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Basic Energy Corporation BSC

PSE Disclosure Form 17-18 - Other SEC Forms/Reports/Requirements

Form/Report Type	Rules and Polices on Material Related Party Transactions
Report Period/Report Date	Oct 10, 2019

Description of the Disclosure

Rules and Policies on Material Related Party Transactions of Basic Energy Corporation as submitted to Securities Exchange Commission pursuant to SEC Memorandum Circular No. 10 Series of 2019

Filed on behalf by:

Name	Angel Gahol
Designation	AVP - Asst. Corp. Sec./ Compliance Officer



110082019001365



SECURITIES AND EXCHANGE COMMISSION

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SEC Registration Number

BASIC ENERGY CORPORATION

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(Company's Full Name)

7th Floor, Basic Petroleum Building, C. Palanca, Jr. Street, Legaspi Village, Makati City

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

Atty. Angel P. Gahol

(Contact Person)

(632) 817-8596 & 98

(Company Telephone Number)

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Month Day (Calendar Year)

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Month Day (Annual Meeting)

[Empty box] (Secondary License Type, If Applicable)

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Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

6,577

Total No. of Stockholders

n/a

Domestic

n/a

Foreign

To be accomplished by SEC Personnel concerned

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October 7, 2019

THE SECURITIES AND EXCHANGE COMMISSION
SEC Bldg., Mandaluyong City

Attention: Corporate Governance and Finance Department

Gentlemen:

Pursuant to SEC Memorandum Circular No. 10 Series of 2019, we are pleased to submit the Policies and Rules Governing Material Related Party Transactions of Basic Energy Corporation which was approved by the Board of Directors last September 26, 2019.

Attached is the Policies and Rules Governing Material Related Party Transactions, for your reference and information.

Thank you and regards.

Very truly yours,

ATTY. ANGEL P. GAHOL
AVP-Asst Corporate Secretary/
Compliance Officer



POLICIES AND RULES GOVERNING MATERIAL RELATED PARTY TRANSACTIONS

The Board of Directors of Basic Energy Corporation (hereinafter referred to as the Corporation) hereby adopts the Policies and Rules Governing Material Related Party Transactions, pursuant to SEC Memorandum Circular No. 10, series of 2019.

Section 1. Definition of Terms

Affiliate – refers to an entity linked directly or indirectly to the Corporation 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 Corporation 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 Corporation and the affiliated entity; or
- Management contract or any arrangement granting power to the Corporation to direct or cause the direction of management and policies of the affiliated entity, or vice-versa.

Associate - An entity over which the Corporation holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the Corporation has significant influence.

Control - A person or an entity controls the Corporation if and only if the person or entity has all of the following:

- Power over the Corporation;
- Exposure, or rights, to variable returns from its involvement with the Corporation; and
- The ability to use its power over the Corporation to affect the amount of the Corporation's returns.

Material Related Party Transactions - 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 the Corporation's total assets based on its latest audited financial statement.

Materiality Threshold - Ten percent (10%) of the Corporation's total assets based on its latest audited financial statement. If the Corporation is a parent company, the total assets shall pertain to its total consolidated assets.

Related Parties - refers to the Corporation's directors, officers, substantial shareholders and their spouses and relatives within the fourth (4th) civil degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the Corporation. The term "Related Parties" also refers to the Corporation's subsidiaries, associates, affiliates, joint venture or any party (including their subsidiaries, affiliates and special purpose and similar entities) that the Corporation exerts direct or indirect control, or that exerts direct or indirect control over the Corporation, or is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.

Related party transactions - a transfer of resources, services or obligations between the Corporation 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.

Related Party Registry- A record of the organizational and structural composition, including any change thereon, of the Corporation and its related parties.

Significant Influence - 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 – any person who is directly or indirectly the beneficial owner of more than ten per cent (10%) of any class of the Corporation's equity security.

Section 2. 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 Corporation'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 in accordance with these Policies and Rules.

Material 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.

- 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; and
 - Identify, measure, monitor and control risks arising from material RPTs.

The system shall be able to define the related parties' extent of relationship with the Corporation; assess situations in which a non-related party (with whom the Corporation has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the nature and amount of exposures of the Corporation to a particular related party.

The said system will facilitate submission of accurate reports to the regulators/supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance officer/s and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the SEC and audit functions for review. Any change in the policy and procedure shall be approved by majority of the board of directors and approved by majority of the stockholders constituting a quorum.

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

B. 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 Corporation's policy and SEC's regulations.

Section 3. Policies and Rules

a. Identification of related parties. Persons and companies that are considered as the Corporation's related parties shall be identified in the Related Party Registry, which shall be subject to quarterly review and update by Management and the board of directors to capture organizational and structural changes in the Corporation and its related parties.

b. Coverage of Material RPT Policies and Rules. These Policies and Rules shall cover all transactions meeting the materiality threshold.

