



**REGISTRATION, RESPONSIBILITIES, AND
OVERSIGHT OF A SELF-REGULATORY
ORGANIZATION RULES AND REGULATIONS OF 2018
OF THE CAGAYAN ECONOMIC ZONE AUTHORITY**

Pursuant to Republic Act No. 7922 or “The Cagayan Special Economic Zone Act of 1995,” and its Implementing Rules and Regulations, BE IT ADOPTED by the Board of Directors of the Cagayan Economic Zone Authority (**CEZA**), as follows:

Article I. Preliminary Provisions.

Section 1.01 Title – These Rules and Regulations shall be cited as the Registration, Responsibilities and Oversight of a Self-Regulatory Organization (**SRO**) Rules and Regulations of 2018 of the Cagayan Economic Zone Authority, or “**CEZA SRO Rules & Regulations 2018**” for brevity.

Section 1.02 Application and Objectives – This CEZA SRO Rules & Regulations 2018 authorizes the creation and registration of a Self-Regulatory Organization for an industry regulated by CEZA, with the following objectives:

- a) CEZA recognizes the rise of emerging markets and the use of Self-Regulatory Organizations (**SROs**) as part of a broader strategy aimed to improving the effectiveness of regulation and market integrity.
- b) SROs, being comprised of members engaged in the industry, are able to provide key insight and critical research and updates on national and international business standards that CEZA requires to effectively and efficiently regulate the industries and licensees under its jurisdiction.
- c) SROs enable businesses to network and supports business expansion and economic development;
- d) That any CEZA-registered SRO is mandated to protect investors and maintain market and financial integrity.

Section 1.03 **Definition of Terms.** – For purposes of this CEZA SRO Rules of 2018:

Administrator means the Administrator of CEZA.

Applicable Rules refer to CEZA Rules, SRO Codes, or such pertinent laws, rules, and regulations.

Applicant means the Business Organization applying as a Self-Regulatory Organization under CEZA.

Business Organization means an entity duly registered with the Securities and Exchange Commission composed of shareholders or members that are corporations, partnerships, organizations, or other entities or individuals engaged in the same business activity or providing services, support, or related activities to the business activity.

CEZA means the governing body of the Cagayan Economic Zone Authority (**CEZA**), its board of directors, charged to exercise the powers of the CEZA pursuant to Section 7 in relation to Section 6 of Republic Act No. 7922;

CEZA Rules means the rules and regulations promulgated by CEZA for the industry, including memoranda, orders, and other issuances that CEZA may issue from time to time.

Self-Regulatory Organization (SRO) means a Business Organization registered with and authorized by CEZA to perform industry, regulatory, and public interest functions to its members under the supervision of CEZA.

SRO Codes refers to the constitution, articles of incorporation, by-laws, rules, or instruments of the SRO and such policies, guidelines, practices, conventions, and interpretations of the SRO including the annexes, forms and checklists to such rule, other than those establishing or concerning solely matters of SRO administration.

Article II. Registration of SROs with CEZA.

Section 2.01 Application of SROs. – Any Business Organization may be registered as a Self-Regulatory Organization under CEZA under the terms and conditions provided in this Section by filing an application for registration in such form and containing such information and supporting documents as CEZA may prescribe, including the following:

- (a) An undertaking to comply and enforce by its members the provisions of the applicable CEZA Rules for the industry for which it is registering the SRO;
- (b) The Articles of Incorporation and By-Laws of the Business Organization;
- (c) The organizational chart of the Business Organization, rules of procedure, and a list of its officers and members; and
- (d) The Business Organization's business plan, including the services provided by the SRO.

Section 2.02 Compliance for Registration. – CEZA shall register the Applicant as an SRO upon compliance with the following:

- (a) The Applicant is registered as an entity in good standing with the Securities and Exchange Commission;

- (b) Submission and approval by CEZA of the SRO Code or other policies for its members including: (i) procedure for the expulsion, suspension, or disciplining of a member, and persons associated with a member, for conduct or proceeding inconsistent with just and equitable principles of fair trade, and for violations of provisions of Applicable Rules, or any other Act administered by the CEZA, (ii) Submission of the Applicant's Membership Rules, including the application process, the denial of membership to any person seeking to be a member, the barring of any person from association with a member, and the prohibition or limitation of any person from association with member, and the prohibition or limitation of any person from access to services offered by the SRO; and (iii) prevention of fraudulent and manipulative acts and practices, promotion of just and equitable principles of trade, and, in general, protection of investors and the public interest, including policies relative to Anti-Money Laundering, Counter-Terrorist Financing, Data Privacy, Cybersecurity, Physical Security, and Business Continuity, if applicable to the industry.
- (c) The appointment of the Applicant of an officer with senior management level to serve as a CEZA Representative that is a Filipino citizen and resident of the Philippines;
- (d) Other matters that CEZA may require from the Applicant, pursuant to CEZA Rules.

