

**COVER SHEET**

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SEC Registration Number

L E I S U R E & R E S O R T S W O R L D

C O R P O R A T I O N

(Company's Full Name)

2 6 T h F l o o r , W e s t T o w e r , P S E C e n t e r

E x c h a n g e R o a d O r t i g a s C e n t e r

P a s i g C i t y

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

**Atty. Katrina L. Nepomuceno**

(Contract Person)

**634-5099**

(Company Telephone Number)

1 2 3 1

Month Day  
(Fiscal Year)

**New Manual on  
Corporate Governance**

(Form Type)

Month Day

(Annual Meeting)

**Not Applicable**

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

**Not Applicable**

Amended Articles  
Number/section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

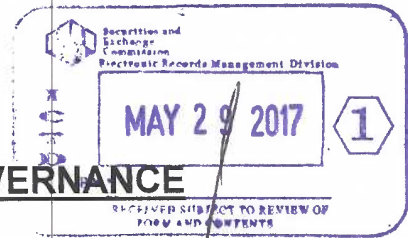
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## NEW MANUAL ON CORPORATE GOVERNANCE

The Board of Directors and Management of Leisure & Resorts World Corporation (Corporation) hereby commit themselves to the principles and best practices contained in this new Manual, and acknowledge that the same may guide the attainment of our corporate goals.

### **Definition of Terms:**

**Corporate Governance** – the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders.

Corporate governance is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and senior management accountable for ensuring ethical behavior – reconciling long-term customer satisfaction with shareholder value – to the benefit of all stakeholders and society.

Its purpose is to maximize the organization's long-term success, creating sustainable value for its shareholders, stakeholders and the nation.

**Board of Directors** - the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties;

**Management** - a group of executives given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation.

**Independent director** - a person who is independent of management and the controlling shareholder, and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

**Executive director** – a director who has executive responsibility of day-to-day operations of a part or the whole of the organization.

**Non-executive director** – a director who has no executive responsibility and does not perform any work related to the operations of the corporation.

**Conglomerate** – a group of corporations that has diversified business activities in varied industries, whereby the operations of such businesses are controlled and managed by a parent corporate entity.

**Internal control** – a process designed and effected by the board of directors, senior management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, and the organization's policies and procedures.

**Enterprise Risk Management** – a process, effected by an entity's Board of Directors, management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives.

**Related Party** – shall cover the company's subsidiaries, as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities), that the company exerts direct or indirect control over or that exerts direct or indirect control over the company; the company's directors; officers; shareholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person or juridical entity whose interest may pose a potential conflict with the interest of the company.

**Related Party Transactions** – a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.

**Stakeholders** – any individual, organization or society at large who can either affect and/or be affected by the company's strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.

## **THE BOARD'S GOVERNANCE RESPONSIBILITIES:**

### **1. ESTABLISHING A COMPETENT BOARD**

#### **Principle**

The company should be headed by a competent, working board to foster the long-term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the long-term best interests of its shareholders and other stakeholders.

- 1.1 The Board should be composed of directors with a collective working knowledge, experience or expertise that is relevant to the company's industry/sector. The Board should always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction.

Competence can be determined from the collective knowledge, experience and expertise of each director that is relevant to the industry/sector that the company is in. A Board with the necessary knowledge, experience and expertise can properly perform its task of overseeing management and governance of the corporation, formulating the corporation's vision, mission, strategic objectives, policies and procedures that would guide its activities, effectively monitoring management's performance and supervising the proper implementation of the same. In this regard, the Board sets qualification

standards for its members to facilitate the selection of potential nominees for board seats, and to serve as a benchmark for the evaluation of its performance.

- 1.2 The Board should be composed of a majority of non-executive directors who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances.

The right combination of non-executive directors (NEDs), which include independent directors (IDs) and executive directors (EDs), ensures that no director or small group of directors can dominate the decision-making process. Further, a board composed of a majority of NEDs assures protection of the company's interest over the interest of the individual shareholders. The company determines the qualifications of the NEDs that enable them to effectively participate in the deliberations of the Board and carry out their roles and responsibilities.

- 1.3 The Company should provide in its Board Charter and Manual on Corporate Governance a policy on the training of directors, including an orientation program for first-time directors and relevant annual continuing training for all directors.

The orientation program for first-time directors and relevant annual continuing training for all directors aim to promote effective board performance and continuing qualification of the directors in carrying-out their duties and responsibilities. It is suggested that the orientation program for first-time directors, in any company, be for at least eight hours, while the annual continuing training be for at least four hours.

All directors should be properly oriented upon joining the board. This ensures that new members are appropriately apprised of their duties and responsibilities, before beginning their directorships. The orientation program covers SEC-mandated topics on corporate governance and an introduction to the company's business, Articles of Incorporation, and Code of Conduct. It should be able to meet the specific needs of the company and the individual directors and aid any new director in effectively performing his or her functions.

The annual continuing training program, on the other hand, makes certain that the directors are continuously informed of the developments in the business and regulatory environments, including emerging risks relevant to the company. It involves courses on corporate governance matters relevant to the company, including audit, internal controls, risk management, sustainability and strategy. It is encouraged that companies assess their own training and development needs in determining the coverage of their continuing training program.

- 1.4 The Board should have a policy on board diversity. Having a board diversity policy is a move to avoid groupthink and ensure that optimal decision-making is achieved. A board diversity policy is not limited to gender diversity. It also includes diversity in age, ethnicity, culture, skills, competence and knowledge.

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- 1.5 The Board should ensure that it is assisted in its duties by a Corporate Secretary, who should be a separate individual from the Compliance Officer. The Corporate Secretary should not be a member of the Board of Directors and should annually attend a training on corporate governance.

The Corporate Secretary is primarily responsible to the corporation and its shareholders, and not to the Chairman or President of the Company and has, among others, the following duties and responsibilities:

- a. Assists the Board and the board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its committees to set agendas for those meetings;
- b. Safe keeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the corporation;
- c. Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the corporation, and advises the Board and the Chairman on all relevant issues as they arise;
- d. Works fairly and objectively with the Board, Management and stockholders and contributes to the flow of information between the Board and management, the Board and its committees, and the Board and its stakeholders, including shareholders;
- e. Advises on the establishment of board committees and their terms of reference;
- f. Informs members of the Board, in accordance with the by-laws, of the agenda of their meetings at least five working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- g. Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
- h. Performs required administrative functions;
- i. Oversees the drafting of the by-laws and ensures that they conform with regulatory requirements; and
- j. Performs such other duties and responsibilities as may be provided by the SEC.

- 1.6 The Board should ensure that it is assisted in its duties by a Compliance Officer, who should have a rank of Senior Vice President or an equivalent

position with adequate stature and authority in the corporation. The Compliance Officer should not be a member of the Board of Directors and should annually attend a training on corporate governance.

