

SENATE

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S. No. 341



Introduced by **Senator Cynthia A. Villar**

AN ACT
ESTABLISHING THE SMALL AND MEDIUM ENTERPRISES
STOCK EXCHANGE

EXPLANATORY NOTE

Small and medium enterprises are the engines of the country's economic growth and development. They provide essential products and services and generate needed employment in a developing economy. In fact, it is the entrepreneurial energies unleashed by small and medium enterprises that underpin our country's quest for industrialization.

Yet the growth and momentum of SMEs are hobbled by capital constraints. Unlike large companies, SMEs experience more difficulties in obtaining finance to fund their capitalization or expansion requirements.

It is for these reasons that this bill is filed to assist SMEs in obtaining their financing requirements from the developing capital market in the country.

In one report, it stated that listing with the stock exchange is one way for small businesses to get capital to fund growth and expansion. The small-and medium-sized enterprises (SMEs) are urged to conduct an initial public offering (IPO) and take advantage of the stock market's strong capital inflows. Further, tapping the SME sector will help expand the investor base in the country.

In fact, it was reported in 2014 that the government-owned and controlled Development Bank of the Philippines (DBP) has signed an agreement with the Philippine Stock Exchange Inc. (PSE) to spur the listing of small and medium enterprises (SMEs) in the local bourse.¹ Under the agreement, DBP and PSE will come up with a framework for cooperation and coordination in the area of capital market development, particularly in raising capital market awareness among SMEs.²

Thus, it is an opportune time to consider the measure establishing a stock exchange that will cater to SMEs. A Small and Medium Enterprises Stock Exchange (SMEX) can be the equities market of growing businesses that may still not meet the capitalization requirements for public listing by the Philippine Stock Exchange (PSE). Public listing in the SMEX may well provide SMEs with a cheap and steady pool of funds for their business requirements.

Creation of the SMEX will also provide SMEs their benchmarks for business accomplishments, in making them aware of the processes and demands of making their enterprises "investment-ready."

The SMEX at the same time will broaden and deepen the capital markets by providing both foreign and local investors another window of investment opportunity. This has been the experience of the United States when they set up the National Association of Securities Dealers Automated Quotations (NASDAQ) stock market for growing companies, which has been the market for the public listing of phenomenal companies such as Intel and Microsoft.

In sum, alternative equities market like the SMEX can provide crucial institutional support to SMEs while at the same time laid the groundwork for more investment opportunities in the country today.

Thus, I recommend the immediate approval of this bill.


CYNTHIA A. VILLAR

¹ <http://www.philstar.com/business/2014/05/18/1324331/dbp-pse-sign-deal-spur-sme-listing>

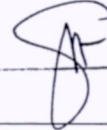
² *Ibid*

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**AN ACT ESTABLISHING THE SMALL AND MEDIUM
ENTERPRISES STOCK EXCHANGE**

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

1 Section 1. *Title.* – This Act shall be known as the "Small and Medium
2 Enterprises Stock Exchange (SMEX) Act of 2019."

3 Sec. 2. *Declaration of Policy.* – It is the declared policy of the State to
4 recognize the indispensable role of the private sector, encourage private enterprise,
5 and provide incentives to needed investments.

6 In compliance with this policy, the State shall:

- 7 (a) Encourage the establishment of small and medium enterprises;
- 8 (b) Develop an effective and efficient stock exchange for small and
9 medium enterprises;
- 10 (c) Provide for increased access to financing for small and medium
11 enterprises in order to facilitate funds necessary for their expansion;
12 and

1 (d) Stimulate investors and private firms, both local and foreign, to invest
2 in small and medium enterprises.

3 Sec. 3. *Establishment of the Small and Medium Enterprises Stock Exchange*
4 *(SMEX)*. – There is hereby established a Small and Medium Enterprises Stock
5 Exchange, (hereinafter referred to as the "SMEX"), which shall be a stock market
6 catering to small and medium enterprises. The SMEX shall be primarily self-
7 regulatory but shall be under the supervision of the Office of the President for
8 purposes of policy coordination.

9 For purposes of this Act, the small and medium enterprises shall be those
10 defined as such under Republic Act 9501 or the *Magna Carta for MSMEs*.

11 Sec. 4. *Board of Governors*. – To carry out the purposes of this Act, there is
12 hereby created a Board of Governors, which shall be organized within sixty days
13 after the approval of this Act. It shall operate as an independent entity but shall be
14 attached to the Office of the President for budgetary purposes. The operations and
15 activities of the SMEX shall be managed and controlled by the Board of Governors
16 (hereinafter referred to as the "Board" composed of the Governor of the Bangko
17 Sentral ng Pilipinas, the Securities and Exchange Commission (SEC) representative,
18 the Philippine Stock Exchange representative, and five members from the SMEX.

19 The five members from the SMEX shall be selected from the officers of the
20 Board, which shall include one stockbroker or securities dealer coming from the
21 registered brokers or securities dealers of the SMEX.

22 Sec. 5. *Transaction of Business*. – Only registered members shall transact
23 business on the floors of the SMEX and such members shall deal or otherwise
24 transact business only with registered brokers or securities dealers of the exchange.

25 Sec. 6. *Issuance of Implementing Rules and Regulations*. – The Board, in
26 consultation with the Philippine Stock Exchange (PSE), SEC, Board of Investments
27 (BOI) and representatives from the small and medium-sized business sector, shall
28 promulgate and adopt a Code of By-Laws which shall contain, among others: the

1 organizational structure; the rules and regulations on the listing and issuance of
2 securities; and the code of ethics for all members of the exchange, including
3 grounds for disciplinary sanctions or suspension and expulsion of any member, and
4 standards to ensure strict adherence thereto.

5 Sec. 7. *Accountability.* – To ensure accountability of the Board and the
6 SMEX, all funds of and held in trust by the SMEX from the National Government,
7 pursuant to the provisions of this Act, shall be audited by the Commission on Audit
8 (COA) and all disbursements shall be made in accordance with existing auditing rules
9 and regulations.

10 Sec. 8. *Transition.* – After a period of five (5) years from the effectivity of
11 this Act, the SMEX may be privatized in order to ensure the efficient and effective
12 functioning of the stock exchange.

13 Sec. 9. *Appropriation.* – The amount necessary to carry out the provisions
14 of this Act is hereby authorized to be appropriated in the General Appropriations Act
15 of the fiscal year following its enactment into law and thereafter.

16 Sec. 10. *Separability Clause.* – If any portion or provision of this Act is
17 declared unconstitutional or invalid, the remainder of this Act or any provisions
18 hereof not affected thereby shall continue to be in force and effect.

19 Sec. 11. *Repealing Clause.* – Any law, presidential decree or issuance,
20 executive order, letter of instruction, rule or regulation inconsistent or contrary to
21 the provisions of this Act is hereby repealed or modified accordingly.

22 Sec. 12. *Effectivity.* – This Act shall take effect after fifteen (15) days
23 following its complete publication in the Official Gazette or a newspaper of general
24 circulation.

25 Approved,