Section 2.03 Approval or Denial. – If CEZA finds that the applicant Business Organization is capable of complying and enforcing compliance by its members, and persons associated with such members, of CEZA Rules, and that the rules of Business Organization are fair, just and adequate, CEZA shall cause such Business Organization to be registered as a CEZA SRO. If, after notice due and hearing, CEZA finds otherwise, the application shall be denied.

Within the period provided under **Section 3.01**, CEZA may issue an order either granting or denying registration as a CEZA SRO, unless the Applicant shall withdraw its application or shall consent to the CEZA's deferring action on its application for a stated longer period after the date of filing. The filing with the CEZA of an application for registration shall be deemed to have taken place upon the receipt thereof. Amendments to an application may be made upon such terms as the SEC may prescribe.

Section 2.04 **Fee.** – Upon the application and registration of the Business Organization as SRO, it shall pay a fee in such amount and within such period as CEZA may fix.

Section 2.05 **Withdrawal or Suspension of Registration.** – Upon appropriate application in accordance with the CEZA Rules and upon such terms as CEZA may deem necessary for the protection of investors, a Business Organization registered as SRO may withdraw its registration or suspend its operations or resume the same.

Article III. Powers of CEZA with Respect to Self-Regulatory Organizations.

Section 3.01 **Approval of Registration of Self-Regulatory Organizations.** – Upon the filing of an application for registration as SRO under this Section, CEZA shall have ninety (90) days within which to either grant or deny such registration, unless it institutes proceedings relative to such application. In the event proceedings are instituted, CEZA shall have two hundred seventy (270) days from the date of receipt of application within which to conclude such proceedings at which time it shall, by order, grant or deny such registration.

Such period shall stay if the Applicant shall withdraw its application or shall consent to the CEZA's deferring action on its application for a stated longer period after the date of filing.

The filing with the CEZA of an application for registration shall be deemed to have taken place upon the receipt thereof. Amendments to an application may be made upon such terms as the SEC may prescribe.

Section 3.02 Compliance of SRO with CEZA Rules. – Every SRO shall comply with the provisions of the applicable CEZA Rules, and its own rules, and enforce compliance therewith by its members, persons associated with its members or its participants.

Section 3.03 SRO Rule Making.

- (a) **Adoption of SRO Code.** An SRO shall adopt comprehensive rules governing its organization and governance, qualifications and rights of members, settlement of contracts, qualification of members and other participants, ethical conduct of members and other participants, supervision and control of members, financial and operational responsibility of members, and discipline of members and other participants, subject to the pertinent provisions of applicable SRO Code.

Subject to CEZA’s approval, through its Administrator, and pursuant to the procedures set forth in **Section 3.03(b)** an SRO’s power to adopt and amend its SRO Code shall also include the power to repeal existing rules and provide interpretative guidance; *provided that*, an SRO shall not suspend, alter or modify the enforcement of rules, guidelines, or policies earlier approved by CEZA without the prior approval of the latter; *provided further that*, any provision of the SRO Code that is in conflict with CEZA Rules is deemed not written.

- (b) **Procedure for CEZA Approval of SRO Code.** – The SRO shall submit to CEZA for prior approval its SRO Code or amendment thereto, together with a concise statement of the reason and effect of the proposed amendment.

Within fifteen (15) days after submission of a proposed amendment, CEZA through its Administrator, shall, by order, approve the proposed amendment. Otherwise, the same may be made effective by the SRO, provided that, CEZA may alter, abrogate, or supplement such rule pursuant to **Section 3.04**.

- (c) In the event of an emergency requiring action for the protection of investors, the maintenance of fair and orderly markets, or the safeguarding of funds, the SRO may put a proposed amendment into effect summarily; *provided however*, that the copy of the same shall be immediately submitted to CEZA.

