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# ***Finding the true north***

## **Advancing corporate governance in the Philippines**



## Message from the SEC Chairperson



**Atty. Teresita J. Herbosa**  
Chairperson, Securities & Exchange  
Commissions (SEC)

My warmest congratulations to the Good Governance Advocates and Practitioners of the Philippines (GGAPP) on the success of its 2016 Code of Corporate Governance Survey. The GGAPP has been a consistent partner of the Securities and Exchange Commission (SEC) in its advocacy to promote good corporate governance for Philippine corporations. As actual practitioners of good corporate governance from various publicly listed companies (PLCs), GGAPP has consistently provided the SEC invaluable insights on the application of best corporate governance and ethical practices. Moreover, GGAPP has contributed greatly to both the SEC Philippine Corporate Governance Blueprint and the 2016 Code of Corporate Governance for PLCs.

This recent initiative of conducting the 2016 Code of Corporate Governance Survey in partnership with Isla Lipana & Co./PwC Philippines highlights GGAPP's desire to continuously contribute to the development of appropriate and progressive rules, standards and practices on good governance. It is a testament to the group's increasing role in the improvement of the Philippine corporate governance ecosystem.

In addition, the SEC believes that the results of this Survey would be most beneficial in the implementation of the 2016 Code of Corporate Governance for PLCs. The new Code aims to make Philippine corporate governance standards at par with regional and international standards and this Survey would be a useful tool for providing both the SEC and PLCs the necessary information on the focus areas to be addressed in the advancement of corporate governance for Philippine corporations.

The promotion of good corporate governance is an uphill battle. However, with partners such as GGAPP assisting SEC in instilling the proper corporate governance foundation in PLCs, it is certain that the time will come when corporate governance will be second nature to companies and due recognition will be given to the benefits of compliance with good practices.

Congratulations once again to GGAPP and looking forward to a continuing partnership in the promotion of good corporate governance!

## Message from the PSE President



**Ramon S. Monzon**  
President and Chief Executive  
Officer, Philippine Stock Exchange  
(PSE)

Congratulations to the Good Governance Advocates and Practitioners of the Philippines (“GGAPP”) and Isla Lipana & Co. / PwC Philippines (“PwC”) for their successful conduct of the PH Governance Survey in the fourth quarter of 2016. The Philippine Stock Exchange (“PSE”) fully supported this undertaking not only by promoting and encouraging its roster of publicly listed companies to participate but by participating in the survey as a listed company and meticulously answering the survey questions. PSE believed this survey was very important to form a well-founded basis for assessing the present state of corporate governance among Philippine companies and their readiness to comply with the new Corporate Governance Code for Listed Companies, which took effect last January 2017.

Corporate governance is something PSE strongly subscribes to and it actively supports several initiatives to improve the corporate governance of publicly listed companies. Some companies equate corporate governance with increased costs and additional burden to their management not realizing that practicing it yields the opposite results. Because corporate governance is based on the principle of transparency and disclosure,

companies that practice it are highly transparent about their business thereby making the business easy to assess and evaluate. This in turn enables the company to win the trust of its stakeholders including investors, making it easy for such company to raise funds from the capital market. Companies practicing corporate governance usually outperform those that don’t.

Like most of the companies who participated in said survey, PSE is happy that the results are finally out. The results will provide Philippine companies with a clearer path on their journey to faithful compliance with the new Governance Code.

Mabuhay GGAPP and PwC!

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## ***Message from the ICD CEO***



**Ricardo Nicanor N. Jacinto**  
Chief Executive Officer,  
Institute of Corporate Directors (ICD)

On behalf of the Board of Trustees and Fellows of the Institute of Corporate Directors (ICD), I wish to congratulate the Good Governance Advocates and Practitioners of the Philippines (GGAPP) and Isla Lipana & Co./PwC Philippines (PwC) on the publication of their 2016 Corporate Governance survey.

Surveys such as this one provide important benchmarks and perspectives which, when added to other references which ICD has developed and worked on such as the ASEAN Corporate Governance Scorecard, provide a clearer picture on the state of corporate governance in the country.

More importantly, these documents can also yield valuable lessons, which are used to form the basis of policies and programs that will guide regulators, companies, investors and other members of the corporate governance ecosystem in working together to realize their common objective of making the Philippines one of the leading practitioners of corporate governance in the ASEAN region.

Mabuhay ang GGAPP at ang PwC!

A handwritten signature in blue ink, appearing to be 'Ricardo N. Jacinto'.

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## Message from the GGAPP Chairman



**Atty. Vincent Edward Festin**  
Chairman, Good Governance  
Advocates & Practitioners of the  
Philippines (GGAPP)

It is indeed a proud moment for both GGAPP and PwC to finally launch this Survey Report.

This report was conceived as a way for individual companies to assess where they may find themselves in terms of compliance with the new Code of Corporate Governance for Publicly Listed Companies.

It is our hope that through this report, companies will be able to steadily and progressively adopt more and more of these best practices on Corporate Governance in order to attain their objectives and also to positively respond to the needs of their various stakeholders.

It is also our hope to conduct this survey annually in order to monitor adoption and progress. We trust that companies will find value in the survey and the insights generated therefrom and that more and more companies will respond to this survey.

Finally, as Chairman of GGAPP, I would like to thank our Knowledge Partner, PwC, for this initiative. None of this would have been possible without the dedication and passion of their personnel. I would also like to thank Chairperson Teresita J. Herbosa of the SEC, and former President of the PSE, Mr. Hans Sicat for their support and assistance.

We hope GGAPP and PwC's modest effort at developing substantive knowledge and information on corporate governance in the Philippines will inspire others to contribute to enriching this body of knowledge further.

Thank you very much.

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## Message from the GGAPP President



**Atty. Jocelyn C. Villar-Altamira**  
President, Good Governance  
Advocates & Practitioners of the  
Philippines (GGAPP)

Last year, we in GGAPP had the privilege of working together with regulators headed by SEC Chairperson Teresita J. Herbosa and other organizations that share our advocacy to improve the corporate governance framework of the Philippine capital market and hammer out a new Code of Corporate Governance for publicly listed companies (“PLCs”).

This Code recommends internationally recognized best practices that will hopefully heighten the accountability of boards, enhance the competence of directors and ensure the protection of stockholders and other stakeholders.

However, as practitioners in the field of governance in our respective companies and organizations, we realize how difficult it is to comply with some of the recommendations of the Code.

PLCs, depending on various factors such as shareholder structure and industry, are in different stages of development as far as their governance frameworks are concerned.

Fortunately, we found a wonderful and like-minded partner in Isla Lipana & Co./PwC.

The resulting survey provided us a tool to be able to benchmark with our peers and extract a more realistic view of the readiness of the participant companies to adopt the new Code.

We are learning that although much has been achieved since 2002 when the first Philippine Corporate Governance Code was promulgated, there are still gaps that need to be addressed.

This survey is just the first step that hopefully will enable all of us to make better informed decisions and take innovative measures to ensure continued adherence by all to the corporate governance principles of fairness, accountability, integrity and transparency.

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## *Message from the PwC Philippines Chairman*



**Atty. Alexander B. Cabrera**  
Chairman and Senior Partner,  
Isla Lipana & Co./PwC Philippines

Balancing short-term with long-term goals, creating sustainable value for stakeholders, achieving growth but helping inclusive growth. These are the issues organizations commonly address, but more so for those whose businesses are grounded on principles of good corporate governance.

It is encouraging that the number of private companies embracing the concept of good governance and transparency is improving, as we have observed.

For public companies, it is even reassuring that the readiness to comply, and for some, actual compliance with governance principles, are already at a respectable level.

PwC is honored to embark with GGAPP on this first-ever journey to capture on paper the actual practices and intention of public companies on corporate governance. These speak volumes about the leadership in the organization and impact on the confidence of their investors and stakeholders.

It is our wish that this first Corporate Governance Survey serves as a platform for greater awareness and dialogue to continuously nurture a culture of integrity and values. Such a culture creates enduring wins, not only for the company, but for the country.

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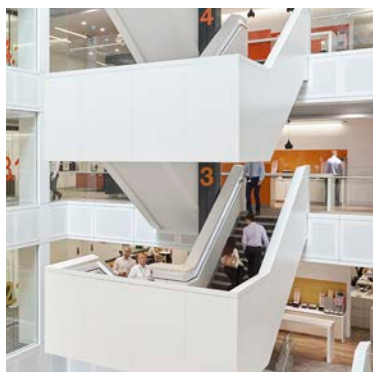
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# *Then and now: Corporate governance in the Philippines*

Knowing about the beginnings of corporate governance (CG) in the Philippines is both a stepping-back and stepping-up exercise.

We step back to learn the groundwork, and we step up to reach a vantage point where we can see and understand the rationale for current corporate governance practices and initiatives.

It is easy to remember an event or an experience if details are weaved in to form a story.

In an interview with Dr. Jesus P. Estanislao, the founder of the Institute of Corporate Directors, we learned the story of the early years of corporate governance in the Philippines.

As you read our conversation with Dr. Estanislao, you will realize that he is more than an eyewitness. He is a protagonist in the CG story.



## Stepping back

### *Beginnings of Philippine Corporate Governance*

► **PwC:** *When did you first think of starting the conversation on CG or pursuing the CG advocacy?*

► **Dr. Jesus P. Estanislao (JPE):** During the East Asian financial crisis in the late 1990s, I had a front-seat view of the rescue packages being prepared and put together for Thailand, Indonesia and South Korea. I was then in Japan as Dean of the ADB (Asian Development Bank) Institute.

I noticed that a big part of the reform program associated with the rescue packages was corporate governance. As I looked closer, I found that this particular reform made sense, including for the Philippines, since we had the same bad CG practices as Indonesia and Thailand. So after I came home, and I was looking for something really constructive to do, I decided to go for CG reform in the Philippines.

Following that basic decision, I looked around for initial possible allies. I found four:

a. Jesus “Gigi” Zulueta Jr., who had just returned from a short course at the Harvard Business School on corporate governance. He lent

me all the materials he brought. I read them and I became even more convinced that this was an undertaking I could commit myself to.

- b. Bangko Sentral ng Pilipinas (BSP) Governor Rafael Buenaventura and his Deputy at that time, now Governor Amando “Say” Tetangco Jr. I briefed them on what I wanted to do, and asked if they might consider pushing CG reform in the PH banking system. They were fully supportive, indeed enthusiastic.
- c. A small group of professionals, with whom I would meet each week for other matters. I suggested to them that they become a test group or a focus group to go over materials on CG that I had adapted from the CG materials from Harvard. They were eager participants in that experimental group.
- d. I contacted my friends over at the World Bank, and they were only pleased to invite me to a special training program they were going to test-run for a few select individuals. I signed up.



*I noticed that a big part of the reform program associated with the rescue packages was corporate governance. As I looked closer, I found that this particular reform made sense, including for the Philippines, since we had the same bad CG practices as Indonesia and Thailand.*

**Dr. Jesus P. Estanislao**  
Founder and  
Chairman Emeritus,  
Institute of Corporate Directors

## *The story gives these lessons on how to strengthen the CG advocacy:*

1. *Identify key individuals who will lead.*
2. *Solicit support from local regulatory agencies.*
3. *Widen the network of individuals and institutions to support the advocacy.*
4. *Reach out to international groups.*
5. *Commit to continuous learning.*

These themes will be discussed in the different sections of the report.

### ► **PwC:** *How did you start the CG advocacy?*

- **JPE:** Armed with that knowledge of CG and with willing individuals, including the BSP, that would help me adapt global CG principles and suggested best practices to Philippine conditions, I decided to set up the Institute of Corporate Directors (ICD) as a vehicle for pursuing CG reform in the Philippines.

While ICD was going to get involved in training, it was clear from the start that the bigger challenge was to undertake an initiative that would address a bigger challenge: how to introduce a corporate governance reform process in the Philippines.

