ICD

Institute of Corporate Directors

ACGS ASEAN CORPORATE GOVERNANCE SCORECARD

Philippine Results 2018

The Golden Arrow Recognition

PLCs that achieve a score of 80 points or higher are considered as top performing companies in the Philippines under the ACGS. Starting this year 2019, five (5) levels of top performance in corporate governance will be recognized based on the ACGS scores. Each ascending level will be depicted by an increasing number of golden arrows, as follows:

ACGS score of 80 to 89 points	1-arrow recognition
ACGS score of 90 to 99 points	2-arrow recognition
ACGS score of 100 to 109 points	3-arrow recognition
ACGS score of 110 to 119 points	4-arrow recognition
ACGS score of 120 to 130 points	5-arrow recognition

An upward-pointing arrow was chosen to symbolize the continuing efforts of Philippine PLCs to raise the level of compliance with the ASEAN corporate governance principles.

The foregoing system of recognition is also applied to insurance companies that are assessed under the ACGS.

I. Background

The ASEAN Corporate Governance Scorecard (ACGS or Scorecard) is an instrument for the assessment and ranking of publicly listed companies (PLCs) in six participating ASEAN countries—Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam. The ACGS is an initiative of the ASEAN Capital Markets Forum (ACMF) that started in collaboration with the Asian Development Bank in 2011. It is aimed at raising the corporate governance standards and practices among ASEAN PLCs, making well-governed ASEAN PLCs attractive to investors, and promoting ASEAN as an investment asset class.

Since November 2015, the Philippine Securities and Exchange Commission (SEC) have led ACMF Working Group D, the body directly responsible for the ACGS initiative. Assessment of PLCs under the ACGS is a two-stage process. The first is local assessment conducted by the domestic ranking body (DRB) in the country. This is followed by peer review by the DRB from another country. In the Philippines, the SEC-appointed DRB is the Institute of Corporate Directors (ICD).

The Scorecard was benchmarked against international best practices that encourage PLCs to go beyond national legislative requirements. Its development was guided by the following principles:

- The Scorecard should reflect global principles and internationally recognized good practices in corporate governance applicable to PLCs. In some instances, results may exceed the requirements and standards recommended in national legislation.
- The Scorecard should aim to encourage PLCs to adopt higher standards and aspirations.
- The Scorecard should be comprehensive in coverage, capturing the salient elements of corporate governance.
- The Scorecard should enable gaps in corporate governance practices among ASEAN PLCs to be identified and should draw attention to good corporate governance practices.
- The Scorecard should be universal and applicable to different markets in ASEAN.
- The methodology should be robust to allow the accurate assessment of the corporate governance of PLCs beyond minimum compliance and box ticking.
- There should be extensive and robust quality assurance processes to ensure the independence and reliability of the assessment.

The Organization for Economic Cooperation and Development (OECD) Principles of Corporate Governance, given their global acceptance by policy makers, investors, and other stakeholders, were used as the main benchmark for the ACGS. Many of the items in the Scorecard are best practices that may go beyond the requirements of national legislation.

In 2015, OECD released its revised Principles of Corporate Governance which were subsequently endorsed by the G20. In light of this development, the ACMF initiated a review of the ACGS to align with the recent developments and emerging corporate governance practices. The review was concluded in May 2017 and the resulting revised version of the Scorecard was used in the 2017 assessment run.

II. Methodology

The Scorecard covers the same five areas of the OECD principles:

Part A: Rights of Shareholders,

Part B: Equitable Treatment of Shareholders,

Part C: Role of Stakeholders,

Part D: Disclosure and Transparency, and

Part E: Responsibilities of the Board.

Two-level scoring is done in the assessment of PLCs. This methodology captures the actual implementation of the substance of good corporate governance. Level 1 comprises descriptors or items that are, in essence, indicative of the laws, rules, regulations, and requirements of each ASEAN member state and the basic expectations of the OECD principles. Level 2 consists of bonus items reflecting emerging good practices and penalty items reflecting actions and events that are indicative of poor governance.

The assessment of corporate governance practices of PLCs is primarily based on publicly available and accessible information contained in the annual report of a PLC, and the website of the state securities commission and of the local stock exchange. Other sources of information considered are company announcements, notices, circulars, articles of association, minutes of shareholders' meetings, corporate governance policies, codes of conduct, and sustainability reports. To be given points on the Scorecard, all disclosures must be unambiguous and sufficiently complete.

The weight allocated to each area of the revised Scorecard is as follows:

Table 1. ACGS Weight Allocation

Level 1: Five Sections that correspond to the OECD Principles	No. of Items	Weight (points)
Part A. Rights of Shareholders	21	10
Part B. Equitable Treatment of Shareholders	15	10
Part C. Role of Stakeholders	13	15
Part D. Disclosure and Transparency	32	25
Part E. Board Responsibility	65	40
Level 1 Subtotal	**146**	**100**
Level 2: Two Additional Sections		**Maximum points**
Bonus (practices beyond minimum standards)	13	+30
Penalty (for poor practices)	25	-67
Level 2 Subtotal	**38**	
TOTAL of Level 1 & Level 2	**184**	**130**

The assessment process entails two rounds of assessments, with the DRBs assessing and ranking their respective domestic PLCs in round one, followed by peer review by other DRBs in round two. The peer review process is what differentiates this exercise from other corporate governance assessments. Following peer review, the local DRB and the peer reviewer DRB carry out engagements and discussions to reconcile any differences in their scores and to agree on a final score for each PLC. As the assessments are based primarily on disclosures, the ACMF introduced a third step in the 2017 run; an independent party was appointed to validate key corporate governance practices of the companies being assessed by way of a face-to-face interview with the companies' board of directors and key officers.

