



Republic of the Philippines
 Department of Finance
INSURANCE COMMISSION
 1071 United Nations Avenue
 Manila



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Circular Letter (CL) No.:
 Date:
 Supersedes:

2020-71
13 June 2020
CL No. 31-2005
dated 26 September
2005

TRANQUILINO E. ESPEJON
 IC Supervising Administrative Officer
 Administrative Division
 Insurance Commission

Date: _____

CIRCULAR LETTER

TO : ALL INSURANCE/REINSURANCE COMPANIES, INSURANCE AND REINSURANCE BROKERS, MUTUAL BENEFIT ASSOCIATIONS, PRE-NEED COMPANIES AND HEALTH MAINTENANCE ORGANIZATIONS

SUBJECT : REVISED CODE OF CORPORATE GOVERNANCE FOR INSURANCE COMMISSION REGULATED COMPANIES

WHEREAS, on 10 April 2018, this Commission issued CL No. 2018-26 creating a Technical Working Group (TWG) tasked to update the Code of Corporate Governance and Corporate Governance Scorecard for Insurance Commission Regulated Entities.

WHEREAS, pursuant to the above CL, several TWG meetings were held to discuss revisions to existing CL on Code of Corporate Governance Principles and Leading Practices¹.

WHEREAS, the Code of Corporate Governance for Publicly Listed Companies² issued by the Securities and Exchange Commission (SEC) as well as international best practices and standards on Corporate Governance were used as key reference materials in the drafting the said Revised Code of Corporate Governance for Insurance Commission Regulated Companies (ICRCs).

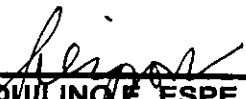
NOW THEREFORE, pursuant to the power vested to the undersigned Insurance Commissioner under Section 437 of the Insurance Code of the Philippines, as amended by Republic Act (R.A.) No. 10607, Section 6 of R.A. No. 9829, otherwise known as the Pre-Need Code of the Philippines, and Section 4 of Executive Order (E.O.) No. 192, Series of 2015, the attached **Revised Code of**

¹ CL No. 31-2005 dated 26 September 2005
² SEC Memorandum Circular No. 19, Series of 2016

Corporate Governance for Insurance Commission Regulated Companies (ICRCs) is hereby promulgated for the adoption and compliance by all ICRCs¹.

This Circular Letter shall take effect immediately.

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DENNIS B. FUNA
Insurance Commissioner



¹Include insurance/reinsurance companies, insurance and reinsurance brokerage companies, mutual benefit associations, pre-need companies and health maintenance organization companies duly authorized by the Insurance Commission to conduct business

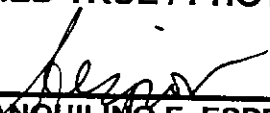
CODE OF CORPORATE GOVERNANCE FOR INSURANCE COMMISSION REGULATED COMPANIES

I. INTRODUCTION

1. The Code of Corporate Governance is intended to raise the corporate governance standards of Insurance Commission Regulated Companies (ICRCs) to a level at par with its regional and global counterparts. The latest G20/ Organisation for Economic Co-operation and Development Principles of Corporate Governance, the Association of Southeast Asian Nations Corporate Governance Scorecard and the Code of Corporate Governance for Publicly Listed Companies¹ issued by the Securities and Exchange Commission (SEC) were used as key reference materials in the drafting of this Code.
2. The Code will adopt the "comply or explain" approach. If a company cannot comply with the Code, it must identify any areas of non-compliance, explain the reasons, and provide action plan to address non-compliant areas in the annual corporate governance report.
3. The Code is arranged as follows: Principles, Recommendations and Explanations.
4. The Principles can be considered as high-level statements of corporate governance good practice, and are applicable to all companies.
5. The Recommendations are objective criteria that are intended to identify the specific features of corporate governance good practice that are recommended for companies operating according to the Code. Alternatives to a Recommendation may be justified in particular circumstances if good governance can be achieved by other means. When a Recommendation is not complied with, the company must disclose and describe this non-compliance, and explain how the overall Principle is being achieved. The alternative should be consistent with the overall Principle. The annual corporate governance report shall contain the descriptions and explanations written in plain language and in a clear, complete, objective and precise manner, so that shareholders and other stakeholders can assess the company's governance framework.
6. The Explanations strive to provide companies with additional information on the recommended best practice.

