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**SECURITIES AND EXCHANGE COMMISSION**

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Remarks RELATED PARTY TRANSACTION



10/F Mall of Asia Arena Annex Building,
Coral Way corner J.W. Diokno Boulevard,
Mall of Asia Complex, Pasay City 1300, Philippines

23 October 2019

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex
Roxas Boulevard, Pasay City

Attention: **ATTY. RACHEL ESTHER J. GUMTANG-REMALANTE**
OIC, Corporate Governance and Finance Department

PHILIPPINE STOCK EXCHANGE, INC.

6th Floor, PSE Tower
5th Avenue corner 28th Street
Bonifacio Global City, Taguig

Attention: **MS. JANET A. ENCARNACION**
Head, Disclosure Department

PHILIPPINE DEALING AND EXCHANGE CORP.

29th Floor, BDO Equitable Tower
8751 Paseo de Roxas
Makati City 1226

Attention: **ATTY. MARIE ROSE M. MAGALLEN-LIRIO**
Head, Issuer Compliance and Disclosure Department

Re: **RELATED PARTY TRANSACTIONS (RPT) POLICY**

Gentlemen:

In compliance with the Securities and Exchange Commission's Memorandum Circular No. 10, Series of 2019, we hereby submit SM Prime Holdings, Inc.'s Revised Related Party Transactions (RPT) Policy which was duly adopted by the Company's Board of Directors.

The Revised RPT policy of the Company includes rules on material related party transactions in accordance with the Rules on Material Related Party Transactions set forth by the Commission.

Sincerely,

A handwritten signature in dark ink, appearing to be 'MARVIN PERRIN L. PE', written over a horizontal line.

MARVIN PERRIN L. PE
Chief Risk Officer

COVER SHEET

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(Company's Full Name)

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Mr. Jeffrey C. Lim

(Contact Person)

8831-1000

(Company Telephone Number)

Related Party Transactions Policy

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Month Day
(Calendar Period)

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(Form Type)

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Month

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Day

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

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SM PRIME HOLDINGS, INC.

SMPH-CG-POL-002

Related Party Transactions Policy

Introduction

In the conduct of its business, SM Prime (SMPH/the Company) may enter into transactions with related parties. This policy provides the guidelines on what constitutes a related party transaction (RPT), and sets forth the requirements for the review, approval by the appropriate authority, and disclosure of RPTs as required in compliance with legal and regulatory requirements such as the following:

- Securities and Exchange Commission (SEC) Revised Corporate Governance Code for Publicly-Listed Companies; and
- SEC Memorandum Circular No. 10, Series of 2019, promulgating the Rules on Material Related Party Transactions for Publicly-Listed Companies

The following are the highlight of the above issuances:

- Providing definition of Related Party and Related Party Transactions;
- Requiring new set of disclosure reports concerning related party and related party transactions;
- Requiring the constitution of a Related Party Transactions Committee and Board's duties and responsibilities in relation to RPT; and
- Requiring the Board to approve material RPTs

One of the duties of the Board members is to act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and all shareholders. Pursuant to this duty, it is the Board's role to initiate policies and measures geared towards prevention of abuse and promotion of transparency, and in compliance with applicable laws and regulations to protect the interest of all shareholders.

Objectives

This policy is enacted to ensure that:

- a. Related party and RPTs are defined and the coverage/ scope of the policy is clearly outlined;
- b. RPTs are conducted on an arms' length basis;
- c. Potential or actual conflicts of interest which could possibly arise from RPTs are prevented or managed;
- d. RPTs are properly reviewed and approved by designated authorities; and
- e. Adequate disclosure is maintained for RPTs in accordance with applicable legal and regulatory requirements.

Definition of Terms

Related Party shall cover the following:

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- a. SMPH's directors, officers, substantial shareholders and their spouses and relatives within the fourth degree of consanguinity and affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the company;
 - b. SMPH's parent company, SM Investments Corporation (SMIC);
 - c. SMPH's subsidiaries, associate and affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.

The following terms apply as defined by SEC Rules on Material Related Party Transactions for Publicly-Listed Companies:

Substantial shareholder – any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class security;

Affiliate – refers to an entity linked directly or indirectly through any one or a combination of the following:

- 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, or vice-versa;
- Interlocking directorship or officership, except in cases involving independent directors;
- Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the reporting PLC and the entity; or
- Management contract or any arrangement granting power to SMPH to direct or cause the direction of management and policies of the entity, or vice-versa.

Associate – refers to an entity which SMPH holds twenty percent (20%) or more of the voting power, directly or indirectly, or which SMPH has significant influence.

Related Party Transactions – a transfer of resources, services or obligations between SMPH 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.

Material Related Party Transaction – refers to any related party transaction/s, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of a company's total asset based on its audited financial statement.

Materiality threshold –refers to ten percent (10%) of the company's total consolidated assets based on its latest financial statement.

Material changes – refers to changes in the terms and conditions of the material RPT include, but are not limited to, changes in the price, interest rate, maturity date, payment terms, commissions, fees, tenor and collateral requirement of the material RPT.

Related Party Registry –refers to a record of the organizational and structural composition, including any change thereon, of the company and its related companies.

Duties and Responsibilities of the Board of Directors Relating to RPTs

The Company's Board of Directors shall ensure that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulation to protect the interests of the Company's shareholders and other stakeholders. Towards this end, the Board of Directors shall carry out the following duties and responsibilities:

- a. 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.
- b. 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 in the terms and conditions of material RPTs previously approved in accordance with this Policy.
- c. 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 relationships between and among businesses and counterparties, and controls risks arising from material RPTs.
- d. 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.
- e. Ensure that the Related Party Registry is reviewed and updated at least every quarter to capture organizational and structural changes in the Company and its related parties.
- f. Ensure that the Company clearly identifies and prevents/manages any actual or potential conflicts of interest 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.
- g. Ensure that material RPTs are conducted at arms' length by appointing an external independent party 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.