The Compliance Officer is a member of the company's management team in charge of the compliance function. Similar to the Corporate Secretary, he/she is primarily liable to the corporation and its shareholders, and not to the Chairman or President of the company. He/she has, among others, the following duties and responsibilities:

- a. Ensures proper onboarding of new directors (i.e., orientation on the company's business, charter, articles of incorporation and by-laws, among others);
- b. Monitors, reviews, evaluates and ensures the compliance by the corporation, its officers and directors with the relevant laws, this Code, rules and regulations and all governance issuances of regulatory agencies;
- c. Reports the matter to the Board if violations are found and recommends the imposition of appropriate disciplinary action;
- d. Ensures the integrity and accuracy of all documentary submissions to regulators;
- e. Appears before the SEC when summoned in relation to compliance with this Code;
- f. Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
- g. Identifies possible areas of compliance issues and works towards the resolution of the same;
- h. Ensures the attendance of board members and key officers to relevant trainings; and
- i. Performs such other duties and responsibilities as may be provided by the SEC.

## **2. ESTABLISHING CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD**

### **Principle**

The fiduciary roles, responsibilities and accountabilities of the Board as provided under the law, the company's articles and by-laws, and other legal pronouncements and guidelines should be clearly made known to all directors as well as to shareholders and other stakeholders.

- 2.1 The Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and all shareholders.

There are two key elements of the fiduciary duty of board members: the duty of care and the duty of loyalty. The duty of care requires board members to

act on a fully informed basis, in good faith, with due diligence and care. The duty of loyalty is also of central importance; the board member should act in the interest of the company and all its shareholders, and not those of the controlling company of the group or any other stakeholder.

- 2.2 The Board should oversee the development of and approve the company's business objectives and strategy, and monitor their implementation, in order to sustain the company's long-term viability and strength.

According to the OECD, the Board should review and guide corporate strategy, major plans of action, risk management policies and procedures, annual budgets and business plans; set performance objectives; monitor implementation and corporate performance; and oversee major capital expenditures, acquisitions and divestitures. Sound strategic policies and objectives translate to the company's proper identification and prioritization of its goals and guidance on how best to achieve them. This creates optimal value to the corporation.

- 2.3 The Board should be headed by a competent and qualified Chairperson.

The roles and responsibilities of the Chairman include, among others, the following:

- a. Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;
- b. Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;
- c. Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
- d. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- e. Assures the availability of proper orientation for first-time directors and continuing training opportunities for all directors; and
- f. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on.

- 2.4 The Board should be responsible for ensuring and adopting an effective succession planning program for directors, key officers and management to ensure growth and a continued increase in the shareholders' value. This should include adopting a policy on the retirement age for directors and key officers as part of management succession and to promote dynamism in the corporation.

The transfer of company leadership to highly competent and qualified individuals is the goal of succession planning. It is the Board's responsibility

to implement a process to appoint competent, professional, honest and highly motivated management officers who can add value to the company.

A good succession plan is linked to the documented roles and responsibilities for each position, and should start in objectively identifying the key knowledge, skills, and abilities required for the position. For any potential candidate identified, a professional development plan is defined to help the individuals prepare for the job (e.g., training to be taken and cross experience to be achieved). The process is conducted in an impartial manner and aligned with the strategic direction of the organization.

- 2.5 The Board should align the remuneration of key officers and board members with the long-term interests of the company. In doing so, it should formulate and adopt a policy specifying the relationship between remuneration and performance. Further, no director should participate in discussions or deliberations involving his own remuneration.

Companies are able to attract and retain the services of qualified and competent individuals if the level of remuneration is sufficient, in line with the business and risk strategy, objectives, values and incorporate measures to prevent conflicts of interest. Remuneration policies promote a sound risk culture in which risk-taking behavior is appropriate. They also encourage employees to act in the long-term interest of the company as a whole, rather than for themselves or their business lines only. Moreover, it is good practice for the Board to formulate and adopt a policy specifying the relationship between remuneration and performance, which includes specific financial and non-financial metrics to measure performance and set specific provisions for employees with significant influence on the overall risk profile of the corporation.

Key considerations in determining proper compensation include the following: (1) the level of remuneration is commensurate to the responsibilities of the role; (2) no director should participate in deciding on his remuneration; and (3) remuneration pay-out schedules should be sensitive to risk outcomes over a multi-year horizon.

For employees in control functions (e.g., risk, compliance and internal audit), their remuneration is determined independent of any business line being overseen, and performance measures are based principally on the achievement of their objectives so as not to compromise their independence.

- 2.6 The Board should have a formal and transparent board nomination and election policy that should include how it accepts nominations from minority shareholders and reviews nominated candidates. The policy should also include an assessment of the effectiveness of the Board's processes and procedures in the nomination, election, or replacement of a director. In addition, its process of identifying the quality of directors should be aligned with the strategic direction of the company.

It is the Board's responsibility to develop a policy on board nomination. The policy should encourage shareholders' participation by including procedures on how the Board accepts nominations from minority shareholders. The policy should also promote transparency of the Board's nomination and election process.



The nomination and election process also includes the review and evaluation of the qualifications of all persons nominated to the Board, including whether candidates: (1) possess the knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in light of the entity's business and risk profile; (2) have a record of integrity and good repute; (3) have sufficient time to carry out their responsibilities; and (4) have the ability to promote a smooth interaction between board members.

In addition, the process also includes monitoring the qualifications of the directors.

The following shall be grounds for the permanent disqualification of a director:

a. Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that: (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;

b. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC, Bangko Sentral ng Pilipinas (BSP) or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in subparagraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.

The disqualification should also apply if (a) such person is the subject of an order of the SEC, BSP or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, 13 Securities Regulation Code or any other law administered by the SEC or BSP; (b) such person has otherwise been restrained to engage in any activity involving securities and banking; or (c) such person is the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

c. Any person convicted by final judgment or order by a court, or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;

d. Any person who has been adjudged by final judgment or order of the SEC, BSP, court, or competent administrative body to have willfully violated, or

willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law, rule, regulation or order administered by the SEC or BSP;

e. Any person judicially declared as insolvent;

f. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated previously;

g. Conviction by final judgment of an offense punishable by imprisonment for more than six years, or a violation of the Corporation Code committed within five years prior to the date of his election or appointment; and

h. Other grounds as the SEC may provide.

The following shall be grounds for temporary disqualification of a director:

a. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any 12-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification should apply for purposes of the succeeding election;

b. Dismissal or termination for cause as director of any publicly-listed company, public company, registered issuer of securities and holder of a secondary license from the Commission. The disqualification should be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;

c. If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with; and

d. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

2.7 The Board should have the overall responsibility in ensuring that there is a group-wide policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions, particularly those which pass certain thresholds of materiality. The policy should include the appropriate review and approval of material or significant RPTs, which guarantee fairness and transparency of the transactions. The policy should encompass all entities within the group, taking into account their size, structure, risk profile and complexity of operations.

Ensuring the integrity of related party transactions is an important fiduciary duty of the director. It is the Board's role to initiate policies and measures geared towards prevention of abuse and promotion of transparency, and in compliance with applicable laws and regulations to protect the interest of all shareholders. One such measure is the required ratification by shareholders of material or significant RPTs approved by the Board, in accordance with existing laws. Other measures include ensuring that transactions occur at

market prices, at arm's-length basis and under conditions that protect the rights of all shareholders.

