceal its wrongful conduct or securities laws violation from the customers, CMIC, other regulatory authorities, and/or other market participants;
- d) detriment, whether direct or indirect, caused to the customers, CMIC, other regulatory authorities, and/or other market participants;

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James G. Sanchez

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- e) gross recklessness or negligence on the part of the Trading Participant;
- f) utter disregard of the customers' financial situation, investment experience, and investment objectives; and
- g) other circumstances similar to the foregoing.

Section 6. Mitigating Circumstances. CMIC, in imposing disciplinary sanctions on a Trading Participant for breaches of the Securities Laws, shall also ascertain the existence of the following mitigating circumstances:

- a) absence of any disciplinary sanctions imposed by CMIC on the Trading Participant within a period of six (6) years from the issuance of the relevant decision by CMIC;
- b) conditions that, without the fault of the Trading Participant, have made difficult or rendered practically impossible the complete fulfillment of the material obligations or the full compliance with the relevant requirements by the Trading Participant;
- c) voluntary disclosure by the Trading Participant of the offense or violation committed before its discovery by CMIC;
- d) voluntary employment of corrective measures by the Trading Participant, prior to the investigation or examination by CMIC to address the issues to avoid recurrence thereof;
- e) establishment and proper implementation by the Trading Participant of reasonable supervisory procedures or controls prior to or immediately after CMIC's initiation of its investigation or examination;
- f) development of adequate training and educational initiatives by the Trading Participant; and
- g) other circumstances similar to the foregoing.

Section 7. Effects of Aggravating and Mitigating Circumstances. When both aggravating and mitigating circumstances are present, CMIC shall reasonably offset those of one class against the other.

When no aggravating and mitigating circumstances are present, or there is only one (1) mitigating circumstance and no aggravating circumstance, CMIC may apply the median

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amount within the range, if the penalty involves a fine, and any reasonable period, if the impossible penalty involves the denial of the exercise of Trading Right and access to the Exchange's facilities and systems.

Applying the foregoing, the following shall be the effects of aggravating circumstances in the imposition of disciplinary sanctions:

- a) if there is at least one (1) aggravating circumstance and the impossible penalty is a fine, the maximum amount within the range provided by the Rules shall be applied;
- b) if there are not more than three (3) aggravating circumstances and the impossible penalty involves the denial of the exercise of Trading Right and access to the Exchange's facilities and systems, the period thereof may not be less than seven (7) trading days for the second violation or fifteen (15) trading days for the third violation;
- c) if there are at least four (4) aggravating circumstances and the impossible penalty involves the denial of the exercise of Trading Right and access to the Exchange's facilities and systems, the period thereof shall be the maximum period provided by the Rules; and
- d) if the penalties involve a written reprimand and/or disbarment, they shall be meted out regardless of the number of aggravating circumstances.

Further, the following shall be the other effects of mitigating circumstances in the imposition of disciplinary sanctions:

- a) if there are at least two (2) mitigating circumstances and the impossible penalty is a fine, the minimum amount within the range provided by the Rules shall be applied;
- b) if there are not more than three (3) mitigating circumstances and the impossible penalty involves the denial of the exercise of Trading Right and access to the Exchange's facilities and systems, the period thereof may be less than seven (7) trading days for the second violation or less than fifteen (15) trading days for the third violation;
- c) if there are at least four (4) mitigating circumstances and the impossible penalty involves the denial of the exercise of Trading Right and access to the Exchange's facilities and systems, the period thereof shall be at least one (1) trading day; and

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d) if the penalties involve a written reprimand and/or disbarment, they shall be meted out regardless of the number of mitigating circumstances.

Section 8. Exempting Circumstances. In deciding that no disciplinary sanctions shall be imposed on the Trading Participant, CMIC may consider the existence of conditions that, without any fault on the part of the Trading Participant, have made absolutely impossible the complete fulfillment of the material obligations or the full compliance with the relevant requirements thereby.

Section 9. Aggregation or "Batching" of Violations. In imposing disciplinary sanctions, CMIC or the CMIC Board may not treat each count of violation as one and separate violation and may treat several counts of violations arising from the same set of facts as a single violation, if any of the following elements are present: (a) the conduct in question is neither intentional nor fraudulent; (b) the assailed act has not resulted in any detriment to the investing public; and/or (c) the subject violations have resulted from a single systematic cause or issue that has been duly addressed by the Trading Participant.

Except in mergers or consolidations where the violations of the absorbed corporations may be excluded in determining the appropriate sanctions to be imposed on the surviving corporations for violations committed after the said mergers or consolidations, all previous major and minor violations within a three (3)-year period, and all previous grave violations within a six (6)-year period, from the issuance of the decision or resolution shall be taken into account in imposing sanctions for violations of similar nature.

Section 10. Publication of Disciplinary Action. The CMIC shall inform the public of violations of these Rules or securities laws committed by and sanctions imposed, on Issuers and Trading Participants.

Section 11. Posting of Absence of Examination Findings. CMIC shall post on the Exchange or CMIC website the list of Trading Participants whose regular and periodic audits by CMIC did not result in any Examination Findings.

Section 12. Payment of Fines. An erring Trading Participant shall pay the penalty imposed by CMIC or the CMIC Board pursuant to an executory order or decision, within fifteen (15) calendar days from receipt of notice of the executory order or decision.

If the erring Trading Participant fails to pay the penalty within the prescribed period and without need of any demand or order from CMIC or the CMIC Board, the erring Trading Participant shall additionally pay (a) a surcharge equal to twenty-five percent (25%) of the imposed fine plus (b) interest of one percent (1%) for every month of delay based on the sum of the imposed fine and the surcharge. A fraction of a month shall be computed on a pro-rata basis.

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If the erring Trading Participant fails to pay the fine and the surcharge and interests thereon within fifteen (15) calendar days from the lapse of the original fifteen-day period for the payment of the penalty, CMIC or the CMIC Board may suspend the erring Trading Participant. If CMIC or the CMIC Board orders the erring Trading Participant to be suspended, the interest continues to accrue. The order of suspension may only be lifted by CMIC or the CMIC Board upon a clear showing by the erring Trading Participant of the full payment of the fine, together with the surcharge and the accumulated interest.

Section 13. Oversight Authority of the Commission. The Commission shall have the authority to review the findings of the CMIC, re-classify the violations and impose the appropriate sanctions based on these rules and the applicable securities laws and regulations.

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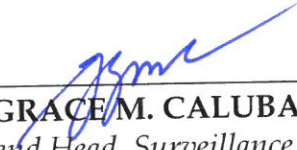
Gene Edwards
James Edwards

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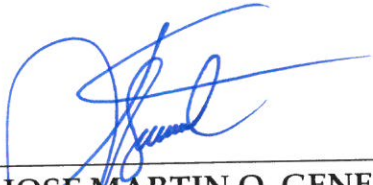
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