An advocacy is much bigger and more demanding than being simply a CG training provider. I then organized towards the end of 1999 an initial conference to introduce CG to a mixed group, which nonetheless was made up mainly of business sector representatives. I had about 120 persons attend that initial conference in the University of Asia & the Pacific (UA&P). From there, ICD just got going.

I tapped into my network in the business community to help me. Along with Rex Drilon, Alicia “Baby” Vergel de Dios, Gigi Zulueta and that initial band that offered themselves as a test group for adapting CG materials into the Philippines, I was able to initiate ICD. But ICD needed technical and financial help. The much-needed help initially came from outside:

- a. The World Bank (WB) group soon connected me with the International Corporate Governance Network, where I met the “who’s who” of global CG advocates, e.g. Ira Millstein, Lord Cardbury, etc. The World Bank through the WB Institute also provided ICD with a grant to get started and pursue its CG advocacy for a few years.
- b. The BSP came through and in effect required all directors of commercial banks at that time to undergo a special CG training. ICD was chosen as the service provider by all commercial banks.

- c. The Australian Aid Agency (AUSAID) provided support, mainly in arranging and facilitating a connection with the Australian Institute of Directors (AIOD). ICD sent its initial batch of potential trainers to Sydney for a week’s intensive program on CG at the Australian IOD.

We sent two batches, and there were a few occasional CG experts that would come from Australia to conduct a few training programs in Manila. ICD made sure that its CG principles and suggested practices have global provenance, and much of what ICD has been trying to do has been simply to adapt those to local conditions.

## Stepping up

### Code of Corporate Governance 2002 and 2009

Having learned about the early years of CG, we move ahead to reach the vantage point as we speak with Rex C. Drilon, Vice Chairman of ICD.

He shared with us the key CG initiatives in the recent years leading to the 2016 SEC Code of Corporate Governance.

► **PwC:** *Why was there a need to revise the 2002 CG Code and come up with the CG Code of 2009 and a circular in 2014 to revise the definition of Corporate Governance and finally, the 2016 CG Code?*

► **Rex C. Drilon (RCD):** The SEC (Securities and Exchange Commission), with some prodding from ICD and advocacy groups such as SharePHIL (Shareholders' Association of the Philippines) and GGAPP, restored the role of stakeholders in corporations, which was removed in the 2009 version of the CG Code.

The 2016 CG Code embodies all the needed provisions that are required to make corporate governance principles and practices in the Philippines aligned with the ASEAN Corporate Governance initiatives and many of the global best practices as suggested by OECD and G20 countries.

► **PwC:** *What were SEC's and PSE's roles, and in general, the government's?*

► **RCD:** ICD and its founder, Dr. Estanislao, closely coordinated the activities of ICD with the regulators – SEC, PSE, BSP, the Insurance Commission (IC) and, in the last five years, with the Governance Commission for GOCCs (GCG).

Examples of this coordination and collaboration work where ICD was a key player are the following:

- a. Crafting of the SEC Corporate Governance Blueprint 2020
- b. The third revision of the Corporate Governance Code of 2016
- c. The appointment of ICD by SEC as the Domestic Rating Board (DRB) of the ASEAN Corporate Governance Scorecard (ACGS)
- d. The conduct of ICD's own Philippine Corporate Governance Scorecard Awards co-sponsored with SEC and PSE up to 2012 (thereafter, ICD decided to drop this program and opted to join the ASEAN Corporate Governance Scorecard (ACGS) Program of the ASEAN Capital Market Forum, or ACMF)
- e. The issuance of PSE's 10 Guidelines for Well-Governed PLCs using the network of ICD among the other institutes of corporate directors in Asia and in consultation with global experts in corporate governance. The key PSE officer who crafted the Guidelines was former ICD President Jonathan Juan "JJ" Moreno. This has become the

basis for the PSE's annual Bell Awards.

- f. The establishment of the Good Governance Advocates and Professionals of the Philippines (GGAPP) and the Shareholders' Association of the Philippines (SharePHIL).
- g. The aborted project with the PSE to establish the Maharlika Board in the stock market to be composed of listed companies committed to much higher standards of corporate governance.

► **PwC:** *What are the trigger factors for the 2015 Corporate Governance Blueprint and 2016 CG Code?*

► **RCD:** The changing times and the need for the country to align its governance principles and practices to the best practices in the world were the primary motivation of SEC and the regulated companies and the governance advocates like ICD, GGAPP and SharePHIL to work together to craft the CG Blueprint for the future (2020) and update the CG Code.

► **PwC:** *What are the three most significant provisions or topics of the CG Code of 2016?*

► **RCD:** The key elements of the new CG Code for Publicly Listed Companies (PLC) are as follows:

- a. The principle of "Comply or Explain".
- b. There are 16 Principles in the new Code and a total 67 Recommendations under the 16 Principles. A PLC can opt to comply with all 67 recommendations or may seek exemption from some of the recommendations, provided the PLC explains why it will not comply with said recommendations, hence the "Comply or Explain" provision.
- c. The 16 Principles follow the updated principles of corporate governance as recently revised by the Organization for Economic Cooperation and Development (OECD).

It is apparent that there are now more participants in the CG conversation compared to the time it started about 20 years ago.

Keep the conversation going.

Be part of the CG story.

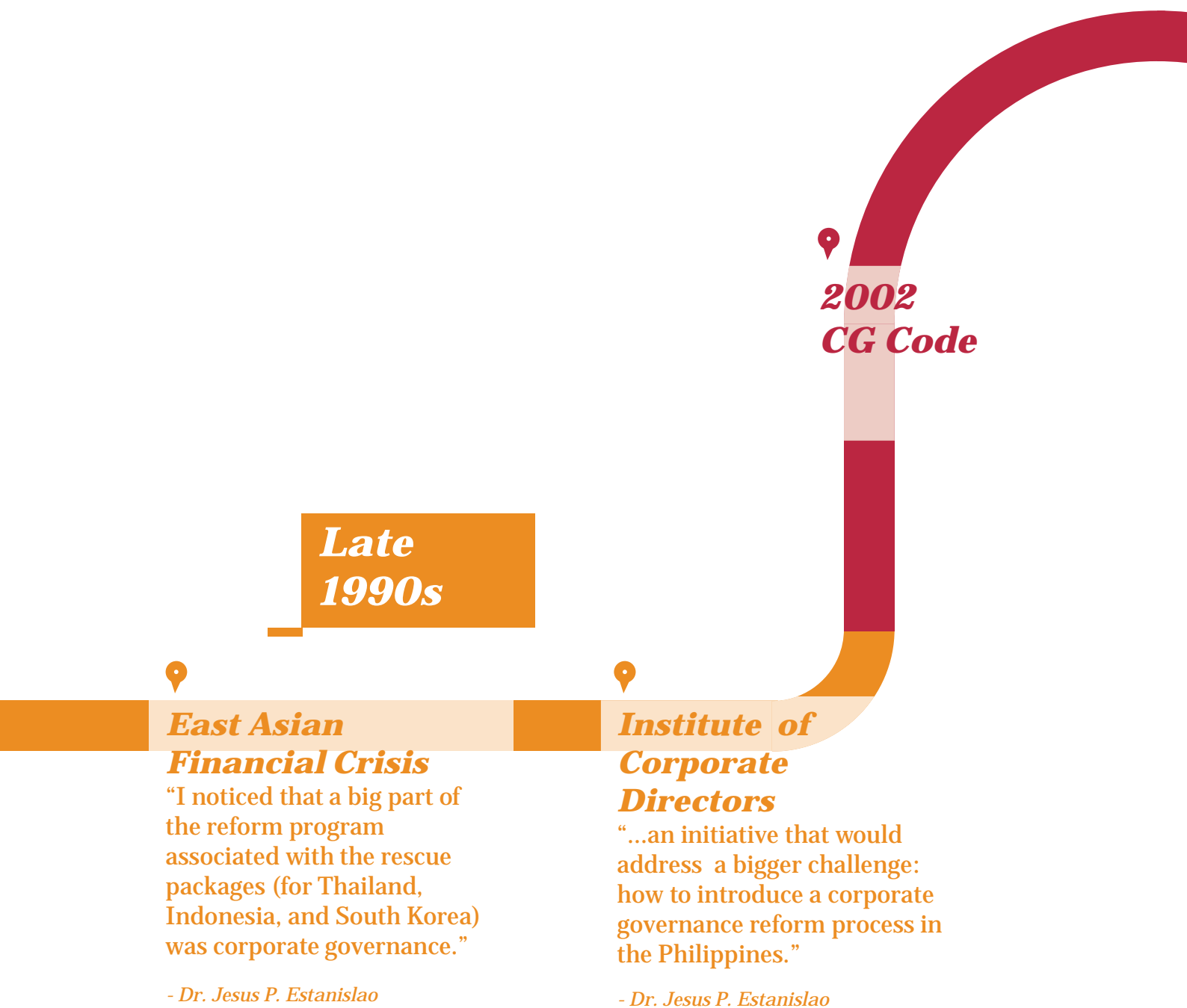


**Jesus P. Estanislao**  
Founder & Chairman  
Emeritus, Institute of  
Corporate Directors



**Rex C. Drilon**  
Vice Chairman,  
Institute of Corporate  
Directors

## Timeline of corporate governance in the Philippines





**2000s**

**2009 CG Code**

The CG advocacy requires a mix of :

1. Leaders
2. Regulators' support
3. CG advocates
4. International community
5. Commitment to learning

**2014 Circular**

**2016 and  
beyond**

***What lies ahead***

It is apparent that there are now more participants in the CG conversation compared to the time it started about 20 years ago.

**2016 CG Code**

The journey to align with the ASEAN Corporate Governance initiatives and many of the global best practices as suggested by OECD and G20 countries

# The 2016 Corporate Governance Survey

## Survey objectives and design

This survey on the new Code of Corporate Governance for Publicly Listed Companies (CG Code) aims to provide companies and readers insights on the following:

- The current state of corporate governance practices and compliance in the Philippines
- Whether Philippine publicly listed companies are ready to comply with the new CG Code
- Changes that companies need to institute in order to comply with the new CG Code.

Survey participants were asked to answer 125 questions categorized into five sections, with each section corresponding to the key themes of the new CG Code.

By far a longer and more tedious set of questions compared to the normal survey, the number of questions is a modest attempt to encompass the entirety of the new CG Code: five themes, 16 Principles, and 67 Recommendations with corresponding Explanations.

Distribution of questions across the five key themes are as follows:

- The Board's Governance Responsibilities (seven Principles, 70 questions)
- Disclosure and Transparency (four Principles, 20 questions)
- Internal Control System and Risk Management Framework (one Principle, five questions)
- Cultivating a Synergic Relationship with Shareholders (one Principle, 15 questions)
- Duties to Stakeholders (three Principles, 15 questions)



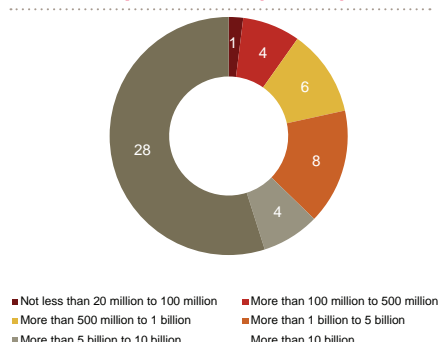
## 51 respondents

The survey was designed and delivered via an online platform, allowing respondents to answer by accessing the online survey form. Link to the survey was published via the PSE website, and individual emails sent to target respondents. With the questions requiring various types of responses and considerable amount of corporate information, the minimum time needed to complete the survey was around 60 minutes. Ideally, respondents should have a full view of corporate governance for the company he/she represents.

Publicly listed companies (as indicated in the SEC website) were invited to participate in the survey, with requests communicated through company contact information and disclosures available for general use. Challenges were encountered with the various listed companies' information disclosure, but despite this, the survey garnered 51 respondents representing over 20% of the listed companies as of the third quarter of 2016.

In terms of market capitalization, more than 50% of the respondents represented institutions with capitalization of more than PHP10bn (biggest individual corporations and conglomerates). This category represents 42% of the 234 registered companies. Out of the total 98 companies in this category, 29% responded to the survey.

