Corporate Governance Issues in Philippine-Listed Companies

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This paper discusses corporate governance issues in Philippine-listed companies such as ownership structure, separation of Chairman and CEO positions, independent directors, related party transactions, among others, and how non-controlling stockholders are adversely affected by these issues. The paper also assesses the sufficiency of existing rules and regulations and the effectiveness of regulators in protecting minority interest.

1 Introduction

Corporate Governance is defined as the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders.[1]

On November 10, 2016, the Securities and Exchange Commission (SEC) approved the Code of Corporate Governance for Publicly-Listed Companies (CG Code for PLCs).[2] The Code provides a list of the governance responsibilities of the board of directors (BOD), corporate disclosure policies, standards for the selection of external auditor, and duties to stockholders, among others.

In this paper, emphasis will be on ownership structure, the positions of Chairman and Chief Executive Officer (CEO) being held by separate individuals, the independence of independent directors, some related party transactions, and how these issues affect the interest of non-controlling stockholders.[3]

2 Objectives

This study has the following objectives:

1. To assess some corporate governance practices of the 30 Philippine Stock Exchange index (PSEi) PSEi-indexed stocks, e.g., ownership structure, different individuals holding the positions of the chairman of the BOD and CEO, related party transactions, and tender offers.
2. To raise questions on the effectiveness of the regulatory regime in protecting the interest of the minority stockholders.

3 Review of Literature

La Porta et al. (1999) examined patterns of control in the largest firms from each of 27 wealthy economies. Their data showed that countries with poor investor protection typically exhibit more concentrated control of firms than do countries with good investor protection.

Shleifer and Vishny (1997) concluded that concentrated ownership through large shareholdings and takeovers is a universal method of control that allows these investors to get their money back, which may result in an inefficient distribution of wealth from other investors to themselves. This high ownership concentration creates agency problems between the controlling stockholders and minority stockholders which may result in the expropriation of the latter.

La Porta et al. (2000) identified different forms of expropriation which include the sale of output, assets or additional securities in the companies the large stockholders control to other companies they own at below market prices. La Porta et al. concluded that such transfer pricing, asset stripping and

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[1] From Code of Corporate Governance for Publicly-Listed Companies. http://www.sec.gov.ph/wp-content/uploads/2016/12/2016_memo_circular_no.19.pdf
[2] This Code supersedes SEC Memorandum Circular No. 6, series of 2009 (Revised Code of Corporate Governance).
[3] Non-controlling stockholders are also called minority stockholders and external stockholders.

investor dilution, while often legal, are no different from theft. Expropriation may also be in the form of diverting corporate opportunities to their other closely-held corporations, or putting unqualified members of the family in managerial positions and overpaying them for such positions.

Johnson et al. (2000) established a correlation between investor protection and financial crises. They found out that in countries with poor investor protection, the controlling stockholders or insiders might treat minority stockholders well if business prospects are bright and are interested in external financing. When prospects turn sour, the controlling stockholders might step up expropriation, and outside investors, whether minority shareholders or creditors, might be helpless about it. This escalation of expropriation might lead to significant declines in stock prices, especially in countries with poor investor protection.

Claessens et al. (2000) found evidence that concentrated ownership could harm market valuation. Kaplan (1994) explained the adverse effects of keiretsu[4] affiliation on firms' valuation in Japan, and identified the conflicts of interest between large and small shareholders and economic inefficiencies as possible causes.

In the United States, however, some studies[5] found a positive correlation between concentrated ownership and corporate valuation. One of the reasons cited was that large shareholders could better monitor management and hence, improve firm valuation. According to these studies, better monitoring and reduced agency costs were associated with concentrated ownership.

Claessens et al. (1999) documented the correlation between cash-flow rights and control rights on market valuation. They concluded that higher cash-flow rights in the hands of block-holders are associated with higher market valuation while concentration of control, particularly for family-held and financial institutions, is associated with lower market valuation. This would be more evident when cash-flow rights are low and control rights are high after adjusting for the level of control.

According to Desender (2009), there are strong perceptions that more independent directors lead to increased good governance as shown in the studies of Fernández-Rodríguez, Gómez-Ansón, and Cuervo-García (2004), and Walsh and Seward (1990).

Bhagat and Black (2002), however, argued that based on their large sample, long-horizon study of American companies, those with more independent directors did not perform better than other companies. Among the reasons cited are the following: ignorance of independent directors on company's operations and lack of incentives to do careful monitoring given their small number of shares in the company. Bhagat and Black also suggested that some directors classified as independent are not really independent. They may be indebted to the companies or to the CEOs in ways that may be hard to capture in the usual definitions of "independence." Some of them maybe advisers or consultants of these companies or are employed by foundations which get donations from these companies where they serve as directors. Pritchard (2009) also stated that in the US, there was no evidence to show that having more independent directors could be associated with better performance.

Jensen (1993) concluded that a small number of directors in the board improves company's performance. According to him, when the number of directors in the board goes beyond seven, these directors become less effective in carrying out their functions and are easier for the CEO to control. Jensen also concluded that having directors with more equity holdings in the company improves corporate governance.

