TO : THE INVESTING PUBLIC  
DATE : July 8, 2019  
SUBJECT : FOREIGN INVESTMENT INTO PHILIPPINE EXCHANGE-TRADED FUND

Please be advised that the Bangko Sentral ng Pilipinas (“BSP”) issued on February 5, 2019 BSP Circular No. 1030, series of 2019 regarding the further liberalization of rules on foreign exchange (“FX”) transactions.

The relaxation of rules included the broadening of coverage of instruments allowed for inward foreign investments, including exchange-traded funds (“ETFs”), as reflected in Chapter II Section 33.3.c of the amended FX Manual.

3. The following investment instruments may fall under the category of foreign direct investments or foreign portfolio investments depending on the degree of control or influence of the investor in the investee firm which can be determined regardless of the investment instruments as defined under Sections 33.1 and 33.2:

   a. Equity securities that are - (i) not listed; and (ii) listed at an onshore exchange [e.g., Philippine Stock Exchange (PSE)];

   b. Debt securities (e.g., notes, bonds and non-participating preferred shares) issued by private sector residents that are not covered by the provisions of Part Three, Chapter I of the FX Manual (Loans and Guarantees) - (i) not listed; and (ii) listed at an onshore exchange [e.g., PSE, Philippine Dealing and Exchange Corporation (PDEX)];

   c. Exchange traded funds (ETFs);

   d. Investment funds [e.g., mutual funds (MFs) and unit investment trust funds (UITFs)]; and

   e. Philippine Depositary Receipts (PDRs) that are - (i) not listed; and (ii) listed at an onshore exchange.
Furthermore, the amended rules expanded the definition of eligible banks that can register investments (i.e., issue Bangko Sentral Registration Document “BSRD”) on behalf of BSP from custodian banks to Authorized Agent Banks (“AABs”) with authority to operate a foreign currency deposit unit (“FCDU”) account. Foreign investments into Philippine ETFs should be registered through AABs pursuant to Chapter II Section 37.2 of the amended FX Manual, which is quoted as follows.

**Section 37. Registration with AABs**

1. A registering AAB is a bank with authority to operate a foreign currency deposit unit (FCDU) that has been designated by the non-resident investor to register his investments. The registering AAB shall regularly report all transactions on the registered investments under the Report on Investments Registered with AABs.

2. Registration of investments in the following instruments shall be done with the designated registering AAB:

<table>
<thead>
<tr>
<th>Investment / Instrument</th>
<th>Section</th>
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<tbody>
<tr>
<td>a. Debt securities issued onshore by the National Government and other public sector entities</td>
<td>Section 33.2</td>
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<tr>
<td>b. Equity securities issued onshore by residents that are listed at an onshore exchange (e.g., PSE)</td>
<td>Section 33.3.a. (ii)</td>
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<tr>
<td>c. Debt securities issued onshore by private sector residents that are listed at an onshore exchange and not covered by the provisions of Part Three, Chapter I of the FX Manual (Loans and Guarantees)</td>
<td>Section 33.3.b. (ii)</td>
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<tr>
<td>d. ETFs issued/created onshore by residents</td>
<td>Section 33.3.c.</td>
</tr>
<tr>
<td>e. PDRs that are listed at an onshore exchange</td>
<td>Section 33.3.e. (ii)</td>
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<tr>
<td>f. Peso time deposits with an AAB with a maturity of at least 90 days</td>
<td>Section 33.4</td>
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<tr>
<td>g. Equity securities issued onshore or offshore by non-residents that are listed at an onshore exchange</td>
<td>Section 34.1</td>
</tr>
<tr>
<td>h. Debt securities issued onshore by non-residents that are listed at an onshore exchange</td>
<td>Section 34.2.b</td>
</tr>
<tr>
<td>i. Instruments under Section 37.2(a-h) used as collateral involving transfer of legal/beneficial ownership of the collateral to the non-resident investor</td>
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</table>

3. FX inwardly remitted to fund investments under Section 37.2 must be converted to pesos with AABs/AAB forex corps except if investment is required to be funded by FX.

To further ease the registration process, the BSP allows electronic submission of supporting documents, as provided under Part One, Chapter I, Section 5 of the amended FX Manual:

5. For (a) registration of private sector foreign loans/borrowings without public sector guarantee; (b) registration of inward investments; and (c) sale of FX by banks covering various FX transactions, the supporting documents\(^1\) may be

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\(^1\) Except for the following documents which are required to be presented/submitted in hard copies:
(a) BSP-issued documents (e.g. BSP Approval, Bangko Sentral Registration Document); and
(b) Annex N of the FX Manual.
submitted through electronic means to the BSP or AABs/AAB forex corps; Provided, the submitting party shall attest to the: (a) integrity and authenticity of the submitted documents; (b) transmittal of the supporting documents made via official channel; and (c) availability of the hard copy of original/photocopy of documents upon request by the BSP for verification. Hard copy of the documents submitted electronically shall be retained for a period of five (5) years from the time of submission thereof.

For the repatriation of investment proceeds, the amended rules also ease the process provided that the investment/s is/are BSP-registered, as stated under Chapter II Section 38.1 of the amended FX Manual:

Section 38. Servicing of Investments

1. BSP-registered investments shall be entitled to full and immediate repatriation of capital and remittance of related earnings thereon using FX resources of AABs/AAB forex corps.

For further reference:

The official announcement from the BSP released on 10th of January 2019 may be viewed through this link: http://www.bsp.gov.ph/publications/media.asp?id=4914

The amendments to the FX regulations published on 5th of February 2019 may be accessed through this link: http://www.bsp.gov.ph/regulations/regulations.asp?id=4093

(Original Signed)

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