The following should be the content of the RPT Policy:

- Definition of related parties;
- Coverage of RPT policy;
- Guidelines in ensuring arm's-length terms;
- Identification and prevention or management of potential or actual conflicts of interest which arise;
- Adoption of materiality thresholds;
- Internal limits for individual and aggregate exposures;
- Whistle-blowing mechanisms, and
- Restitution of losses and other remedies for abusive RPTs.

The company has the discretion to set the materiality threshold at a level where omission or misstatement of the transaction could pose a significant risk to the company and influence its economic decision. The SEC may direct a company to reduce its materiality threshold or amend excluded transactions if the SEC deems that the threshold or exclusion is inappropriate considering the company's size, risk profile, and risk management systems.

Depending on the materiality threshold, approval of management, the RPT Committee, the Board or the shareholders may be required. In cases where the shareholders' approval is required, it is good practice for interested shareholders to abstain and let the disinterested parties or majority of the minority shareholders decide.

- 2.8 The Board should be primarily responsible for approving the selection and assessing the performance of the Management led by the Chief Executive Officer (CEO), and control functions led by their respective heads (Chief Risk Officer, Chief Compliance Officer, and Chief Audit Executive).

It is the responsibility of the Board to appoint a competent management team at all times, monitor and assess the performance of the management team based on established performance standards that are consistent with the company's strategic objectives, and conduct a regular review of the company's policies with the management team. In the selection process, fit and proper standards are to be applied on key personnel and due consideration is given to integrity, technical expertise and experience in the institution's business, either current or planned.

- 2.9 The Board should establish an effective performance management framework that will ensure that the Management, including the Chief Executive Officer, and personnel's performance is at par with the standards set by the Board and Senior Management.

Results of performance evaluation should be linked to other human resource activities such as training and development, remuneration, and succession planning. These should likewise form part of the assessment of the continuing fitness and propriety of management, including the Chief Executive Officer, and personnel in carrying out their respective duties and responsibilities.

- 2.10** The Board should oversee that an appropriate internal control system is in place, including setting up a mechanism for monitoring and managing potential conflicts of interest of Management, board members, and shareholders. The Board should also approve the Internal Audit Charter.

In the performance of the Board's oversight responsibility, the minimum internal control mechanisms may include overseeing the implementation of the key control functions, such as risk management, compliance and internal audit, and reviewing the corporation's human resource policies, conflict of interest situations, compensation program for employees and management succession plan.

- 2.11** The Board should oversee that a sound enterprise risk management (ERM) framework is in place to effectively identify, monitor, assess and manage key business risks. The risk management framework should guide the Board in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.

Risk management policy is part and parcel of a corporation's corporate strategy. The Board is responsible for defining the company's level of risk tolerance and providing oversight over its risk management policies and procedures.

- 2.12** The Board should have a Board Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary duties. The Board Charter should serve as a guide to the directors in the performance of their functions and should be publicly available and posted on the company's website.

The Board Charter guides the directors on how to discharge their functions. It provides the standards for evaluating the performance of the Board. The Board Charter also contains the roles and responsibilities of the Chairman.

### **3. ESTABLISHING BOARD COMMITTEES**

#### **Principle**

Board committees should be set up to the extent possible to support the effective performance of the Board's functions, particularly with respect to audit, risk management, related party transactions, and other key corporate governance concerns, such as nomination and remuneration. The composition, functions and responsibilities of all committees established should be contained in a publicly available Committee Charter.

- 3.1** The Board should establish board committees that focus on specific board functions to aid in the optimal performance of its roles and responsibilities.

Board committees such as the Audit Committee, Corporate Governance Committee, Board Risk Oversight Committee and Related Party Transaction Committee are necessary to support the Board in the effective performance of its functions. The establishment of the same, or any other committees that the company deems necessary, allows for specialization in issues and leads to a better management of the Board's workload. The type of board committees to be established by a company would depend on its size, risk profile and complexity of operations. However, if the committees are not established, the

functions of these committees may be carried out by the whole board or by any other committee.

- 3.2** The Board should establish an Audit Committee to enhance its oversight capability over the company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. The committee should be composed of at least three appropriately qualified non-executive directors, the majority of whom, including the Chairman, should be independent. All of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance. The Chairman of the Audit Committee should not be the chairman of the Board or of any other committees.

The Audit Committee is responsible for overseeing the senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The Audit Committee has the following duties and responsibilities, among others:

- a. Recommends the approval the Internal Audit Charter (IA Charter), which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the IA Charter;
- b. Through the Internal Audit (IA) Department, monitors and evaluates the adequacy and effectiveness of the corporation's internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances should be in place in order to (a) safeguard the company's resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the company's financial data, and (d) ensure compliance with applicable laws and regulations;
- c. Oversees the Internal Audit Department, and recommends the appointment and/or grounds for approval of an internal audit head or Chief Audit Executive (CAE). The Audit Committee should also approve the terms and conditions for outsourcing internal audit services;
- d. Establishes and identifies the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. For this purpose, he should directly report to the Audit Committee;
- e. Reviews and monitors Management's responsiveness to the Internal Auditor's findings and recommendations;
- f. Prior to the commencement of the audit, discusses with the External Auditor the nature, scope and expenses of the audit, and ensures the proper

coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;

g. Evaluates and determines the non-audit work, if any, of the External Auditor, and periodically reviews the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the corporation's overall consultancy expenses. The committee should disallow any non-audit work that will conflict with his duties as an External Auditor or may pose a threat to his independence<sup>3</sup>. The non-audit work, if allowed, should be disclosed in the corporation's Annual Report and Annual Corporate Governance Report;

h. Reviews and approves the Interim and Annual Financial Statements before their submission to the Board, with particular focus on the following matters:

- Any change/s in accounting policies and practices
- Areas where a significant amount of judgment has been exercised
- Significant adjustments resulting from the audit
- Going concern assumptions
- Compliance with accounting standards
- Compliance with tax, legal and regulatory requirements

i. Reviews the disposition of the recommendations in the External Auditor's management letter;

j. Performs oversight functions over the corporation's Internal and External Auditors. It ensures the independence of Internal and External Auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;

k. Coordinates, monitors and facilitates compliance with laws, rules and regulations;

l. Recommends to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Commission, who undertakes an independent audit of the corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders; and

m. In case the company does not have a Board Risk Oversight Committee and/or Related Party Transactions Committee, performs the functions of said committees as provided under Recommendations 3.4 and 3.5.

The Audit Committee meets with the Board at least every quarter without the presence of the CEO or other management team members, and periodically meets with the head of the internal audit.

- 3.3** The Board should establish a Corporate Governance Committee that should be tasked to assist the Board in the performance of its corporate governance responsibilities, including the functions that were formerly assigned to a Nomination and Remuneration Committee. It should be composed of at least three members, all of whom should be independent directors, including the Chairman.