Jensen (1993) explained why the positions of the chairman of the board of directors and CEO should be assigned to different individuals. Among the responsibilities of the chairman are to preside in board meetings and oversee the process of hiring, firing, evaluating, and compensating the CEO. The CEO will have a conflict of interest in carrying out some of these functions if he is also the chairman, especially those affecting his position, performance evaluation and setting his compensation.

Gourevitch (2003) discussed the opposing views on the effects of regulation on securities. A traditional perspective in law and economics suggests that regulation in securities is irrelevant. According to this view, competition in products and capital markets drives companies to come up with rules, including corporate governance mechanisms, that will minimize costs, and make regulation

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[4] A *keiretsu* is a set of companies in Japan with interlocking business relationships and shareholdings.

[5] These studies include those of Levy, 1983; Lease et al., 1984; DeAngelo and DeAngelo, 1985; Shleifer and Vishny, 1986; McConnell and Servaes, 1990.

useless. Roe's (2019) Quality of Corporate Law (QCL) theory, however, argues that regulation can have positive effects. According to this view, properly structured institutions can come up and enforce rules that can lead to desired objectives, including the protection of external or minority stockholders.

Gourevitch (2003) also discussed the criticism to the QCL theory, the "Capture" model. He cited articles such as that of Noll (1989) who argued that regulation is always captured which suggests that regulated entities always manage to work through politics to make regulators decide in their favor.

Echanis (2006) discussed weaknesses in corporate governance mechanisms in selected Philippine companies and how such weaknesses were partly addressed by regulations and reforms. Her study, however, concluded that such regulations and reforms were not enough due to the following reasons: dominance of one accounting firm, weak enforcement of the laws, concentrated ownership in companies, and weak monitoring system by the regulators.

4 Methodology

In conducting this study, the following activities were made:

1. Reviewed Code of Corporate Governance for publicly listed companies issued by the Securities and Exchange Commission (SEC) in 2016 and which became effective at the start of 2017.
2. Reviewed Corporation Code of the Philippines, especially the provisions which require at least two-third (2/3) votes of the capital stock for a decision to be carried out by a company.
3. Reviewed the 2017 annual reports of the 30 listed Philippine companies which comprise the Philippine stock index (PSEi) where information related to their respective members of the board of directors, top stockholders with voting rights, and the process for nominating directors, including independent directors, were taken from (see Table 1 for the list of the 30 PSEi-indexed stocks and public float[6] as of October 22, 2018).

Table 1. List of 30 PSEi-indexed Stocks and their Respective Floats as of October 22, 2018

	Company	Float for Common Stocks as of October 22, 2018
1	Ayala Corporation (AC)	43%
2	Aboitiz Equity Ventures (AEV)	45%
3	Alliance Global, Inc. (AGI)	31%
4	Ayala Land Inc. (ALI)	52%
5	Aboitiz Power Corporation (AP)	19%
6	BDO Unibank, Inc. (BDO)	45%
7	Bank of the Philippine Islands (BPI)	48%
8	DMCI Holdings, Inc. (DMC)	28%
9	First Gen Corporation (FGEN)	32%
10	Globe Telecom, Inc. (GLO)	22%
11	GT Capital Holdings	44%
12	International Container Terminal Services, Inc. (ICTS)	51%
13	Jollibee Foods Corporation (JFC)	44%
14	JG Summit Holdings, Inc. (JGS)	41%

[6] Public float of a company, as defined by SEC, refers to the portion of the issued and outstanding shares that are freely available and tradeable in the market and are non-strategic in nature or those not meant for the purpose of gaining substantial influence on how the company is being managed. Significant shareholdings of 10% or more of the total issued and outstanding shares of the company are considered strategic and thus excluded in the public float of the company (Taken from https://www.sec.gov.ph/wp-content/uploads/2015/10/2017Press Release_MandatesPublicforIPOs.pdf)

	Company	Float for Common Stocks as of October 22, 2018
15	LT Group, Inc. (LTG)	26%
16	Metropolitan Bank and Trust Company (MBT)	49%
17	Megaworld Corporation (MEG)	34%
18	Manila Electric Company (MER)	21%
19	Metro Pacific Investments Corp (MPI)	42%
20	Petron Corporation (PCOR)	24%
21	Puregold Price Club, Inc. (PGOLD)	33%
22	Robinsons Land Corporation (RLC)	39%
23	Robinsons Retail Holdings, Inc. (RRHI)	38%
24	Semirara Mining and Power Corporation (SCC)	26%
25	Security Bank Corporation (SECB)	59%
26	SM Investments Corporation (SM)	44%
27	San Miguel Corporation (SMC)	15%
28	SM Prime Holdings, Inc. (SMPH)	31%
29	PLDT, Inc. (TEL)	50%
30	Universal Robina Corporation (URC)	44%

4. Gathered data on the top 100 stockholders of each of the 30 PSEi-indexed stocks from the PSE EDGE portal[7] to get additional information regarding the top stockholders of each company covered in the study.
5. Computed the percentage of the voting shares of controlling stockholders based on the information taken from the annual report and the Top 100 stockholders from PSE EDGE portal.
6. Gathered data regarding the public float of each of the stocks covered in the study from the PSE EDGE portal.
7. Reviewed relevant articles related to corporate governance especially those related to listed Philippine companies.
8. Assessed the adequacy of existing rules and the practices of the 30 PSEi-indexed stocks in protecting the interest of minority stockholders.

