



Corporate Governance in the Philippines

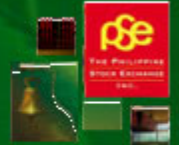


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Outline



Two Parts:

1. Corporate Governance in the Philippines:

- Review of Standards and Codes I (2001) & II (2006)
- CG Challenges

2. Working with international organizations in pushing CG reforms

Caveat: These are personal views and should not be taken as official views of the PSE.

Part 1: Corporate Governance in the Philippines

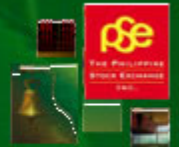


The 2001 World Bank ROSC II



- Ensure a mechanism for identification of capital structure (beneficial owners)
- Empower minority shareholders (power to call a meeting , agenda, voting , etc.)
- Consider establishing a minority shareholder association.
- Strengthen the mechanisms by which the board of directors governs the affairs of the company (rules on self-dealing, conflicts of interest, RPTs, disclosure of practices, training)
- Independence of the Audit (disclosure of relationships, fees, rotation, etc)
- Require the establishment of audit committees composed of a majority of independent directors (require training for members of audit committees)

Actions taken after ROSC I



2001

- The President's Governance Advisory Council was created
- First batch of CG training programs were launched

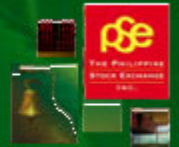
2002

- CG Training for select group (AICD, Yale)
- Philippine SEC Issued a Corporate Governance Code (CG Manual)
- Philippines formally adopted the PECC CG Guidelines
- Required CG Training for directors (bank and public companies)
- First CG Scorecard for banks was developed and released
- Massive awareness campaigns and policy advocacy

2003

- Required Audit, Risk & Governance Committees in banks
- Launched CG program for "Reputational Agents" (internal auditors, lawyers, media, judges, analysts)
- SEC requires listed companies to submit a CG self-assessment report
- SEC requires accreditation of external auditors

Actions taken after ROSC I



2004

- Launched the 5-day Professional Directors Program (directors pool)
- Launched “director support” and CG advisory programs
- Public governance reform initiatives were rolled-out
- Launch of CG Scorecard for listed companies
- SEC requires Audit Committees to be composed of at least two independent directors, one of whom should be the Chair
- BSP issues a series of CG-related circulars on disqualification of directors/officers, board responsibilities, board attendance & selection and inclusion of external auditors of banks in the BSP list

2005

- SEC requires all listed companies are to have their financial statements in full compliance with IFRS and IAS
- CG programs for regulators (Central Bank, ERC, Insurance Commission)
- CG Scorecards for SOEs was developed
- Insurance Commission & ERC requires CG training for directors

The 2006 World Bank ROSC II

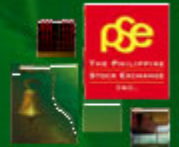


Philippine CG has progressed but still needs improvement

- Strengthen enforcement of existing laws (insider trading, disclosure practices, etc.)
- Improve protection of minority shareholder rights
- Strengthen and monitor compliance with IAS/IFRS
- Requiring additional disclosure of internal controls and governance issues
- Encouraging the development of advocacy institutions to promote minority shareholders rights.



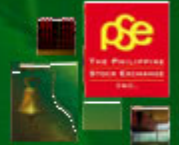
Updates



- Issuance of Presidential Memorandum (April 10, 2007)
 - Mandating CG training for directors in Gov't-owned and Controlled Corporations (GOCC)
 - Requiring the creation of governance and audit committees in boards of GOCCs
 - Requiring the establishment of performance-evaluation systems for directors of GOCCs
- Philippine participation and hosting of OECD initiatives (2006-present)
- CG Self-assessment made mandatory (2007)
- Creation of an Institute for Public Corporate Governance to handle CG training needs of GOCCs (under the Office of the Gov't Corporate Counsel) (2008)
 - Revision of SEC CG Code (2009)
 - Inclusion of CG in the National Competitiveness Council development agenda and the MCC programs (2009)
 - Expansion of CG Scorecard (2009)
 - PSE CG Programs (2007-present)



CG in the Philippines



- Collaborative effort (Main proponents)
 - Institute of Corporate Directors (ICD)
 - *Bangko Sentral ng Pilipinas (BSP)*
 - Philippine Stock Exchange (PSE)
 - Securities and Exchange Commission (SEC)
 - Professional Groups (IIA-P, PICPA, MAP, FINEx, etc)
 - Publicly-listed Companies
 - Department of Finance (DoF)
 - Insurance Commission (IC)
 - Academe (AIM, Ateneo University, etc)
 - National Competitiveness Council (NCC)
 - Office of the President (OP)

