

SEC Original

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SEC Registration Number

A B R O W N C O M P A N Y , I N C .

(Company's Full Name)

A I R P O R T R O A D U P T O W N

C A G A Y A N D E O R O C I T Y

(Business Address: No. Street City/Town/Province)

Allan Ace R. Magdaluyo

Contact Person

02-8638 6832

Company Telephone Number

Advisement Letter -  
Material Related Party Transaction Policy

1 2 / 3 1

Month Day  
Fiscal Year

L E T T E R

FORM TYPE

0 6

Month Day  
Annual Meeting

[Empty box]

Secondary License Type, if applicable

C G F D

Dept. Requiring this Doc.

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Amended Articles Number/Section

Total Amount of Borrowings

[Empty box]

Total No. of Stockholders

[Empty box]

Domestic

- 0 -

Foreign

To be accomplished by SEC Personnel concerned

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File number

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Remarks = pls. use black ink for scanning purpose

**25 October 2019**

- 1. .... 002-724-446-000
- 2. SEC Identification Number. 31168 3. BIR Tax Identification No. ....

**A BROWN COMPANY, INC.**

- 4. ....  
Exact name of issuer as specified in its charter  
Metro Manila
- 5. .... 6. \_\_\_\_\_ (SEC Use Only)  
Province, country or other jurisdiction Industry Classification Code:  
Airport Road Uptown, Cagayan de Oro City 9000
- 7. ....  
Address of principal office  
Liaison Office - (02) 8638-6832 / (02) 8633-3135
- 8. ....
- 9. ....  
Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
.....Common Stock.....	.....2,477,667,911 shares.....
.....	.....

11. Indicate the item numbers reported herein:

Please refer to the attached letter to the Securities and Exchange Commission (SEC) dated **25 October 2019**.

**SIGNATURES**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**A BROWN COMPANY, INC.**

**25 October 2019**

  
**ALLAN ACE R. MAGDALUYO**  
 Compliance Officer



25 October 2019

**SECURITIES AND EXCHANGE COMMISSION**  
Secretariat Building, PICC Complex,  
Roxas Boulevard, Pasay City, 1307

Attention: **Atty. Rachel Esther Gumtang-Remalante**  
Officer-in-Charge  
Corporate Governance & Finance Department

Re: **Material Related Party Transaction (RPT) Policy**

Gentlemen:

In compliance with SEC Memorandum Circular No. 10, Series of 2019, the Company hereby submits its Material Related Party Transaction (RPT) Policy.

Thank you.

Very truly yours,



**ALLAN ACE R. MAGDALUYO**  
Compliance Officer

## MATERIAL RELATED PARTY TRANSACTION POLICY

*A Brown Company, Inc. (ABCI) adheres to best corporate governance practices in its dealings with stakeholders including transactions involving its directors, officers, subsidiaries, affiliates and other related parties. As a publicly-listed company (PLC), it is mandated to comply on the Rules of Material Related Party Transactions including reportorial requirements to the regulator and the exchange for the information of the investing public.*

### I. Purpose

*The purpose of the Material Related Party Transaction (RPT) Policy is to ensure that transactions with related parties occur at market prices, at arm's-length basis and under conditions that protect the rights of all shareholders especially the minority investors. This Policy shall prevent or managed potential or actual conflicts of interest which could possibly arise from these RPTs. Likewise, this policy shall provide adequate disclosure in accordance with applicable legal and regulatory requirements.*

### II. Definition of Terms

*"Abusive material RPT" refers to material RPTs that are not entered at arm's length and unduly favor a related party.*

*"Affiliate" refers to an entity linked directly or indirectly to the reporting PLC through any one or a combination of any 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 of the PLC or vice-versa;*
- *interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations;*
- *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 the reporting PLC to direct or cause the direction of management and policies of the entity, or vice-versa.*

*"Associate" refers to an entity over which the reporting PLC holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the reporting PLC has significant influence.*

