CODE OF PROPER PRACTICES FOR DIRECTORS

(This Code provides guidance so that directors can carry out their duties and responsibilities in accordance with the highest professional standards)

1. ***Introduction and Principles***
   - The purpose of the Code is to provide guidance to corporate directors in the Philippines so that they can carry out their duties and responsibilities effectively, and in accordance with the highest professional standards. In business, wealth-creation, within the law and the bounds of morals as well as the dictate of social responsibility, is the mission of the board.
   - The Code is not intended to be an exhaustive statement of a director's obligations. It should be read in conjunction with the law governing corporations, especially those applying specifically to company directors and the provisions contained in the articles of incorporation and the by-laws of the company.
   - The office of "director" carries with it both legal and moral responsibilities. The Code offers guidance more on moral and ethical responsibilities than those imposed by law. It applies to both executive and non-executive directors.
   - The Code applies to directors of all companies or corporate entities, whether listed or not on the Philippine Stock Exchange.
   - The principles, upon which the Code is based, include integrity, fairness, accountability and transparency. These qualities are prerequisites to maintaining confidence and trust in directors.
   - The reasons for adhering to the Code are twofold.

     First, a clear understanding of moral and ethical responsibilities and strict observance of obligations will assist directors in arriving at better-informed decisions that can result in higher value creation. It will also assist them in formulating and winning support for their strategies. It will increase confidence in boards of directors and the general level of confidence in business.

     Secondly, if high standards of business conduct are not maintained, a greater degree of imposed regulation may result.

   - The Institute of Corporate Directors is promoting this Code.
   - In accordance with the Institute's mission, the Code is binding on all members of the Institute. Members should make themselves familiar with the content of the Code and observe not only its letter but also its spirit.
2. ***Definitions***
   - **"accountability"** means having a duty to answer to another for what is done or not done within an area of responsibility.
   - **"chairman"** is used in a general neutral sense, meaning "chair."
   - **"company"** includes companies registered under the Corporation Code or created by special laws.
   - **"director"** includes all directors whether executive directors or non-executive directors.
   - **"executive director"** means a director who is also an officer or employee of the company and includes the chief executive officer or president.
   - **"independence"** means no present or former employment by the company or its subsidiaries, or no significant financial or personal relationship to the company or its management, which could interfere with the director's objectivity.
   - **"integrity"** means consistent honesty, sincerity, and uprightness in all dealings.
   - **"non-executive director"** means a director who is from outside the corporation and is not an officer in the management team of the corporation.
3. ***Fundamental Obligations***
   - **Honesty and good faith.** Directors must act honestly and in good faith, with loyalty and in the best interests of the company and of its stockholders. All shareholders should be treated fairly according

to their different rights.

- **Fiduciary duties.** Directors must act in accordance with their fiduciary duties. They should comply with the spirit as well as the letter of the law mindful that in addition to purely legal requirements, the proper discharge of the duties of a director requires high ethical and moral standards of behavior.
- **Respect the law.** Directors must carry out their duties in a lawful manner. They must make sure that the company conducts its business in accordance with the law and its charter, and with a high standard of commercial morality. Directors should always act with loyalty to the corporation, ensuring that its goals, strategies, policies and practices are moral, proper, and legal. They should be prepared to dissociate themselves from the corporation in the event that despite their efforts, ethical and legal standards are being seriously compromised. They should refer to the Institute's statements of best practice as part of their decision-making process.
- **Avoid conflicts of interest.** Where a potential conflict arises, directors must adhere to the procedures provided by law and by the charter of the company for dealing with such problems. A director, who has a continuing conflict of interest of a material nature, should consider resigning.
- **Diligence.** Directors should be diligent, attend and actively participate in board meetings, and devote sufficient time to make themselves familiar with the company's business and the environment, including the political, legal and social context in which the company operates. Directors should be aware of all statutory and regulatory requirements affecting their company, including the content of its articles of incorporation and its by-laws, and where applicable, the requirements of bodies such as the Philippine Stock Exchange, the Securities and Exchange Commission, the Bangko Sentral ng Pilipinas, and see that such requirements are observed.
- **Observe confidentiality.** Directors must observe the confidentiality of non-public information acquired by them as directors and not disclose it to any other person without the authority of the board. A director who has a special allegiance to a particular shareholder may not disclose confidential information to that particular shareholder without the authority of the board.
- **Disclose transactions.** Publicly listed companies should have a procedure for the buying and selling of shares or securities by directors or their relatives or associates. Directors should not engage in short-term trading in the company's shares or securities. Directors should notify the board in advance of any intended transaction by them or their relatives or associates involving shares or securities in the company.