5 Findings

The findings of this study are grouped into the following sections: ownership structure, the positions of chairman of the Board and chief executive officer (CEO) being held by different individuals, independent directors and related party transactions.

5.1 Ownership Structure

Table 2 presents information regarding the identified biggest stockholders behind each of the 30 PSEi-indexed stocks and their respective percentage share in the voting stocks of these companies.

[7] http://edge.pse.com.ph/

Table 2. Identified Biggest Stockholders of the PSEi-Indexed Stocks and their Estimated % Share in the Voting Stocks (Both Common Stocks and Preferred Stocks)

	Company	Biggest Stockholders	Estimated % Share in the Voting Stocks of Biggest Stockholders as of Dec. 31, 2017[8]
1	Ayala Corporation (AC)	MERMAC, Inc.	56.00%
2	Aboitiz Equity Ventures (AEV)	Aboitiz & Co., Inc. and related parties	56.10%
3	Alliance Global, Inc. (AGI)	The Andresons Group, Inc. And related parties	55.29%
4	Ayala Land Inc. (ALI)	Ayala Corporation	68.56%
5	Aboitiz Power Corporation (AP)	Aboitiz Equity Ventures, Inc. (AEV)	76.88%
6	BDO Unibank, Inc. (BDO)	SM Investments Corp (SM) and related parties	54.52%
7	Bank of the Philippine Islands (BPI)	Ayala Corporation and related parties	50.60%
8	DMCI Holdings, Inc. (DMC)	Dacon Corporation and related parties	69.44%
9	First Gen Corporation (FGEN)	First Philippine Holdings Corporation (FPH)	66.76%
10	Globe Telecom, Inc. (GLO)	Ayala Corporation (AC) and related parties	68.51%
11	GT Capital Holdings	Grand Titan Capital Holdings, Inc. and related parties	75.83%
12	International Container Terminal Services, Inc. (ICTS)	Razon Group and related parties	61.29%
13	Jollibee Foods Corporation (JFC)	Hyper Dynamic Corporation and the related Tan Cactiong companies	54.86%
14	JG Summit Holdings, Inc. (JGS)	Gokongwei Cos. And related parties	57.93%
15	LT Group, Inc. (LTG)	Tangent Holdings Corp.	74.39%
16	Metropolitan Bank and Trust Company (MBT)	GT Capital Holdings, Inc. and related parties	42.94%
17	Megaworld Corporation (MEG)	Alliance Global Group, Inc. and related parties	67.36%
18	Manila Electric Company (MER)	Beacon Electric Asset Holdings, Inc. and MPI	45.46%
19	Metro Pacific Investments Corp (MPI)	Metro Pacific Holdings, Inc. (MPHI)	55.00%
20	Petron Corporation (PCOR)	SMC Group	76.06%
21	Puregold Price Club, Inc. (PGOLD)	Cosco Capital, Inc. and related parties	67.00%
22	Robinsons Land Corporation (RLC)	JGS and related parties	61.50%
23	Robinsons Retail Holdings, Inc. (RRHI)	JE Holdings, Inc. and other Gokongwei parties	65.00%
24	Semirara Mining and Power Corporation (SCC)	DMCI and related parties	69.09%
25	Security Bank Corporation (SECB)	Frederick and Daniel Dy	32.87%
26	SM Investments Corporation (SM)	Sy and affiliated companies and family members	55.70%
27	San Miguel Corporation (SMC)	Top Frontier Investment Holdings, Inc. and Privado Holdings, Corp.	81.49%
28	SM Prime Holdings, Inc. (SMPH)	Directors, officers and Sy affiliated companies	68.42%
29	PLDT, Inc. (TEL)	First Pacific Group and BTF Holdings, Inc.	56.07%
30	Universal Robina Corporation (URC)	JG Summit Holdings, Inc.	55.13%

[8] The biggest stockholders were identified from the Top 100 stockholders submitted by each company to PSE and disclosed at PSE.EDGE. To compute the estimated % share in the voting stocks, the sum of the common stocks and the voting preferred stocks identified by the controlling stockholders were divided by the sum of the total common stocks and voting preferred stocks of each company covered in the study.

Table 3 shows the nine (9) PSEi-indexed stocks which have voting preferred stocks.

