Corporate Governance in the Philippines

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Two Parts:
1. Corporate Governance in the Philippines:
   • 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
• 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
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
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.
- 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

<table>
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<tr>
<th>LAWS &amp; REGULATIONS</th>
<th>COUNTRY RANKING</th>
<th>INVESTOR PERCEPTION</th>
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**Corporate Governance Challenge in the Philippines**
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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?
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