The Corporate Governance Committee (CG Committee) is tasked with ensuring compliance with and proper observance of corporate governance principles and practices. It has the following duties and functions, among others:

- a. Oversees the implementation of the corporate governance framework and periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the corporation's size, complexity and business strategy, as well as its business and regulatory environments;
- b. Oversees the periodic performance evaluation of the Board and its committees as well as executive management, and conducts an annual self-evaluation of its performance;
- c. Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;
- d. Recommends continuing education/training programs for directors, assignment of tasks/projects to board committees, succession plan for the board members and senior officers, and remuneration packages for corporate and individual performance;
- e. Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;
- f. Proposes and plans relevant trainings for the members of the Board;
- g. Determines the nomination and election process for the company's directors and has the special duty of defining the general profile of board members that the company may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board; and
- h. Establishes a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the corporation's culture and strategy as well as the business environment in which it operates.

The establishment of a Corporate Governance Committee does not preclude companies from establishing separate Remuneration or Nomination Committees, if they deem necessary.

- 3.4** Subject to a corporation's size, risk profile and complexity of operations, the Board should establish a separate Board Risk Oversight Committee (BROC) that should be responsible for the oversight of a company's Enterprise Risk Management system to ensure its functionality and effectiveness. The BROC should be composed of at least three members, the majority of whom should be independent directors, including the Chairman. The Chairman should not be the Chairman of the Board or of any other committee. At least one member of the committee must have relevant thorough knowledge and experience on risk and risk management.

The establishment of a Board Risk Oversight Committee (BROC) is generally for conglomerates and companies with a high risk profile.

Enterprise risk management is integral to an effective corporate governance process and the achievement of a company's value creation objectives. Thus, the BROC has the responsibility to assist the Board in ensuring that there is an effective and integrated risk management process in place. With an integrated approach, the Board and top management will be in a confident position to make well-informed decisions, having taken into consideration risks related to significant business activities, plans and opportunities. 20

The BROC has the following duties and responsibilities, among others:

a. Develops a formal enterprise risk management plan which contains the following elements: (a) common language or register of risks, (b) well-defined risk management goals, objectives and oversight, (c) uniform processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes and measures;

b. Oversees the implementation of the enterprise risk management plan through a Management Risk Oversight Committee. The BROC conducts regular discussions on the company's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;

c. Evaluates the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The BROC revisits defined risk management strategies, looks for emerging or changing material exposures, and stays abreast of significant developments that seriously impact the likelihood of harm or loss;

d. Advises the Board on its risk appetite levels and risk tolerance limits;

e. Reviews at least annually the company's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the company;

f. Assesses the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the corporation and its stakeholders;

g. Provides oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the corporation. This function includes regularly receiving information on risk exposures and risk management activities from Management; and



h. Reports to the Board on a regular basis, or as deemed necessary, the company's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

- 3.5** Subject to a corporation's size, risk profile and complexity of operations, the Board should establish a Related Party Transaction (RPT) Committee, which should be tasked with reviewing all material related party transactions of the company and should be composed of at least three non-executive directors, two of whom should be independent, including the Chairman.

The following are the functions of the RPT Committee, among others:

a. Evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors;

b. Evaluates all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee takes into account, among others, the following:

1. The related party's relationship to the company and interest in the transaction;
2. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
3. The benefits to the corporation of the proposed RPT;
4. The availability of other sources of comparable products or services; and
5. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The company should have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs;

c. Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the company's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the company's affiliation or transactions with other related parties;

d. Reports to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;

e. Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process; and

f. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.

- 3.6** All established committees should be required to have Committee Charters stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources and other relevant information. The Charters should provide the standards for evaluating the performance of the Committees. It should also be fully disclosed on the company's website.

The Committee Charter clearly defines the roles and accountabilities of each committee to avoid any overlapping functions, which aims at having a more effective board for the company. This can also be used as basis for the assessment of committee performance.

#### **4. FOSTERING COMMITMENT**

##### **Principle**

To show full commitment to the company, the directors should devote the time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the corporation's business.

- 4.1** The directors should attend and actively participate in all meetings of the Board, Committees, and Shareholders in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the Commission, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent them from doing so. In Board and Committee meetings, the director should review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.

A director's commitment to the company is evident in the amount of time he dedicates to performing his duties and responsibilities, which includes his presence in all meetings of the Board, Committees and Shareholders. In this way, the director is able to effectively perform his/her duty to the company and its shareholders.

The absence of a director in more than fifty percent (50%) of all regular and special meetings of the Board during his/her incumbency is a ground for disqualification in the succeeding election, unless the absence is due to illness, death in the immediate family, serious accident or other unforeseen or fortuitous events.

- 4.2** The non-executive directors of the Board should concurrently serve as directors to a maximum of five publicly listed companies to ensure that they

have sufficient time to fully prepare for meetings, challenge Management's proposals/views, and oversee the long-term strategy of the company.

Being a director necessitates a commitment to the corporation. Hence, there is a need to set a limit on board directorships. This ensures that the members of the board are able to effectively commit themselves to perform their roles and responsibilities, regularly update their knowledge and enhance their skills. Since sitting on the board of too many companies may interfere with the optimal performance of board members, in that they may not be able to contribute enough time to keep abreast of the corporation's operations and to attend and actively participate during meetings, a maximum board seat limit of five directorships is recommended.

- 4.3** A director should notify the Board where he/she is an incumbent director before accepting a directorship in another company.

The Board expects commitment from a director to devote sufficient time and attention to his/her duties and responsibilities. Hence, it is important that a director notifies his/her incumbent Board before accepting a directorship in another company. This is for the company to be able to assess if his/her present responsibilities and commitment to the company will be affected and if the director can still adequately provide what is expected of him/her.

## **5. REINFORCING BOARD INDEPENDENCE**

### **Principle**

The board should endeavor to exercise an objective and independent judgment on all corporate affairs.

- 5.1** The Board should have at least three independent directors, or such number as to constitute at least one-third of the members of the Board, whichever is higher.

The presence of independent directors in the Board is to ensure the exercise of independent judgment on corporate affairs and proper oversight of managerial performance, including prevention of conflict of interests and balancing of competing demands of the corporation. There is increasing global recognition that more independent directors in the Board lead to more objective decision-making, particularly in conflict of interest situations. In addition, experts have recognized that there are varying opinions on the optimal number of independent directors in the board. However, the ideal number ranges from one-third to a substantial majority.

- 5.2** The Board should ensure that its independent directors possess the necessary qualifications and none of the disqualifications for an independent director to hold the position.

Independent directors need to possess a good general understanding of the industry they are in. Further, it is worthy to note that independence and competence should go hand-in-hand. It is therefore important that the non-executive directors, including independent directors, possess the qualifications and stature that would enable them to effectively and objectively participate in the deliberations of the Board.