¹ SEC Memorandum Circular No. 19, Series of 2016

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7. The Code of Corporate Governance for Insurance Commission Regulated Companies is intended to cover all corporations in the Philippines under supervision of the Insurance Commission (IC).

II. DEFINITION OF TERMS – For purposes of this Code, the following terms are defined as follows:

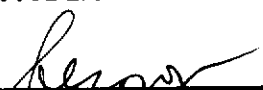
1. **Corporate Governance** – the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders.

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.

2. **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. The term shall also include Board of Trustees.
3. **Director**- as used in this Code shall also refers to a Trustee.
4. **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.
5. **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.
6. **Executive director** – a director who has executive responsibility of day-to-day operations of a part or the whole of the organization.
7. **Non-executive director** – a director who has no executive responsibility and does not perform any work related to the operations of the corporation.

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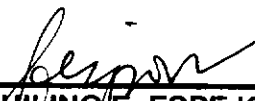


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8. **Conglomerate** – a group of corporations that has diversified business activities in varied industries, whereby the operations of such businesses are controlled and managed by a parent corporate entity.
9. **Internal control** – a process designed 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.
10. **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.
11. **Entity** - shall also refer to a company.
12. **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.
13. **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.
14. **Shareholder**- refers to an owner of a share of stock in a company. For the purpose of this Code, the term shareholder shall also refer to a member of a non-stock non-profit entity.
15. **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.

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II. PRINCIPLES AND RECOMMENDATIONS

A. THE BOARD'S GOVERNANCE RESPONSIBILITIES

Principle 1. Establishing A Competent Board

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

Recommendation 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.

Explanation

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.

Recommendation 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 company affairs and to substantiate proper checks and balances.

Explanation

The right combination of non-executive directors (NEDs), which include independent directors (IDs) and executive directors (EDs), is essential. A majority of executive 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.

Recommendation 1.3

The Company should provide in its Board Charter or 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.

Explanation

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 IC-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.

IC-mandated topics on corporate governance include the following:

- a. Code of Corporate Governance for IC Regulated Companies;
- b. ACGS and IC Annual Corporate Governance Report;
- c. Board Responsibilities;
- d. Illegal activities of corporations/ directors/officers;
- e. Protection of minority shareholders;

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- f. Liabilities of directors;
- g. Confidentialities;
- h. Conflict of interest;
- i. RPT;
- j. Enterprise Risk management; and
- k. Case studies and Financial Reporting and Audit.

Recommendation 1.4

The Board should have a policy on board diversity.

Explanation

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. On gender diversity policy, a good example is to increase the number of female directors, including female independent directors.

Recommendation 1.5

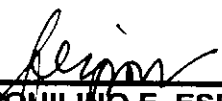
The Board should ensure that it is assisted in its duties by a Corporate Secretary, who should be a separate individual from the Compliance Officer. The Corporate Secretary should not be a member of the Board of Directors and should annually attend a training on corporate governance.

Explanation

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. 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;
- b. 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;
- c. 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;
- d. Advises on the establishment of board committees and their terms of reference;
- e. Informs members of the Board, in accordance with the by laws, of the

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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;

- f. 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;
- g. Performs required administrative functions;
- h. Oversees the drafting of the by-laws and ensures that they conform with regulatory requirements; and
- i. Performs such other duties and responsibilities as may be provided by the IC.

Recommendation 1.6

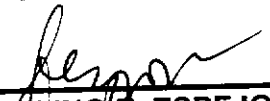
The Board should ensure that it is assisted in its duties by a Compliance Officer, who should have a rank of Vice President or an equivalent position with adequate stature and authority in the corporation. The Compliance Officer should not be a member of the Board of Directors and should annually attend a training on corporate governance.

Explanation

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 IC when summoned in relation to compliance with this Code;

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- 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 IC.

Principle 2. Establishing Clear Roles And Responsibilities Of The Board

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.

Recommendation 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.

Explanation

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.


Recommendation 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.

Explanation

According to the OECD, the Board should review and guide corporate

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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.