### Market capitalization (in PHP)



**Out of over 200 companies invited to participate, 51 responded.**

The respondent profile, in terms of the organizational designation/role of the officer specifically answering the survey, showed that 27 out of the 51 responses were submitted by Compliance Officers. Other roles represented were Corporate Governance Officers and Corporate Secretaries. With the significant amount of corporate information across the various areas of governance and management, these three corporate officers typically have access to the information by virtue of their designation/role.

### Industry breakdown

Financial	17
Industrial	10
Property	8
Services	8
Mining and oil	3
Holding firms	3
ETF	1
SME	1

For the industry profile, the financial services sector registered the largest participation registering 33% of the total respondents. The Industrial and Services sectors, which comprise the largest population in terms of number of listed corporations, accounted for 20% and 16% respectively.

### Respondent's profile


#	Answer	%	Count
1	Compliance officer	53%	27
2	Corporate governance officer	14%	7
3	Corporate secretary	12%	6
4	Investor relations officer	12%	6
5	General manager	4%	2
6	Others	6%	3
Total		100%	51

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## Description of five corporate governance themes

The new CG Code adopted themes that reflect the key dimensions of corporate governance:

- The Board's governance responsibilities: pertains to the essential expectations from the Board of Directors in the context of organization, leadership, competence, composition, responsibilities, company and management oversight, performance, independence and ethics.
- Disclosure and transparency: elaborates the principles that promote sufficient communication of, and access to relevant and significant corporate information for stakeholders, related party transactions, corporate governance mechanism, non-financial and sustainability reporting. This also covers external audit expectations on independence and quality.
- Internal control system and risk management framework: highlights the importance of strong and adequate mechanisms to identify, assess, mitigate and monitor key risks, as well as the enabling management officers and functions.
- Cultivating a synergic relationship with shareholders: specifies the key practices to promote and protect shareholder rights, including mechanism to resolve infringement on such rights.
- Duties to stakeholders: defines the scope and company responsibilities to its stakeholders, and the promotion of stakeholder engagement, sustainability and social responsibility.



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## ***Where we are: Survey results and analysis***



# The Board’s governance responsibilities

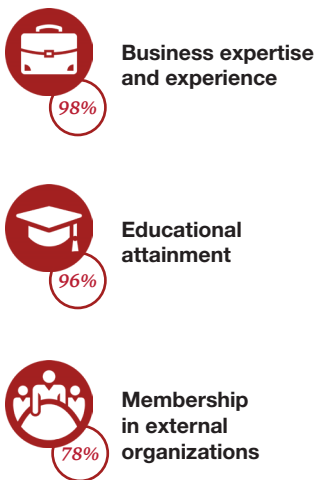
## Establishing a competent Board

### Board composition and qualifications

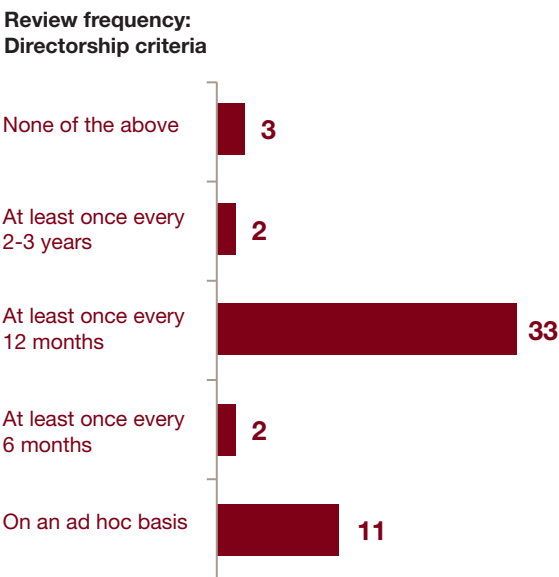
The Board, the primary driver of corporate governance, should exhibit the necessary competence collectively and individually. It should establish a sound director selection and review criteria that directors have the necessary expertise and experience required to be stewards of the organization. Almost all respondents have indicated “Business expertise and experience” and “Educational attainment” as key minimum requirements for a director, corresponding to the technical capabilities and academic credentials aligned to the organization’s strategy and operations. Furthermore, with the evolving needs of organizations to benefit from industry knowledge and professional network opportunities, “Membership in external organizations” is also high on the list of director qualifications.

## Established selection and review criteria help ensure that directors are qualified to perform their roles

### Most respondents agree that the minimum qualifications for directorship include:



### The qualification criteria for directors, including the grounds for their disqualification, are reviewed:



*Our leaders, fully engaged and vigilant, set the tone of governance and ensure that the mechanism for disclosure, protection of the rights of shareholders, the equitable treatment of shareholders, and the accountability of the Board of Directors and management are in place, while maintaining a collaborative and productive work environment that drives high performance and quality orientation, consistent with our commitment to deliver strong customer and shareholder value.*

**Ricardo R. Chua**  
President and Chief Executive Officer, China Banking Corporation

Organizations not only evaluate the qualifications of directors during the selection and appointment process, but also on a continuing basis. Almost 69% carry out reviews of director qualifications, including grounds for disqualification, at least once every 12 months. While the majority of the respondents adhere to this practice, such practice needs to be more formal and frequent for the remaining 31%.

Director selection criteria are a combination of technical and personal attributes, but the traditional attributes remain the top considerations: integrity, education, prior business experience and technical skills. Consistent with the requirements of the new CG Code, the majority of the respondents strongly agree that integrity is the paramount qualification sought for directors. Following integrity, the next set of top considerations revolves around the technical attributes of the director. At

the lower half of the selection criteria are the personal attributes such as cultural fit, age, gender and ethnicity.

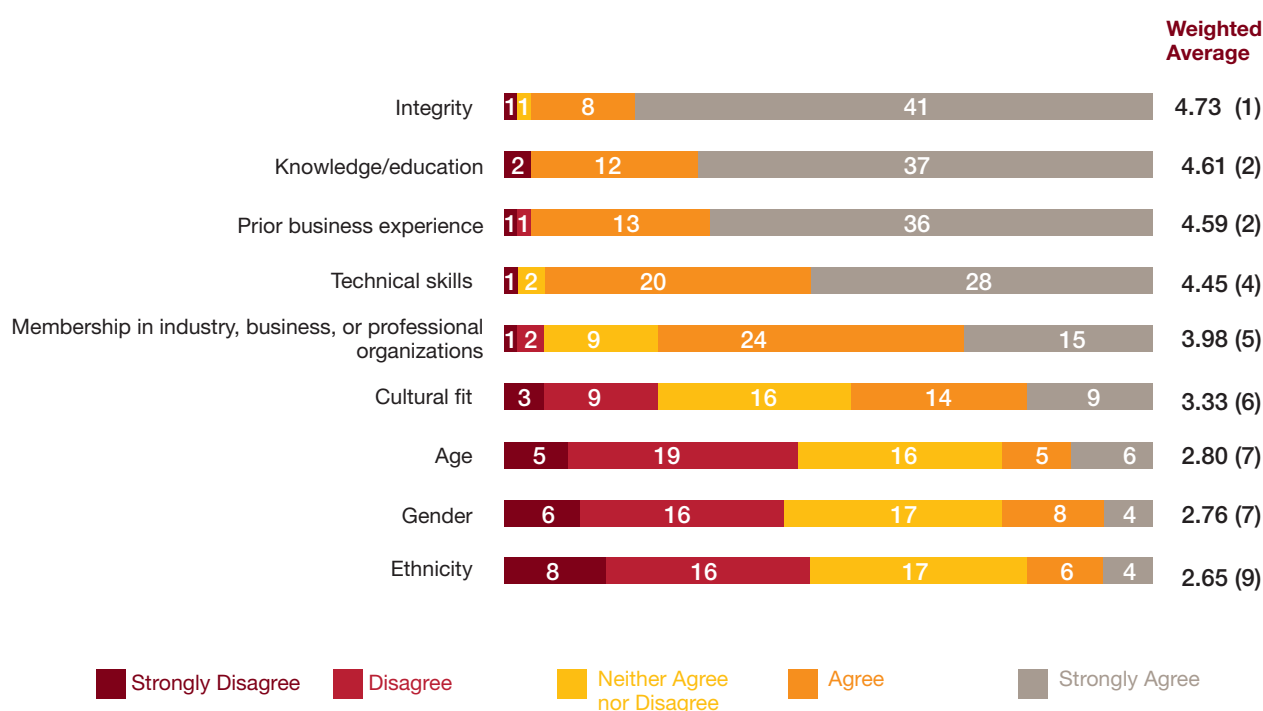
The responses can be viewed using two perspectives: Organizations look at director qualifications that have more direct relevance to the company's industry/sector and operations, with less bias against personal attributes such as ethnicity, age and gender. However, this can also mean that while organizations have adopted policies to enhance board diversity (67% of the respondents, while the rest are considering to adopt one), organizations may not necessarily translate these into director selection criteria that will consciously seek for candidates with diverse cultural fit, ethnicity, age or gender.

## Director sourcing

Organizations are becoming cognizant of alternative means to source director candidates, to enhance transparency in the director sourcing and nomination process. While nomination from shareholders and the organization's professional network remain the primary methods (including fellow board member recommendations), 47% of the respondents are using professional search firms and external sources, with 43% assessing the adoption of these methods.

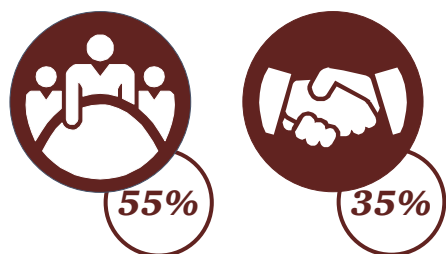
## The selection of directors continues to be anchored on traditional criteria—integrity, education, and experience

### Considerations in selecting directors



### Board diversity

The common manifestation of Board diversity efforts is through gender diversity: increasing the number of female board directors. As for the current female representation in the Board, 55% reported to have at least one female non-executive director, with five being the highest. From the executive directors, only 35% have at least one female executive director, with three being the highest.



No. of respondents with at least one female non-executive director

No. of respondents with at least one female executive director



*I don't believe in just bringing in women in the Board for the sake of their being women. They must be honest, very ethical, able to speak up and do what's right for the organization. Given the opportunity, women perform very well. Also, they control the purse of the family. So, it's good also to have the women point-of-view in corporations.*

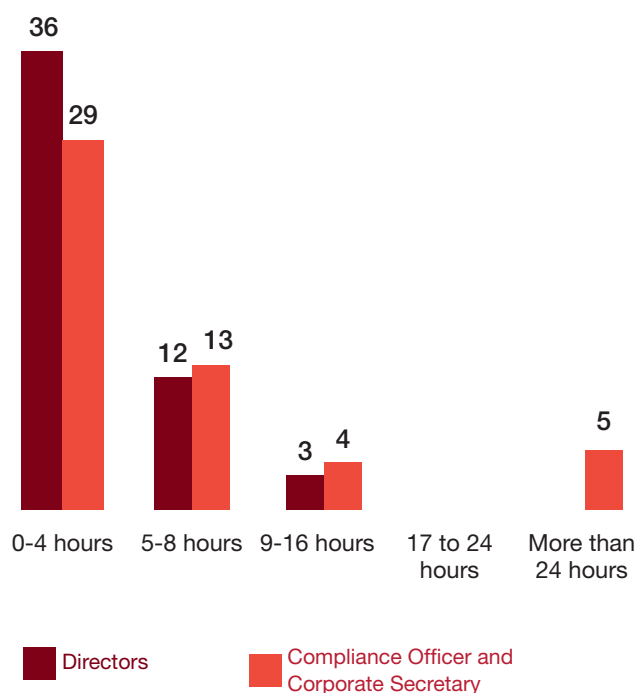
**Corazon de la Paz-Bernardo**  
Independent Director

The majority of the Boards are comprised of non-executive directors, which typically range from as low as 4 to as high as 14. Almost 50% of the respondents have five to eight non-executive directors. Executive director memberships range from one to three for most companies.