An Independent Director refers to a person who, ideally:

- a. Is not, or has not been a senior officer or employee of the covered company unless there has been a change in the controlling ownership of the company;
- b. Is not, and has not been in the three years immediately preceding the election, a director of the covered company; a director, officer, employee of the covered company's subsidiaries, associates, affiliates or related companies; or a director, officer, employee of the covered company's substantial shareholders and its related companies;
- c. Has not been appointed in the covered company, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus," "Ex-Officio" Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three years immediately preceding his election;
- d. Is not an owner of more than two percent (2%) of the outstanding shares of the covered company, its subsidiaries, associates, affiliates or related companies;
- e. Is not a relative of a director, officer, or substantial shareholder of the covered company or any of its related companies or of any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister;
- f. Is not acting as a nominee or representative of any director of the covered company or any of its related companies;
- g. Is not a securities broker-dealer of listed companies and registered issuers of securities. "Securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer;
- h. Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the covered company, any of its related companies or substantial shareholder, or is otherwise independent of Management and free from any business or other relationship within the three years immediately preceding the date of his election;
- i. Does not engage or has not engaged, whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with the covered company or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and could not materially interfere with or influence the exercise of his independent judgment;

j. Is not affiliated with any non-profit organization that receives significant funding from the covered company or any of its related companies or substantial shareholders; and

k. Is not employed as an executive officer of another company where any of the covered company's executives serve as directors.

Related companies, as used in this section, refer to (a) the covered entity's holding/parent company; (b) its subsidiaries; and (c) subsidiaries of its holding/parent company.

- 5.3** The Board's independent directors should serve for a maximum cumulative term of nine years. After which, the independent director should be perpetually barred from re-election as such in the same company, but may continue to qualify for nomination and election as a non-independent director. In the instance that a company wants to retain an independent director who has served for nine years, the Board should provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.

Service in a board for a long duration may impair a director's ability to act independently and objectively. Hence, the tenure of an independent director is set to a cumulative term of nine years. Independent directors (IDs) who have served for nine years may continue as a non-independent director of the company. Reckoning of the cumulative nine-year term is from 2012, in connection with SEC Memorandum Circular No. 9, Series of 2011.

Any term beyond nine years for an ID is subjected to particularly rigorous review, taking into account the need for progressive change in the Board to ensure an appropriate balance of skills and experience. However, the shareholders may, in exceptional cases, choose to re-elect an independent director who has served for nine years. In such instances, the Board must provide a meritorious justification for the re-election.

- 5.4** The positions of Chairman of the Board and Chief Executive Officer should be held by separate individuals and each should have clearly defined responsibilities.

To avoid conflict or a split board and to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making, the positions of Chairman and Chief Executive Officer (CEO) should be held by different individuals. This type of organizational structure facilitates effective decision making and good governance. In addition, the division of responsibilities and accountabilities between the Chairman and CEO is clearly defined and delineated and disclosed in the Board Charter.

The CEO has the following roles and responsibilities, among others:

- a. Determines the corporation's strategic direction and formulates and implements its strategic plan on the direction of the business;
- b. Communicates and implements the corporation's vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same;

- c. Oversees the operations of the corporation and manages human and financial resources in accordance with the strategic plan;
- d. Has a good working knowledge of the corporation's industry and market and keeps up-to-date with its core business purpose;
- e. Directs, evaluates and guides the work of the key officers of the corporation;
- f. Manages the corporation's resources prudently and ensures a proper balance of the same;
- g. Provides the Board with timely information and interfaces between the Board and the employees;
- h. Builds the corporate culture and motivates the employees of the corporation; and
- i. Serves as the link between internal operations and external stakeholders.

- 5.5** The Board should designate a lead director among the independent directors if the Chairman of the Board is not independent, including if the positions of the Chairman of the Board and Chief Executive Officer are held by one person.

In cases where the Chairman is not independent and where the roles of Chair and CEO are combined, putting in place proper mechanisms ensures independent views and perspectives. More importantly, it avoids the abuse of power and authority, and potential conflict of interest. A proper mechanism is the appointment of a strong "lead director" among the independent directors. This lead director has sufficient authority to lead the Board in cases where management has clear conflicts of interest.

The functions of the lead director include, among others, the following:

- a. Serves as an intermediary between the Chairman and the other directors when necessary;
- b. Convenes and chairs meetings of the non-executive directors; and
- c. Contributes to the performance evaluation of the Chairman, as required.

- 5.6** A director with a material interest in any transaction affecting the corporation should abstain from taking part in the deliberations for the same.

The abstention of a director from participating in a meeting when related party transactions, self-dealings or any transactions or matters on which he/she has a material interest are taken up ensures that he has no influence over the outcome of the deliberations. The fundamental principle to be observed is that a director does not use his position to profit or gain some benefit or advantage for himself and/or his/her related interests.

- 5.7 The non-executive directors (NEDs) should have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any executive directors present to ensure that proper checks and balances are in place within the corporation. The meetings should be chaired by the lead independent director.

NEDs are expected to scrutinize Management's performance, particularly in meeting the companies' goals and objectives. Further, it is their role to satisfy themselves on the integrity of the corporation's internal control and effectiveness of the risk management systems. This role can be better performed by the NEDs if they are provided access to the external auditor and heads of the internal audit, compliance and risk functions, as well as to other key officers of the company without any executive directors present. The lead independent director should lead and preside over the meeting.

## **6. ASSESSING BOARD PERFORMANCE**

### **Principle**

The best measure of the Board's effectiveness is through an assessment process. The Board should regularly carry out evaluations to appraise its performance as a body, and assess whether it possesses the right mix of backgrounds and competencies.

- 6.1 The Board should conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees. Every three years, the assessment should be supported by an external facilitator.

Board assessment helps the directors to thoroughly review their performance and understand their roles and responsibilities. The periodic review and assessment of the Board's performance as a body, the board committees, the individual directors, and the Chairman show how the aforementioned should perform their responsibilities effectively. In addition, it provides a means to assess a director's attendance at board and committee meetings, participation in boardroom discussions and manner of voting on material issues. The use of an external facilitator in the assessment process increases the objectivity of the same. The external facilitator can be any independent third party such as, but not limited to, a consulting firm, academic institution or professional organization.

- 6.2 The Board should have in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, the individual directors, committees and such system should allow for a feedback mechanism from the shareholders.

Disclosure of the criteria, process and collective results of the assessment ensures transparency and allows shareholders and stakeholders to determine if the directors are performing their responsibilities to the company. Companies are given the discretion to determine the assessment criteria and process, which should be based on the mandates, functions, roles and responsibilities provided in the Board and Committee Charters. In establishing the criteria, attention is given to the values, principles and skills required for

the company. The Corporate Governance Committee oversees the evaluation process.

## **7. STRENGTHENING BOARD ETHICS**

### **Principle**

Members of the Board are duty-bound to apply high ethical standards, taking into account the interests of all stakeholders.

- 7.1 The Board should adopt a Code of Business Conduct and Ethics, which would provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings. The Code should be properly disseminated to the Board, senior management and employees. It should also be disclosed and made available to the public through the company website.

A Code of Business Conduct and Ethics formalizing ethical values is an important tool to instill an ethical corporate culture that pervades throughout the company. The main responsibility to create and design a Code of Conduct suitable to the needs of the company and the culture by which it operates lies with the Board. To ensure proper compliance with the Code, appropriate orientation and training of the Board, senior management and employees on the same are necessary.