III. Recommended Practices under the ACGS

A. Rights of Shareholders

The corporate governance framework should protect and facilitate the exercise of shareholders' rights.

Call for Annual Shareholders' Meeting (ASM)

- The Notice of ASM should be issued at least 21 days before the event.
- Shareholders should be able to nominate candidates to the board and, may be subject to certain qualifications, to place items on the agenda of the ASM.

The Notice of ASM should include the following:

- Rationale and explanation for each item requiring shareholders' approval.
- Profile of candidates to the board with at least the age, academic qualification, date of first appointment, relative experience, and directorship in other listed companies.
- Identity of the external auditor seeking appointment.
- Proxy documents.

Conduct of ASM

- All directors should be present.
- The company should vote by poll.
- There should be an independent party appointed to count and/or validate the votes.
- Shareholders should be given the opportunity to ask questions or raise concerns. Questions and answers should be recorded in the Minutes of the ASM.

Result of ASM

- The result of ASM should be published within one business day after the event.
- Disclosure of voting results should include the number of approving, dissenting, and abstaining votes.

Other recommended practices

- Dividends should be paid in a timely manner. Cash dividends should be paid within 30 days after declaration and approval. Scrip dividends should be paid within 60 days.
- The company should have a program encouraging engagement of shareholders beyond attending ASM.
- In case of merger and acquisition, the company should appoint an independent party to evaluate the fairness of the transaction price.

B. Equitable Treatment of Shareholders

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders.

Managing conflicts of interest

- The company should observe the principle of "one common share one vote".
- A clear policy prohibiting any director, officer, or employee benefiting from knowledge not available to the general public.
- Disclosure of dealing or transactions in company shares on the part of any director, officer, or employee within 3 business days.
- Summary of trading of directors and key officers on company shares are disclosed in the company website and/or annual reports.

On related party transactions (RPT)

- Policy on the review and approval of RPTs.
- The company should have a committee with no executive director member that will review material RPTs. The company may form an RPT Committee.
- Details of RPTs should be disclosed, i.e., name, relationship, nature, and value.
- All RPTs should be conducted in a fair and at arm's length basis.

C. Role of Stakeholders

The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

Relating to external stakeholders

The company should have a policy and implemented activities relating to:

- Consumers and customers welfare.
- Supplier and contractor selection procedures.
- Environmentally-friendly value chain.

- Positive interaction with communities impacted by corporate operations.
- Anti-corruption programs and procedures.
- Safeguarding creditors' rights.
- Separate corporate social responsibility report/section.

Relating to internal stakeholders

Mechanisms for employee participation should be permitted to develop. The company should articulate clear policies and disclose relevant information affecting its employees:

- Health, safety, and over-all welfare.
- Training and development (i.e. investment in learning and growth).
- Reward and compensation policy promoting long-term performance of the company (beyond short-term financial measures).

Whistleblowing policy

A robust system which includes procedures for complaints by employees and other stakeholders concerning alleged illegal and unethical behavior, including protection of reporters from retaliation. Contact details should be easily available in the company's website and/or annual report.

Adoption of internationally recognized framework for sustainability reporting is ideal.

D. Disclosure and Transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

Transparent ownership structure

Disclose the following information on the ownership of the company:

- Those who own or have beneficial ownership of at least 5% of the shares of the company.
- Ownership of the shares may be direct or indirect on the part of substantial owners, directors, and officers.
- Information on subsidiaries, joint ventures, special purpose vehicles of the company; and the participation in them of substantial owners, directors, and officers.

Annual Report

The Annual Report is expected to include:

- Financial performance indicators.
- Non-financial performance indicators.
- Corporate objectives with performance targets.
- Dividend policy and its specific application to the year being reported.
- Information on currently serving directors including age, qualifications, attendance at continuing education program for directors, attendance at meetings of the board and its committees, and remuneration (on a per director basis).
- A board statement confirming the company's full compliance with the SEC Code of Corporate Governance and where there is non-compliance, explaining the reasons for each case.
- A report on insider trading and RPT.
- Audit and non-audit fees paid to the external auditor.

Other elements of the disclosure regime that need to be in place:

- Quarterly reporting, analysts' briefing, and media briefing.
- Timely submission of audited financial report (best if after 60 days from the close of the financial year; absolutely necessary within 120 days after the close of the year being reported); there has to be a certification from key officers (if not from the board) that the financial report is fair and true.
- Maintenance of an active website with downloadable annual reports, performance reports, record of AGM, and ownership structure.
- An Investors Relations Office with contact parameters including those of the officer-in-charge.

E. Responsibilities of the Board

The corporate governance framework should ensure the strategic guidance of the company by the board, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

Fundamental Functions

The first item is for the company to adopt a Code of Corporate Governance, as mandated by the SEC. Within that Code, there has to be a clear specification of the duties and responsibilities of the board, as mandated by law. Among the duties to be included are:

- Final approval and adoption of corporate strategy along with oversight over strategy execution.
- Final approval of key policies directing the operations of the company, including policy related to corporate strategy and its execution.
- Performance monitoring (covering both financial and non-financial aspects) of corporate operations.
- Oversight of risk management and setting up of accountability systems.
- Promotion of a culture of ethics, social responsibility, and good governance.
- Adoption of a board charter or protocol, which guides the board on its internal processes, including specification of decisions requiring board approval.

