



CONSULTATIVE MEETING

Hong Kong Leg

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BASIC QUESTION



**What drives
investment decisions?**

DRIVERS OF INVESTMENT DECISIONS



Profitability

Liquidity

Safety

WHAT WE SEE & HEAR



| | |
|---|---|
| Global Opinion Survey : Key Findings (McKinsey & Company, 2002) | Investors are willing to pay a premium for a well-governed company (Philippines = 22%) |
| Gompers, Ishi and Metrick (2001) | A portfolio of well-governed companies out-performed a portfolio of badly-governed ones by 8.5% every year for a period of 10 years |
| The State of Global Pension Fund Governance Today (Ambachtsheer, et al., June 2007) | Positive correlation between pension fund governance and organizational performance |
| Asian Wall Street Journal (July 2002) | For institutional investors picking stock in Asia, corporate governance has become more important than financial issues |
| Credit Lyonnaise (2002) | Corporate Governance is robustly correlated to both financial performance and stock valuations |
| Institutional Shareholder Services (ISS) and Georgia State University (2004) | ISS CG Quotient: mean returns of investment and equity that were 18.7% and 23.8% better than poorly governed companies. |

WHAT WE SEE & HEAR



| | |
|--|--|
| CalPERS(July 2004) | Efforts by investment funds to improve governance of companies which are considered poorly governed also produces good returns in excess of market performance |
| CFA Institute (2005) | Investors also must take the initiative to evaluate the presence-or absence- of corporate governance safeguards of companies in which they invest , as well as their corporate cultures. |
| ASX Corporate Governance Council Survey (2006) | A total of 80% of private investors and 75% of organizations/ professionals use CG in analyzing or reviewing their investments. |
| Global Governance Services Ltd. (2007) | Higher market values, better and cheaper access to capital, higher credit ratings, an enhanced corporate reputation, and improved abilities to deal with risk and scandals |
| Asian Corporate Governance Association (2008) | Long-term confidence of public-equity institutional investors, both domestic and foreign, in countries and companies; influences liquidity |
| World Bank (2008) | Ensures the long-term, sustainable growth of companies, environmental and social responsibilities, which is necessary to economic growth. |

PROPOSITION



CORPORATE GOVERNANCE

Create
Value

Minimize
Risks

Build
Confidence

RULES VS. ENFORCEMENT



| | Rules & Practices | Enforce ment | Political and regulatory | IGAAP | Culture | Total Score | 2005 Score |
|--------------------|-------------------|--------------|--------------------------|-------|---------|-------------|------------|
| HK | 60 | 50 | 73 | 83 | 61 | 67 | 68 |
| Singapore | 70 | 50 | 68 | 88 | 58 | 65 | 70 |
| India | 59 | 38 | 58 | 79 | 50 | 56 | 61 |
| Taiwan | 49 | 47 | 60 | 70 | 48 | 54 | 57 |
| Japan | 48 | 46 | 52 | 72 | 40 | 52 | - |
| Korea | 45 | 39 | 48 | 68 | 43 | 49 | 50 |
| Malaysia | 44 | 35 | 56 | 78 | 33 | 49 | 56 |
| Thailand | 58 | 36 | 31 | 70 | 34 | 47 | 50 |
| China | 43 | 33 | 52 | 73 | 25 | 45 | 41 |
| Philippines | 39 | 19 | 38 | 75 | 36 | 41 | 46 |
| Indonesia | 39 | 22 | 35 | 65 | 25 | 37 | 37 |

The CLSA-ACGA Study (September 2007)



However, there is no existing mechanism to point where investments should go...

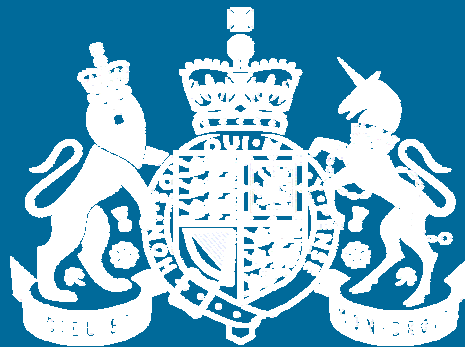
CG SEGMENT IN THE PSE



PROJECT PURPOSE

To establish in the Philippine Stock Exchange a mechanism that distinguishes listed companies that “substantively commit” to “best corporate governance practices”

IMPLEMENTING PARTNERS



CG SEGMENT IN THE PSE



MECHANISM

A special segment in the main board where companies would be listed under a different set of listing rules.

CG SEGMENT IN THE PSE



AN ARGUMENT FOR:

- Investor rights protection
- A responsive, relevant and reliable disclosure and transparency regime
- Risk management
- Capital market development

THIS CAN ONLY SUCCEED IF WE:

- Engage our major stakeholders (domestic and regional) substantively.
- Create policy and operational framework that is effective, efficient and credible.

SIMILAR INITIATIVES



| | SAO PAULO, BRAZIL BOVESPA | BUCHAREST, ROMANIA BVB | ISTANBUL, TURKEY ISE |
|---------------|--|--|--|
| CG initiative | Novo Mercado | Transparency Plus Tier | CG Index |
| Environment | <ul style="list-style-type: none"> ➤ Inefficient judiciary, weak enforcement, lack of private litigation tradition ➤ Huge domestic debt, high inflation and unemployment, failure to achieve sustainable growth, unequal income distribution | <ul style="list-style-type: none"> ➤ Poor economic performance ➤ Inadequate existing legislation on CG | <ul style="list-style-type: none"> ➤ Inefficient judiciary, weak enforcement, lack of private litigation tradition ➤ Huge domestic debt, high inflation and unemployment, failure to achieve sustainable growth, unequal income distribution |
| Proponents | <ul style="list-style-type: none"> ➤ Institutional shareholders and foreign investors supported by private and public sector | <ul style="list-style-type: none"> ➤ Regulatory institutions | <ul style="list-style-type: none"> ➤ External entities, IMF and EU |
| Outcome | <ul style="list-style-type: none"> ➤ As of 2008, 100 companies listed | <ul style="list-style-type: none"> ➤ Only one listed as of 2006 | <ul style="list-style-type: none"> ➤ As of 2008, 14 companies are included in CG Index |

INITIAL IDEAS



- We go around, ask around and ask some more.
- “Rationalize” more than “raise”.
- We come up with a set of CG standards that is truly responsive to Asian context without deviating from the essence of global standards.
- We play the confidence game through the “enforcement route” without having to be totally dependent on the traditional enforcement mechanisms (i.e. government).

WORKING SESSION



- **DISCLOSURE REQUIREMENTS**
- **SHAREHOLDER RIGHTS/VOTING RIGHTS**
- **PUBLIC FLOAT**
- **BOARD GOVERNANCE AND PRACTICE**
- **COMPANY TRACK RECORD**
- **ACCOUNTING STANDARDS**
- **SANCTIONS**
- **ENFORCEMENT SYSTEM/ADR**
- **RELATED PARTY TRANSACTIONS**



What are the shortcomings in the current legal, regulatory, and business framework that has given rise to investor complaints and uncertainty?



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