- 7.2 The Board should ensure the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies.

The Board has the primary duty to make sure that the internal controls are in place to ensure the company's compliance with the Code of Business Conduct and Ethics and its internal policies and procedures. Hence, it needs to ensure the implementation of said internal controls to support, promote and guarantee compliance. This includes efficient communication channels, which aid and encourage employees, customers, suppliers and creditors to raise concerns on potential unethical/unlawful behavior without fear of retribution. A company's ethics policy can be made effective and inculcated in the company culture through a communication and awareness campaign, continuous training to reinforce the code, strict monitoring and implementation and setting in place proper avenues where issues may be raised and addressed without fear of retribution.

## **8. ENHANCING COMPANY DISCLOSURE POLICIES AND PROCEDURES**

### **Principle**

The company should establish corporate disclosure policies and procedures that are practical and in accordance with best practices and regulatory expectations.

- 8.1 The Board should establish corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders that gives a fair and complete picture of a company's financial condition, results and business operations.



Setting up clear policies and procedures on corporate disclosure that comply with the disclosure requirement as provided in Rule 68 of the Securities Regulation Code (SRC), Philippine Stock Exchange Listing and Disclosure Rules, and other regulations such as those required by the Bangko Sentral ng Pilipinas, is essential for comprehensive and timely reporting.

- 8.2** The Company should have a policy requiring all directors and officers to disclose/report to the company any dealings in the company's shares within three business days.

Directors often have access to material inside information on the company. Hence, to reduce the risk that the directors might take advantage of this information, it is crucial for companies to have a policy requiring directors to timely disclose to the company any dealings with the company shares. It is emphasized that the policy is on internal disclosure to the company of any dealings by the director in company shares. This supplements the requirement of Rules 18 and 23 of the Securities Regulation Code.

- 8.3** The Board should fully disclose all relevant and material information on individual board members and key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.

A disclosure on the board members and key executives' information is prescribed under Rule 12 Annex C of the SRC. According to best practices and standards, proper disclosure includes directors and key officers' qualifications, share ownership in the company, membership of other boards, other executive positions, continuous trainings attended and identification of independent directors.

- 8.4** The company should provide a clear disclosure of its policies and procedure for setting Board and executive remuneration, as well as the level and mix of the same in the Annual Corporate Governance Report. Also, companies should disclose the remuneration on an individual basis, including termination and retirement provisions.

Disclosure of remuneration policies and procedure enables investors to understand the link between the remuneration paid to directors and key management personnel and the company's performance.

The Revised Code of Corporate Governance requires only a disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors and top four management officers during the preceding fiscal year. However, disclosure on board and executive remuneration on an individual basis (including termination and retirement provisions) is increasingly regarded as good practice and is now mandated in many countries.

- 8.5** The company should disclose its policies governing Related Party Transactions (RPTs) and other unusual or infrequently occurring transactions in their Manual on Corporate Governance. The material or significant RPTs reviewed and approved during the year should be disclosed in its Annual Corporate Governance Report.

A full, accurate and timely disclosure of the company's policy governing RPTs and other unusual or infrequently occurring transactions, as well as the review and approval of material and significant RPTs, is regarded as good corporate governance practice geared towards the prevention of abusive dealings and transactions and the promotion of transparency. These policies include ensuring that transactions occur at market prices and under conditions that protect the rights of all shareholders. The said disclosure includes directors and key executives reporting to the Board when they have RPTs that could influence their judgment.

- 8.6** The company should make a full, fair, accurate and timely disclosure to the public of every material fact or event that occurs, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders. Moreover, the Board of the offeree company should appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.

The disclosure on the acquisition or disposal of significant assets includes, among others, the rationale, effect on operations and approval at board meetings with independent directors present to establish transparency and independence on the transaction. The independent evaluation of the fairness of the transparent price ensures the protection of the rights of shareholders.

- 8.7** The company's corporate governance policies, programs and procedures should be contained in its Manual on Corporate Governance, which should be submitted to the regulators and posted on the company's website.

Transparency is one of the core principles of corporate governance. To ensure the better protection of shareholders and other stakeholders' rights, full disclosure of the company's corporate governance policies, programs and procedures is imperative. This is better done if the said policies, programs and procedures are contained in one reference document, which is the Manual on Corporate Governance. The submission of the Manual to regulators and posting it in companies' websites ensure easier access by any interested party.

## **9. STRENGTHENING THE EXTERNAL AUDITOR'S INDEPENDENCE AND IMPROVING AUDIT QUALITY**

### **Principle**

The company should establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independence and enhance audit quality.

- 9.1** The Audit Committee should have a robust process for approving and recommending the appointment, reappointment, removal, and fees of the external auditor. The appointment, reappointment, removal, and fees of the external auditor should be recommended by the Audit Committee, approved by the Board and ratified by the shareholders. For removal of the external auditor, the reasons for removal or change should be disclosed to the regulators and the public through the company website and required disclosures.

The appointment, reappointment and removal of the external auditor by the Board's approval, through the Audit Committee's recommendation, and shareholders' ratification at shareholders' meetings are actions regarded as good practices. Shareholders' ratification clarifies or emphasizes that the external auditor is accountable to the shareholders or to the company as a whole, rather than to the management whom he may interact with in the conduct of his audit.

- 9.2 The Audit Committee Charter should include the Audit Committee's responsibility on assessing the integrity and independence of external auditors and exercising effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements. The Charter should also contain the Audit Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.

The Audit Committee Charter includes a disclosure of its responsibility on assessing the integrity and independence of the external auditor. It establishes detailed guidelines, policies and procedures that are contained in a separate memorandum or document. Nationally and internationally recognized best practices and standards of external auditing guide the committee in formulating these policies and procedures.

Moreover, establishing effective communication with the external auditor and requiring them to report all relevant matters help the Audit Committee to efficiently carry out its oversight responsibilities.

- 9.3 The company should disclose the nature of non-audit services performed by its external auditor in the Annual Report to deal with the potential conflict of interest. The Audit Committee should be alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.

The Audit Committee, in the performance of its duty, oversees the overall relationship with the external auditor. It evaluates and determines the nature of non-audit services, if any, of the external auditor. Further, the Committee periodically reviews the proportion of non-audit fees paid to the external auditor in relation to the corporation's overall consultancy expenses. Allowing the same auditor to perform non-audit services for the company may create a potential conflict of interest. In order to mitigate the risk of possible conflict between the auditor and the company, the Audit Committee puts in place robust policies and procedures designed to promote auditor independence in the long run. In formulating these policies and procedures, the Committee is guided by nationally and internationally recognized best practices and regulatory requirements or issuances.

## **10. INCREASING FOCUS ON NON-FINANCIAL AND SUSTAINABILITY REPORTING**

### **Principle**

The company should ensure that the material and reportable non-financial and sustainability issues are disclosed.

- 10.1 The Board should have a clear and focused policy on the disclosure of non-financial information, with emphasis on the management of economic, environmental, social and governance (EESG) issues of its business, which underpin sustainability. Companies should adopt a globally recognized standard/framework in reporting sustainability and non-financial issues.

