



FIRST METRO PHILIPPINE EQUITY  
EXCHANGE-TRADED FUND

# Related Party Transaction Policy

October 2019



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## GENERAL POLICIES AND TERMS

### I. GENERAL RULES

1. The prescribed guidelines shall be intended to:
  - ensure that every Related Party Transaction is conducted in manner that will protect First Metro Exchange Traded Fund, Inc. (the “Company”) from conflict of interest which may arise between the company and its Related Parties;
  - ensure that transactions with related parties are reviewed to assess risks, are subject to appropriate restrictions to ensure that such are conducted at arm’s-length terms, and that corporate or business resources of the company are not misappropriated or misapplied.
  - ensure proper review, approval, ratification and disclosure of transactions between the Company and any of its related parties as required in compliance with the BSP Circular No. 895 on the Guidelines on Related Party Transactions;
  - guarantee compliance with regulatory requirements on material related party transaction of Publicly Listed Companies as mandated under SEC Memorandum No. 10, series of 2019;
  - ensure that highest ethical standards consistent with the principles for enhancing corporate risk governance are observed.
2. All Related Party Transactions shall be coursed through the Compliance Unit/Compliance Officer for endorsement and review by the **Related Party Transaction Committee (RPTCOM)**.
3. All Related Party Transactions shall be approved by Board of Directors.

### II. DEFINITION OF RELATED PARTY

For purposes of this policy, Related Party shall mean:

- a. Subsidiaries such as corporations which are directly or indirectly controlled by, or under common control with the Company, such as when the Company or the parent owns, directly or indirectly through other subsidiaries, more than one half of the voting power of the related corporation. For this purpose, “control” also exists even when the Company or parent owns one half or less of the voting power of another corporation when there is:
  - i. Power over more than half of the voting rights by virtue of an agreement with other investors;



- ii. Power to govern the financial and operating policies of the corporation under a statute or an agreement;
  - iii. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
  - iv. Power to cast the majority of votes at meetings of the board of directors or equivalent governing body.
- b. Affiliates such as corporations or firms, of which ten percent (10%) to fifty percent (50%) of the outstanding voting stock is directly or indirectly owned, controlled or held with power to vote by the company or its parent;
  - c. Entities other than the subsidiaries/affiliates of the Company, including Special Purpose Entities, that the Company exerts control/significant influence over or those that exert control/significant influence over the Company or those related to the Company either through common ownership (provided that the common owner owns at least 10% of the subscribed capital of such entities) and through common directorship/officership;
  - d. Directors, Officers and Stockholders (DOS) of the Company
  - e. Immediate family members of an individual Stockholder, Director, Officer of the Company up to the second degree by affinity or consanguinity, whether legitimate or illegitimate. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son/daughter-in-law, brother/sister-in-law, grandparent-in-law, and grandchild-in-law.
  - f. Directors, officers (FVP & up) and stockholders (owning at least 10% of outstanding voting stock) of affiliated companies in Item # a, b, & c and their close family members (up to 2<sup>nd</sup> degree relatives);
  - g. Entities that belong to the DOS or any of their close family members with at least 10% ownership of the subscribed capital of such entities; and
  - h. Entities where any close family member of a director or an officer of the Company acts as a director or principal officer of such entities.

### **III. DEFINITION OF RELATED PARTY TRANSACTIONS**

Related Party Transactions shall mean financial transactions or dealings, arrangements or relationships (or any series of similar transactions, arrangements, relationships) by the Company to its Related Party, a) where the Company is a participant and b) where any Related Party has or will have a direct or indirect material interest. These shall include, but not limited to the following:



- Transfer or exchange of resources or facilities (including credit facilities, trading and equity contributions in cash or in kind);
- Investments and/or subscriptions for debt/ equity issuances;
- Sale, purchase, or transfer of assets/ property of any kind (including transfer of technology and intangible assets such as research and development, trademarks and license agreements);
- Sale, purchase or supply of goods or materials;
- Lease arrangements/ contracts of assets/ property of any kind;
- Outsourcing arrangements;
- Rendering or receiving of services;
- Consulting, management, professional, agency and other service arrangements/ contracts;
- Borrowing, commitments, fund transfer and guarantees;
- Construction arrangements/ contracts; and
- Any transaction entered into, without any economic value by itself, except to avoid compliance with some requirement or prohibition under the law, rules and regulations.

#### **IV. DEFINITION OF MATERIAL RELATED PARTY TRANSACTIONS**

Material related party transaction refers to any transaction with related parties, 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 financial statement.