Section 3.04 CEZA Directions Regarding Rulemaking. – CEZA, through its Administrator, may make a request in writing to the SRO to effect specified changes to its SRO Code. If after due notice and hearing, CEZA determines that such changes have not been effected, and that such changes are necessary, CEZA by rule, regulation or order, may alter, abrogate or supplement the SRO Code, in so far as necessary or appropriate to effect such change, with such changes to be made effective immediately upon adoption by CEZA.

Section 3.05 Discipline by CEZA. CEZA may, if in its opinion such action is necessary or appropriate in the public interest or for the protection of investors, or otherwise in furtherance of the purposes of the applicable CEZA Rules, after due notice and an opportunity for a hearing, impose the following penalties should it find a violation by the following of any provision of the Applicable Rules:

- (a) Suspend the SRO for a period not to exceed six (6) months, revoke its registration, or censure or impose limitations on the activities, functions and operations of the SRO as an SRO, for willful violation or failure to comply with any provision of the Applicable Rules, or has failed to enforce compliance therewith by a member;
- (b) Suspend for a period not exceeding six (6) months or to expel from the SRO any member who is subject to an order of CEZA, or is found to have willfully violated any provision of the Applicable Rules or has effected, directly or indirectly, any transaction for any person if such member had reason to believe was violating, in respect of such transaction, any of such Applicable Rules;
- (c) Remove from office or censure any officer or director of the SRO if it finds that such officer or director has violated any provisions of the Applicable Rules, or abused his authority or has failed to enforce compliance with any of such Applicable Rules; or
- (d) Take other actions and impose any fines or other penalties as may be reasonably necessary to enforce the provisions of the Applicable Rules.

Section 3.06 Discipline by SRO of its Members and Participants. – An SRO shall discipline a member, including suspension or expulsion, if such person has been found to have been engaged in a violation of the Applicable Rules. In any disciplinary hearing by the SRO, the SRO shall bring specific charges, provide notice to the member or participant charged, afford such person charged with an opportunity to defend against the charges, and keep a written record of the proceedings. A determination to bring a disciplinary sanction shall be supported by a written statement of the offense, a summary of the evidence presented, and a statement of the sanction/s imposed.

Section 3.07 Summary Suspension. –

- (a) The SRO may summarily suspend a member or person associated with a member who has been expelled or suspended from another SRO, and/or suspend a member who the SRO finds to be in such financial or operating difficulty that the member cannot be permitted to do business as a member with safety to investors, creditors, other members, or the SRO; *Provided, however,* that the SRO immediately provides written notice to CEZA of the action taken.
- (b) *Remedy for Summary Suspension.* – Any person aggrieved by a summary action pursuant to the immediately preceding paragraph shall be promptly afforded an opportunity for a hearing by the SRO.
- (c) CEZA, through its Administrator, by order, may stay a summary action *motu proprio* or upon application by any person aggrieved thereby if CEZA determines summarily or after notice and an opportunity for hearing (which may consist solely of the submission of affidavits or presentation of oral arguments) that a stay is consistent with the public interest and the protection of investors.

Section 3.08 SRO Report to CEZA. – The SRO shall promptly notify CEZA in written reports of any disciplinary sanction imposed on any member or participant.

Section 3.09 Remedy on Disciplinary Actions and CEZA's Action. – Within thirty (30) days after receipt of such notice, any aggrieved person may appeal to CEZA from, or CEZA *motu proprio* within such period, may institute review of, the decision of the SRO, at the conclusion of which, after due notice and opportunity for hearing which may consist solely of review of the record before the SRO, CEZA shall affirm, modify, or set aside the sanction.

In such proceeding, CEZA, through its Administrator, shall determine whether the aggrieved person has engaged or omitted to engage in the acts and practices as found by the SRO; whether such acts, and practices, or omission constitute willful violations of the Applicable Rules, whether such provisions were applied in a manner consistent with the purposes of the Applicable Rules, and whether, with due regard for the public interest and the protection of investors, the sanction is excessive or oppressive. For the purpose of fact-finding, CEZA, through its Administrator, may designate a person or form a task force.

For the avoidance of doubt, the suspension or expulsion of a member of the SRO by the SRO shall not automatically suspend or revoke the license issued by CEZA, unless, pursuant to this Section, and other Applicable Rules, CEZA declares the same suspended or revoked. However, any report provided by the SRO shall be deemed a recommendation by the SRO on the matter of the member.