*"Control" is manifested to a person or an entity having all of the following:*

- *power over the reporting PLC*
- *exposure, or rights, to variable returns from its involvement with the reporting PLC and*
- *the ability to use its power over the reporting PLC to affect the amount of the reporting PLC's returns.*

*"Materiality Threshold" is a reference or percentage considered as any information that could potentially affect share price. For this purpose, ten percent (10%) of the Company's total assets based on its latest audited financial statements is considered material unless a lower threshold is set up. If the reporting PLC is a parent company, the total assets shall pertain to its total consolidated assets.*

*"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 assets based on its latest audited financial statement.*

*“Related Parties” covers the reporting PLC’s directors, officers, substantial shareholders and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the reporting PLC. It also covers the reporting PLC’s parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.*

*“Related Party Registry” is a record of the organizational and structural composition, including any change thereon, of the Company and its related parties.*

*“Related Party Transaction” is a transfer of resources, services or obligations between a reporting PLC and a related party, regardless of whether a price is charged. It includes 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.*

*“Significant Influence” refers to the power to participate in the financial and operating policy decisions of the company but has no control or joint control of those policies..*

*“Substantial Shareholder” refers to any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.*

### **III. Duties and Responsibilities**

#### **A. Board of Directors**

*The Board of Directors shall have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations to protect the interest of the Company’s shareholders and other stakeholders. Towards this end, 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 regulations at all times and that material RPTs are conducted on an arm’s 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 in the terms and conditions of material RPTs previously approved by the Board of Director.*

*Material changes in the terms and conditions of the material RPTs 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.*

*The Board of Directors reviews and approves all material RPTs endorsed by the Related Party Transaction Committee.*

- 3.) To establish an effective audit, risk and compliance system to*
  - determine, identify and monitor related parties and material RPTs*
  - continuously review and evaluate existing relationships between and among businesses and counterparties*
  - identify, measure, monitor and control risks arising from material RPTs*

- 4.) *To oversee the integrity, independence and effectiveness of the policies and procedures for whistleblowing. The Board of Directors should ensure that senior management addresses legitimate issues on material RPTs that are raised. The Board of Directors should take responsibility for ensuring that stakeholders who raise concerns are protected from detrimental treatment or reprisals.*

#### **B. Related Party Transaction Committee**

*The Board of Directors has set-up Board Committees to the extent possible to support the effective performance of the Board functions. The composition, functions and responsibilities of all Board Committees being established are in its own Board Committee Charter.*

*The Related Party Transactions (RPT) Committee is tasked with reviewing all material related party transactions of the Company before the approval of the Board of Directors. The RPT Committee should ensure that transactions occur at arm's-length basis and at market prices normally charged to unaffiliated customers or parties for similar goods, services or transaction. The terms should be fair and inure to the best interest of the Corporation and its shareholders including its minority shareholders.*

#### **C. Senior Management**

*Senior management shall implement 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 the Company's policy and SEC's regulations.*

### **IV. Material Related Party Transactions Policy**

*This Material Related Party Transaction Policy is adopted encompassing all of the entities within the ABCI Group of Companies.*

- 1. Identification of related parties.** *The Company should identify persons and companies that are considered as the Company's related parties. The Board of Directors, Related Party Transaction Committee and Senior Management shall quarterly review and update the Related Party Registry to capture organizational and structural changes in the Company and its related parties.*
- 2. Coverage of Material RPT Policy.** *The material RPT policy shall cover all transactions meeting the materiality threshold.*

*Transactions amounting to ten percent (10%) or more of the total assets that were entered into with an unrelated party that subsequently becomes a related party is excluded from the limits and approval process required in the policy. However, any alteration to the terms and conditions or increase in exposure level, related to these transactions after the non-related party becomes a related party shall be subject the material RPT to the requirements of this Material RPT Rules.*

