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**SECURITIES AND EXCHANGE COMMISSION**

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Doc Source

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Company Information

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SEC Registration No. 0000016342  
Company Name S.M. INVS. CORP.  
Industry Classification FINANCING COMPANY OPERATIONS  
Company Type Stock Corporation

**Document Information**

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Document ID 110282019001191  
Document Type LETTER/MISC  
Document Code LTR  
Period Covered October 24, 2019  
No. of Days Late 0  
Department CED/CFD/CRMD/MRD/NTD  
Remarks



INVESTMENTS  
CORPORATION

24 October 2019

**SECURITIES AND EXCHANGE COMMISSION**

G/F Secretariat Building, PICC Complex  
Roxas Boulevard, Pasay City, 1700

ATTENTION : **ATTY. RACHEL ESTHER J. GUMTANG-REMALANTE**  
*OIC, CORPORATE GOVERNANCE AND FINANCE DEPARTMENT*

**PHILIPPINE STOCK EXCHANGE, INC.**

6/F PSE Tower  
28<sup>th</sup> Street corner 5<sup>th</sup> Avenue  
Bonifacio Global City, Taguig City

ATTENTION : **MS. JANET A. ENCARNACION**  
*HEAD, DISCLOSURE DEPARTMENT*

**PHILIPPINE DEALING & EXCHANGE CORP.**

37<sup>th</sup> Floor, Tower 1, The Enterprise Center  
6766 Ayala Avenue corner Paseo De Roxas  
Makati City

ATTENTION : **ATTY. MARIE ROSE M. MAGELLEN-LIRIO**  
*HEAD, ISSUER COMPLIANCE AND DISCLOSURE DEPARTMENT*

RE : **POLICY ON MATERIAL RELATED PARTY TRANSACTIONS**

Gentlemen:

Pursuant to SEC MC No. 10, series of 2019 - the *Rules on Material Related Party Transactions for Publicly-Listed Companies*, we hereby submit our Revised Policy on Material Related Party Transactions.

Thank you.

Very truly yours,

**Wellington L. Palmero**  
Chief Risk & Compliance Officer

# COVER SHEET

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SEC Registration Number

				S	M					I	N	V	E	S	T	M	E	N	T	S					C	O	R	P	O	R	A	T	I	O	N		

(Company's Full Name)

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P	A	S	A	Y		C	I	T	Y																										

**Mr. Wellington L. Palmero**

(Contact Person)

**(632) 8857 0100**

(Company Telephone Number)

1	2
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Month

3	1
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Day

(Calendar Period)

**POLICY**

(Form Type)

0	4
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Month

2	5
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Day

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

## POLICY ON RELATED PARTY TRANSACTIONS

Pursuant to SEC MC No. 10, series of 2019 - *Rules on Material Related Party Transactions for Publicly-Listed Companies*, SM Investments Corporation (the "Company"), hereby establishes its *Policy on Related Party Transactions* (the "Policy"), adopted by the Company and across the organization.

For the purpose of this policy, Related Parties covers the Company's directors and officers (*as named in the Company's General Information Sheet*), *substantial shareholders*<sup>1</sup> and their spouses and relatives within the *fourth civil degree of consanguinity or affinity*, legitimate or common-law, if said persons have control, joint control or significant influence over the Company. Likewise, it covers the Company's subsidiaries, fellow subsidiaries, *associates*<sup>2</sup>, *affiliates*<sup>3</sup>, joint ventures or an entity that is controlled, jointly controlled or significantly influenced or managed by an individual considered a related party.

### Duties and Responsibilities of the Board of Directors Relating to RPTs

The Board of Directors shall have the overall responsibility in ensuring that *related party transactions*<sup>4</sup> are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interests of the Company's shareholders and other stakeholders. Related party transactions, include but are not limited to rentals, management fees, service fees, royalties, loans and advances, guarantees and the purchase and sale of properties. RPTs that exceed the Company's *materiality threshold*<sup>5</sup>, are considered *material related party transactions*<sup>6</sup> and will require the review and approval by at least two-thirds (2/3) vote of the Board of Directors, with at least a majority of the Company's independent directors voting in the affirmative. If the majority of the Company's independent directors' votes are *not* secured, the material RPT may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock. For aggregate RPTs within a twelve (12)-month period that breach the materiality threshold, the same board approval shall be required for the transaction/s that meet and exceed the materiality threshold covering the same related party. Furthermore, the Board of Directors shall carry out the following duties and responsibilities:

1. To institutionalize an overarching policy on the management of material RPTs to ensure effective compliance with existing laws, rules and regulation at all times and that material RPTs are conducted at an arms' length basis, and that no shareholder or stakeholder is unduly disadvantaged.
2. To approve all material RPTs that cross the materiality threshold and write-off of material exposures to related parties, as well as any renewal or *material changes*<sup>7</sup> in the terms and conditions of material RPTs previously approved in accordance with this Policy.
3. To establish and maintain an effective audit, risk and compliance system that determines, identifies and monitors related parties and material RPTs; continuously reviews and evaluates existing

<sup>1</sup> Any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

<sup>2</sup> Any entity over which the Company holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the Company has significant influence

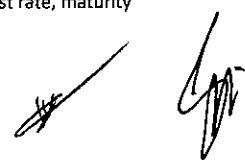
<sup>3</sup> Any entity linked directly or indirectly to the Company through any one or a combination of any of the following: a) Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of at least ten percent (10%) or more of the outstanding voting stock of the Company, or vice-versa; b) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulation; c) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Company and the entity; or d) Management contract or any arrangement granting power to the Company to direct or cause the direction of management and policies of the entity, or vice-versa.