Related Party Registry

SMPH led by its Finance Team shall maintain a related party registry identifying all related parties of the Company. The registry shall be reviewed on an annual basis and updated as necessary to ensure its accuracy and to capture any structural and organizational changes in the Company and its related parties.

Responsibilities of the Business Units	<p>All business units of the Company shall implement the requirements of this Policy with respect to material RPT by:</p> <ol style="list-style-type: none"> Disclosure of material facts as regards the related party transaction including the aggregate value of the transaction; Proper evaluation of the transaction and its benefit to the Company; Assessment that the proposed transaction is conducted at arm's length basis which may include the justification of proposed terms vs. comparable or benchmark accounts; and Secure appropriate approval.
Review and Approval Process	<p>All material individual RPTs are referred to the Chief Risk Officer for review and endorsement to Related Party Committee prior to approval by at least two-thirds (2/3) vote of the Board of Directors with at least a majority of the independent directors. In case that majority vote of the independent directors' approval is not secured, the material RPT may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock in the Annual Stockholders' Meeting.</p> <p>Any member of the Board or Related Party Transactions Committee who has interest in the RPT must abstain from participation in the review and approval of such transaction.</p>
Exempt RPTs	<p>Bank deposit transactions (local and foreign currency) are exempt RPT pursuant to the bank secrecy law which will not require review and approval in accordance with this Policy.</p>
Monitoring and Review	<p>The Company's Chief Audit Executive/Internal Audit 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.</p> <p>The Company's Chief Compliance Officer shall ensure that the Company complies with relevant rules and regulation 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 and approval by the Board of Directors. The Chief Compliance Officer and Chief Risk 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.</p> <p>All material RPTs are subject to usual validation of the Company's External Auditor to ensure appropriateness of these transactions.</p>

**Disclosure and
Regulatory
Requirements**

The following shall be observed:

- a. Related Party Transactions Policy shall be disclosed in the Company website;
- b. Summary of the material RPT during the reporting year shall be disclosed in the Integrated-Annual Corporate Governance Report which is filed on or before May 30 of each year and posted in the Company website;
- c. Advisement Report for Material RPT is reportable to SEC within three (3) calendar days from the execution date of the transaction under the following conditions:
 - The counterparty falls within the definition of related party as defined in this Policy; and
 - The amount involved breached the threshold for materiality

Disclosures under item b and c shall include the following minimum Information:

- Complete name of the related party;
 - Relationship of the related parties;
 - Execution date of the material RPT;
 - Financial or non-financial interest of the related parties;
 - Type and nature of transaction as well as the assets involved;
 - Total consolidated assets;
 - Amount or contract price;
 - Percentage of the contract price to the total consolidated assets;
 - Carrying amount of collateral, if any
 - Terms and conditions;
 - Rationale for entering into a transaction; and
 - Approval obtained including the names of directors present, names of directors who approved the Material Related Party Transaction and the corresponding voting percentage obtained.
- d. Necessary disclosures shall be made also in the Notes to the Financial Statements of the Annual Report; and
 - e. Other reports which may be required by SEC, PSE and other regulatory agencies in accordance with existing laws and/or regulations.

**Whistleblowing
Mechanism**

In consistent with the whistleblowing policy of the Company, all personnel, including the directors, officers and employees, as well as customers, suppliers, shareholders, service providers and all other stakeholders, are encouraged to communicate, confidentially and without risk of reprisal, legitimate concerns on illegal, unethical or questionable material RPTs via email at report.corpgov@smprime.com. Anyone who in good faith reports any violations to policies or procedures, or law shall not be retaliated upon or suffer harassment or adverse employment consequence.

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

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.
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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.

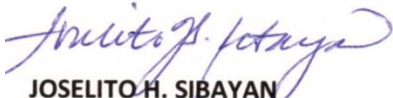
Self-Assessment and Review of the Policy	<p>The RPT Committee shall annually review the provisions of this Policy and may recommend to the Board amendments to this Policy as it deems appropriate.</p> <p>Audit Committee shall exercise its oversight capability over the company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations governing Related Party Transactions.</p>
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REVISED RELATED PARTY TRANSACTIONS POLICY APPROVAL SHEET

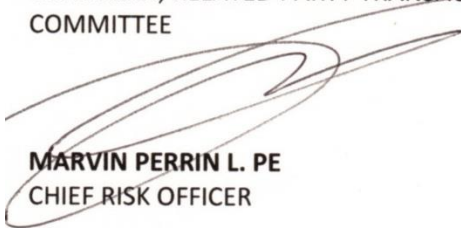
The undersigned endorses and approves the Policy of SM Prime Holdings Inc., in compliance with Securities and Exchange Commission's Memorandum Circular No. 10, Series of 2019, the Rules on Material Related Party Transactions for Publicly Listed Companies.

Endorsed by:

On behalf of the Related Party Transaction
Committee



JOSELITO H. SIBAYAN
CHAIRMAN, RELATED PARTY TRANSACTIONS
COMMITTEE



MARVIN PERRIN L. PE
CHIEF RISK OFFICER

Approved by:



MR. HENRY T. SY, JR.
CHAIRMAN OF THE BOARD



JEFFREY C. LIM
PRESIDENT



JOHN NAI PENG C. ONG
CHIEF COMPLIANCE OFFICER