To promote effective board performance and continuing qualification of directors and key officers (such as the Compliance Officer and Corporate Secretary), training policies are adopted. Suggested duration should be at least eight hours for first-time directors' orientation program, and four hours for director annual continuing training program. No specific duration was recommended for Compliance Officers and Corporate Secretaries but they should undergo relevant training on corporate governance annually. Respondents primarily indicate that directors strive to achieve the minimum of four hours annually. These training programs cover a wide range of topics, but typically concentrate on board responsibilities, risk management and internal controls.

## Most directors and corporate officers undergo continuous training and meet the prescribed requirements of the Code

Training hours of directors, compliance officer, and corporate secretary



The new CG Code recommends that the Corporate Secretary and Compliance Officer are two separate individuals and are not members of the Board. However, 78% of the respondents confirm that these roles are held separately. While both roles are primarily responsible to the corporation and its shareholders, 16% are considering separating the roles: the Corporate Secretary is expected to primarily support the Board in the discharge of its duties, while the Compliance Officer is in charge of the compliance function as part of management. 92% indicate that they are not members of the Board, while the remainder consider non-Board members for these roles.

Training on the following areas is constantly being provided:

	Director rank	Officer rank
Board responsibilities	1	1
Risk management	1	2
Internal controls	3	6
Related party transactions	4	6
Protection of minority shareholders	5	3
Illegal activities of corporations/directors/officers	5	3
Sustainability	7	9
Financial reporting and audit	7	8
Confidentiality	7	9
Insider trading	10	3
Strategy	11	11
Short swing transactions	12	12



*The Ethics & Compliance and Corporate Governance Officers act as advisors. These are the people who do the detailed work that is then sent and brought to company leadership so that they can make sound decisions and very informed decision.*

**Atty. Vincent Edward Festin**  
Chairman, GGAPP

## ***Clear roles and responsibilities of the Board***

Board involvement in governance and management oversight

**Directors continue to have an active role in ensuring long-term viability; however, more needs to be done.**

At least 45 (88%) of Boards periodically monitor and evaluate:

- Implementation of policies and strategies
- Management performance
- Quality of governance
- Key developments in the business and regulatory environment

While 41 (80%) of Boards scrutinize most types of related party transactions, only 37 (73%) of Boards scrutinize transactions with companies that they share a director, i.e. interlocking directors.

At least 37 respondents (73%) agree that a director's remuneration should primarily be anchored on:

- Associated responsibilities
- The achievement of financial performance targets
- Completion of non-financial performance objectives

However, only 21 respondents (41%) consider the following as a key determinant of a director's remuneration:

- Display of appropriate risk-taking behavior
- Prevention of conflicts of interest

In at least 88% of the respondents, the Board exercised oversight on key personnel decisions involving:

- Oversight of CEO and management team performance
- Defining CEO duties and responsibilities
- Evaluating senior management appointments
- Selecting and appointing qualified CEO and management officers

Boards have been working to ensure the establishment of an internal control system, with at least 76% (39) performing the following:

- Overseeing and assessing the performance of the Chief Audit Executive, Chief Risk Officer and Chief Compliance Officer
- Monitoring the implementation and conducting periodic reviews of the governance framework
- Reviewing the company's human resource policies
- Resolving situations that involve conflicts of interests
- Ensuring an appropriate compensation program for employees
- Maintaining a sound management succession plan



### Succession plan

In coming up with succession plans for management and key officers, the Board takes into account the following priority areas:

- Identification and appointment of key officers
- Assessment of current leadership competencies
- Skills and talent enhancement of people in the organization

Crafting of a policy for key officers' retirement age is considered by only 55% of the respondents and is the last priority among the recommended areas.

### Enterprise risk management

Enterprise risk management's (ERM) prominence as part of the Board agenda has been increasing through the years, brought about by the evolving business, regulatory and external landscape, as well as the need to properly anticipate and respond to business risks. With this, 78% of the respondents have adopted and implemented an ERM framework anchored on business strategy and risk tolerance, and the Board evaluates the continuing relevance and sufficiency of the ERM framework at least on an annual basis.



*We recognize that the business of banking necessarily entails risk, and that proper risk mitigation, not outright risk avoidance, is the key to long-term success. Our corporate governance structure keeps pace with the changing risks that the bank faces and will be facing in the coming years with a dynamic risk management program that calls for the continuing reassessment of risks and controls and the timely reporting of these risks to the Board of directors.*

**Mr. Ricardo R. Chua**  
President and Chief Executive  
Officer, China Banking  
Corporation

Strategy and risk management are interlinked, and should be taken together. Being able to oversee strategy requires the appropriate foresight and management of attendant risks. Taking into account the representation of financial services (where those supervised by the Bangko Sentral ng Pilipinas are required to have an ERM framework), it appears that even non-financial services have recognized the importance. This translates to an ERM framework and even a specific Board Risk Oversight Committee.

### Board charter

65% of the respondents indicate that their respective Board Charters include the Board's roles, responsibilities, accountabilities and the corresponding standards for evaluating the Board's performance. This also applies to the specific roles and responsibilities of the Board Chairman. On the other hand, the Board Charters may not be appropriately disclosed to the public as only 59% published their Board Charters on the company website. While this may reflect an area for improvement, the remaining 41% are considering adoption.

## Establishing Board committees

### Committee charters

Organizations are increasingly organizing Board committees to focus on key aspects of governance and boost overall Board effectiveness, with appropriate emphasis on audit, risk management and related party transactions. At least 71% of the respondents indicate that these Board committees have their respective charters to outline their mandate, composition and responsibilities, as well as the standards for evaluating the committee's performance. Such charters are also published on the company websites. The remaining respondents are keen to adopt the same approach to drive clear understanding and expectations from these committees.

Aside from the Board committees recommended by the new CG Code, organizations have instituted other committees to focus on specific areas of corporate governance and management oversight. Usually, the Executive Committee is delegated the responsibility of reviewing and approving management decisions or transactions on behalf of the Board (subject to specified limits and parameters). The typical IT Steering Committee oversees the development, implementation and monitoring of the IT strategy and plans, especially significant IT investments. Financing, capital and investment decisions are the normal items tackled in the Finance Committee.

## Board committees play a more active role in enhancing the effectiveness of corporate strategy and operations

### Adoption rate of Board Committees



*I make sure that I know what's going on with internal audit side and also the activities of the external auditors to ensure that there will be no surprises as to where the organization is going. And usually, my role has to do with making sure that the risks are minimized or addressed as best as we can in the organization.*

**Corazon de la Paz-Bernardo**  
Independent Director

### Audit Committee

98% (50) of the respondents confirmed the existence of their dedicated Audit Committees, with almost all headed by an independent director as Audit Committee Chairman distinct from the Chairman of the Board. However, only 60% (30) disclosed that their Audit Committee Chairman is not a chairman of other board committees, while the rest have concurrent chairmanships and represent an area for further consideration. This may be due to the limited number of independent directors that have the necessary qualifications for committee chairmanships.

There are also issues with regard to membership in Audit Committees. 32% (16) of Audit Committees fall short of the recommended minimum of three qualified non-executive directors, with even three indicating they have no non-executive director in the Audit Committee. 18% (9) of the Audit Committees did not have independent directors, with the majority having only one. These statistics affect the independence of the Audit Committee, and should be reassessed to ensure effectiveness of the committee in discharging its duties. On a different note, Audit Committee did not include the CEO for 86% (43) of the respondents, while the rest are considering the non-inclusion of the CEO in the membership. 72% (36) of Audit Committees meet with the Head of Internal Audit at least quarterly. These reinforce the committee's

independence, allowing a more objective assessment of management performance and business operations, while keeping the flow of information between the Board and Internal Audit more open.

### Board Risk Oversight Committee

Among the respondents, 76% (39) have their respective Board Risk Oversight Committees, with almost all having a Chairman separate from the Chairman of the Board. However, similar to the Audit Committee Chairman, the majority of the Board Risk Oversight Committee Chairpersons hold concurrent chairmanships. Only 82% are compliant with the recommendation of having an independent director as Chairman. Committee membership ranges from the minimum of three directors to at most seven. Independent directors comprise the majority for 66% of the respondents, with one company having no independent director at all.

Almost all BROCs have at least one member who has proficiency in the risk management discipline.

### Corporate Governance Committee

The manner in which Corporate Governance Committee functions are exercised differs from one company to another. Some have established a separate committee to focus on the observance and compliance with corporate governance principles, while retaining separate committees

for Nomination and Remuneration/ Compensation. Others choose to have a single Corporate Governance Committee that would perform both nomination and remuneration functions in addition to addressing corporate governance matters. Director membership ranges from the minimum of three members to at most seven. Only 34% (11) of those with Corporate Governance Committees have met the required number of independent directors (three members), but all committees are chaired by independent directors.

39% (20) of the companies have not set up a separate Corporate Governance Committee.

### Related Party Transactions Committee

Consistent with the respondents profile concentrated on financial services and large corporates/ conglomerates, 39% have identified and responded to the need to set up a Related Party Transactions Committee. All committees have at least two independent directors, and have an independent director as Chairman.

### **Fostering commitment**

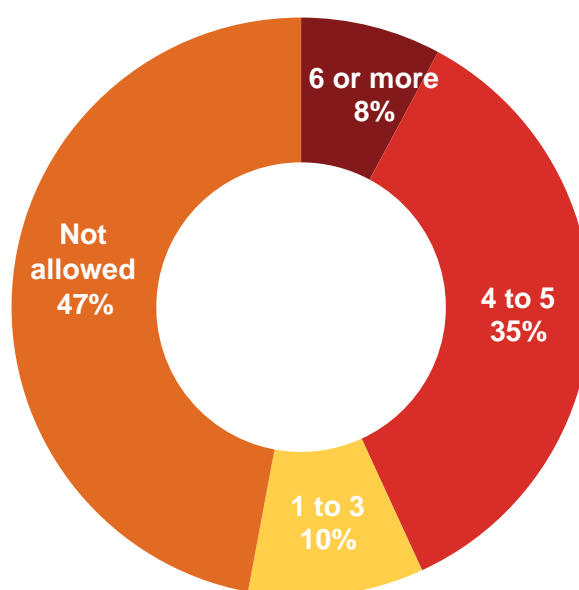
To perform their duties and responsibilities consistent with the company's business and stakeholder expectations, directors are required to devote the necessary time and attention to the organization they serve. This requirement is confirmed by all respondents, expecting directors to attend and actively participate in meetings, with exceptions in justifiable cases.

In the same thread, 47% expect directors to notify the Board in the event they will pursue a directorship in another company, and 47% are considering setting the same requirement in their respective companies.

The majority of companies (53%) allow non-executive directors to hold concurrent directorships at multiple companies, while the rest have enforced restrictions to allow directors sufficient time and focus on the organization they oversee. Four companies should consider their stand on allowing more concurrent directorships than recommended by the new CG Code, although this may be related to related companies or those belonging to conglomerates who share non-executive directors.

## **Concurrent directorships continue to be one of the areas for debate at corporate Boards**

**No. of concurrent directorships allowed**



*The majority of companies (53%) allow directors to hold concurrent directorships at multiple companies.*



*At ICD we always say, “Independence depends on your willingness to speak out and say a point of view, which you believe honestly, contradicts everybody else in the room”. It could be a winning formula, it could be an ethical position, but the point is, are you willing to speak out? And that’s very difficult. You have the responsibility for the other investor in the room, the minority, especially. The contrary point of view is helpful, not because you want to do it for its own sake, but it’s always because people get better decisions, quality decisions from different perspectives. If you can add that perspective, that different perspective, the independent one, you’re adding a lot of value into the company that you serve.*

**Ricardo Nicanor N. Jacinto**  
CEO, Institute of Corporate Directors

## Reinforcing Board independence

The new CG Code recommends various means to strengthen the Board's objectivity and independence, with sufficient emphasis on the appointment of qualified independent directors. The foremost recommendation covers the appointment of at least three independent directors, or such number comprising at least one-third of the Board membership, whichever is higher. Unfortunately, 41% do not meet the three-member requirement and this can dampen the objectivity of the Board. This places more pressure on the current independent directors to influence overall Board objectivity, and puts pressure on the non-independent directors to exercise their impartiality, especially on overseeing corporate matters and management performance.