As a fundamental reference for all board decisions and actions, it has to adopt and promulgate:

- A corporate vision
- A corporate mission (founded upon corporate core values).
- The board periodically revisits and reviews the corporate vision, mission, and core values. The corporate strategy is reviewed annually.
- The board pro-actively oversees strategy execution and sets up a proper mechanism for its key oversight function.

On risk management and internal control systems:

- The head of internal audit is identified.
- Key risks are identified and disclosed. Disclosure of IT governance process and how it is being reported to the board is encouraged.
- The board should review the internal control and risk management systems periodically and comment on their adequacy.

Board structure and composition

- The roles of the Chairman and of the CEO should be separated.
- The role and responsibilities of the Chairman are defined and delineated.
- Ideally, the Chairman should be an independent director. If the Chairman is not independent, the company should appoint a lead independent director.

- One of the non-executive directors should have prior experience within the sector or industry to which the company belongs.
- A non-executive director should not be the CEO in the past two years.
- Non-executive directors and independent directors should not serve in more than 5 boards of publicly listed companies.
- Ideally, 50% of all board seats should be occupied by independent directors.
- Independent directors should serve no more than a total of nine years in a given board.

Board committees

- Should be chaired independent directors.
- Should be comprised of a majority of independent directors.
- Should meet at least twice a year, except Audit Committee which should meet at least four times a year.
- Attendance details in committee meetings should be disclosed.
- Committee charters should be disclosed.
- The charter of Audit Committee should include:
  - Recommendation on the approval and removal of external auditor
  - Approval of the appointment and removal of internal auditor
- It is recommended to have a separate board-level Risk Oversight Committee

Board processes

- Meetings of the board are scheduled in advance, set before the start of the year.
- The board should meet at least 6 times in a year.
- Directors should be able to attend at least 75% of all board meetings.
- For determining quorum at meetings, a two-thirds threshold is to be observed.
- Non-executive directors are to meet once a year, without the presence of any executive directors.

Access to information

- Meeting materials should be sent to the board at least five working days ahead.
- Identity of corporate secretary is disclosed.

- The corporate secretary should have legal or accounting or company secretarial background.

On remuneration matters, the following should be disclosed:

- Remuneration policy for executive directors
- Fee structure for non-executive directors and independent directors

Board development

The Manual on Corporate Governance should include items related to the "skills and competencies" of directors. These items are:

- The board adopts and practices a policy of diversity within the board. The board should set a measurable objective on diversity and report on its progress.
- The Nomination Committee should ensure that the qualities of the candidates to the board are aligned with the company's strategic direction. The company is encouraged to use external sources when searching candidates to the board.
- Directors go through an orientation program on corporate governance.
- The board should have a policy actively encouraging directors to attend continuing education programs on corporate directorship.
- The board articulates the policy and the conduct of performance appraisal, starting at the board level. The company discloses the process—as well as the criteria—for the conduct of a board performance appraisal.
- Performance appraisal is not limited to the board as a collegial body. It extends to individual directors and board committees. In this case, both the process and criteria used in conducting individual director and board committee performance appraisal should be disclosed.
- The performance appraisal of the CEO should be separately undertaken. The criteria to be used should relate to over-all corporate performance in pursuit of the corporate strategy map or road map.

IV. Philippine Corporate Governance Initiatives

The Securities and Exchange Commission (SEC) has been working on the improvement of corporate governance practices in the Philippines since the adoption of the ASEAN Corporate Governance Scorecard in 2012. In 2013, the SEC, along with the Institute of Corporate Directors (ICD), launched an information campaign to familiarize PLCs, other government regulators, and investors on the objectives and mechanics of the Scorecard. The SEC required all PLCs to issue an annual corporate governance report (ACGR), which is intended to consolidate all of the governance policies and procedures of each PLC into one report for ease of reference. The SEC further required that all PLCs post their ACGR on their corporate websites.

In December 2013, the SEC directed all key officers and members of the board of PLCs to attend a training program on corporate governance at least once a year. The SEC also recognized the need to update the primary codes that comprised the corporate governance framework in the Philippines.

By the first half of 2014, the SEC had amended the Revised Code of Corporate Governance to include "other stakeholders" in the company's responsibilities. To improve the quality of PLCs' websites, the SEC recommended a template for PLCs to follow in organizing disclosures made online. PLCs were also directed to post the minutes of all general or special meetings within 5 days from the actual date of the meeting.

The SEC also used the ACGS as a basis for discussion when it developed and launched the Philippine Corporate Governance Blueprint in 2015 in conjunction with other players in the corporate governance ecosystem. The blueprint utilized the best practices espoused in the ACGS along with other global corporate governance principles as the foundation for a program which was designed to strengthen the corporate governance regime in the Philippines over the next 5 years. Many of the recommendations contained in the blueprint are consistent with the best practices espoused by the ACGS.

In November 2016, SEC issued the Code of Corporate Governance for PLCs to promote development of a strong governance culture and keep abreast with recent developments in corporate governance. The G20/OECD CG Principles and the ACGS were used as key reference materials in drafting the Code. This CG Code for PLCs took effect on 1 January 2017. The Code adopts the "comply or explain" approach. This approach combines voluntary compliance with mandatory disclosure. Thus, a PLC may not be fully compliant with the Code, but it must state in its annual corporate governance report the reason for any non-compliance.