4. ***Board of Directors***
   - **Collegial body.** The board must always act as a board, a collegial body, and no director should arrogate to himself or herself alone the power to perform a "corporate act".
   - **Definition of roles.** There should be a clearly-defined division of responsibilities at the head of the company to ensure a balance of power and authority and that no one individual has unfettered powers of decision. The board should ensure that independent views on the board are given full consideration.
   - **Adequate information.** The board must meet regularly to monitor and control the performance of management. It must ensure that appropriate reporting systems are in place and maintained to provide accurate and timely information to the board, and that adequate systems of control are in place.
   - **Matters reserved for the Board.** The Board should have a formal schedule of matters and authorities reserved to it for decision. The Board is responsible for approving and monitoring the company's strategic plan.
   - **Board composition.** The mix of executive directors and non-executive directors will vary from company to company, but ideally there should be at least one non-executive director on every board. In the case of companies listed on the Philippine Stock Exchange and other companies with diverse and widely spread shareholdings there should be a majority of non- executive directors on the board. The caliber and number of non-executive directors should be such that their views carry significant weight in the decisions of the board. It is the view of the Institute that even small companies would benefit from having a non-executive director, with suitable experience and skills, on the board.
   - **Keep shareholders informed.** It is the duty of the board to present to shareholders a balanced and understandable assessment of the company's performance and position. Often this will involve the provision of information that goes beyond the minimum required by law. In any case of doubt, substance and content should prevail over form. The need for reports and accounts to be understood readily by shareholders means that a coherent narrative is necessary, together with figures.
5. ***Chairman***
   - The board should elect its chairman annually at the first board meeting following the annual general meeting. As a general rule, the roles of the chairman and chief executive officer should be kept separate and not held by one person at the same time.
   - The chairman is responsible for the efficient functioning of the board. He sets the agenda for board meetings, usually in conjunction with the chief executive officer and the person normally exercising the functions of a company secretary. The chairman should ensure that all directors are enabled and encouraged to play their full part in the affairs of the board and have adequate opportunities to express their views.
   - The chairman has primary responsibility for ensuring that all directors, and non-executive directors in particular, receive sufficient timely information to enable them to be effective board members.

- The chairman is the link between the board and the chief executive officer of the company. It is for the chairman to maintain a proper balance between executive and independent views on the board.

6. ***Non-executive Directors***
    - The principal role of non-executive directors is to provide independent judgement and outside experience and objectivity, not subordinated to operational considerations, on all issues that come before the board.
    - Non-executive directors should acquire and maintain a sufficiently detailed knowledge of the company's business activities and on-going performance to enable them to make informed decisions on the issues before the board. At the same time they should recognize the division between the board and management and ordinarily not become involved in management issues or in managing the implementation of board policy.
7. ***Executive Directors***
    - Executive directors have a dual role as officers of the company and as directors. As directors they have responsibilities additional to, and must retain a degree of independence from, their executive position to enable them to carry out those responsibilities effectively. Except for the chief executive officer or president, executive directors should be appointed as individuals, and not because of any position they hold or relationship they have. They must always be alert to potential for conflicts between their management interests and the fiduciary duties of a director.
8. ***Committees***
    - Companies listed on the Philippine Stock Exchange and other companies with diverse and widely spread shareholdings should have an effective audit committee appointed by the board and, in appropriate circumstances, other board committees to assist with such issues as remuneration, nomination, etc. When the board establishes a committee, its terms of reference (and its powers, duties, reporting procedures, membership and duration of office), should be clearly recorded. Committee service should be rotational.
    - Any non-executive director should be entitled to attend meetings of any board committee provided the director is not specifically excluded for reasons of conflicts of interests, even if the director is not an appointed member of the committee. Executive directors and other officers should attend board committee meetings when requested to do so by the committee.
9. ***Audit Committees***
    - The audit committee should be formally constituted to ensure its relationship with the board is clear. It should have written terms of reference agreed to by the board, including the review of all financial statements to be released by the company and the regular review of compliance with internal systems and controls and with statutory and regulatory requirements.
    - The audit committee should normally meet at least three times a year. A statement to this effect should be recorded in the annual report.
    - The audit committee ideally should comprise only non-executive directors.
    - There should be clear lines of communication between the audit committee and the external auditors. The audit committee should meet with the external auditors at least once a year. For at least part of that meeting, no executive directors or other officers of the company should be present.
    - There should also be clear lines of communication between the chairman of the audit committee and the head of any internal audit function.
10. ***Trust Boards and Trustees of Foundations***
    - This Code is primarily intended for directors of companies in the business sector. However, it is also considered to be an appropriate guide for trustees of foundations and non-governmental organizations in addition to their specific responsibilities under their particular charter and the provisions of the relevant trust laws and regulations.
11. ***Comment***
    - The following is an example of wording that companies which wish to support the Code may include in their annual report:

      "Your board supports the need for the highest standards of behavior and accountability from directors and accordingly endorses the principles set out in the Code of Proper Practice for Directors approved and adopted by the Institute of Corporate Directors in the Philippines."

Institute of Corporate Directors
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