

13th CONGRESS OF THE REPUBLIC)
OF THE PHILIPPINES)
First Regular Session)

STATE
DEPARTMENT OF SECRETARY

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SENATE

S. BILL NO. 1418

RECEIVED BY: _____

Introduced by Senator Ralph G. Recto

EXPLANATORY NOTE

Providing public telecommunications services requires huge capital and investments to serve the nation's telecommunications requirements. Trends in the industry have shown that certain telecommunications entities acquiring or combining with other telecommunications companies are able to better serve the public due to economies of scale.

Since some public telecommunications entities are already listed while others are not, a situation may arise where a listed public telecommunications entity acquires another telecommunications entity whose shares are not yet listed. In this case, independent of the listing of the shares of the parent company, the subsidiary is still required to offer a portion of its shares to the public. This may be so even if there is practically an identity of interests between the two companies as when one company owns and controls all or substantially all of the outstanding voting stock of another company.

Ownership and control of at least two-thirds (2/3) of the outstanding voting stock of another company constitutes ownership and control of "substantially all" of the outstanding shares thereof because the parent company is in a position to exercise significant influence, if not control, over its subsidiary, including its strategic direction, policies, and business affairs. It also has the ability to elect a controlling number of directors to the board of its subsidiary.

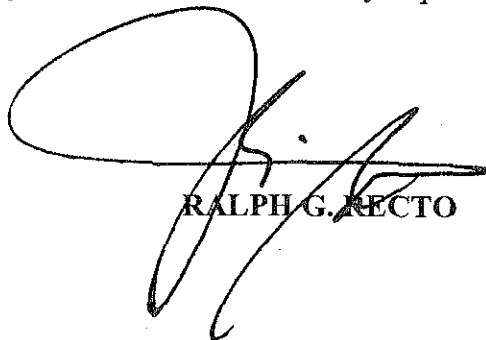
Where a listed company owns and controls all or substantially all of the outstanding voting stock of a telecommunications entity and its franchise or RA 7925 requires an offering of a portion of its shares to the public, the subsidiary should be deemed to have complied with the requirement of a public offering of shares. The purpose of the law to disperse equity ownership should already be deemed complied with. Furthermore, there is an identity of interests between said companies and to require the subsidiary to make a public offering and listing of its shares will result to chainlisting, if not double listing.

It should also be recognized that the parent company owning at least a majority of the voting stock of another company (the subsidiary) is required, under generally accepted accounting principles, to consolidate the revenues and profits of the subsidiary (less the attributable share of minority interests) into the financial accounts of the parent company. The value of the parent company would then take into account the earnings and financial performance of the subsidiary. Likewise, dividends declared by the subsidiary and received by the parent company to the extent of the its percentage shareholding in the subsidiary are indirectly distributed to the shareholders of the parent company when dividends are eventually declared by the parent company. Viewed in this light, it should be clearly appreciated that where the parent company is already listed and traded in the stock exchange, the public shareholders of such listed company already partake of the value and earnings of the subsidiary. Accordingly, it can be said with cogent basis that the public shareholders of the listed parent company, albeit indirectly,

also owns the same ownership interest that the listed parent company holds in the subsidiary.

Under this proposal, the public offering requirement under Section 21 of Republic Act 7925 is deemed complied with where a listed company owns at least two-thirds (2/3) of the outstanding voting stock of a public telecommunications entity even if the latter is not listed and traded in the stock exchange.

In light of the foregoing, the approval of this bill is earnestly requested.



RALPH G. RECTO

13th CONGRESS OF THE REPUBLIC)
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SENATE 14/8

RECEIVED BY: _____

S. BILL NO. 1418

Introduced by Senator Ralph G. Recto

**AN ACT
AMENDING SECTION 21 OF REPUBLIC ACT NO. 7925 OR THE
PUBLIC TELECOMMUNICATIONS POLICY ACT OF THE PHILIPPINES**

Be it enacted by Senate and House of Representatives of the Philippines in Congress Assembled:

1 SECTION 1. Section 21 of the Public Telecommunications Policy Act of the
2 Philippines is amended as follows:

3 "SECTION 21. Public Ownership. — In compliance with the constitutional
4 mandate to democratize ownership of public utilities, all telecommunications entities with
5 regulated types of services shall make a bona fide public offering through the stock
6 exchanges of at least thirty percent (30%) of its aggregate common stocks within a period of
7 five (5) years from effectivity of this Act or the entity's first start of commercial operations,
8 whichever date is later: PROVIDED, THAT, A TELECOMMUNICATIONS ENTITY
9 SHALL BE DEEMED TO HAVE COMPLIED WITH THIS SECTION IF AT LEAST
10 TWO-THIRDS (2/3) OF ITS OUTSTANDING VOTING STOCK IS OWNED AND
11 CONTROLLED, DIRECTLY OR INDIRECTLY, BY A LISTED COMPANY .

12 The public offering shall comply with the rules and regulations of the Securities and
13 Exchange Commission.

14 THIS PROVISION SHALL *IPSO FACTO* BECOME PART OF PREVIOUSLY
15 GRANTED TELECOMMUNICATIONS FRANCHISES AND SHALL BE ACCORDED
16 IMMEDIATELY AND UNCONDITIONALLY TO THE GRANTEEES OF SUCH
17 FRANCHISES."

1 SECTION 2. *Implementing Rules and Regulations.* The National
2 Telecommunications Commission and the Securities and Exchange Commission shall
3 promulgate and establish the necessary rules and regulations for the effective
4 enforcement of this Act.

5 SECTION 3. *Separability Clause.* If any provision of this Act is held
6 unconstitutional or invalid, all other provisions not affected thereby shall remain valid.

7 SECTION 4. *Repealing Clause.* All laws, decrees, executive orders, rules and
8 regulations or parts thereof, which are inconsistent with this Act, are hereby repealed,
9 amended or modified accordingly.

10 SECTION 5. *Effectivity.* This Act shall take effect fifteen (15) days following its
11 publication in the Official Gazette or in two (2) newspapers of general circulation.

12 *Approved,*