



25 August 2020

SEC ISSUES FRAMEWORK FOR CORPORATE DEBT VEHICLES TO SUPPORT FIRMS' LIQUIDITY AMID PANDEMIC

The Securities and Exchange Commission (SEC) has approved the regulatory framework for the creation and operation of new investment companies that will primarily invest in corporate debt papers.

The Commission on August 18 issued SEC Memorandum Circular No. 23, Series of 2020, which provides the Rules on Corporate Debt Vehicle (CDV), to support the liquidity needs of large corporations and medium-sized enterprises in the middle and aftermath of the COVID-19 pandemic.

A CDV is a closed-end investment company that issues or offers for sale its securities consisting of either shares of stock or units of participation in such CDV to any number of qualified buyers and/or non-qualified buyers not exceeding 19 persons in the Philippines during any 12-month period with the specific objective of investing in the corporate debts of large corporations and medium-sized enterprises.

It may offer different share or unit classes with similar investment objective but managed as separate asset pools, with each class corresponding to a distinct part of its assets and liabilities.

Subscription in a CDV is done only on initial public offering and redemption is at maturity. However, a CDV offering units of participation can make periodic distribution of income to investors on a pro-rata basis from cash received by such CDV from its interest income after deduction of applicable taxes and expenses. It may also pay out the value of the underlying investments of each share/ unit in a class upon maturity of the said underlying investments.

The unitholders of a CDV shall have no voting rights but they are entitled to be notified of any material change to the Prospectus, Product Highlight Sheet and Subscription Agreement.

"CDVs can play a significant role in the survival and recovery of our economy from the impact of the COVID-19 pandemic by providing large corporations and medium-sized enterprises the necessary funding to meet their obligations, sustain their operations and preserve jobs," SEC Chairperson Emilio B. Aquino said.

Allowable investments

Proceeds from the issuance of CDV securities shall be invested in any bonds, notes, commercial papers, debentures and other evidence of indebtedness, whether secured or unsecured, of large corporations and medium-sized enterprises operating or deriving income in the Philippines.

A CDV may likewise invest in corporate debts guaranteed by a large or medium-sized domestic corporation or by the Philippine government and/or its agencies or by multilateral agencies involving exempt securities under Rule 9.1.2.3 of the 2015 Securities Regulation Code Implementing Rules and Regulations.

Large corporations are those with total assets of more than P350 million or total liabilities of more than P250 million, while medium-sized enterprises are those with more than P100 million to P350 million in total assets or P100 million to P250 million in total liabilities.

Investments in corporate debt issued by a single enterprise must not exceed 25% of the net asset value (NAV) of a CDV and 50% in the case of single group entities. The limit shall be computed based on the total proceeds of the securities sold within the initial offering period.

The single issuer limit may be raised to 30% if either the issuer or corporate debt is assessed by any domestic or global rating agency with the highest credit rating. It may also be waived if the CDV securities have a capital protection feature in which the return of the investor's capital is guaranteed at a predetermined date in the future, with some returns, if any.

A CDV shall not invest in its own securities and in corporate debts of corporations in which any of its directors or officers or directors or officers of its investment advisor/s, manager/s or distributor/s are members.

Registration, reportorial requirements

To incorporate, a CDV shall have a minimum subscribed and paid-up capital of P50 million. If the CDV forms part of a group of investment companies to be created or already in existence to be managed or under management by the same fund manager with a track record of at least five years, the subscribed and paid-up capital shall not be lower than P1 million.

A CDV shall be exempt from the registration requirements prescribed under Section 8.1 of The Securities Regulation Code. However, such exemption must be confirmed



or approved by the SEC and, for such purpose, a CDV shall submit a notarized simplified prospectus and a product highlight sheet.

The simplified prospectus shall include the investment objective, strategy and limitations of the CDV, the investment powers of the fund manager; the valuation methodology used, the key risks and risk management processes of the CDV, the liability of the CDV and fund manager, and the rights and protections afforded to investors, among others.

The CDV may issue its shares or units in tranches. It shall issue the first tranche within six months from the approval of its simplified prospectus and product highlight sheet, and the subsequent tranches within three months from the filing of a current report outlining the material changes in its prospectus.

The reportorial requirements of the CDV shall include a monthly report showing its net assets, details of corporate debts acquired for the month, and the outstanding balance of the investments held in the portfolio, among others.

In its annual audited financial statements and interim financial statements, the CDV shall likewise present a combined statement of net assets and a detailed breakdown of the financial statement for each class of share/ unit.

To ensure the timely introduction of CDVs to the market, a key measure intended to cushion the economic impact of the pandemic, the application for incorporation of a CDV shall be considered as a priority and the procedure for the application for a secondary license and/or confirmation of exempt transactions shall be simplified.

END