In 2013, the US Council of Institutional Investors introduced a revised policy statement on board tenure, where it noted that directors with extended tenures should no longer be considered independent.<sup>1</sup>



43 respondents allow independent directors to hold a cumulative tenure of **seven or more years**.



35 respondents affirmed that the role of the CEO and the Board Chairman are held by **separate persons**.

## Since the 2002 Code, there continues to be regulatory emphasis on ensuring the independence of Boards

At least 42 respondents (82%) affirmed that independent directors are evaluated on the following:

- Is independent from the management committee of the Board or the related parties of the company
- Holds no more than 2% of the outstanding shares of the company and its related parties
- Is not related within the fourth degree of consanguinity to a director, officer, or substantial shareholder of the company and its related parties
- Is not acting as a nominee or representative of any director of the company and its related companies
- Was not retained as a professional adviser, consultant, agent, or counsel of the company, its related companies, or substantial shareholder
- Has previous business or relationship with the company within three years prior to his/her election
- Has not engaged in any transaction with the company, its related companies, or substantial shareholders that were not conducted at arm's length and could materially impact his/her independence

One interesting area is the appointment of a lead director among the independent directors, if the Chairman of the Board is not independent, including if the CEO and Chairman of the Board roles are held by one person. While 69% (35) of the respondents have confirmed that these two roles are held by separate individuals, only 16% (8) have indicated that they have a lead director. 51% (26) are considering the adoption of this recommendation, potentially seeing the advantage of having a lead independent director regardless of the independence of the Chairman. However, 33% (17) have no plans for adoption. This may mean several things, among others: (1) the appointed Chairman of the Board is already independent; (2) the current composition of the Board collectively provides proper mechanisms for resolution of conflicts of interest; or (3) the organization has yet to perceive the need to have one.

The above observation has some parallelism with the US context. Some companies under investor pressure evaluate the leadership structure and split the Chair and CEO roles. Boards with a combined Chair/CEO role have an independent lead or presiding director.<sup>2</sup>

<sup>1</sup> PwC Director-Shareholder Insights: Board composition – Key trends and developments, May 2016

<sup>2</sup> PwC Director-Shareholder Insights: A look at board composition – How does your industry stack up?

Assessing Board performance

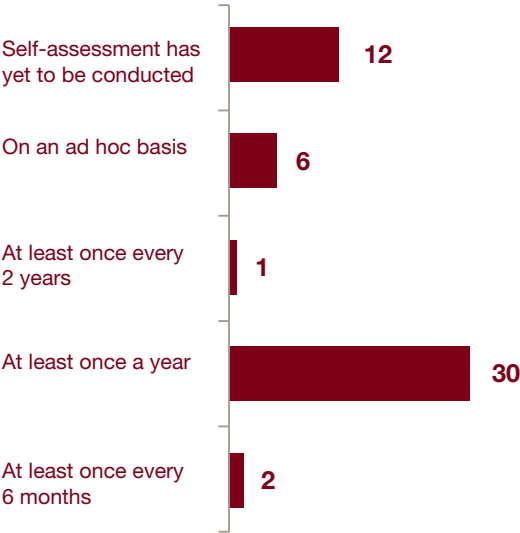
The conduct of Board performance evaluation presents a significant opportunity. While annual self-assessments are the norm for 63% of the companies, the remaining 37% do not utilize the insights and areas for improvement that a self-assessment can bring. It remains to be seen how the Board and organization assess its performance sans self-assessment. Likewise, third-party evaluations are not fully adopted to provide a more independent and objective review of Board performance.

A thorough and robust Board assessment process highlights the performance of the Board collectively and individually. It should guide the organization in evaluating the continued relevance of Board composition, director competency, and qualifications. Subsequently, the Board should take action on the results of these assessments.

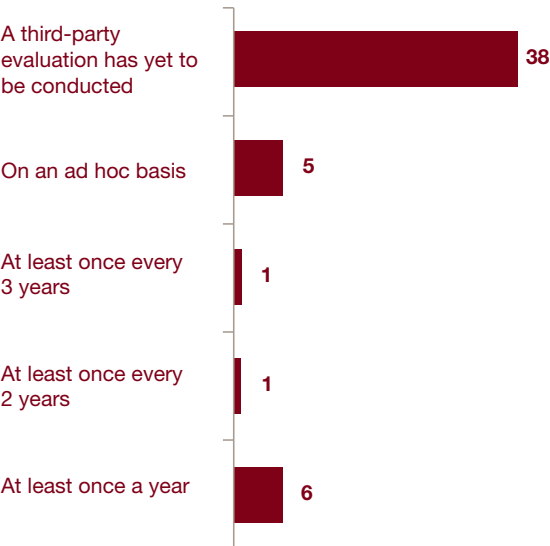
Board performance is primarily evaluated through the conduct of periodic self-assessments



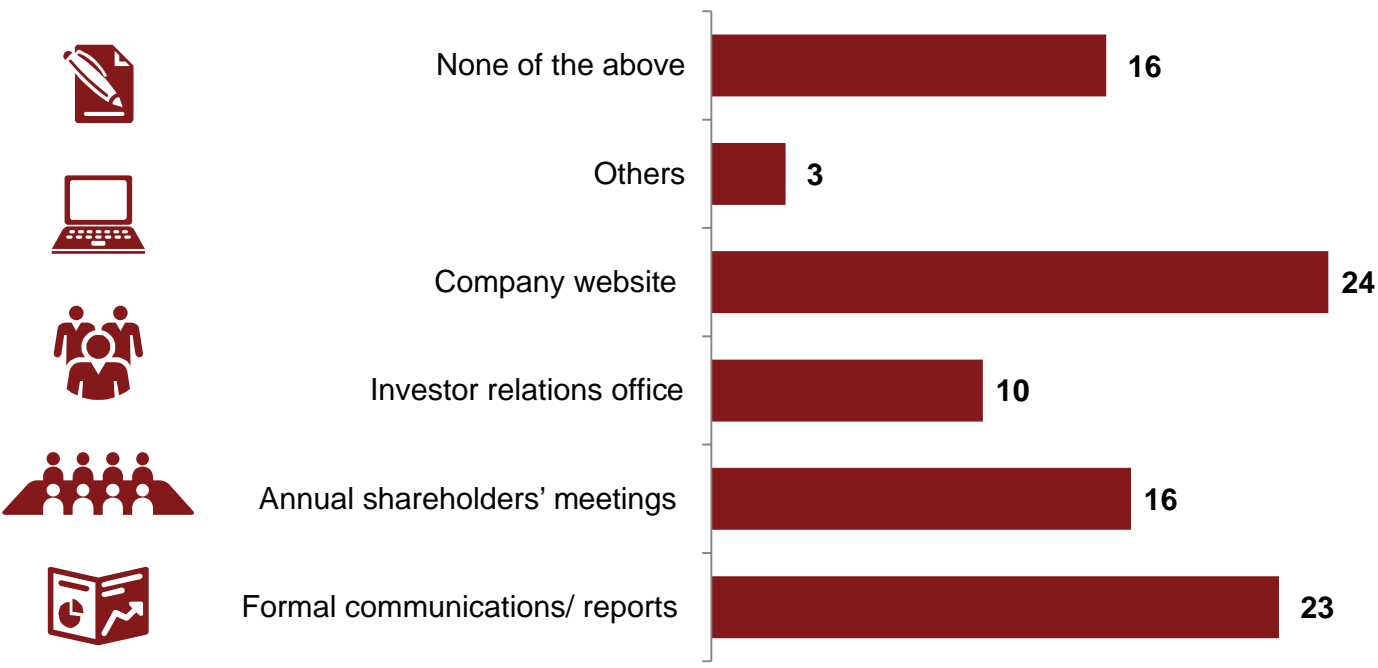
63% of the respondents conduct annual self-assessment in their companies *at least once a year*.



75% of the respondents *have yet to conduct a third party evaluation of the Board's performance*



***Various communication channels are used by the Board in disclosing information on Board performance***



\*Others consist of: (1) internal records and (2) matters taken up in the Board meeting for notation and confirmation

### Strengthening Board ethics

It is important that any Board directive, or policy, is communicated to the target audience, to articulate the “tone at the top” and to promote adoption and implementation. With this, the Board has adopted various means to advocate and instill one significant component of corporate culture: ethics.

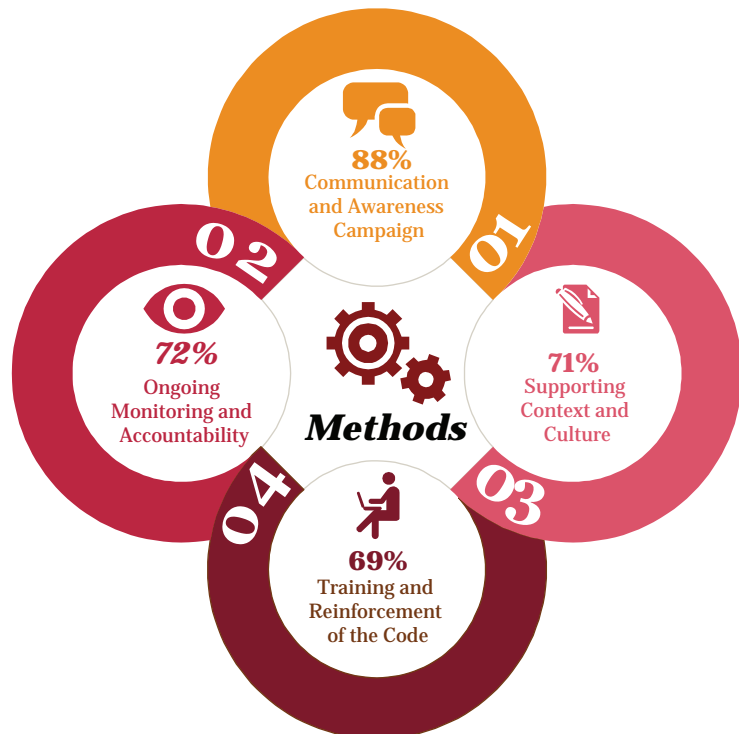
#### Avenues to disclose the Board's Code of Business Conduct and Ethics



The majority of respondents (84%) disclose their Code of Business Conduct and Ethics.

## Boards have a critical role in developing or nurturing an ethical culture

#### Main methods used to instill corporate ethics in company values



*If you're able to convince the owners of companies to believe in good corporate governance and to respect shareholders' rights, it will be much easier to build a culture of good corporate governance in those companies. If you approach CG from bottom to top, it will be a challenge because those people below will still have to convince the true decision makers on the value of good corporate governance. You may cry to high heavens but if the owners do not believe in it, it will be difficult to develop a culture of corporate governance in our country.*

**Atty. Francisco Ed. Lim**  
President, Shareholders Association of the Philippines (SharePHIL)

# Disclosure and transparency

## ***Enhancing company disclosure policies and procedures***

Across all recommendations considered, respondents affirmed the adoption of company disclosure policies and procedures covering financial reporting, significant transactions, and ownership information. One minor area for improvement though is the disclosure on third party evaluation of transaction prices, where 86% have implemented the practice while the rest are considering adoption.