Starting in 2018, the CG reportorial requirements of the SEC and the Philippine Stock Exchange have been unified into the Integrated Annual Corporate Governance Report (I-ACGR). The I-ACGR serves as a common instrument for disclosure by the PLCs of their compliance or non-compliance with the recommendations provided under the CG Code for PLCs. The report includes CG Practices found in the ACGS and the PSE CG Guidelines for PLCs.

In February 2019, the SEC issued the "Sustainability Reporting Guidelines for Publicly Listed Companies" through SEC Memorandum Circular No. 4, series of 2019, as part of initiatives to encourage improved business practices. The Guidelines is intended to help PLCs assess and manage non-financial performance across economic, environmental, and social aspects of their organization and enable PLCs to measure and monitor their contributions towards achieving universal targets of sustainability, such as United Nations Sustainable Development Goals, as well as national policies and programs, such as AmBisyon Natin 2040. PLCs will be required to submit, on a “comply or explain” basis, sustainability reports starting 2020.

On the same month, Republic Act No. 11232, otherwise known as the Revised Corporation Code of the Philippines (RCC), was signed into law updating the 38-year-old Corporation Code of the Philippines to align the code to current developments. Several of the revisions are meant to promote ease of doing business in the country and raise the standards of governance of Philippine corporations in line with existing international best practices. Some notable amendments under the RCC are: (1) one person corporation allowed; (2) default perpetual corporate existence; (3) no more minimum capital stock; (4) removal of the minimum number of incorporators, directors, and trustees; (5) new classification of corporations vested with public interest; (6) a provision for an emergency board when a vacancy in a corporation's board of directors prevents the remaining directors from constituting a quorum; and (7) voting allowed through remote communication and/or in-absentia in annual meetings.

V. Results of 2018 Assessment of Publicly Listed Companies

A. Overall Results

In its role as the Philippines' domestic ranking body, ICD facilitated in 2018 the scoring of the 247 companies listed on the Philippine Stock Exchange (PSE).

The respective numbers of the ICD-assessed PLCs belonging to the seven sector categories of the PSE are as follows:

(i) Financials – 26

(ii) Holding Firms – 39

(iii) Industrial – 62

(iv) Mining and Oil – 24

(v) Property – 36

(vi) Services – 56

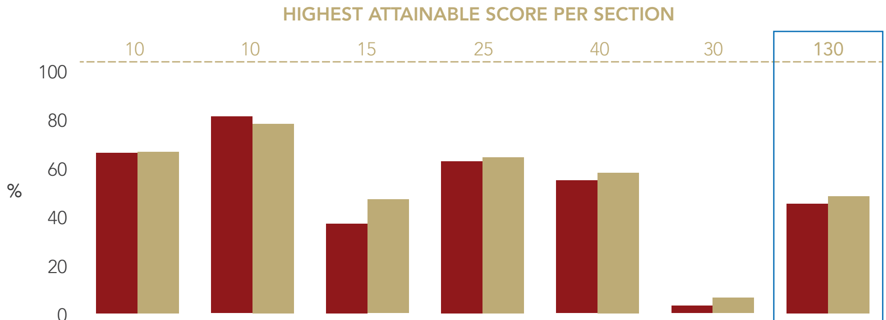
(vii) SME and ETF – 4

Out of the possible maximum score of 130, the PLCs assessed by ICD in 2018 had an average score of 62.3 points as shown in Table 2.

Among these PLCs, the highest score achieved was 114.8 points.

There are 48 PLCs that achieved a score of 80 or higher. They constitute 19 per cent of the 247 companies listed on PSE and are considered top performing companies in the Philippines under the ACGS.

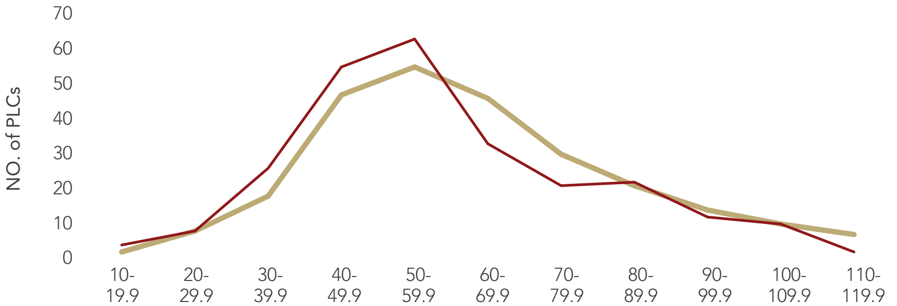
Table 2. 2018 ACGS Results – PLCs



	Rights of Shareholders	Equitable Treatment of Shareholders	Role of Stakeholders	Disclosure and Transparency	Responsibilities of the Board	Bonus and Penalty	Total Score
2017	6.5	8.1	5.5	15.6	21.8	0.9	**58.4**
2018	6.7	7.8	6.9	16.1	23.2	1.7	**62.3**

Although all areas can still be improved, Philippine PLCs performed well on Part B – Equitable Treatment of Shareholders. The provisions of the Corporation Code have prodded the companies to align their practices with some ACGS recommendations on managing possible conflicts of interest. More companies now require their directors and key officers to disclose their transactions in company share within three business days. Companies also released their Notice of ASM at least 21 days before the event and many released it at least one month ahead. The assessment also observed proper disclosure of direct and indirect shareholdings of directors and key officers. Moreover, most annual reports and audited financial statements were released within 120 days after the financial year-end. The annual reports included financial performance indicators and audit and non-audit fees. Manuals of corporate governance are comprehensive; board committees are established and most boards are assisted by a corporate secretary with legal background.

