

# A CORPORATE GOVERNANCE BOARD IN THE PHILIPPINE STOCK EXCHANGE

## Project Purpose

To establish in the Philippine Stock Exchange a mechanism that distinguishes listed companies that substantively subscribe to higher corporate governance practices.

## Background

The globalization of capital markets and capital flows has underscored the importance for homogeneity in corporate governance practices.

The International Finance Corporation (IFC), citing various studies, also claims that well-governed companies often draw huge investment premiums, get access to cheaper debt, and outperform their peers (“The Irresistible Case for Corporate Governance”, IFC/World Bank, March 2006).

In this context, the Philippine Stock Exchange, now faced with poor market activity (i.e., deferment or cancellations of listing applications, thinning of trading volumes, the exodus of foreign institutional investors), is looking at corporate governance to underpin its reform initiatives.

Although the current situation could be attributed to global market conditions, a careful assessment showed that there are systemic issues that need to be addressed. Although the PSE is taking significant strides to address such issues, there is one fundamental concern that the PSE considers central in its reform initiatives and for which this project is being launched – the general lack of confidence in the market brought about by concerns of less than ideal corporate governance practices (i.e. lack of transparency especially in related-party transactions, poor protection of minority shareholder rights, poor enforcement of rules). This view is further substantiated by the following:

- A 2006 study by Professors Hasung Jang of Korea and Stephen Cheung of Hong Kong indicated that the Philippines ranked 7th among 9 East Asian countries surveyed. This survey was made on investors’ perception of the implementation of CG practices in the country.
- In the 2007 CLSA-ACGA CG Survey, the Philippines was ranked 10th of 11 Asian countries surveyed. This survey is one of the most followed CG surveys in Asia.
- In the World Bank-IFC’s 2008 Doing Business Report, the Philippines ranked 133rd of 178 economies surveyed. One of its lowest rankings was on investor protection (144th).



In this regard, the PSE, recognizing its strategic role in the Philippine economy, decided to embark on an ambitious program that is aimed at defining itself as an exchange that promotes- and implements- good corporate governance and responsible business.



Inspired by the successful “Novo Mercado” concept of the Sao Paulo Stock Exchange (BOVESPA) in Brazil, the PSE, intends to create a special Board or segment that will be composed of companies that voluntarily subscribe to a higher standard of corporate governance practice.

The choice of this initiative is deliberate. This is premised on the PSE’s understanding that good corporate governance results to efficiencies, which positively impacts profitability and eventually, growth.

### **Project Outputs**

- I. A Policy Manual issued by the Philippine Stock Exchange outlining:
  - The creation of a special CG Board in the Philippine Stock Exchange that is reserved for companies that subscribe to higher CG standards.
  - The criteria for inclusion to the “CG Board”.
  - Organizational and operational framework for the implementation and management of the special CG Board.
  
- II. A set of PSE listing and disclosure rules that have been modified to adapt to the creation of the special CG Board.

### **Main Activities**

The Policy Manual on the special CG Board shall be developed using the information, insights and recommendations gathered from the engagement of experts, commissioning of research studies and the conduct of working sessions with the following key stakeholders:

- Issuers (large cap, medium cap and small cap)
- Trading participants
- Institutional investors/fund managers (domestic and foreign)
- Local retail investors
- Regulators
- Market intermediaries (underwriters, law firms, audit and accounting firms, advisors, etc)
- Potential issuers (companies that have expressed interest in listing in the PSE)

There will also be a strategic communications program that would involve among others, media placements, publications and information collaterals, as well as events, conferences and road shows.

### **Partners**

The Project is supported by the British Embassy in Manila through the UK Government Special Programme Fund (SPF). We likewise have the Institute of Corporate Directors, Asian Corporate Governance Association and leading business and academic institutions (they will be named in due time) as our implementing partners for this project.

We continue to be open to partnering with organizations that share our vision for this project.





THE PHILIPPINE  
STOCK EXCHANGE  
INC.

## Our Initial Thoughts

We believe that this project would only be successful if we are able to capture and, to a degree possible, address the CG issues that key stakeholders would have at both enterprise and systemic level. As such, we shall dedicate much of our efforts in engaging major players in each stakeholder group particularly the institutional investors, the issuers, and key market participants both locally and regionally. We shall therefore “go around, ask a lot, and ask some more”.

We also believe that this initiative should not be all about “raising the CG standards”. More than that, this project shall be about “rationalizing” the CG standards and complementing it with a robust, reliable and effective enforcement system.

In essence, we look at this as an opportunity to come up with a set of CG-standards that is truly responsive to the Philippine and Asian context without deviating from the essence of the CG Principles being advocated globally. The fact that most of our CG-related rules are closely patterned after those of advanced markets signals the need for us to concentrate more on the enforcement and redress mechanisms more than raising the bar even further. It would have to be mentioned however, that there would still have to be certain standards that would have to be raised and these would be determined through an engaged consultation process described above.

Finally, we believe that our market and a fair number of our issues are suffering from a relatively low confidence from investors both local and international. Although it would take much more than this project to restore such confidence, the PSE intends to contribute to the effort by undertaking this project. Limited as it may be, the PSE plans to play the confidence game through the “enforcement route”. We believe that an enforcement regime that is fair, transparent, effective and reliable would help restore some confidence on the companies that volunteer to be in this special CG system in the PSE.

## Working Together

We therefore call on individuals, organizations and institutions that would have a stake in our capital market to join the PSE in this effort to help promote the practice of good corporate governance as it has always been our belief that corporate governance reform is too important to leave to one group or institution alone.

While we draw knowledge, strength, and inspiration from our international network, we have to rely on our collective experience, ideas, commitment and perseverance to substantively push the reform agenda to a level that would make us competitive.

## Contact Us

For more inquires and details, kindly get in touch with:

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