## ***Most companies have established policies and procedures on the disclosure of financial information***

The majority of companies (at least 71%) have already established formal policies to guide the disclosure of financial information and other significant corporate matters to the following parties:



Government regulators



Shareholders



Employees



Self-regulatory organizations



Suppliers



Creditors



Customers



Communities



*We promptly disclose major and market-sensitive information like dividend declarations, joint ventures and acquisitions, sale and disposition of significant assets, as well as financial and non-financial information that may affect the investment decision of the investing public, in the form of press releases in newspapers and reports in our internal publications.*

**Ricardo R. Chua**  
President and Chief Executive Officer, China Banking Corporation

## ***Disclosures on Board remuneration remain to be limited***

***At least 32 respondents (63%) have disclosed information pertaining to their Board members and key executives.***

Types of information disclosed, out of 51 respondents:

- Membership in other Boards (50)
- Their qualifications (50)
- Other executive positions (49)
- Shares they own in the company (49)
- Training/seminars attended (47)
- Whether or not they are considered an independent director (46)
- Claims filed against them (32)



At least 25 respondents (49% of total) disclose the following information about remuneration:

- Remuneration policy (41)
- Level and mix of remuneration (26)
- Link between performance and remuneration (25)



Not more than 18 respondents (35% of total) also include:

- Procedures for settling remuneration (18)
- Retirement provisions (16)
- Remuneration on an individual basis (14)
- Termination provisions (14)



**Increasing focus on non-financial and sustainability reporting**



*Corporate governance is all about making sure that you get the best people possible to nurture a business, to nurture a company and make it sustainable. And when I say sustainable, I'm talking about the literal definition which is the capacity to endure over the long term.*

**Ricardo Nicanor N. Jacinto**  
CEO, Institute of Corporate Directors

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**GRI G4 standards continue to be a leading choice of Boards for reporting on corporate sustainability**

**15 respondents** (29% of the total) have adopted *G4 Framework* by the *Global Reporting Initiative (GRI)* to report on sustainability and non-financial issues.

**Six respondents** (12% of the total) have adopted *Conceptual Framework* of the *Sustainability Accounting Standards Board (SASB)*.

**Five respondents** (10% of the total) have instead adopted the *Integrated Reporting Framework* by the *International Integrated Reporting Council (IIRC)*.

However, **28 respondents** (54% of the total) have yet to adopt any framework for reporting on sustainability and non-financial issues.

In developing and publishing sustainability reports, respondents strongly agree on the inclusion of governance, ethics and integrity, materiality policies and stakeholder engagement. Topics such as sustainability strategy and human rights gathered the least concurrence from the respondents.

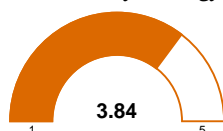
In the US, many have started to report Environmental, social and governance (ESG) factors in response to increased expectations for more transparency. However, there is misalignment in the framework adopted and preferred by companies and investors. 80% of corporates use GRI, while 43% of investors prefer SASB, only 21% prefer GRI.<sup>3</sup> This should be an area to consider for Philippine companies assessing which framework to use, as the use of various frameworks makes the comparison between companies more difficult.

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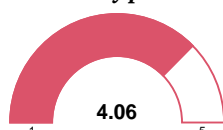
3 PwC's ESG Pulse 2016

## Disclosures on sustainability reports

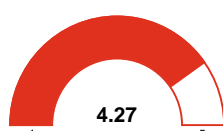
### Sustainability strategy



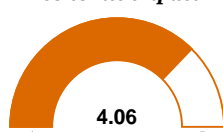
### Materiality policies



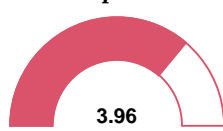
### Governance



### Economic impact



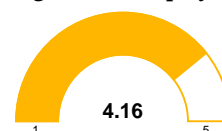
### Labor practices



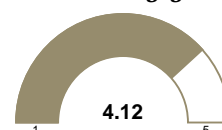
### Society



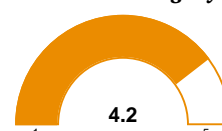
### Organizational profile



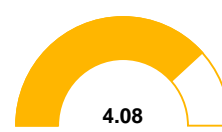
### Stakeholder engagement



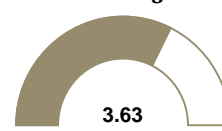
### Ethics and integrity



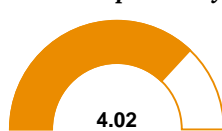
### Environment



### Human rights



### Product responsibility



## Strengthening the external auditor's independence and improving audit quality

A promising area based on responses is the Audit Committee's oversight on the performance and independence of external auditors. All respondents confirmed the Audit Committee's active oversight on financial reporting audits, where typically the external auditors present and discuss to the

Audit Committee the results of the audit. Likewise, external auditors are reviewed regularly for their suitability and independence (92%, 47) and are imposed safeguards by organizations to prevent conflicts of interest due to the provision of non-audit services. Relevant to this, the majority of the respondents did not engage the external auditors for non-audit services for the last three years, while 25% have received three or more non-audit services.

In managing the appointment, reappointment and removal of external auditors, Audit Committees have established processes which include:

- Recommendation by the Audit Committee
- Approval by the Board of Directors
- Ratification by the shareholders
- Disclosure to regulators
- Disclosure to the public via the company's website

All the foregoing processes apply to external audit appointment for all companies, 82% for reappointment and 80% for removal.

## Promoting a comprehensive and cost-efficient access to relevant information

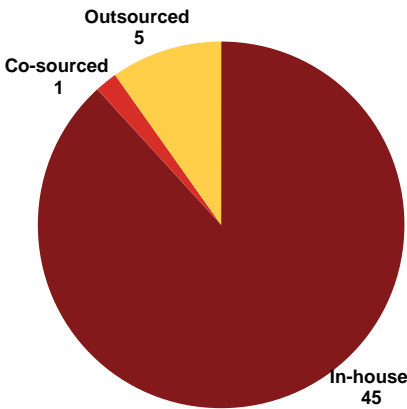
Organizations have increasingly used their corporate websites as a publicly accessible source of information, with 98% of the respondents indicating they do so, while the rest have plans to adopt such mode of communication. Likewise, the Annual Corporate Governance Report posted on the corporate website remains for most respondents to be the comprehensive source of corporate governance information.

# Internal control and risk management framework

## Strengthening the internal control system and enterprise risk management framework

The internal audit function has been a staple component of overseeing the design and continued operation of key organizational and operational controls. As such, all respondents have the internal audit function implemented in various forms:

### Internal audit structure used



## Internal audit plays a critical role in strengthening controls and mitigating risks to the company

And in terms of periodic reporting of the Chief Audit Executive, 75% report to the Audit Committee at least on a quarterly basis (the default reporting line of the Chief Audit Executive). This becomes an area for improvement for the remaining 25%, especially the three responding that this does not apply. Constant communication between the Chief Audit Executive and Audit Committee (and the Board) allows a more timely escalation and reporting of issues noted, business areas that need more oversight and focus, risks that have higher likelihood of occurring, and emerging risks that need attention and treatment.

### RC02 - RC02 How does the Chief Audit Executive report to the following?

#	Question	Not applicable	Once a month		Once every quarter		Once every six months		Once a year		Total	
1	Audit Committee	6%	3	27%	14	47%	24	14%	7	6%	3	51
2	Board of Directors	35%	18	18%	9	35%	18	2%	1	10%	5	51
3	Chief Executive Officer	18%	9	41%	21	35%	18	2%	1	4%	2	51



78% of the respondents indicated that they have implemented risk management systems for capturing the company's risk exposure, while the remainder are considering implementing one for their organizations. Taking into account the representation of financial services companies who are required by their regulatory agency to implement enterprise risk management and supporting infrastructure, it appears that companies are realizing the importance of identifying, assessing and mitigating risk exposures which can adversely impact strategic and operational objectives. Although looking at it from a different perspective, organizations seem to have encountered difficulties in addressing this requirement despite it being part of the old CG Code, with almost a quarter of respondents still yet to implement one.

While a significant fraction of companies have risk management systems in place, the main challenge relevant to this covers the robustness of such systems, and the quality and degree of implementation that influences the Board's and management's ability to manage known and emerging risks.

## ***Different avenues are used to disclose information on material risk exposures***

**Companies use at least one of the following avenues to disclose material risk exposures to external parties**



A formal report, as part of a mandatory requirement by regulators



A formal report, as part of the disclosure requirements of an Exchange



The company's website as one of its voluntary initiatives

**There were 2 companies, however, that did not use any of the above avenues to disclose material risk exposures.**

# Cultivating a synergic relationship with shareholders

## Promoting shareholder rights

Treating shareholders fairly and equitably, as well as providing the conducive environment to protect and allow exercise of shareholder rights, can only be realized if the appropriate policies and platforms are in place.

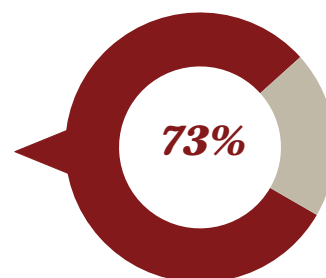
At a minimum, companies are encouraged to ensure proper articulation and dissemination of the basic shareholder rights, and empower shareholders to exercise the same through established processes. The scope of shareholder rights covers these elements, among others:

- Pre-emptive rights
- Right to vote
- Right to inspect or examine corporate records
- Right to receive dividends
- Right to the issuance of certificate of stocks
- Right to transfer or dispose shares
- Appraisal rights
- Right to file derivative suits
- Right to participate in the distribution of assets upon dissolution of the company

Various mechanisms are put in place to allow shareholders to exercise their rights and actively participate in the corporate governance processes. However, the Annual Stockholders' Meeting (ASM) proved to be the most prevalent and established mechanism, providing

## Boards regularly assess if policies and procedures allow the proper exercise of shareholder rights

At a minimum, 37 respondents (or 73% of total) confirmed that the exercise of *shareholders'* rights is being ensured by their Board through organized and effective application of *established policies and procedures*.



50 out of 51 respondents (98%) have policies and procedures that allow shareholders to effectively exercise their *right to vote*...

But only 37 respondents (73%) have policies and procedures that allow shareholders to exercise the *right to file derivative suits*.



*One of the interesting things that we are told by foreign investors is that they like buying into certain companies as investors because of the strong guidance and vision of the founding family members who probably are somewhere still in the hierarchy of management and not just owners of the company.*

**Hans B. Sicat**  
Former President & CEO, PSE

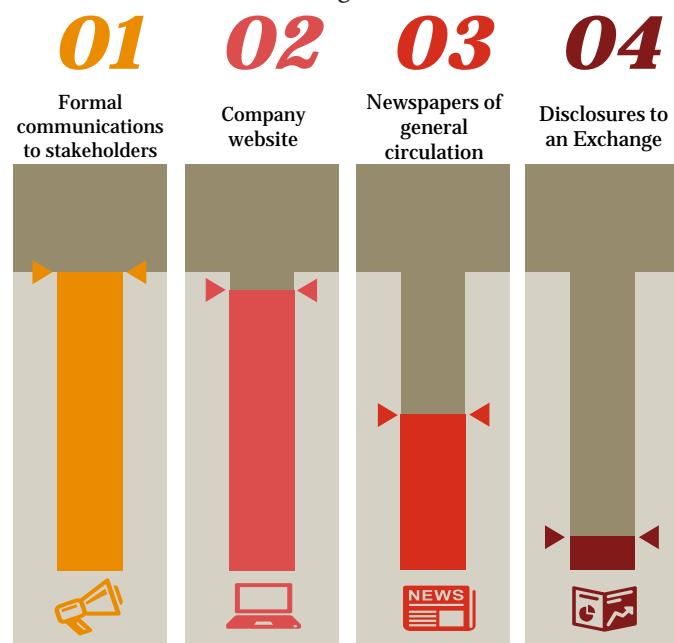
the opportunity for direct shareholder involvement. Respondents from 98% (50) of the companies confirm that their respective Boards ensure communication of sufficient information to shareholders for decision-making. 76% (39) of the

respondents allow shareholders to suggest agenda items, while the remaining respondents intend to adopt such mechanism.



## Shareholders are notified of annual shareholders' meetings through different communication channels

Notice is disseminated through...