- 3. Adjusted Threshold.** *The Company may periodically review and lower the materiality threshold should the Board of Directors determined that the risk of the RPT shall cause damage to the Company and its shareholders. The adjusted threshold shall be disclosed and shall form part of the Material RPT Policy.*

- 4. Identification and prevention or management of potential or actual conflicts of interests.** *The Company shall identify and prevent or manage the potential or actual conflict of interests which may arise out of or in the connection with the material RPTs. Director and officers with personal interest in the transaction shall fully and timely disclose any and all material facts, including their respective interests in the material RPT and abstain from the discussion, approval and management of such transaction or matter affecting the Company. In case they refuse to abstain, their attendance shall not be counted for purposes of assessing the quorum and their votes shall not be counted for purposes of determining majority approval.*
- 5. Guidelines in ensuring arm's length terms.** *In ensuring arm's length terms, there shall be no preferential treatment be given to related parties that are not extended to non-related parties under similar circumstances.*

*The principle of arm's-length requires that the transaction with related party be made under comparable conditions and circumstances as a transaction with an independent party. It is founded on the premise that if market forces drive the terms and conditions agreed upon in an independent party transaction, the pricing of the transaction would reflect the true economic value of the contributions made by each entity in the transaction.*

*Before the execution of the material RPT, the Board of Directors should appoint an external independent party to evaluate the fairness of the terms of the material RPTs. An external independent party may include, but is not limited to, auditing/accounting firms and third party consultants and appraisers. The independent evaluation of the fairness of the transparent price ensures the protection of the rights of shareholders and other stakeholders.*

*In order to ensure that transactions are engaged into at terms that promote the best interest of the Company and its shareholders, an effective discovery mechanism should be put in place. 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.*

- 6. Approval of material RPTs.** *All individual material RPTs shall be approved by at least two-thirds (2/3) vote of the Board of Directors, with at least a majority of the independent directors voting to approve the material RPT. In case that a majority of the independent directors' vote is 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 RPT transactions within a twelve (12)-month period that breaches the materiality threshold of ten percent (10%) of the Company's total assets, the same Board approval would be required for the transaction/s that meets and exceeds the materiality threshold covering the same related party.*

*Directors with personal interest in the transaction should 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. Self-assessment and periodic review of quality.** *The 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 the Board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits shall be communicated directly to the Audit Committee.*

*The Company's Compliance Officer should ensure that the Company complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. He is tasked to ensure that the Company's Material RPT Policy is kept updated and is properly implemented throughout the Company.*

- 8. Disclosure requirement of material RPTs.** *The members of the Board, substantial shareholders and officers shall fully disclose to the Board of Directors all material facts related to material RPTs as well as their direct and indirect financial interest in any transaction or matter that may affect or is affecting the Company. Such disclosure shall be made at the Board Meeting where the material RPT will be presented for approval and before the completion or execution of the material RPT.*

*The Company's Chief Finance Officer (CFO) in coordination with the Compliance Officer shall ensure that all material RPTs are identified and submitted to the RPT Committee for review and initial approval before the same is presented to the Board of Directors for final approval. The CFO is also responsible for disclosing all RPTs in accordance with Company's Accounting Policy and applicable accounting standards.*

- 9. Whistle blowing mechanisms.** *Consistent with the corporate values and codes of conduct set by the Board of Directors, an effective whistleblowing mechanism is in place. The Company's Whistle-blower Policy was set up to encourage all stakeholders to communicate, confidentially and without risk of reprisal, legitimate concerns about illegal, unethical or questionable material RPTs. The Whistle-blower Policy includes guidance on how legitimate material concerns should be reported, investigated and addressed by an objective independent internal or external body, senior management and/or the Board itself.*

- 10. Remedies for abusive material RPTs.** *All ABCI directors and/or officers, substantial shareholders and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the Company are prohibited to engage in abusive material related party transactions.*