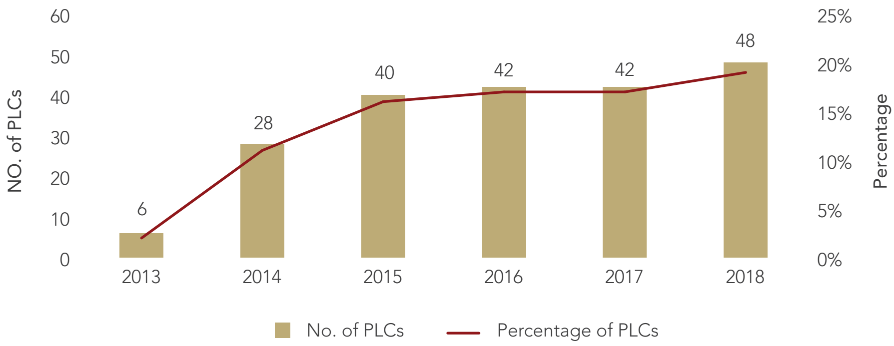
Table 3. 2018 Score Distribution – PLCs



	10-19.9	20-29.9	30-39.9	40-49.9	50-59.9	60-69.9	70-79.9	80-89.9	90-99.9	100-109.9	110-119.9
2017	3	7	25	54	62	32	20	21	11	9	1
2018	1	7	17	46	54	45	29	20	13	9	6

Based on Table 3, 48 Philippine PLCs are scoring at 80 points and above, with the highest score achieved being 114.8. Year on year, Philippine PLCs continue to improve their performance as manifested in the continuous increase in the number of PLCs attaining the score of 80 points (see Table 4).

Table 4. Number of Companies Scoring 80 points and above



Through the assessment, it was observed that:

- Companies need to review their policies and programs relating to their shareholders. Cash dividends should be paid in a timely manner i.e. 30 days after declaration and approval and 60 days for scrip dividend.
- The companies should vote by poll during the ASM and shareholders should be given the opportunity to ask questions and/or raise concerns. An independent party should be appointed to count and/or validate the votes during the ASM.
- The policy on the review and approval of material RPT should be available. A committee of non-conflicted, non-executive/independent directors should review material RPTs.
- Policies and programs relating to other stakeholders should provide some guidance on how to treat these stakeholders. Companies should undertake activities to implement these policies.
- Corporate objectives and non-financial performance indicators should be included in the Annual Report.
- Summary of shareholdings of directors and key officers should be disclosed.
- Analysts and media briefings are also encouraged.
- Board of companies should clearly articulate its role in the development of the strategy and its process on monitoring its execution.

- Disclosure of remuneration policies is encouraged.
- Boards should conduct an annual performance appraisal for itself as a body, as individual directors and as board committees.
- Emerging practices that the companies may adopt include the appointment of a lead independent director when the Chairman is not an independent director, aligning performance-based remuneration of executives with the long-term interest of the company such as claw back provision and deferred bonuses, adoption of internationally-recognized sustainability reporting framework, establishing measurable objectives for the diversity of the board especially aligning the board's qualification with the strategic direction of the company.

B. Top Performing Philippine PLCs Overall under the ACGS in 2018 (in alphabetical order)

Score Range: 110 – 119 points

4-arrow recognition

Ayala Land, Inc.
China Banking Corporation
Globe Telecom, Inc.
Manila Electric Company
SM Investments Corporation
SM Prime Holdings, Inc.

Score Range: 100 – 109 points

3-arrow recognition

2GO Group, Inc.
Ayala Corporation
BDO Unibank, Inc.
Belle Corporation
GT Capital Holdings, Inc.
Manila Water Company, Inc.
Metropolitan Bank & Trust Company
Philex Mining Corporation
Semirara Mining and Power Corporation

Score Range: 90 - 99 points

2-arrow recognition

Aboitiz Equity Ventures, Inc.
Atlas Consolidated Mining and Development Corporation
Bank of the Philippine Islands
BDO Leasing and Finance, Inc.
Cebu Holdings, Inc.
Cebu Property Ventures and Development Corporation
DMCI Holdings, Inc.
Far Eastern University, Inc.
Max's Group, Inc.
Nickel Asia Corporation
PLDT Inc.
Premium Leisure Corp.
PXP Energy Corporation

Score Range: 80 – 89 points

1-arrow recognition

Aboitiz Power Corporation
ABS-CBN Corporation
Asia United Bank Corporation
Cemex Holdings Philippines, Inc.
D&L Industries, Inc.
First Gen Corporation
House of Investments, Inc.
Integrated Micro-Electronics, Inc.
International Container Terminal Services, Inc.
Lopez Holdings Corporation
Metro Pacific Investments Corporation
Pacific Online Systems Corporation
Philippine National Bank
Philippine Savings Bank
Rizal Commercial Banking Corporation
Robinsons Retail Holdings, Inc.
San Miguel Food and Beverage, Inc.
SBS Philippines Corporation
Security Bank Corporation
Shang Properties, Inc.

Top 5 Philippine PLCs by Sector (in alphabetical order)

Financial Sector

Bank of the Philippine Islands
BDO Leasing and Finance, Inc.
BDO Unibank, Inc.
China Banking Corporation
Metropolitan Bank & Trust Company

Holding Firms

Aboitiz Equity Ventures, Inc.
Ayala Corporation
DMCI Holdings, Inc.
GT Capital Holdings, Inc.
SM Investments Corporation

Industrial Sector

Aboitiz Power Corporation
Manila Electric Company
Manila Water Company, Inc.
Max's Group, Inc.
San Miguel Food and Beverage, Inc.