...with a usual notification period of:

- 1-2 months (65%)
- Less than 28 days (29%)

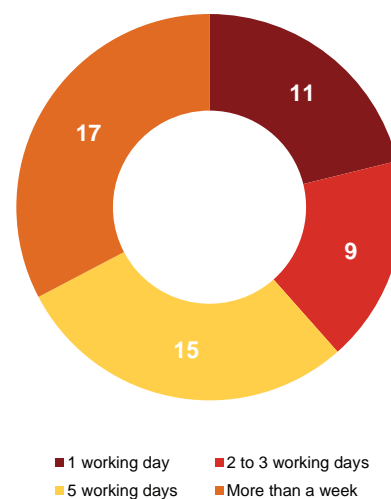
Shareholder voting needs to evolve with the changing times, such as through the use of technology. According to the 51 respondents, the *most popular* form of voting is **proxy voting (44)** and the *least popular* form is the **electronic or remote voting (7)**.

**Poll voting (28)** and **showing of hands (14)** are other popular voting alternatives.

ASM minutes are aligned to regulatory reporting requirements. Most respondents agreed that ASM minutes include these information:

- Voting and tabulation of procedures used (88%)
- Opportunities given to shareholders for asking questions (92%)
- Matters discussed and resolutions reached (96%)
- Record of voting results for each agenda item (90%)
- List of persons in attendance (69%)
- Dissenting opinions considered (76%)

### Posting of ASM minutes





*The top three challenges that we face in the Investor Relations Office on a daily basis are: first, communicating financial results, whether it be good or bad; second, telling a good story that is, making our story known and ensuring that it is accurate; and, third, balancing the interests of both the shareholders and management.*

*The frequently asked questions from investors, shareholders, fund-managers, brokers are: our growth story and dividends. I guess those are the top two things that they commonly ask us.*

**Kristina Garcia**  
Director for Investor Relations, Century Properties Group, Inc.

### Minority participation in director selection process

When it comes to director nomination, election and removal, 84% (43) of the respondents have policies and procedures enabling minority shareholders to communicate their inputs on director nomination, while 94% (48) disclose the experience and background of candidates for directorship. This reflects the growing need for addressing the rights of minority shareholders, and how companies have responded to date. As with any right, companies need to ensure that the exercise of these rights is within appropriate bounds. To implement this, companies can consider adopting proxy access rules.

Proxy access rules allow shareholders that meet certain ownership criteria to submit a limited number of director candidates for inclusion on the company's annual proxy.<sup>4</sup>

### Shareholder disclosures

In terms of disclosure of company equity and holdings, 98% (50) regularly share with shareholders the capital and control structure, and 90% (46) disclose all company holdings in other listed companies, including the respective objective and rationale. The remainder of the respondents are considering adoption of these mechanisms. It is worth noting that company's capital allocation plan is the center of long-term versus short-term investment

debate, and directors are also open to discussing the company's use of cash with investors.<sup>5</sup>

As for related party transactions, respondents in varying degrees have indicated that related party transactions undergo the following processes (notwithstanding the minimal prevalence of a separate Related Party Transaction Committee):

- Disclosures of conflicts of interest by directors and key executives (96%)
- Approval by the Board of Directors as deemed necessary (88%)
- Proper monitoring by the management team on a day-to-day basis (71%)
- Ratification by majority vote of shareholders for material or significant RPTs (65%)

## Numerous developments have helped promote shareholder engagement, such as IROs

45/51

of the respondents engage their shareholders through the *Investor Relations Office* which:

- receives feedback, complaints, and queries from shareholders
- is responsible for managing the company's investor relations program
- has a dedicated email address and telephone number.

44/51

includes the appointment of an investor relations officer

### Respondent companies have instituted the following mechanisms to assist shareholders who seek to address the violation of their right(s):



Email address for complaints (46)



Dedicated investor relations personnel (41)



Complaints hotline (27)



ADR/ Arbitration procedure (14)



Escalation policy (2)

<sup>4</sup> PwC Director-Shareholder Insights: Board composition – Key trends and developments, May 2016

<sup>5</sup> PwC's 2016 Annual Corporate Directors Survey

## Duties to stakeholders

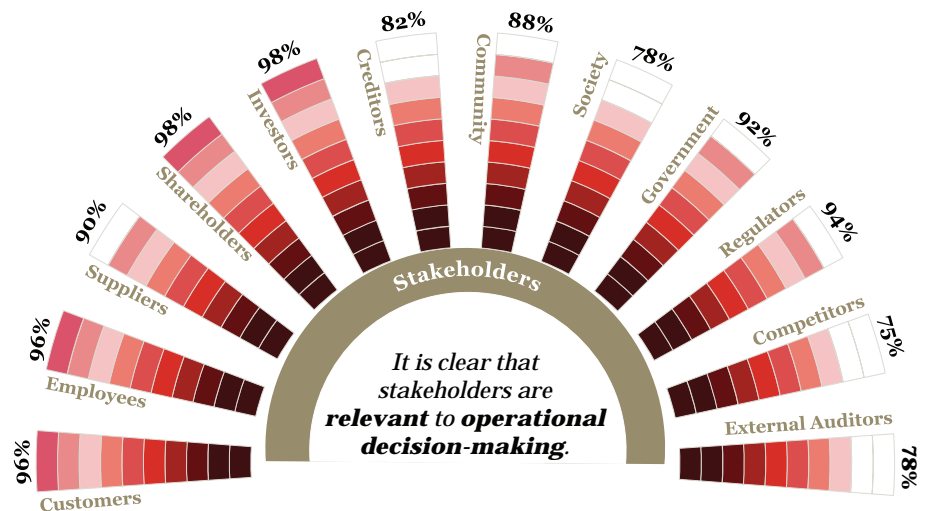
### ***Respecting the rights of stakeholders and effective redress for violation of stakeholders' rights***

Companies do not operate in isolation: for them to realize their short and long-term goals and objectives, they have to work together with their stakeholders. Such stakeholders either affect or are affected by how the companies operate and make decisions. And in this context of interdependence, companies have to also support the rights and interests of their stakeholders—driven by legislation, contractual arrangements and voluntary commitments of the companies themselves.

When it comes to ensuring focus on how a company serves its customers and conducts its business, 92% (47) of the respondents have corresponding policies and procedures in place. While the structure, scope and composition of these policies and procedures may vary, these typically revolve around customer interaction and touchpoints (from business development up to post-transaction support) and supporting operational processes.

As to dealing with suppliers and contractors, almost all respondents say they deal with them in a professional and objective manner. 92% (47) of the companies consider both economic and non-economic factors (such as society, human rights

### ***There is higher emphasis on the consideration of stakeholders in operational decision-making***



and environment) in selecting suppliers and contractors. This may indicate that aside from the capability of the suppliers/contractors to deliver the specific resource or service acquired, companies look beyond the tangibles and consider how suppliers/contractors consider their respective stakeholders as well.

In the case of protecting the rights of creditors, established solvency framework for creditor protection exists for 76% (39) of the respondents, while the

rest consider establishing one in the future. Likewise, the majority of the corresponding insolvency procedures define mechanisms for disclosing financial difficulties for mutual development of solutions between the company and creditors.

Only 78% (40) of respondents confirm having appropriate procedures to address community issues in the localities where they operate. The rest are considering establishing such procedures.



## Encouraging employees' participation

Among all stakeholders, employees have the most direct impact on (and get the most impact from) the company they work with. If employees do not carry out their roles and responsibilities well, the company ceases to generate the value it intends to deliver. Likewise, they are the key pieces that bring corporate governance and strategy to work on a day-to-day basis.

Recognizing the need to foster employees' active participation in corporate governance, Boards have adopted various mechanisms in their respective organizations.

The top choices include:

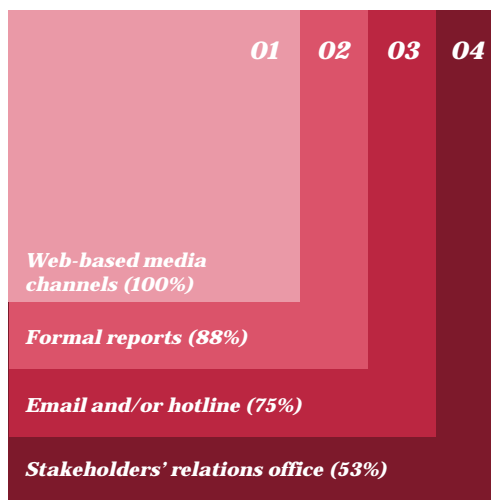
- Training and development programs (94%)
- Health, safety and welfare policy (90%)
- Reward/compensation policy (86%)

While being the most direct way to engage employees in corporate governance is employee representation in the Board (excluding executive directors), only 14% confirm implementing this process.

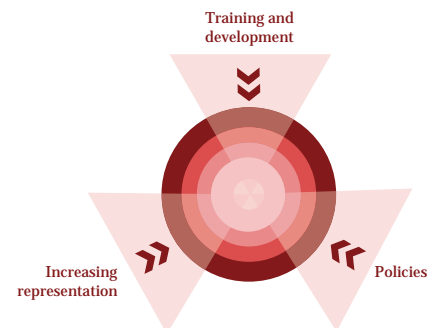
Work councils appear to gain traction in promoting employee participation. Other methods include employee stock option or purchase plans, long-term incentive plans and service excellence awards.

## Stakeholders need to be made more aware of their role in furthering corporate governance

Communications with stakeholders are primarily conducted via:



Employees, in particular, have been encouraged to actively participate in corporate governance through:



Employee engagement is not only concentrated on programs addressing employee welfare and development, but also on those emphasizing employee duty in cultivating a culture of honesty, transparency and fair dealing. Two mechanisms to address these intentions are anti-corruption programs and whistleblowing programs.

**Anti-corruption policies and programs have to evolve in light of increasing regulatory scrutiny**

Only 33 respondents (65% of the total) report that their company’s Anti-Corruption policy and program include provisions that:

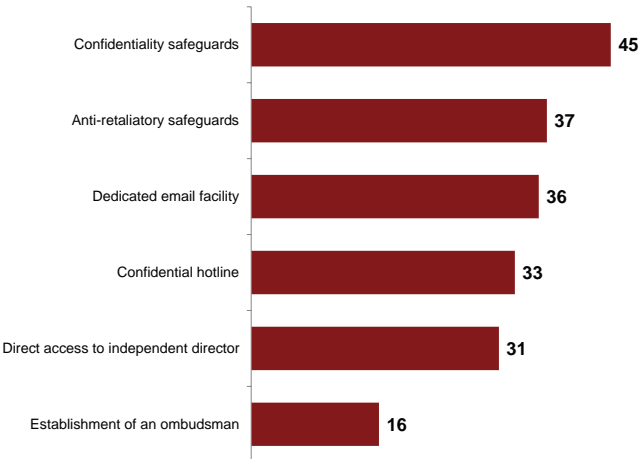
- encourage employees to report corrupt practices
- assist individuals in identifying corrupt practices
- endeavor to mitigate corrupt practices
- outline procedures on how to combat, resist and stop these corrupt practices
- formalize the role of the Board in setting the tone and leading the execution of the policy.

**Anti-corruption training programs are conducted:**



**Employee whistleblowing frameworks should encourage employees to report matters as needed**

Respondents’ employee whistleblowing frameworks cover:





*Talagang nabago ang lugar namin nung dumating ang Manila Water at yung programa nilang Tubig para sa Barangay. Nag-unite ang mga tao dahil sa pangangailangan ng tubig. Yung dating kanya-kanya, walang pakialaman sa isa't isa, nabago at nagkaroon ng unity ang mga tao.*

**Ms. Cora Fajilagot**  
President of Kaybagsik  
Neighborhood Association,  
Brgy. San Luis, Antipolo, Rizal  
Beneficiary of Tubig para sa  
Barangay (Water for the Poor)  
Project of Manila Water

### ***Encouraging sustainability and social responsibility***

More companies are acknowledging the value of sustainability and social responsibility in fulfilling their duties to the broad stakeholder base, as the responses reflect various stages of adopting recommended practices:

- 84% (43) confirmed that the company value chain process considers economic, environmental, social, and governance issues and concerns, while 78% (40) put high importance on complying with environmental regulations.
- 67% (34) indicate the existence of a company shared value framework that highlights the responsibility of the company to contribute solutions to address global challenges.
- All other respondents consider adoption of these recommended practices.