Transactions amounting to ten percent (10%) or more of the total assets of the Corporation that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in these policies and rules. 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 subject the material RPT to the requirements of these Policies and Rules. The prospective treatment should, however, be without prejudice to regulatory actions that may be enforced for transactions noted to have not been conducted on an arm's length basis.

c. Adjusted thresholds. The Board of Directors may set a threshold lower than the materiality threshold provided under these Policies and Rules upon determination of the risk of the RPT to cause damage to the Corporation and its shareholders. The adjusted threshold, when applicable, shall be incorporated as supplements or amendments to these Policies and Rules.

d. Identification and prevention or management of potential or actual conflicts of interest which may arise out of or in connection with material RPTs. Directors 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 Corporation. 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 compliance with the required vote requirement.

e. Guidelines in ensuring arm's length terms. No preferential treatment shall be given to related parties that are not extended to non-related parties under similar circumstances.

Before the execution of the material RPT, the Board of Directors shall 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 transaction price ensures the protection of the rights of shareholders and other stakeholders.

An effective price discovery mechanism shall be established to ensure that transactions are engaged into at terms that promote the best interest of the Corporation and its shareholders. The price discovery mechanism may include, but is not limited to, engaging the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.

- f. 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 Corporation'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.

When the board of directors has established the RPT Committee, all individual material RPTs shall be first reviewed and evaluated by this committee before the RPTs are submitted to the board of directors for approval. In evaluating the RPTs, the Committee takes into account, among others the following:

- (i) The related party's relationship of the proposed RPT;
- (ii) The material facts of the proposed RPT, including the proposed aggregate value of such transactions;
- (iii) The benefits to the Corporation of the proposed RPT;
- (iv) The availability of other sources of comparable products or services; and
- (v) An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Corporation should have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs.

- g. Self-assessment and periodic review of policy - The internal audit shall conduct a periodic review of the effectiveness of the Corporation'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 Compliance Officer shall ensure that the Corporation 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 Corporation's

transactions and identify any potential material RPT that would require review by the Board. He/she shall ensure that the Corporation's material RPT policy is kept updated and is properly implemented throughout the Corporation.

- h. 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 Corporation. 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.
- i. Whistle blowing mechanism. The board of director shall establish an effective whistleblowing mechanism consistent with the corporate values and codes of conduct of the Corporation. The policy shall encourage all stakeholders to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable material RPTs. It shall include 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 of directors itself.
- j. Remedies for abusive material RPTs. The board of directors shall adopt measures that would cut losses and allow recovery of losses or opportunity costs incurred by the Corporation arising out of or in connection with abusive material RPTs. Such measures shall also include the penalties and the manner of imposing the same on personnel, officers or directors, who have been remiss in their duties in handling material RPTs in accordance with the material RPT Policies and Rules.

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

Section 4. Disclosure and Regulatory Reporting

The Corporation shall submit the following to the SEC:

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

At a minimum, the disclosures in both (a) and (b) above 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);
- vii. amount or contract price;
- viii. percentage of the contract price to the total assets of the Corporation;
- 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).

Section 5. Penalties

Below are the penalties which shall be imposed by SEC for the following violations:

a. Non/Late Filing of or Incomplete/Incorrect Signature in the Material Related Party Transaction Policy

Basic Penalty Php10,000.00	Monthly Penalty Php1,000.00
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The monthly penalty will continue to accrue until the Material RPT Policy is submitted to the SEC.

b. Non/Late Filing of or Incomplete/Incorrect Advisement Report

Violation	First Offense	Second Offense		Third Offense	
		Basic Penalty	Daily Penalty	Basic Penalty	Daily Penalty
i) Non/Late Filing of Advisement Report	Reprimand	Php30,000.00	Php200.00	Php40,000.00	Php400.00
ii) Incomplete/Incorrect Advisement Report	Reprimand	Php10,000.00	Php200.00	Php20,000.00	Php400.00

Continued non-payment of the assessed fine and/or failure to comply with the requirement within a period of fifteen (15) days after notice and hearing, shall be a sufficient ground for the SEC to take other appropriate action or remedies available under Section 158 of the Revised Corporation Code of the Philippines.

Further, the commission of a fourth offense for the same violation is a ground for the suspension/revocation of the erring company's registration or

secondary license, which shall be made after notice and hearing, in accordance with the abovementioned procedures.

This is without prejudice to administrative penalties that may be imposed by the SEC pursuant to the provisions of the Revised Corporation Code of the Philippines, Securities Regulation Code and other related laws.

c. Abusive Material Related Party Transactions

Under Sections 26 and 27 of the Revised Corporation Code, a director or officer of the Corporation involved in an abusive material RPT 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 said 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 SEC.

The imposition of the foregoing penalties is without prejudice to any other administrative penalties that may be imposed by the SEC 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.

This Policies and Rules Governing Material Related Party Transactions was approved by the Board of Directors on September 26, 2019.



OSCAR C. DE VENECIA
Chairman of the Board



ANGEL P. GAHOL
Compliance Officer