Mining & Oil Sector

Atlas Consolidated Mining and Development Corporation
Nickel Asia Corporation
Philex Mining Corporation
PXP Energy Corporation
Semirara Mining and Power Corporation

Property Sector

Ayala Land, Inc.
Belle Corporation
Cebu Holdings, Inc.
Cebu Property Ventures and Development Corporation
SM Prime Holdings, Inc.

Services Sector

2GO Group, Inc.
Far Eastern University, Inc.
Globe Telecom, Inc.
PLDT Inc.
Premium Leisure Corp.

VI. Results of 2018 Assessment of Insurance Industry

A. Background

It is the policy of the Insurance Commission (IC) to raise the bar of corporate governance in the insurance industry by enjoining the companies in the industry to adopt the corporate governance best practices in the ASEAN region. In its Circular Letter No. 14-2013, IC mandated the adoption of the ACGS to all insurance companies and mutual benefit associations (MBA) enjoining covered companies to develop their company websites and post their responses to the ACGS questionnaire with supporting documents.

To facilitate the adoption of the ACGS for covered companies in the insurance sector, IC organized a technical working group comprised of representatives from IC, ICD, and insurance trade associations. The group reviewed and enhanced the assessment guide of the ACGS to make it applicable to insurance companies. Companies were classified according to ownership structure so that default items and non-applicable items for each class could be identified.

The five classes according to ownership structure are as follows:

1. Stock Insurance Corporation with One (1) Owner (Class 1): a stock corporation duly licensed by the Insurance Commission to engage in the business of life or non-life insurance whose shares of stock are owned by only one individual or entity, and where the nominee shares or qualifying shares given to nominee directors are considered to belong the true or beneficial owner.
2. Stock Insurance Corporation with Joint-venture (Class 2): a stock corporation duly licensed by the Insurance Commission to engage in the business of life or non-life insurance whose shares of stock are owned by only two (2) or three (3) shareholders under a joint-venture agreement regardless of their respective shares, and where the nominee shares or qualifying shares given to their nominee directors are considered to belong the true or beneficial owners.
3. Stock Corporation with more than Three (3) Owners (Class 3): a stock corporation duly licensed by the Insurance Commission to engage in the business of life or non-life insurance whose shares of stock are owned by more than three (3) shareholders regardless of their respective shares.

4. Mutual Insurance Corporation (Class 4): a non-stock insurance corporation duly licensed by the Insurance Commission and organized in accordance with the provisions of the Revised Insurance Code.
5. Mutual Benefit Association (Class 5): a non-stock, non-profit society, association or corporation as defined under Section 403, Title 1, and Chapter VII of the Revised Insurance Code.

Furthermore, the group identified a number of items that would be treated differently for each class given their ownership structure. These items are either granted a point by default, or are not applicable to the class. The not-applicable items are deducted from the total applicable items that then reflect the highest possible score of a company.

B. Overall Analysis

The Insurance Commission has assigned 116 insurance companies and MBAs for the 2018 assessment of their corporate governance practices using the ACGS. Similar to previous years, the majority of the companies assessed are from non-life sector.

The respective numbers of the insurance companies belonging to the three sector categories are as follows:

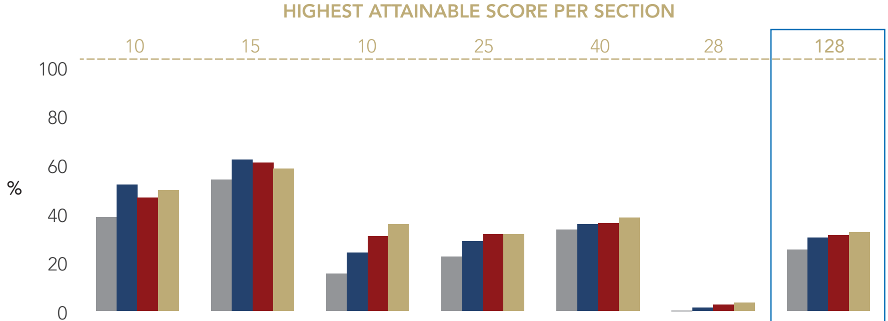
(i) Life – 30

(ii) Non-Life – 56

(iii) MBA – 30

The insurance industry has been subjected to an annual assessment of its covered companies' corporate governance practices since its adoption of the ASEAN Corporate Governance Scorecard (ACGS) in 2015. For four years, the industry has continuously improved its performance with the average score of 41.3 points in the 2018 assessment. This is a 1.6-point increase from the 2017 result.