As external pressures including resource scarcity, globalization, and access to information continue to increase, the way corporations respond to sustainability challenges, in addition to financial challenges, determines their long-term viability and competitiveness. One way to respond to sustainability challenges is disclosure to all shareholders and other stakeholders of the company's strategic (long-term goals) and operational objectives (short-term goals), as well as the impact of a wide range of sustainability issues.

## **11. PROMOTING A COMPREHENSIVE AND COST-EFFICIENT ACCESS TO RELEVANT INFORMATION**

### **Principle**

The company should maintain a comprehensive and cost-efficient communication channel for disseminating relevant information. This channel is crucial for informed decision-making by investors, stakeholders and other interested users.

- 11.1 The company should include media and analysts' briefings as channels of communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.

The manner of disseminating relevant information to its intended users is as important as the content of the information itself. Hence, it is essential for the company to have a strategic and well-organized channel for reporting. These communication channels can provide timely and up-to-date information relevant to investors' decision-making, as well as to other interested stakeholders.

## **INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT FRAMEWORK**

### **12. STRENGTHENING THE INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK**

#### **Principle**

To ensure the integrity, transparency and proper governance in the conduct of its affairs, the company should have a strong and effective internal control system and enterprise risk management framework.

- 12.1 The Company should have an adequate and effective internal control system and an enterprise risk management framework in the conduct of its business, taking into account its size, risk profile and complexity of operations.

An adequate and effective internal control system and an enterprise risk management framework help sustain safe and sound operations as well as implement management policies to attain corporate goals. An effective

internal control system embodies management oversight and control culture; risk recognition and assessment; control activities; information and communication; monitoring activities and correcting deficiencies. Moreover, an effective enterprise risk management framework typically includes such activities as the identification, sourcing, measurement, evaluation, mitigation and monitoring of risk.

- 12.2 The Company should have in place an independent internal audit function that provides an independent and objective assurance, and consulting services designed to add value and improve the company's operations.

A separate internal audit function is essential to monitor and guide the implementation of company policies. It helps the company accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of the company's governance, risk management and control functions. The following are the functions of the internal audit, among others:

- a. Provides an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in (1) promoting the right values and ethics, (2) ensuring effective performance management and accounting in the organization, (3) communicating risk and control information, and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;
- b. Performs regular and special audit as contained in the annual audit plan and/or based on the company's risk assessment;
- c. Performs consulting and advisory services related to governance and control as appropriate for the organization;
- d. Performs compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;
- e. Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the company;
- f. Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
- g. Evaluates specific operations at the request of the Board or Management, as appropriate; and
- h. Monitors and evaluates governance processes.

A company's internal audit activity may be a fully resourced activity housed within the organization or may be outsourced to qualified independent third party service providers.

- 12.3 Subject to a company's size, risk profile and complexity of operations, it should have a qualified Chief Audit Executive (CAE) appointed by the Board. The CAE shall oversee and be responsible for the internal audit activity of the organization, including that portion that is outsourced to a third party service provider. In case of a fully outsourced internal audit activity, a qualified independent executive or senior management personnel should be assigned the responsibility for managing the fully outsourced internal audit activity.

The CAE, in order to achieve the necessary independence to fulfill his/her responsibilities, directly reports functionally to the Audit Committee and administratively to the CEO. The following are the responsibilities of the CAE, among others:

- a. Periodically reviews the internal audit charter and presents it to senior management and the Board Audit Committee for approval;
- b. Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals;
- c. Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval;
- d. Spearheads the performance of the internal audit activity to ensure it adds value to the organization;
- e. Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and
- f. Presents findings and recommendations to the Audit Committee and gives advice to senior management and the Board on how to improve internal processes.

- 12.4 Subject to its size, risk profile and complexity of operations, the company should have a separate risk management function to identify, assess and monitor key risk exposures.

The risk management function involves the following activities, among others:

- a. Defining a risk management strategy;
- b. Identifying and analyzing key risks exposure relating to economic, environmental, social and governance (EESG) factors and the achievement of the organization's strategic objectives;
- c. Evaluating and categorizing each identified risk using the company's predefined risk categories and parameters;
- d. Establishing a risk register with clearly defined, prioritized and residual risks;

e. Developing a risk mitigation plan for the most important risks to the company, as defined by the risk management strategy;

f. Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Board Risk Oversight Committee; and

g. Monitoring and evaluating the effectiveness of the organization's risk management processes.

12.5 In managing the company's Risk Management System, the company should have a Chief Risk Officer (CRO), who is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources and support to fulfill his/her responsibilities, subject to a company's size, risk profile and complexity of operations.

The CRO has the following functions, among others:

a. Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;

b. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board Risk Oversight Committee;

c. Collaborates with the CEO in updating and making recommendations to the Board Risk Oversight Committee;

d. Suggests ERM policies and related guidance, as may be needed; and

e. Provides insights on the following:

- Risk management processes are performing as intended;
- Risk measures reported are continuously reviewed by risk owners for effectiveness; and
- Established risk policies and procedures are being complied with.

There should be clear communication between the Board Risk Oversight Committee and the CRO.

## **CULTIVATING A SYNERGIC RELATIONSHIP WITH SHAREHOLDERS**

### **13. PROMOTING SHAREHOLDER RIGHTS**

#### **Principle**

The company should treat all shareholders fairly and equitably, and also recognize, protect and facilitate the exercise of their rights.

- 13.1 The Board should ensure that basic shareholder rights are disclosed in the Manual on Corporate Governance and on the company's website.

It is the responsibility of the Board to adopt a policy informing the shareholders of all their rights. Shareholders are encouraged to exercise their rights by providing clear-cut processes and procedures for them to follow.

Shareholders' rights relate to the following, among others:

- Pre-emptive rights;
- Dividend policies;
- Right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting;
- Right to nominate candidates to the Board of Directors;
- Nomination process; and
- Voting procedures that would govern the Annual and Special Shareholders' Meeting.

The right to propose the holding of meetings and items for inclusion in the agenda is given to all shareholders, including minority and foreign shareholders. However, to prevent the abuse of this right, companies may require that the proposal be made by shareholders holding a specified percentage of shares or voting rights. On the other hand, to ensure that minority shareholders are not effectively prevented from exercising this right, the degree of ownership concentration is considered in determining the threshold.

Further, all shareholders must be given the opportunity to nominate candidates to the Board of Directors in accordance with the existing laws. The procedures of the nomination process are expected to be discussed clearly by the Board. The company is encouraged to fully and promptly disclose all information regarding the experience and background of the candidates to enable the shareholders to study and conduct their own background check as to the candidates' qualification and credibility.

Shareholders are also encouraged to participate when given sufficient information prior to voting on fundamental corporate changes such as: (1) amendments to the Articles of Incorporation and By-Laws of the company; (2) the authorization on the increase in authorized capital stock; and (3) extraordinary transactions, including the transfer of all or substantially all assets that in effect result in the sale of the company. In addition, the disclosure and clear explanation of the voting procedures, as well as removal of excessive or unnecessary costs and other administrative impediments, allow for the effective exercise of the shareholders' voting rights. Poll voting is highly encouraged as opposed to the show of hands. Proxy voting is also a good practice, including the electronic distribution of proxy materials.