With the increasing opportunities for stakeholders to exert their influence and impact on companies, Boards and management should provide more focus on environmental, social and governance (ESG) factors. More and more, stakeholders are considering ESG factors when they evaluate a company's strategy, risk profile, and its plan to create long-term value.<sup>6</sup>

Not only do stakeholders in general appreciate ESG as key factors; investors, specifically, increasingly recognize that ESG factors can be material to the investment process and returns.

They see how ESG factors contribute to value creation and risk management, and that the influence of ESG factors on securing deals and impact on valuation is growing.<sup>7</sup>

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<sup>6</sup> PwC's ESG Pulse 2016

<sup>7</sup> PwC and Principles for Responsible Investment: The Integration of Environmental, Social and Governance Issues in Mergers and Acquisitions Transactions, December 2012

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## ***Next steps and conclusion***





## The role and next steps for corporate governance key players

### **Regulators**

With its strong thrust to institute strong corporate governance in the Philippines that is aligned to regional and global standards, the SEC developed the “Philippine Corporate Governance Blueprint 2015: Building a Stronger Corporate Governance Framework.”

As a result of this blueprint borne out of tedious work and expertise of SEC and various stakeholders, the revised CG Code was created. The CG Code is just one of the strategic priorities for implementation up to 2020, with the others complementing and building on the CG Code to provide the breadth and depth of coverage for the corporate governance elements.

Guided by the blueprint, SEC, in collaboration with other regulators for certain sectors, continues to champion good corporate governance while providing mechanisms to increase multiple stakeholder involvement. They need to judiciously translate the principle and put forward clear descriptions and explanations in their Annual Corporate Governance Reports.

2017 will see the submission of the new Manual on Corporate Governance that incorporates the elements of the new CG Code. This, together with the preliminary insights provided by this survey, will provide the SEC the first concrete view of the level of compliance by publicly listed companies. It will also define the baseline for the company’s efforts for initial adoption. Armed with this

information, the SEC can gauge areas with the highest rates of adoption including the methods by which companies illustrate their compliance with the recommendations. Likewise, a more thorough analysis can be done to assess adoption based on company type, size, industry, among others.

With the “Comply or Explain” operative principle in the new CG Code, the SEC can also identify areas where companies are not inclined to adopt the specific recommendations.

As companies are required to explain, SEC can obtain information on the reasons for not complying, and develop assessments on the suitability and acceptability of explanations. The same approach can also be applied when companies put forward alternatives adopted to address the Principles and Recommendations.

As more concrete data are generated during the first year of the new CG Code implementation, insights can be derived and used by the SEC to enhance, tailor or introduce new action plans to the 2015 CG blueprint. Likewise, the SEC should continue leveraging feedback from companies and advocacy groups to develop a comprehensive view of the CG landscape and developments.

### **Private sector – Listed companies**

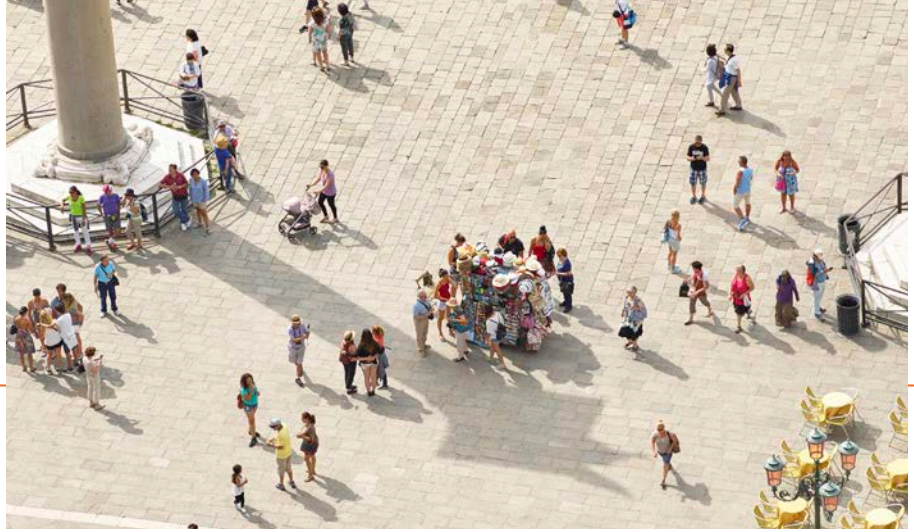
During the first year of the new CG Code implementation, listed companies have the opportunity to objectively evaluate their level of

compliance and identify priority areas for improvement.

Since the release of the new CG Code in November 2016, companies have been taking stock and working towards either complying with the recommendations or assessing alternatives to be put forward. As shown in the readiness questions across the 16 principles, almost all have registered more than 50% adoption, with a significant part of the rest considering adoption at least within a year.

Companies who are already adhering to the ASEAN Corporate Governance Scorecard (ACGS) may have an advantage, as the ACGS is one of the key reference materials used for the new CG Code. While this can apply to larger corporates who have relatively more developed CG practices, the mid- and smaller-tier companies may encounter more challenges in adopting the new recommendations. They need to judiciously translate the principle of proportionality to their respective organizations, and put forward clear descriptions and explanations in their Manual on Corporate Governance.

Notwithstanding the above circumstances, companies should continue advocating the CG Code beyond paper compliance and adopting tangible outputs. To a certain extent, leading companies can lend technical expertise, experience and lessons learned to those with less developed CG practices.



Companies should also use to their advantage the institution of CG practices by communicating such to the broader set of stakeholders. This will not only solicit more involvement and participation, this bodes well for the corporate reputation, too.

### **Private sector – Non-listed companies**

Although the new CG Code primarily applies to publicly-listed companies, companies not covered by this regime should consider assessing the applicability of the principles and recommendations, including other CG-related issuances by SEC and relevant regulators. While non-mandatory, these companies are playing in the same field as PLCs, thus exposing them to similar expectations of their own stakeholders.

With the new CG Code aligned to regional and global best practices, it provides a ready benchmark for own CG efforts, and adopt a more strategic mindset (rather than compliance) for its own long-term value creation and sustainability.

### **Advocacy groups**

Regulators and companies alike require a steady support system to propagate CG practices and allow a more collaborative approach to building on the strengths and contributions of each other. This is where advocacy groups can lend their expertise, experience and passion for CG.

Advocacy groups should continue to partner with the SEC and other oversight and regulatory bodies to propagate CG appreciation and value. Likewise, they can be effective conduits of feedback and information between SEC and organizations. Composed of company representatives and CG practitioners alike, these groups can influence member companies to adhere to CG best practices as a way to “walk the talk” and strengthen CG culture.

They can also provide inputs on the actual implementation of CG recommendations to SEC. Lastly, they can provide a platform for sharing CG practices among members and other organizations.



*PSE serves as a bit of a carrot and stick. Things like the Bell Awards serve as a good way to benchmark individual companies so that they know where they are relative to others in corporate governance. The market in itself is also a good “stick” as companies are increasingly required to be more transparent by investors.*

**Hans B. Sicat**  
Former President & CEO, PSE

## Conclusion



### Current state of corporate governance

The results appear to paint a promising picture of the companies' readiness to adopt the new CG code. In the readiness questions covering selected recommendations of the 16 principles, almost all areas have registered more than 50% adoption with a significant number of the remainder considering adoption of the recommendations at least within the year. However:

- Majority of the respondents were from companies with large capitalization (more than PHP10bn), indicating that the results represent more the current state of CG for larger corporates. Typically, these companies have more developed CG practices and may participate in the ACGS. However, this does not intend to conclude the direct correlation of capitalization and quality of CG practices.
- Regulated industries such as financial services represent one third of the respondents. These institutions are required to comply with relatively more stringent CG requirements as imposed by their regulators.

Across five key themes, respondents have shown different degrees of implementation and openness to adopt:

- **The Board's governance responsibilities:** Adoption is a work in progress for this most comprehensive theme. Almost all however, have confirmed the existence of a dedicated Audit Committee. As of now, there is a very low readiness to allow third-party experts to assess Board's performance.
- **Disclosure and transparency:** Over 90% of the respondents have existing practices in disclosing financial information and external audit. However, adoption is a challenge for majority of the respondents on disclosures regarding non-financial and sustainability issues.
- **Internal control system and risk management framework:** Most of the respondents indicate the implementation of internal control systems and internal audit. Enterprise risk management implementation is a work in progress, having been significantly expanded from the previous CG Code.

- **Cultivating a synergic relationship with shareholders:** With recommendations similar to the provisions of the 2009 CG Code, most respondents have indicated that they value strong collaboration with shareholders and protection their rights, especially the minority shareholders.
- **Duties to stakeholders:** Principles under this theme are relatively new, yet an overwhelming majority ensure that duties to stakeholders are met, with existing mechanisms correspondent to the recommendations.

It is interesting to consider though the perspective of various international institutions insofar as Philippine CG practices are concerned:

- **World Economic Forum Competitiveness Report (2010-2016):**
  - The Philippines is ranked in the middle tier (66th) out of 138 countries in terms of "Corporate Governance" in 2016, improving from 90th in 2010, but declined starting 2014.
  - The lowest attribute was for "Strength of Investors' Protection" but fared better for "Strength of Auditing and Reporting Standards" (related to "Disclosure and Transparency") and "Efficacy of Corporate Boards" (related to "Board Governance").



*Let's all get together so that we can have a stronger voice, not just with the regulators but with our bosses and with our stakeholders and this is a step moving to right direction.*

**Atty. Jocelyn Villar-Altamira**  
President, GGAPP

- **CLSA-ACGA (Asian Corporate Governance Association) CG Watch 2016:**
  - The Philippines ranked 10th out of the 11 markets assessed in the survey, ranking lower than ASEAN peers Singapore, Thailand and Malaysia, but higher than Indonesia.
  - The Philippines' "score fell because of slow progress on reform and general CG standards are well below those other markets. "
  - The Philippines scored the highest for "IGAAP" (International Generally Accepted Accounting Principles), but needs improvement on "Corporate Governance Rules/Practices", Corporate Governance Culture and Enforcement.

In summary:

- While the various CG players have put forward meaningful efforts to establish and promote CG practices, so much more need to be done.
- More effort is needed not only for the adoption of baseline recommendations by a few, but also the broader acceptance and adoption across various categories of listed companies.
- While the elements of "Comply or Explain" and "Principle of Proportionality" allow companies some degree of flexibility, considering the companies' type, size and complexity (among others), it should drive more insightful assessments and decisions towards embedding CG in the organization.
- All CG stakeholders should work towards the general acceptance and embodiment of CG, advocate a consistent yet tailored application of the recommendations, and espouse the importance and value of CG.
- The results of the survey should help increase the maturity of CG practices, contribute inclusive development in the CG environment, and drive better perception from stakeholders and international institutions.

### **Areas for further consideration**

The survey intended to cover as many aspects of the principles and recommendations of the new CG Code. However, with the extent of items covered by the new CG code vis-à-vis survey administration considerations, the questions covered the "what" of selected recommendations. The length of survey, time required to complete, the amount of information required and the appropriate officer(s) to respond were key parameters that drove the

respondent turnout and the resulting data pool.

This survey aims to push forward more conversations and the momentum on CG by providing a starting platform. GGAPP and PwC advocate the following:

- More thorough and targeted studies on the various dimensions of the new CG code and Philippine CG in general.
- Targeted surveys that can cover key stakeholders and officers for CG, such as corporate directors, compliance officers and C-suite executives.
- Subsequent studies that should focus on:
  - The "why" and "how" for specific areas of interest
  - The detail, quality and rationale for the adoption/non-adoption of recommendations
  - Alternatives put forward by companies and "explanation" for non-adoption of the recommendations.

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The Good Governance Advocates and Practitioners of the Philippines is an association of good governance advocates and practitioners from various publicly-listed companies, the public sector and other organizations who have come together to promote and assist in the development of good governance in the country.

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