Table 3. List of PSEi-Indexed Stocks with Voting Preferred Stocks

1	Ayala Corporation (AC)
2	Ayala Land Inc. (ALI)
3	Globe Telecom, Inc. (GLO)
4	GT Capital Holdings
5	International Container Terminal Services, Inc. (ICTS)
6	Megaworld Corporation (MEG)
7	Metro Pacific Investments Corp (MPI)
8	Security Bank Corporation (SECB)
9	PLDT, Inc. (TEL)

In general, these voting preferred stocks are not listed and are issued to and held by related parties. Of the nine voting preferred stocks, only Globe preferred shares are listed which probably have not even traded since their listing as shown in PSE website where the issue date and last date traded are the same, June 29, 2001. There are 158,515,021 shares. Of this amount, 158,515,016 are held by Asiacom Philippines, Inc., a company which is 60% owned by Ayala Corporation and 40% owned by Singapore Telecom International.

In the case of PLDT, the 150 million voting preferred shares were subscribed by BTF Holdings, Inc. (BTFHI), a wholly-owned company of the Board of Trustees for the account of the Beneficial Trust Fund or PLDT Trust Funds, which was created pursuant to PLDT's Benefit Plan. The total subscription price was at par value of PHP1.00 per share or a total of PHP 150 million and the shares account for almost 41% of the total voting stocks of PLDT. The issuance of these voting preferred stocks was PLDT's response to address the foreign ownership issue which was raised against the company in 2011. The Philippine Constitution requires maximum 40% ownership of a telecom company by foreign investors.

These voting preferred stocks which account for 16% to 57% of the voting stocks of the nine listed companies were issued at prices much lower than the common stocks. For example, the voting preferred stocks of Globe Telecom which represent more than 54% of the company's voting stocks were issued for a total consideration of about PHP800 million. If the same controlling interest were to be paid for the common stocks of Globe Telecom, more than PHP88 billion would have been paid by an investor given its closing price of PHP556 on June 29, 2001, the date these voting preferred stocks were issued.

In the case of PLDT, the voting preferred stocks account for almost 41% of the total voting stocks. If the same voting percentage were to be acquired by an investor on the company's common stocks on March 22, 2012, the date these voting preferred stocks were issued, an investor would have paid PHP390 billion based on PLDT' s closing price of PHP2,600 per share on that date.

Table 4 presents a summary of the amount invested by the voting preferred stockholders and their percentage share in the total voting stocks of each of the nine (9) listed companies.

Table 4. List of PSEi-Indexed Stocks with Voting Preferred Stocks

	Company	% of Voting P/S to Total Voting Stocks (As of Dec. 31, 2017)[9]	Cost to P/S Stockholders (in PHP, Except for ICTS)
1	Ayala Corporation (AC)	24.35%	200,000,000
2	Ayala Land Inc. (ALI)	47.02%	1,306,649,000
3	Globe Telecom, Inc. (GLO)	54.39%	792,575,105
4	GT Capital Holdings	47.51%	17,430,000
5	International Container Terminal Services, Inc. (ICTS)	25.57%	US$140,000
6	Megaworld Corporation (MEG)	15.69%	60,000,000
7	Metro Pacific Investments Corp (MPI)	22.46%	91,281,053
8	Security Bank Corporation (SECB)	57.03%	100,000,000
9	PLDT, Inc. (TEL)	40.98%	150,000,000

Except for Ayala Corporation, Ayala Land, Inc. and GT Capital Holdings, the pre-emptive right of the common stockholders was waived for the offering of these voting preferred stocks.[10]

5.2 Decisions Which Require At Least 2/3 Votes from the Stockholders

There are certain corporate decisions that need super majority vote of the stockholders to be carried out. Super majority vote means at least 2/3 of the voting stocks. If the controlling stockholders do not have at least 2/3 of the voting stocks, then, there may be some decisions they want to undertake, such as an acquisition of another company, which can be blocked by the minority stockholders if the latter do not approve of such plan.

Based on the Revised Corporation Code of the Philippines, the following are examples of decisions that need super majority vote:

Section 15. Amendment of Articles of Incorporation.
Section 27. Removal of directors.
Section 36. Extension or shortening of corporate term.
Section 37. Increase or decrease in capital stock
Section 38. Denial of pre-emptive right (which will be discussed in detail later on)
Section 39. Sale or other disposition of assets.
Section 41. Investment of corporate funds in another corporation or business or for any other purpose.
Section 47. Amendments to by-laws.
Section 76. Merger and consolidation

The minimum float requirement for companies planning to have initial public offerings has been increased to 20% from 10%. However, the existing listed companies which are not covered by the new requirement can keep their minimum public float of 10%. These minimum float requirements, even the 20%, are way below the 33 and 1/3% minority vote required by the Corporation Code to block certain decisions of the majority stockholders.

Based on the non-float shares[11] computed from the information provided in Table 1, the controlling stockholders of 18 of the 30 PSE-indexed companies do not have supermajority vote.

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[9] This is computed by dividing the number of voting preferred stocks by the sum of common stocks and voting preferred stocks. Each voting preferred stock has one vote which is equivalent to the voting right of a common stock.