#### **V. EXCEPTIONS TO THE RELATED PARTY TRANSACTIONS RULE**

The following Related Party Transactions shall not require review by the RPTCOM:

1. Compensation and other benefits under the fringe benefit program (including preferential rates or waivers given to all employees as part of employees' incentives or benefits);
2. Financial services provided to all related parties such as but not limited to the following:
  - a. Opening of mutual fund/trading accounts; Investment Programs;
  - b. Regular trade transaction involving purchases and sales of securities traded in an active market and/or traded at the Philippine Stock Exchange (PSE)



- c. Insurance and credit card services
  - d. Financial services received in an ordinary course of business such as deposits (CASA, Time Deposits, SSA and others)
3. Any charitable contribution, grant or endowments by the Company to charitable institutions, foundations, NGOs or universities if the aggregate amount involved does not exceed Php1.0MM;
  4. Any transaction where the Related Party's interest arises solely from the ownership of the Company's common stock and all holders of the Company's common stock received the same benefit on the pro-rata basis (e.g. Dividends)

## **VI. REPORTING REQUIREMENTS OF RPT**

1. Each Director, Stockholder or Officer (FVP and up) shall be responsible for disclosing any Related Party Transaction and the material interest that he/she or an immediate family member may have on such transaction.

The relevant information with respect to the RPT which shall be disclosed are as follows:

- a. Identity of the parties involved in the transaction or relationship;
  - b. Terms and conditions of the transaction or relationship, and whether these are no less favorable to the Company than terms generally available to an unrelated third party under the same circumstances;
  - c. Business purpose, timing, rationale and benefits of the transaction or relationship;
  - d. Approximate monetary value of the transaction and the approximate monetary value of the Related Party's interest in the transaction;
  - e. Valuation methodology used and alternative approaches to valuation of the transaction;
  - f. Information concerning potential counterparties in the transaction;
  - g. Description of provisions or limitations imposed as a result of entering to the transaction;
  - h. Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the transaction;
  - i. Impact to a Director's independence; and
  - j. Extent that such transaction or relationship would present an improper conflict of interest.
2. All Directors and Officers (FVP and up) shall submit an Information Statement Questionnaire (Exhibit A) to the Compliance and Administrative Head/Compliance Officer:
    - a. At the beginning of their term as a newly elected director or newly appointed senior officer;



- b. At the beginning of every calendar year;
- c. Upon discovery or knowledge of a previously unreported related party transaction.

The Questionnaire shall be accomplished as part of the responsibility of Directors and Officers to disclose related party transactions. It shall include a sign-off and commitment to disclose proposed transactions that the Director/Officer or their Related Party will undertake with the Company.

- 3. Based on the Information Statement Questionnaire, the Compliance and Administrative Head/Compliance Officer shall report Related Party Transactions covered by this policy to the BOD.
- 4. All service providers, suppliers and vendors shall provide a certification that they do not have a conflict of interest with the Company.
- 5. All approving officer/s (other than Directors and Officers – FVP and up) signing contracts, agreements, purchase orders shall be required to issue a disclaimer that they are not related to the counterparties of the proposed transaction.

## **VII. REVIEW AND APPROVAL OF RELATED PARTY TRANSACTIONS**

- 1. Approval process of Related Party Transactions shall be as follows:

Requested by:	Requesting Unit (e.g. Office of the President; Partnership Distribution, Direct Sales ; Corporate Services and Finance, Investments)
Coursed thru:	Compliance Unit/ Compliance Officer
Reviewed/Endorsed by:	The RPTCOM
Approved by:	Board of Directors (BOD)

- 2. Any member of the BOD or RPTCom who has an interest in the transaction must not participate in the review and approval of the Related Party Transaction.



## **VIII. DISCLOSURE AND REPORTING OF MATERIAL RELATED PARTY TRANSACTIONS**

The Company shall file with the Securities and Exchange Commission (SEC) the following:

1. A summary of material related party transactions entered into during the reporting year which shall be disclosed in the Company's Integrated Annual Corporate Governance Report (I-ACGR) to be submitted annually every May 30;
2. Advisement Report (see Annex A) of any material RPT to be filed within three (3) calendar days from the execution date of the said transaction. The Advisement Report shall be signed by the Company's Corporate Secretary or authorized representative;

At a minimum, the disclosures in the abovementioned reports shall include the following information:

- Complete name of the related party;
  - Relationship of the parties involved;
  - Execution date of the material RPT;
  - Financial or non-financial interest of the related parties;
  - Type and nature of the transaction as well as description of asset involved;
  - Total assets of the company and amount of the RPT or contract price;
  - Percentage of the contract price to the total asset;
  - Carrying amount of collateral, if any;
  - Terms and conditions;
  - Rationale for entering into the transaction; and
  - The approval obtained (i.e. names of directors present, name of directors who approved the material RPT, and corresponding voting percentage obtained).
3. The material RPT policy with accessible link shall be posted on the Company's website within five (5) calendar days from its submission to the SEC.

## **IX. GUIDELINES ON ARM'S LENGTH TRANSACTION TERMS**

Proponent unit shall ensure that the RPTs are conducted in the regular course of business and not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, and collateral requirement) to such related parties than similar transactions with non-related parties



under similar circumstances. This shall include an effective price discovery mechanism to ensure that transactions are engaged in terms that promote the best interest of the Company and its stakeholders. The price discovery mechanism may include, but is not limited to, acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.