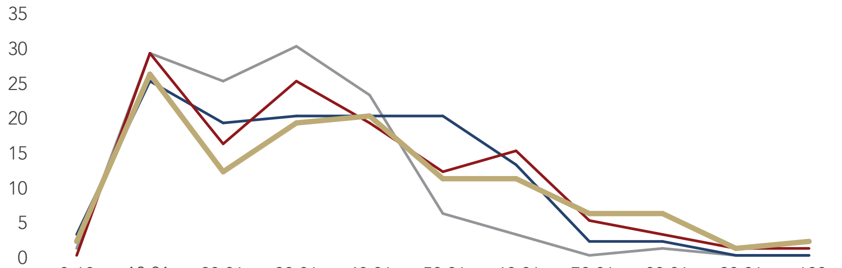
Table 5. 2018 ACGS Results – Insurance Companies



	Rights of Shareholders	Equitable Treatment of Shareholders	Role of Stakeholders	Disclosure and Transparency	Responsibilities of the Board	Bonus and Penalty	Total Score
2015	3.9	8.1	1.5	5.6	13.3	-0.1	32.2
2016	5.2	9.3	2.4	7.1	14.2	0.4	38.6
2017	4.7	9.1	3.1	7.8	14.4	0.7	39.7
2018	5.0	8.8	3.6	7.8	15.3	1.0	41.3

In general, the industry is strong on the area on equitable treatment of shareholders (see Table 5). All other areas need to be improved but the disclosure of corporate governance-related documents should be given special attention.

Table 6. 2018 Score Distribution – Insurance Companies



	0-10	10.01-20	20.01-30	30.01-40	40.01-50	50.01-60	60.01-70	70.01-80	80.01-90	90.01-100	100+
2015	1	29	25	30	23	6	3	0	1	0	0
2016	3	25	19	20	20	20	13	2	2	0	0
2017	0	29	16	25	19	12	15	5	3	1	1
2018	2	26	12	19	20	11	11	6	6	1	2

The assessment observed that many companies have not made available the Notice and the Minutes of the most recent Annual Stockholders/General Meeting in their websites. These two documents are critical to ensuring that stockholders/members are allowed to exercise their voting rights. Disclosures should also convey equitable treatment of stockholders/members by the company. For instance, details of related party transactions should be disclosed.

Information on the companies' policies and activities relating to other stakeholders especially those mentioned in the ACGS i.e. customers, suppliers, environment, community, government, creditors, and employees should be accessible.

Company websites and annual reports should have more disclosures on the company's corporate governance practices. The company's corporate objectives, non-financial performance indicators, and other corporate governance-related information like board protocols, trainings, etc. should be included.

Most company disclosures do not explain the board's role in the oversight of key areas such as strategy, internal control and risk management systems. Other processes that were observed to be lacking are succession planning and annual performance appraisal of the board, the individual directors and the CEO.

C. Top Performing Insurance Companies under the ACGS in 2018

Score Range: 100 – 109 points

3-arrow recognition

Insular Life Assurance Company, Ltd.
Pru Life Insurance Corporation of U.K.

Score Range: 90 - 99 points

2-arrow recognition

FWD Life Insurance Company

Score Range: 80 – 89 points

1-arrow recognition

CARD Mutual Benefit Association Inc.
Pacific Cross Insurance, Inc.
Philippine American Life & General Insurance Company
Sun Life Grepa Financial, Inc.
Sun Life of Canada (Philippines), Inc.
The Manufacturers Life Insurance Company (Philippines), Inc.

VII. Corporate Governance, Firm Profitability, and Share Valuation in the Philippines[1]

ICD conducted a study focused on determining the relationship between corporate governance score under the ACGS and each of the following: (i) market capitalization of the firm, (ii) market valuation as measured by Tobin's Q ratio[2], and (iii) profitability as measured by return on equity. The selection of 73 publicly listed companies in the Philippines was based on having a corporate governance score of 60 and above. Data for 2014-2016 were taken from the audited financial statements of the companies, the database of the Philippine Stock Exchange, and the ASEAN Corporate Governance Scorecard.

The results of the study showed that there is a positive and statistically significant relationship between (i) corporate governance and market capitalization, (ii) corporate governance and market valuation as measured by Tobin's Q ratio, and (iii) corporate governance and profitability as measured by return on equity.

It can be stated that an increase in the corporate governance score of a publicly listed company in the Philippines would mean an increase in its (i) market capitalization, (ii) market valuation as measured by Tobin's Q ration, and (iii) profitability as measured by return on equity. The results indicated that publicly listed companies which have given importance to the practices of good corporate governance would benefit from this in terms of good financial performance.

[1] This study was undertaken by ICD Philippines with assistance of ADB using annual data pertaining to years 2014, 2015, and 2016. Statistical, methodological support and peer review was provided by the University of Asia and the Pacific. The study will be released within the year of 2019.

[2] Tobin's Q ratio is the equity market value divided by equity book value.

Table 5. Descriptive Statistics of the ACGS Score and Metrics on Firm Profitability and Share Valuation

Description (1)	Year (2)	Tobin's Q (3)	ACGS Score (4)	Market Capitalization (P billion) (5)	ROE (6)	Size (7)	Leverage (8)	Liquidity (9)	Level of Investments (10)	Sample Size (11)
Mean	2014	2.16	75.02	110.44	0.10	24.56	2.37	0.50	0.66	73
	2015	1.81	81.48	106.77	0.08	24.64	2.43	0.10	3.27	73
	2016	1.80	83.19	112.01	0.10	24.85	2.64	0.09	0.29	73
	All years	1.92	79.90	109.74	0.09	24.68	2.48	0.23	1.41	219
Standard Deviation	2014	2.02	11.48	156.45	0.12	2.14	2.59	3.33	3.14	73
	2015	1.81	13.78	160.36	0.20	2.22	2.64	0.13	24.68	73
	2016	1.77	15.51	169.95	0.09	2.12	2.71	0.10	0.23	73
	All years	1.87	14.08	161.62	0.14	2.15	2.64	1.93	14.36	219

ACGS = ASEAN Corporate Governance Scorecard, ROE = return on equity.