[10] This conclusion was based on the examination of the notes to financial statements on equity of the nine companies covered in this study.

[11] Nonfloat shares = 100% - Public Float %

Table 2 shows that the identified biggest stockholders of 13 of the 30 PSE-indexed stocks have supermajority vote. Two of these 13 companies (ALI and GTCAP) managed to have supermajority vote through their voting preferred stocks. Ayala Land, Inc. (ALI) has a public float of 52% on common stocks but controlling stockholders have 68.56% of the total voting stocks. GT Capital Holdings (GTCAP) has 44% public float on common stocks but its controlling stockholders have 75.83% of the total voting stocks (see Tables 1 and 2).

5.3 Positions of Chairman and CEO Being Held by Separate Individuals

Recommendation 5.4 of the Code of Corporate Governance for Publicly-Listed Companies suggests that the positions of chairman of the board and chief executive officer (CEO) be held by separate individuals. Table 5 presents a summary of whether these positions are held by separate individuals in the companies covered in this study.

Table 5. Summary of Chairman and CEO/President Being Assigned to Different Individuals As of December 31, 2017

	Company	Separate Chairman and President/CEO[12]
1	Ayala Corporation (AC)	X
2	Aboitiz Equity Ventures (AEV)	✓
3	Alliance Global, Inc. (AGI)	✓
4	Ayala Land Inc. (ALI)	✓
5	Aboitiz Power Corporation (AP)	✓
6	BDO Unibank, Inc. (BDO)	✓
7	Bank of the Philippine Islands (BPI)	✓
8	DMCI Holdings, Inc. (DMC)	X
9	First Gen Corporation (FGEN)	X
10	Globe Telecom, Inc. (GLO)	✓
11	GT Capital Holdings	✓
12	International Container Terminal Services, Inc. (ICTS)	X
13	Jollibee Foods Corporation (JFC)	✓
14	JG Summit Holdings, Inc. (JGS)	X
15	LT Group, Inc. (LTG)	X
16	Metropolitan Bank and Trust Company (MBT)	✓
17	Megaworld Corporation (MEG)	✓
18	Manila Electric Company (MER)	✓
19	Metro Pacific Investments Corp (MPI)	✓
20	Petron Corporation (PCOR)	✓
21	Puregold Price Club, Inc. (PGOLD)	✓
22	Robinsons Land Corporation (RLC)	✓
23	Robinsons Retail Holdings, Inc. (RRHI)	X
24	Semirara Mining and Power Corporation (SCC)	X
25	Security Bank Corporation (SECB)	✓
26	SM Investments Corporation (SM)	✓
27	San Miguel Corporation (SMC)	X
28	SM Prime Holdings, Inc. (SMPH)	✓
29	PLDT, Inc. (TEL)	X
30	Universal Robina Corporation (URC)	✓

[12] X means the positions of the Chairman of the Board of Directors and CEO or its equivalent are held by the same person.

Ten (10) of the companies in this study have the positions of the chairman of the board of directors and CEO being assigned to the same individual. But even the companies where both positions were assigned to different individuals, the persons assigned to the positions come mostly from the same group of controlling stockholders, or members of the family controlling the company.

Twenty one (21) or 70% of the PSE-indexed companies covered in this study were identified to have controlling stockholders or members of their families occupying top executive positions in the companies they control (see Table 6).

Table 6. List of Companies Where Controlling Stockholders or Members of their Families Occupy Top Executive Positions (As of December 31, 2017)

	Company	Controlling Stockholders or Family Members Occupying Top Executive Positions	Position/s
1	Ayala Corporation (AC)	Jaime Augusto Zobel de Ayala	CEO
		Fernando Zobel de Ayala	President and COO
2	Aboitiz Equity Ventures (AEV)	Erramon Aboitiz	President and CEO
3	Alliance Global, Inc. (AGI)	Kevin Andrew Tan	Executive Director
4	Aboitiz Power Corporation (AP)	Antonio R. Moraza	President and COO
5	DMCI Holdings, Inc. (DMC)	Isidro A. Consunji	CEO and President
6	First Gen Corporation (FGEN)	Federico R. Lopez	CEO
7	GT Capital Holdings	Anjanette Ty Dy-Buncio	Treasurer
8	International Container Terminal Services, Inc. (ICTS)	Enrique K. Razon, Jr.	President
9	Jollibee Foods Corporation (JFC)	Ernesto Tanmantiong	CEO and President
10	JG Summit Holdings, Inc. (JGS)	James Go	President
		Lance Y. Gokongwei	COO
11	LT Group, Inc. (LTG)	Lucio C. Tan	CEO
		Michael G. Tan	President
12	Megaworld Corporation (MEG)	Andrew L. Tan	President
13	Petron Corporation (PCOR)	Ramon S. Ang	President
14	PLDT, Inc. (TEL)	Manuel V. Pangilinan	CEO and President
15	Robinsons Land Corporation (RLC)	Lance Y. Gokongwei	CEO
16	Robinsons Retail Holdings, Inc. (RRHI)	Lance Y. Gokongwei	CEO
		Robina Gokongwei-Pe	President
17	Semirara Mining and Power Corporation (SCC)	Isidro A. Consunji	CEO
		Victor A. Consunji	President
18	Security Bank Corporation (SECB)	Anastacia Y. Dy	Executive Director
19	SM Investments Corporation (SM)	Harley T. Sy	Executive Director
20	San Miguel Corporation (SMC)	Ramon S. Ang	President and COO
21	Universal Robina Corporation (URC)	Lance Y. Gokongwei	CEO and President