In their proposal, the proponent shall use the RPT Evaluation Form (see Exhibit B).

For the guidance of the RPTCOM, proponent units shall include in their proposal memo comparative financial data on past transactions justifying that the proposal is comparable with unrelated party transactions and not disadvantageous to the Company.

## **X. EFFECTIVITY OF THE POLICY**

This Policy, approved by the Board of Directors on 18 October 2019, shall be effective immediately.

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**Eduardo R. Carreon**  
Chairman

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**Jonathan T. Tabac**  
Compliance Officer



## EXHIBIT A

### INFORMATION STATEMENT QUESTIONNAIRE

For the period of \_\_\_\_\_

This shall be accomplished as part of the responsibility of Directors and Officers to disclose related party transactions.

All Directors and Officers (FVP & up) shall respond to the best of their knowledge. In addressing each of the items, it is anticipated that full answers will be provided and/or explanations made for any exception.

Please send the completed statement to the Compliance Unit /Compliance Officer, via email ([jtabac@firstmetrosec.com.ph](mailto:jtabac@firstmetrosec.com.ph)) or fax at 816-0467, not later than \_\_\_\_\_.

*Related Party Transaction Sign-Off*

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**EXHIBIT A**

**INFORMATION STATEMENT QUESTIONNAIRE**

Please provide further explanation for any YES answer by accomplishing the columns under REMARKS.

	QUESTION	YES	NO	REMARKS			
				(If your answer is YES, indicate details on the related party transaction)			
				Name of Related Party	Nature of RPT	Terms and Approximate Value	Other Details
1	Did you or any of your related parties render managerial or consultative service to FAMI?						
2	Did you or any of your related parties provide goods and services to FAMI?						
3	Did you or any of your related parties secure credit accommodations from FAMI?						
4	Did you or any of your related parties purchase assets from FAMI?						
5	Did you or any of your related parties sell assets to FAMI?						
6	Did you or any of your related parties transfer assets to FAMI?						
7	Did you or any of your related parties lease properties from FAMI?						



## EXHIBIT A

### DIRECTOR/ OFFICER SIGN-OFF

**Sign Off (please sign above your full name and position)**

I, the undersigned, state that in respect to the attached, I have made appropriate inquiries and that, in all material aspects, the answers provided are true to the best of my knowledge and belief.

I, the undersigned, state that to the best of my knowledge, the answers provided are free of any material error and are not intentionally or inadvertently misleading.

I, the undersigned, undertake, that for as long as I continue to be a Director or Officer of FAMI, I will immediately notify the Compliance and Administrative Head/Compliance Officer of any material change to, or affecting the completeness or accuracy of any information supplied by me as soon as possible. I also undertake to disclose any proposed transaction which I or a related party will undertake with FAMI.

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First Name, Middle Name, Last Name

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Position

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Date of Accomplishment

*Related Party Transaction Sign-Off*

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Financial Institutions Programme  
Department of Finance

## EXHIBIT B

TO : RELATED PARTY TRANSACTION COMMITTEE (RPTCOM)

FROM : <proponent unit>

DATE : <date>

SUBJECT : SUMMARY OF RPTs FOR NOTATION <period covered>

Name	Relationship and Nature of Business	Description of Transaction	Date	Amount	Other transaction details (i.e. interest, collateral)

**Prepared by:**

**Endorsed by:**

\_\_\_\_\_  
(Designated Personnel of the Proponent Unit)

\_\_\_\_\_  
(Head of the Proponent Unit)

**ADVISEMENT REPORT ON  
MATERIAL RELATED PARTY TRANSACTIONS**

**Reporting PLC:** .....

**SEC Identification Number:** .....

**Name of Related Party:** .....

**Execution Date of Transaction:** .....

**Relationship between the Parties including financial/non-financial interest:** .....

Type/Nature of Transaction and Description of Assets Involved	Terms and Conditions	Rationale for Entering into the Transaction	Total Assets <sup>1</sup> of Reporting PLC	Amount/ Contract Price	Percentage of the Contract Price to the Total Assets of the Reporting PLC	Carrying Amount of Collateral, if any	Approving Authority <sup>2</sup>

<sup>1</sup> Total assets shall pertain to consolidated assets if the reporting PLC is a parent company.

<sup>2</sup> The information shall include the names of directors present, names of directors who approved the Material Related Party Transaction and the corresponding voting percentage obtained.



## SIGNATURES

Pursuant to the requirements of the Commission, the company has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

(Name of Reporting PLC)

(Name of Related Party)

\_\_\_\_\_  
Name, Signature of the Corporate Secretary/  
Authorized Representative<sup>3</sup>

\_\_\_\_\_  
Name, Signature of the Related Party/Authorized Representative<sup>3</sup>

\_\_\_\_\_  
<sup>3</sup> Proof of authority must be attached to the Advisement Report.