*Non-compliance with any of the provisions of this Policy shall result in the nullification or revocation of any agreement or contract involved in the execution of the RPT. A director, officer, employee, or Related Party is subject to the corresponding procedures and penalties under the Corporation's Code of Conduct and relevant laws, as applicable.*

*Pursuant to Sections 26 and 27 of the Revised Corporation Code, any interested director or officer of the Corporation shall be disqualified from being a director, trustee or officer of any other corporation on the basis of a final judgment rendered by a court of competent jurisdiction against the interested director or officer for abusive material RPTs. The disqualification shall be for a period of at least one (1) year or more, as may be determined by the Commission.*

*The imposition of the foregoing penalties shall be without prejudice to any other administrative penalties that may be imposed by the Commission and/or civil or criminal penalties, as may be provided by the Revised Corporation Code of the Philippines, Securities Regulation Code and other related laws.*



## **V. Disclosure and Reportorial Requirements**

*In compliance to the disclosure requirements of the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE), material related party transactions with 10% or more of the Company's total assets based on its latest audited financial statements shall be reported, accordingly.*

- 1. Advisement Report of any material RPT shall be filed within three (3) calendar days from the execution date of the transaction. The Advisement Report shall be signed by the Corporate Secretary or its authorized representative including the related party, based on the format issued by the regulator.*
- 2. A summary of material related party transactions entered into during the reporting year shall be disclosed in the Company's Integrated Annual Corporate Governance Report (I-ACGR) to be submitted annually every May 30 or as the regulator may require.*

*At the minimum, the disclosures in the Advisement Report and I-ACGR shall include the following information:*

- i. complete name of the related party;*
  - ii. relationship of the parties;*
  - iii. execution date of the material RPT;*
  - iv. financial or non-financial interest of the related parties;*
  - v. type and nature of transaction as well as a description of the assets involved;*
  - vi. total assets (consolidated assets, if reporting PLC is a parent company);*
  - vii. amount or contract price;*
  - viii. percentage of the contract price to the total assets of the reporting PLC;*
  - ix. carrying amount of collateral, if any;*
  - x. terms and conditions;*
  - xi. rationale for entering into the transaction; and*
  - xii. the approval obtained (i.e. names of directors present, name of directors who approved the material RPT and the corresponding voting percentage obtained)*
- 3. Other related party transaction that the Company deemed it necessary for the public to know will be reported under SEC Form 17-C (Current Report) per the SRC Rule 17 of the Securities Regulation Code and Section 4.4 – Revised Disclosure Rules of the Philippine Stock Exchange.  
These RPTs may involve amount below the material threshold set on this policy for which omission or misstatement of the transaction could pose a significant risk to the company and influence its economic decision as well as the investment decision of the investing public and other stakeholders.*

*Likewise, all material related party transactions shall also be disclosed to the public through SEC Form 17-A (Annual Report) as well as in the Notes to the Audited Financial Statements. The related party disclosures required in the issuance of the Audited Financial Statements should comply with the accounting standards issued by competent authority or regulator.*

*Such disclosure is also made publicly-available by the company, for the benefit of all shareholders and other stakeholders, through the company website and such other media channels as applicable. The Material Related Party Transaction Policy with accessible link shall be posted on the Company's website within five (5) days from the submission to the SEC.*

## **VI. Policy Review**

*The Related Party Transaction Committee shall review and assess periodically the adequacy of this Policy for consideration and approval by the Board of Directors.*

**APPROVAL AND EFFECTIVITY**

*This Material Related Party Transaction Policy has been revised and approved by the Board of Directors on **October 25, 2019** and shall take effect immediately. Any provisions in the Revised Manual on Corporate Governance that are in conflict with this Policy are hereby amended. Amendments to comply with regulatory issuances of the Securities and Exchange Commission (SEC) shall be deemed adopted and effective upon the effectivity of the regulatory issuance.*



**WALTER W. BROWN**  
Chairman of the Board



**ALLAN ACE R. MAGDALUYO**  
Compliance Officer