In the case of PLDT, Manuel V. Pangilinan is not a member of the Salim family which controls First Pacific Company Limited, the biggest common stockholder of PLDT. However, he represents BTF Holdings, Inc. which owns all the voting preferred stocks issued by PLDT. These voting preferred stocks account for about 41% of all the voting stocks.

5.4 Independent Directors[13]

Recommendation 1.2 of the Code of Corporate Governance for Publicly Listed Companies suggests that the board be composed of a majority of competent and qualified non-executive directors (NEDs) to provide better management decisions and check and balance (see Appendix A for the attributes of an independent director). A good combination of NEDs which should include independent directors prevents a director or a small group of directors from dominating the decision-making process.

Table 7 provides a summary of the number of independent directors of the 30 companies covered in this study.

Table 7. Number and Percentage of Independent Directors to Total Directors (As of December 31, 2017)

	Company	No. of Directors	No. of Independent Directors	% of Independent Directors to Total Directors
1	Ayala Corporation (AC)	7	2	28.57%
2	Aboitiz Equity Ventures (AEV)	9	3	33.33%
3	Alliance Global, Inc. (AGI)	7	2	28.57%
4	Ayala Land Inc. (ALI)	9	3	33.33%
5	Aboitiz Power Corporation (AP)	9	3	33.33%
6	BDO Unibank, Inc. (BDO)	14	5	35.71%
7	Bank of the Philippine Islands (BPI)	15	6	40.00%
8	DMCI Holdings, Inc. (DMC)	9	2	22.22%
9	First Gen Corporation (FGEN)	9	3	33.33%
10	Globe Telecom, Inc. (GLO)	11	3	27.27%
11	GT Capital Holdings	13	3	23.08%
12	International Container Terminal Services, Inc. (ICTS)	7	2	28.57%
13	Jollibee Foods Corporation (JFC)	9	2	22.22%
14	JG Summit Holdings, Inc. (JGS)	11	3	27.27%
15	LT Group, Inc. (LTG)	13	4	30.77%
16	Metropolitan Bank and Trust Company (MBT)	13	6	46.15%
17	Megaworld Corporation (MEG)	7	3	42.86%
18	Manila Electric Company (MER)	11	2	18.18%
19	Metro Pacific Investments Corp (MPI)	14	3	21.43%
20	Petron Corporation (PCOR)	15	3	20.00%
21	Puregold Price Club, Inc. (PGOLD)	12	3	25.00%
22	Robinsons Land Corporation (RLC)	11	4	36.36%
23	Robinsons Retail Holdings, Inc. (RRHI)	9	2	22.22%
24	Semirara Mining and Power Corporation (SCC)	11	2	18.18%
25	Security Bank Corporation (SECB)	15	6	40.00%
26	SM Investments Corporation (SM)	9	2	22.22%
27	San Miguel Corporation (SMC)	15	3	20.00%
28	SM Prime Holdings, Inc. (SMPH)	9	3	33.33%
29	PLDT, Inc. (TEL)	13	3	23.08%
30	Universal Robina Corporation (URC)	9	2	22.22%

[13] The Code of Corporate Governance for Publicly Listed Companies defines independent director as 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.

As shown in Table 7, all companies satisfied the previous requirement of having at least two independent directors in the Board. However, Recommendation 5.1 of the 2016 Revised Code of Corporate Governance for Publicly Listed Companies increased the minimum number to three, or a number as to constitute at least one-third of the members of the Board, whichever is higher.

While all the companies in this study discussed the procedures they adopted in nominating directors, including independent directors, the general practice is that the controlling stockholders significantly influence the nomination. Having majority of the voting shares allow them to nominate more. The power to nominate a director and have the nominee elected in the board is based on the number of voting shares a stockholder has.

Since the controlling stockholders are also actively involved in management, they can approach possible nominees to become independent directors.

Non-executive directors, including the independent directors, get some remuneration for attending board meetings. Given the way independent directors are nominated and the benefits they get from being directors, one will begin to wonder how independent these independent directors are. There can be moral hazard issues in this situation.

5.5 Related Party Transactions

The following paragraphs are taken from Recommendation 2.7 of the Code of Corporate Governance for Publicly-Listed Companies.

"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."

For this section, private placements offered at a discount, issuance of voting preferred stocks to related companies, transfer of assets to related parties, and tender offers are cited as examples where the interest of minority stockholders was violated.