The related shareholders' rights and relevant company policies should be contained in the Manual on Corporate Governance.



- 13.2 The Board should encourage active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least 28 days before the meeting.

Required information in the Notice include, among others, the date, location, meeting agenda and its rationale and explanation, and details of issues to be deliberated on and approved or ratified at the meeting. Sending the Notice in a timely manner allows shareholders to plan their participation in the meetings. It is good practice to have the Notice sent to all shareholders at least 28 days before the meeting and posted on the company website.

- 13.3 The Board should encourage active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day. In addition, the Minutes of the Annual and Special Shareholders' Meeting should be available on the company website within five business days from the end of the meeting.

Voting results include a breakdown of the approving and dissenting votes on the matters raised during the Annual or Special Stockholders' Meeting. When a substantial number of votes have been cast against a proposal made by the company, it may make an analysis of the reasons for the same and consider having a dialogue with its shareholders.

The Minutes of Meeting include the following matters: (1) A description of the voting and the vote tabulation procedures used; (2) the opportunity given to shareholders to ask questions, as well as a record of the questions and the answers received; (3) the matters discussed and the resolutions reached; (4) a record of the voting results for each agenda item; (5) a list of the directors, officers and shareholders who attended the meeting; and (6) dissenting opinion on any agenda item that is considered significant in the discussion process.

- 13.4 The Board should make available, at the option of a shareholder, an alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner. This should be included in the company's Manual on Corporate Governance.

It is important for the shareholders to be well-informed of the company's processes and procedures when seeking to redress the violation of their rights. Putting in place proper safeguards ensures suitable remedies for the infringement of shareholders' rights and prevents excessive litigation. The company may also consider adopting in its Manual on Corporate Governance established Alternative Dispute Resolution (ADR) procedures.

- 13.5 The Board should establish an Investor Relations Office (IRO) to ensure constant engagement with its shareholders. The IRO should be present at every shareholders' meeting.

Setting up an avenue to receive feedback, complaints and queries from shareholders assure their active participation with regard to activities and policies of the company. The IRO has a designated investor relations officer, email address and telephone number. Further, creating an Investor Relations

Program ensures that all information regarding the activities of the company are properly and timely communicated to shareholders.

## **DUTIES TO STAKEHOLDERS**

### **14. RESPECTING RIGHTS OF STAKEHOLDERS AND EFFECTIVE REDRESS FOR VIOLATION OF STAKEHOLDER'S RIGHTS**

#### **Principle**

The rights of stakeholders established by law, by contractual relations and through voluntary commitments must be respected. Where stakeholders' rights and/or interests are at stake, stakeholders should have the opportunity to obtain prompt effective redress for the violation of their rights.

- 14.1 The Board should identify the company's various stakeholders and promote cooperation between them and the company in creating wealth, growth and sustainability.

Stakeholders in corporate governance include, but are not limited to, customers, employees, suppliers, shareholders, investors, creditors, the community the company operates in, society, the government, regulators, competitors, external auditors, etc. In formulating the company's strategic and operational decisions affecting its wealth, growth and sustainability, due consideration is given to those who have an interest in the company and are directly affected by its operations.

- 14.2 The Board should establish clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.

In instances when stakeholders' interests are not legislated, companies' voluntary commitments ensure the protection of the stakeholders' rights. The company's Code of Conduct ideally includes provisions on the company's policies and procedures on dealing with various stakeholders. The company's stakeholders include its customers, resource providers, creditors and the community in which it operates. Fair, professional and objective dealings as well as clear, timely and regular communication with the various stakeholders ensure their fair treatment and better protection of their rights.

- 14.3 The Board should adopt a transparent framework and process that allow stakeholders to communicate with the company and to obtain redress for the violation of their rights.

The company's stakeholders play a role in its growth and long-term viability. As such, it is crucial for the company to maintain open and easy communication with its stakeholders. This can be done through stakeholder engagement touchpoints in the company, such as the Investor Relations Office, Office of the Corporate Secretary, Customer Relations Office, and Corporate Communications Group.

## 15. ENCOURAGING EMPLOYEES' PARTICIPATION

### Principle

A mechanism for employee participation should be developed to create a symbiotic environment, realize the company's goals and participate in its corporate governance processes.

- 15.1 The Board should establish policies, programs and procedures that encourage employees to actively participate in the realization of the company's goals and in its governance.

The establishment of policies and programs covering, among others, the following: (1) health, safety and welfare; (2) training and development; and (3) reward/compensation for employees, encourages employees to perform better and motivates them to take a more dynamic role in the corporation. Active participation is further fostered when the company recognizes the firm-specific skills of its employees and their potential contribution in corporate governance. The employees' viewpoint in certain key decisions may also be considered in governance processes through work councils or employee representation in the board.

- 15.2 The Board should set the tone and make a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Conduct. Further, the Board should disseminate the policy and program to employees across the organization through trainings to embed them in the company's culture.

The adoption of an anti-corruption policy and program endeavors to mitigate corrupt practices such as, but not limited to, bribery, fraud, extortion, collusion, conflict of interest and money laundering. This encourages employees to report corrupt practices and outlines procedures on how to combat, resist and stop these corrupt practices. Anti-corruption programs are more effective when the Board sets the tone and leads the company in their execution.

- 15.3 The Board should establish a suitable framework for whistleblowing that allows employees to freely communicate their concerns about illegal or unethical practices, without fear of retaliation and to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns. The Board should be conscientious in establishing the framework, as well as in supervising and ensuring its enforcement.

A suitable whistleblowing framework sets up the procedures and safe-harbors for complaints of employees, either personally or through their representative bodies, concerning illegal and unethical behavior. One essential aspect of the framework is the inclusion of safeguards to secure the confidentiality of the informer and to ensure protection from retaliation. Further, part of the framework is granting individuals or representative bodies confidential direct access to either an independent director or a unit designed to deal with whistleblowing concerns. Companies may opt to establish an ombudsman to deal with complaints and/or established confidential phone and e-mail facilities to receive allegations.

## 16. ENCOURAGING SUSTAINABILITY AND SOCIAL RESPONSIBILITY

### Principle

The company should be socially responsible in all its dealings with the communities where it operates. It should ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.

- 16.1** The company should recognize and place an importance on the interdependence between business and society, and promote a mutually beneficial relationship that allows the company to grow its business, while contributing to the advancement of the society where it operates.

The company's value chain consists of inputs to the production process, the production process itself and the resulting output. Sustainable development means that the company not only complies with existing regulations, but also voluntarily employs value chain processes that takes into consideration economic, environmental, social and governance issues and concerns. In considering sustainability concerns, the company plays an indispensable role alongside the government and civil society in contributing solutions to complex global challenges like poverty, inequality, unemployment and climate change.

Signed:



**REYNALDO P. BANTUG**  
*Chairman of the Board*



**ATTY. KATRINA L. NEPOMUCENO**  
*Compliance Officer*