Article IV. Duties and Responsibilities of the SRO.

Section 4.01 Monitoring and Enforcement. – An SRO shall monitor and enforce compliance with provisions of the Applicable Rules and shall notify CEZA within seventy-two (72) hours of any instance where it fails to monitor or enforce compliance or where a member refuses compliance, and within fifteen (15) days submit a complete report of such an instance to CEZA

Section 4.02 Periodic Examinations of Members. –

- (a) An SRO shall periodically examine all its members to determine whether they are in compliance with the Applicable Rules, including among other things, financial responsibility, dealings of members with the public, back office procedures, trading practices, and supervision and shall submit to CEZA for review and comment its audit calendar for the year on or before the 30th day of January of the succeeding year, provided that any amendment to the calendar shall be promptly provided to CEZA. The submitted calendar shall include the manner of selection and prioritization used by the SRO in formulating it. This calendar shall be treated as confidential information. Periodic examination of each member shall be conducted without prior notice to the member.
- (b) Periodic examinations of each member firm shall be made by the SRO pursuant to written procedures approved by CEZA. Where deficiencies are detected, the SRO shall either send a letter to the firm within three (3) business days of the completion of such examination directing that such deficiencies be corrected or, where such deficiencies show evidence of violations of Applicable Rules and/or otherwise negatively reflect upon the member's integrity or solvency, promptly notify CEZA through a brief written report and without delay, initiate an investigation.
- (c) CEZA, through its Administrator, may, on its own initiative, conduct periodic or parallel examinations of members to validate the SRO's findings and conduct on-spot audit inspections of the relevant SRO department to check if it is fulfilling its duties and responsibilities as an SRO.

Section 4.03 **Investigations.** – An SRO shall investigate suspected violations of the Applicable Rules based on complaints, examination or audit findings or unusual activities or verified referrals, and shall take disciplinary action, where appropriate, pursuant to its SRO Code.

The SRO shall promptly notify CEZA of any investigation which involves suspected violations of Applicable Rules, involving persons not subject to the SRO's jurisdiction. The SRO shall cooperate with CEZA, which shall have primary investigative authority over such suspected violations.

CEZA shall not be precluded from initiating its own investigation ahead of, parallel to or following an investigation conducted by an SRO. In such an event, the SRO shall coordinate, cooperate, and provide a copy to CEZA, upon notice or order, documents, pieces of evidence or other information related to the case that it may have earlier gathered or are available in its database and which it may readily procure. Unless specifically ordered by CEZA or by a competent court to cease, the SRO shall continue to conduct its own investigation pursuant to its mandate. In case of conflict between the findings of CEZA and the Exchange, the former's decision shall prevail.

For purposes of initiating its own investigation, CEZA, through its Administrator, may designate a person or form a task force for the purpose of taking the lead in such investigation.

Section 4.04 **Relationship with Other SROs.** – An SRO shall enter into a Memorandum of Understanding with other SROs to clarify its oversight responsibilities over persons who are members of, or participants in more than one SRO and coordinate with other SROs to ensure adequate oversight. Such plan shall be submitted to CEZA for approval.

Section 4.05 **SRO Reporting.** – An SRO shall submit the following reports to CEZA in such manner and procedure as CEZA may hereinafter provide:

- (a) Dockets of examinations and investigations being conducted and results of the investigations;
- (b) Capital adequacy requirements by members;
- (c) Annual report;
- (d) Such other report as may, from time to time, be required by CEZA from the SRO;

Article V. Audit, Compliance, and Surveillance.

Section 5.01 An SRO may, upon approval by CEZA, or on the order of CEZA, establish an independent audit, compliance, and surveillance office or offices separate from the SRO or within the SRO, and in such form and substance that CEZA, by order, may prescribe.

Article VI. Miscellaneous Provisions.

Section 6.01 Order – CEZA is authorized to make orders, memorandums, issuances not inconsistent with this CEZA SRO Rules & Regulations 2018 to better carry out or give effect to the provisions hereof.

Section 6.02 Separability Clause – If any provision of this CEZA SRO Rules and Regulations 2018 is declared unconstitutional or invalidated, the same shall not affect the validity of other provisions of this CEZA SRO Rules and Regulations 2018.

Section 6.03 Effectivity. – This CEZA SRO Rules and Regulations 2018 shall take effect immediately upon its approval by the CEZA Board of Directors.

Approved. 24 October 2018.