Recommendation 2.3

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

Explanation

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.

Recommendation 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

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and key officers as part of management succession and to promote dynamism in the company.

Explanation

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.

Recommendation 2.5

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

Explanation

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.

Recommendation 2.6

The Board should have and disclose in its Manual on Corporate Governance 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.

Explanation

It is the Board's responsibility to develop a policy on board nomination, which is contained in the company's Manual on Corporate Governance. 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. A good practice is the use of professional search firms or external sources when searching for candidates to the Board.


In addition, the process also includes monitoring the qualifications of the directors. The qualifications and grounds for disqualification are contained in the company's Manual on Corporate Governance.

The following are the grounds for the disqualification of a director:

1. Permanently Disqualified

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- Persons who have been convicted by final judgment of the court for offenses involving dishonesty or breach of trust such as estafa, embezzlement, extortion, forgery, malversation, swindling and theft;
- Persons who have been convicted by final judgment of the court for violation of insurance laws;
- Persons who have been judicially, declared insolvent, spendthrift or unable to enter into a contract; or
- Directors, officers or employees of closed insurance companies or any insurance intermediaries who were responsible for such institution's closure as determined by the insurance Commission.

2. Temporarily Disqualified

- Persons who refuse to fully disclose the extent of their business interests when required pursuant to a provision of law or of a circular, memorandum or rule or regulation of the Insurance Commission. This disqualification shall be in effect as long as the refusal persists;
- Directors who have been absent or who have not participated for whatever reasons in more than fifty percent (50%) of all meetings, both regular and special of the Board of Directors during their incumbency, or any twelve (12) month period during said incumbency. This disqualification applies for purposes of the succeeding elections;
- Persons convicted for offenses involving dishonesty, breach of contract or violation of insurance laws but whose conviction has not yet become final and executory;
- Directors and officers of closed insurance companies and insurance intermediaries pending clearance from the Insurance Commission;
- Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification of the Insurance Commission;
- Directors who failed to attend the special seminar on corporate governance. This disqualification applies until the director concerned had attended such seminar;
- Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity;
- Those under preventive suspension;
- Persons with derogatory records with the NBI, court, police, Interpol and insurance authorities of other countries (for foreign directors) involving violation of any law, rule or regulation of the government or any of its instrumentalities adversely affecting the integrity and/or ability to discharge the duties of an insurance director. This


disqualification applies until they have cleared themselves of involvement in the alleged irregularity;

- Persons who are delinquent in the payment of their obligations as defined hereunder:
 - a. Delinquency in the payment of obligations means that obligations of a person with the insurance company or its related companies where he/she is a director or officer; or at least two obligations with other insurance companies, under different credit lines or loan contracts;
 - b. Obligations shall include all borrowings from an insurance company, or its related companies obtained by:
 - i. A director or officer for his own account or as the representative or agent of others or where he/she acts as a guarantor, endorsers, or surety for loans from such institutions;
 - ii. The spouse or child under the parental authority of the director or officer;
 - iii. Any person whose borrowings or loan proceeds were credited to the amount of, or used for the benefit of a director or officer;
 - iv. A partnership of which a director or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
 - v. A corporation, association or firm wholly owned or majority of the capital is contributed by any or a group of persons mentioned in the foregoing items 1, 2, and 4.

This disqualification should be in effect as long as the delinquency persists.

Recommendation 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.


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Explanation

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 are suggestions for 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 and excluded transactions;
- Internal limits for individual and aggregate exposures;
- Whistle-blowing mechanisms, and
- Restitution of losses and other remedies for abusive RPT's

In addition, the company is given the discretion to set their 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 IC may direct a company to reduce its materiality threshold or amend excluded transactions if the IC 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.

Recommendation 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).

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Explanation

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.

Recommendation 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.

Explanation

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.

Recommendation 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.


Explanation

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.

Recommendation 2.11

The Board should oversee that a sound enterprise risk management

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(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.

Explanation

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.

Recommendation 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.

Explanation

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.

Principle 3. Establishing Board Committees

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.

Recommendation 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.

Explanation

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.

Recommendation 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.


Explanation

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, protect the accuracy and reliability of the company's financial data, and (d) ensure compliance with applicable laws and

Date: _____


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