<sup>4</sup> A transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.

<sup>5</sup> Ten percent (10%) of the Company's total consolidated assets based on its latest audited financial statement.

<sup>6</sup> Any related party transaction, either individually, or in aggregate over a twelve (12) month period with the same related party, amounting to ten percent (10%) or higher of the Company's total assets based on its latest audited consolidated financial statement.

<sup>7</sup> Material changes in the terms and conditions of the material RPT include, but are not limited to, change in price, interest rate, maturity date, payment terms, commissions, fees, tenor and collateral requirement of the RPT.



relationships between and among businesses and counterparties, and controls risks arising from material RPTs.

4. Ensure that the Company's Senior Management implements appropriate controls to effectively manage and monitor material RPTs on a per transaction and aggregate basis. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with this Policy.
5. Ensure that the *Related Party Registry*<sup>8</sup> is reviewed and updated at least every quarter to capture organizational and structural changes in the Company and its related parties.
6. Ensure that the Company clearly identifies and prevents/manages any actual or potential conflicts of interest<sup>9</sup> which may arise out of or in connection with material RPTs. Directors and officers with personal interests in RPTs shall fully and timely disclose any and all material facts, including their respective interests in material RPTs and abstain from discussion, approval and management of such transaction or matter affecting the Company. Likewise, directors with personal interests in RPTs shall abstain from participating in discussions and voting on the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.
7. Ensure that material RPTs are conducted at arms' length by appointing an *external independent party*<sup>10</sup> to evaluate said material RPTs prior to their execution. To ensure that the terms of material RPTs promote the best interests of the Company, its shareholders and other stakeholders, the Board may also employ price discovery mechanisms, such as external experts and the like.

#### Monitoring and Review

The Company's Internal Auditor shall conduct a periodic review of the effectiveness of the Company's system and internal controls governing material RPTs to assess consistency with this Policy. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the Company's Audit Committee. The Company's Chief Compliance Officer shall ensure that the Company complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. He/she shall aid in the review of the Company's transactions and identify any potential material RPT that would require review by the Board of Directors. The Chief Compliance Officer shall coordinate with the Related Party Transactions Committee to ensure that this Policy is updated and properly implemented throughout the Company and across the organization. The Related Party Transactions Committee may, at any time ask for a review of any Related Party Transaction. An annual review of all RPTs will be done by the Related Party Transactions Committee.

#### Disclosure Requirement and Whistleblowing Mechanism

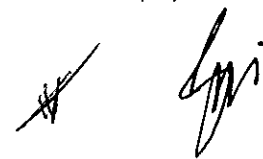
Related parties are required to fully disclose to the Company's Board of Directors all material facts related to material RPTs as well as their direct and/or indirect financial interests in any transaction or matter that may affect or is affecting the Company. Such disclosure/s shall be made during board meetings that material RPTs will be reviewed for approval and must be done prior to the execution of said material RPT.

The Company's various stakeholders are encouraged to communicate, confidentially and without risk of reprisal, legitimate concerns on illegal, unethical or questionable material RPTs. Legitimate concerns on the Company's material RPTs may be reported to the Related Party Transactions Committee via [RPTCOM@sminvestments.com](mailto:RPTCOM@sminvestments.com).

<sup>8</sup> A record of the organizational and structural composition, including any change thereon, of the Company and its related parties.

<sup>9</sup> The Company's Conflict of Interest Policy defines a conflict as a situation wherein a director, officer or employee has or appears to have a direct or indirect personal interest in any transaction, which may deter or influence him/her from acting in the best interests of the Company.

<sup>10</sup> May include, but is not limited to, auditing/accounting firms and third party consultants and appraisers.

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The Related Party Transactions Committee shall investigate and address reports made in good faith, or appoint other objective independent bodies to do the same.

#### **Reportorial Requirements**


In accordance with SEC MC No. 10, series of 2019 - *Rules on Material Related Party Transactions for Publicly-Listed Companies*, the Company shall submit to the SEC, the prescribed Advisement Report on Material RPTs, duly accomplished and signed by the Company's Corporate Secretary or authorized representative, within three (3) calendar days after the execution date of a material RPT. A summary of material RPTs entered into during the reporting year shall be disclosed in the Company's Integrated Annual Corporate Governance Report (I-ACGR) to be submitted to the SEC annually every May 30. Likewise, the Company's related party transactions will continue to also be disclosed in the Annual Report.

#### **Remedies for Abusive Material RPTs and Penalties for Non-Compliance**

Transactions considered abusive material RPTs after notice and hearing of the Company and/or the relevant bodies tasked to conduct hearing/s shall be declared null and void. This is to cut losses and allow recovery of losses or opportunity costs incurred by the Company arising out of or in connection with abusive material RPTs. The Board of Directors shall decide on abusive material RPTs matters that involve significant shareholders, directors and/or officers of the Company.

To strictly observe and implement the provisions of this Policy, the Board of Directors and/or Management (*depending on the violator/s*) shall determine and impose penalties in accordance with the Company's Code of Conduct for directors, officers and other personnel who may have either been remiss in their duties in handling material RPTs in accordance with this Policy, or violated this Policy intentionally. Similarly, the Revised Corporation Code (sections 26 and 27) provide that an interested director or officer of a corporation shall be disqualified from being a director, trustee or officer of any other corporation on the basis of final judgement rendered by a court of competent jurisdiction against the interested director or officer for abusive material RPTs.

October 24, 2019



JOSE L. SIO  
Chairman of the Board



WELLINGTON L. PALMERO  
Chief Risk and Compliance Officer