Cayanan (2017) concluded that on the average, minority stockholders suffered losses from private placements issued by listed Philippine companies. Based on 17 samples, the average discount of the private placement offer price was 5.34% when compared to the closing price a day prior to the announcement. If the effects of the four companies offered at a premium were to be taken out, the average discount would increase to 10.72%. Table 8 shows an excerpt of the study showing examples of private placements conducted by PSEi-indexed stocks offered at a discount.

Table 8. Examples of Private Placements Offered by PSEi-Indexed Stocks at a Discount

	Private Placement (PP) Announcement Date	PP Offer Price	Stock Price a Day Prior to Announcement	PP Discount
Ayala Corporation	November 20, 2014	660	717	-7.95%
Ayala Land, Inc.	January 12, 2015	33	35	-5.71%
First Gen	January 21, 2015	25.25	26	-2.88%
GT Capital	February 3, 2015	1,130.00	1,180.00	-4.24%
JG Summit Holdings, Inc. -1	January 21, 2015	61	70.05	-12.92%
JG Summit Holdings, Inc. -2	February 2, 2012	25	28.35	-11.82%

	Private Placement (PP) Announcement Date	PP Offer Price	Stock Price a Day Prior to Announcement	PP Discount
Metro Pacific - 1	February 10, 2015	4.9	5.24	-6.49%
Metro Pacific -2	January 23, 2013	4.6	4.91	-6.31%
Metro Pacific -3	July 9, 2011	3.6	3.79	-5.01%
Petron Corp.	March 28, 2014	11.5	13.4	-14.18%
SM Investments Corp.	August 2, 2013	900	961.5	-6.40%
Universal Robina Corp.	October 4, 2013	115	116	-0.86%

The four companies which offered their private placement offer prices at a premium were Megaworld Corporation (9.11% premium), Global Estate Resorts Inc. (18.32% premium), RCBC Bank (19.40% premium) and Universal Robina Corporation (1.64% premium) for its 2012 private placement.

Private placements are allowed under Section 38 of the Revised Corporation Code of the Philippines, stated as follows:

Section 38. Power to deny pre-emptive right. All stockholders of a stock corporation shall enjoy pre-emptive right to subscribe to all issues or disposition of shares of any class, in proportion to their respective shareholdings, ***unless such right is denied*** *by the articles of incorporation or an amendment thereto: Provided, that such pre-emptive right shall not extend to shares to be issued in compliance with laws requiring stock offerings or minimum stock ownership by the public; or to shares to be issued in good faith with the approval of the stockholders representing* ***two-thirds (2/3)*** *of the outstanding capital stock, in exchange for property needed for corporate purposes or in payment of a previously contracted debt.*

Offering new shares through private placements at a discount dilutes the interest of minority stockholders. But while these private placements are oftentimes dilutive, offering preferred stocks with voting rights at very low prices relative to the common stocks' prices is even more dilutive. Non-listing of these voting preferred stocks further aggravates the situation because minority stockholders are not even given the opportunity to participate in these offers (see Table 4).

Tender offers and voluntary delisting can also be disadvantageous to minority stockholders. Liberty Telecoms, a subsidiary of San Miguel Corporation (SMC), conducted a tender offer in 2016 amidst complaints from some minority stockholders. The offer price of PHP2.20 was considered low by minority stockholders considering Liberty Telecom's valuable telco frequencies including those in the 700 Megahertz band (Camus, October 2016). A security firm valued Liberty stock at PHP5.00 per share with its frequencies (Camus, September 2016).

Liberty's telecom frequencies were transferred through its subsidiary, Tori Spectrum Telecom, Inc., to Vega's Bell Telecommunications, Inc., an affiliated company, in March 2015. The transaction was disclosed in 2016 when the company applied for tender offer. SEC fined the company PHP346,000 for violating disclosure requirements (Camus, 2016).

Vega Telecom of SMC was sold to Globe Telecom and PLDT for PHP70 billion in March 2017. The main subject of the valuation was the telecom frequency.

6 Conclusion

The findings of this study show that the welfare of the minority stockholders is anchored on the management prudence of controlling stockholders. Widespread ownership base of listed companies which may be true for some developed economies is not evident among listed Philippine companies. This situation creates agency problems between the controlling and minority stockholders.

The presence of majority stockholders who are actively involved in management is consistent with the findings of Claessens et al. (2000). Their study which included several companies from East Asian countries, showed that the separation of management from ownership control was rare. The management of 60% of the firms that were not widely held was related to the family of the controlling stockholder. [14]

The rules on corporate governance and the implementation of such rules have to be strengthened. While SEC decided to increase the minimum requirement of public float to 20% for new initial public offerings (IPOs), this requirement is still very low, considering that this percentage is way below the blocking minority prescribed in the Corporation Code of the Philippines which is 33 and one-third percent. For those which are already listed, the minimum float remains at 10%. There are certain decisions such as the acquisition and sale of another company which require a super majority vote. This probably explains why most controlling stockholders prefer to have voting shares considerably higher than 50%.