Notes:

(a) This table presents the descriptive statistics of the sample. It shows the means and standard deviations of the variables given in columns 3 to 10, which are provided specifically for each of the 3 years included in the study, i.e., 2014, 2015, and 2016, and for all years.

(b) The "All years" figures represent the means and standard deviations of the variables in columns 3 to 10, and are each the average for the 3-year period for that specific column.

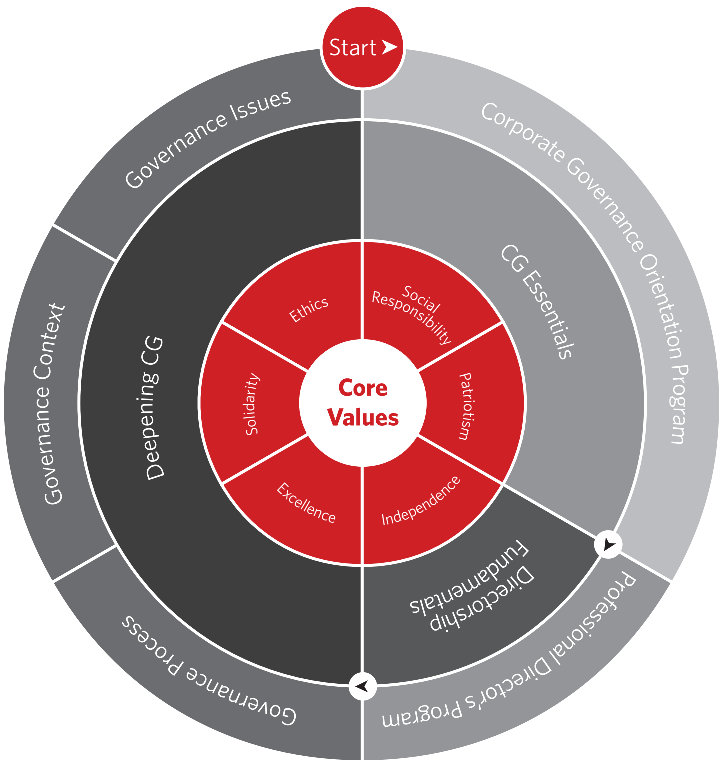
(c) The descriptive results showed that the average Tobin's Q ratio (column 3) for each year and all years were consistently above 1.0. Theoretically, Tobin's Q ratio with a value above 1.0 indicates that the firm's equity market value is worth more than its equity book value.

(d) In this study, the average Tobin's Q ratio of the firms included in the study was highest in 2014 (2.16), while 2015 and 2016 posted almost the same values.

Source: Processed data from company annual reports and the Philippine Stock Exchange (2014-2016).

ICD Learning Map

ICD's Learning Map was developed to present the system of learning prescribed for thorough Corporate Governance Training. ICD's courses and learning modules are classified as essentials, fundamentals and deepening courses and learning tracks.



Be One of Us

Membership in ICD Philippines

Fellowship and Graduate Membership

ICD Fellowship is a commitment to an advocacy that seeks to promote ethics and to contribute to the development of corporate governance policy and best practice in the country.

Fellowship and accreditation takes approximately three (3) months, from training, qualification to member induction.

ICD Fellows and Graduate Members have gone through the following qualification Process

Education

- Fellowship entails participation in ICD's Five-Day Flagship Course The Professional Director's Program. The course runs over a period of two to three weeks.

  The Professional Directors Program aims to expand a participant's knowledge and appreciation of the role of a corporate director and is designed to help professionalize the practice of corporate directorship. The full course prospectus is attached for reference.

Examination

- Every aspiring ICD Fellow must show sufficient familiarity with the various director issues that the Professional Directors Program covers. After the program, participants who pursue application to the Fellowship are required to submit a written exam within thirty (30) days after completion of the course.

Experience

- Fellowship requires a tenure of two (2) years in a board member role.
- Applicants who lack the required term may still apply for membership to the society as a Graduate Member and may subsequently apply for fellowship after acquiring the required term.

Ethics

- Every ICD Fellow's, Graduate member's and Associate member's name have been routed for confirmation by all ICD Members. Every new applicant's application are routed to ICD Fellows to allow the members to comment on an applicant's integrity and reputation.
- During induction, Fellows take an oath to convey commitment to ethics, social responsibility and the Institute's advocacy in corporate governance.

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About ICD

The Institute of Corporate Directors (ICD) is a non-stock, non-profit organization dedicated to the professionalization of Philippine corporate directorship as well as raising the level of the country's corporate governance policy and practice to world-class standards. The institute was established in 1999 by Chairman Emeritus Dr. Jesus P. Estanislao in the aftermath of the Asian financial crisis.

Today, ICD is the leading institution in the field of corporate governance in the Philippines. It is recognized as a national and regional resource for corporate governance policy advocacy, fora for discussions, and training of directors. It has established relations with key local and foreign entities involved in corporate governance such the OECD, the ASEAN Capital Markets Forum, the International Finance Corporation, the Asian Development Bank, the National Competitiveness Council, the Integrity Initiative, and the Judicial Reform Initiative.

ICD supports the work of local regulators such as the Securities and Exchange Commission (SEC), the Bangko Sentral ng Pilipinas (BSP), the Governance Commission for Government-Owned or Controlled Corporations (GCG), and the Insurance Commission (IC). It is also an accredited corporate governance training provider of these regulators. ICD serves as the SEC-appointed Domestic Ranking Body for the ASEAN Corporate Governance Scorecard (ACGS).

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