Results of the 2006 Macro-economic CG Scorecard for East Asia



LAWS & REGULATIONS	COUNTRY RANKING	INVESTOR PERCEPTION
China	1	Singapore
Philippines	2	Hong Kong
South Korea	3	Taiwan
Thailand	4	South Korea
Indonesia	5	Thailand
Taiwan	6	Malaysia
Malaysia	7	Philippines
Hong Kong	8	Indonesia
Singapore	9	China

Corporate Governance Challenge in the Philippines

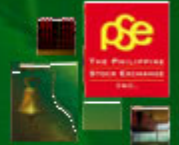
CLSA-ACGA Study (2007)



	Rules & Practices	Enforcement	Political and regulatory	IGAAP	Culture	Total Score	2005 Score
HK	60	50	73	83	61	67	68
Singapore	70	50	68	88	58	65	70
India	59	38	58	79	50	56	61
Taiwan	49	47	60	70	48	54	57
Japan	48	46	52	72	40	52	-
Korea	45	39	48	68	43	49	50
Malaysia	44	35	56	78	33	49	56
Thailand	58	36	31	70	34	47	50
China	43	33	52	73	25	45	41
Philippines	39	19	38	75	36	41	46
Indonesia	39	22	35	65	25	37	37



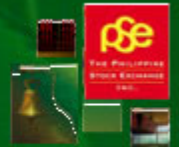
CG Challenges in the Philippines



- **Public Governance**
- **Enforcement issues** - *“exemptive relief”*
- **The CG Equation** - *Benefits vis-à-vis Costs*
- **Ambiguity, uncertainty, skepticism** (*lack of knowledge*)
- **Predominant ownership structure** (*propensity for abusive related party transactions, insider trading, asset expropriation, etc*)
- **“Additional burden”** , **“irrelevant”**
- **Poor risk management**
- **Weak and compromised boards**
- **Unorganized and passive minority shareholders**
- **Success of “status quo”**



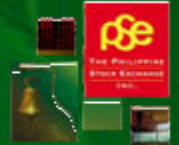
Moving Forward



- A mechanism to distinguish CG performers
- Strengthen & improve disclosure and transparency standards (CG Scorecard)
- capacitate regulators, harmonize and enforce CG rules
- address abusive related party transactions (through approval and disclosure thresholds)
- Improve board functioning and leadership (risk management, audit and governance)
- strengthen minority shareholder rights (creation of a minority shareholder group)



PSE's Role



- Improved self-governance
- PSE's Special Corporate Governance Segment
(*Maharlika Board*)
- PSE Corporate Governance Guidelines for Listed Companies
- Support to the ICD Corporate Governance Scorecard for Listed Companies
- PSE Investor Rights and Obligations
- Enhance and enforce PSE's listing ,disclosure and broker rules

Part II: Working with International Organizations





Pushing CG with partners



➤ World Bank Group

- setting up of director institute
- capacity-building (training, seminars, TAs, etc)
- awareness-building (conferences, publications, etc)
- special projects (consultations, CG Board)
- ROSC

➤ OECD

- capacity-building (seminars, experts, special projects, etc)
- awareness-building (conferences, publications, etc)
- standard setting

➤ Diplomatic Posts

- Australia – Director training program, institution building projects
- Netherlands - training, seminars, conferences,
- UK – CG Scorecard for SOEs, Special CG Segment, seminars
- US – seminars, training



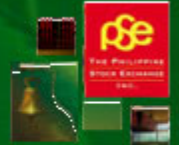
Pushing CG with partners



- Professional Organizations
 - Institute of Internal Auditors – CG Scorecard, awareness building
 - CFA – awareness building, technical know how
- Industry groups
 - ACGA – access to members, ideas, issues
 - AOSEF – access to members, ideas, issues
- Others
 - CIPE – Director training program, institution building projects
 - Foreign Chambers of Commerce - awareness, access
 - IDEA.Net – access and network (East Asia)
 - Audit Firms – publications
- APEC?



Some thoughts on partnership



- There are number of international organizations out there that can and should be tapped for CG reforms

- Engage them as they can provide:
 - ideas, technical know how
 - network
 - funding
 - legitimacy

- However, they too, have their institutional interests
 - know what they are
 - draw areas of convergence and synergy with your own interests

- At the end of the day, engaging partners should be done in a manner that promotes your economy's interests and addresses your development needs

Thank You