The minimum float requirement of 10% for already listed companies and 20% for new IPOs is significantly weakened if SEC does not monitor the issuance of voting preferred stocks. Allowing the issuance of these unlisted voting preferred stocks which are dilutive to minority stockholders is a lapse in regulation. This situation can potentially aggravate the agency problems between the controlling and minority stockholders.

To address this issue, SEC and PSE should increase the minimum public float to at least 33 and one-third percent, and should cover all voting shares. This suggests that the companies which have issued voting preferred stocks must be required to list them.

While the Corporation Code of the Philippines allows private placements, shouldn't the regulators require that these private placements be offered at a premium? If this cannot be done, shouldn't the listed companies be required to offer the new shares through a stock rights offering where all stockholders will be given equal opportunity to subscribe? This process definitely takes more time but this is a small price to pay for having a better access to capital markets.

The presence and nomination of independent directors is another concern. How independent are these independent directors? If they are nominated by the controlling stockholders and receive benefits in the process, can they really be independent? This is an area of corporate governance that is difficult to assess. However, if the votes of each member of the Board will be required by SEC and PSE to be disclosed, especially on issues that affect the welfare of minority stockholders such as private placements, tender offers or material related party transactions, then, maybe, they will think twice before they vote.

The move to increase the number of independent directors in the Board is a positive development. But this will be more meaningful if the choice of independent directors will come from the minority stockholders, and not from the majority stockholders. SEC and PSE should come up with guidelines towards this direction.

There are other issues adversely affecting minority stockholders such as forced delisting of companies or prolonged suspension of companies from trading, which were not discussed in this paper. While the controlling stockholders and managers of these companies deserve to be penalized for non-compliance, mostly related to reportorial requirements, the minority stockholders suffer more for decisions beyond their control. These cases and the issues presented in this paper are reflections of a corporate governance system that is far from ideal. This situation may partly explain why the Philippine stock market which was established in 1927 and one of the oldest exchanges in Asia, remains one of the smallest.

[14] There were 2,980 corporations included in the study coming from nine East Asian countries, namely, Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand.

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Appendix A

Attributes of an Independent Director
(Recommendation 5.2 of the Code of Corporate Governance for Publicly Listed Companies)

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.

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Tracking the Philippine Economy Using a Macroeconometric Model

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This paper presents a small macroeconometric model of the Philippine economy. The model consists of eleven equations, six of which are behavioral equations and five are identities. The six behavioral equations of the model are estimated using OLS on annual macroeconomic data from 1999 to 2015. In-sample forecast of the endogenous variables is conducted to determine the tracking ability of the model. The simulation results show satisfactory tracking ability as shown by the simulation statistics and reflected in the graphs of the simulated variables. This shows that the model has adequate forecasting capability and may be used to conduct sensitivity and policy analysis.

1 Introduction

A small macroeconometric model is developed for the purpose of simulating and tracking the path of the Philippine economy. In general, macroeconomic models examine the economic consequence that would have resulted from changes in the level of gross domestic product (GDP), government spending, consumption, tax policies, money supply and other macroeconomic variables (Pindyck and Rubinfeld, 1976). By simulating the model during the period for which historical data for all variables are available, a comparison of the original series with the simulated series for each endogenous variable can provide a useful test of validity of the model. The Philippine macroeconometric model can also be used for policy analysis and forecasting of key macroeconomic variables.

Ex post simulations can also be useful in policy analysis. By changing parameter values or letting exogenous policy variables follow different time paths, one can examine and compare what might have taken place as a result of an alternative policy. Likewise, at the microeconomic level, industry econometric models can also be used to simulate the effects of alternative regulatory policies or other factors affecting the industry. The model can be extended to forecast beyond the estimated period as a good benchmarking tool as well as for sensitivity analysis and policy analysis.

There are a few models of the Philippine economy which range from medium to large: for example, Bautista et al. (2004), Ducanes et al. (2005), Rodriguez and Briones (2002). Like these models, the model of this study belongs to the traditional Keynesian model that is based on the IS-LM framework. This model however differs from previous ones in its treatment of the monetary side. Instead of a money demand function, the study uses an interest rate equation representing the Taylor Rule adopted by Philippine monetary authorities as the monetary policy framework since 2002. The Taylor rule has been the focus of academic discussions as monetary targeting has fallen out of favor and has not been used by most Central Banks.

The second section provides a brief review of the literature on macroeconomic modelling. As a background for the modelling process, the third section describes the Philippine economy from 2000 to 2015 which is the coverage of this study. The fourth section discusses the model structure and the equations in the model. The fifth section shows the empirical estimates, model evaluation and historical simulation results. The last section concludes the study.

2 Review of Related Literature

The long history of macroeconomic model building can be split into several subperiods, depending on the changing goals, macroeconomic concepts, econometric and statistical methodologies and institutional conditions. Welfe's book on Macroeconomic Models (2013) serves as an extensive compilation of various types of model structures spanning nearly three decades of macroeconomic modelling. Model building dates back to the 1960s and 1970s in Western Europe and Japan and then

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