FREQUENTLY ASKED QUESTIONS (FAQs)

ON THE COMPENSATION OF MEMBERS OF THE GOVERNING BOARDS OF GOCCS

Q: What was the compensation of members of GOCC Governing Boards under the past administration?

A: The compensation of the members of GOCC Governing Boards under the past administration was unregulated, which led to various Directors/Trustees granting themselves excessive and unauthorized bonuses, benefits, allowances, and salaries reaching ₱1 million per year regardless of performance and with poor attendance records. In addition, Directors who were appointed to investee corporations kept for themselves items like bonuses, profit sharing and stock options, which ranged from ₱1 million to ₱6 million per company and were suppose to accrue to the GOCC.

Accordingly, the first two State of the Nation Addresses (SONA) of President Aquino were punctuated with the sharing with the public of the glaring irregularities in GOCCs, and in particular chastising members of the Board of the MWSS for rewarding themselves with extravagant allowances and benefits while being in arrears for the pensions of their retired employees. He also pointed out how some GOCCs like NFA and NAPOCOR were used to serve the interests of a few at the expense of the rank-and-file employees and the public sector they are supposed to serve. In the second SONA, the President impugned the motives of members of the Board of the Philippine National Construction Corporation (PNCC) in the previous administration that paid themselves excessive allowances even as the company was already deep in debt.

Q: What has changed under the current administration vis-à-vis the excessive compensation of members of GOCC Governing Boards under the past administration?

A: The President immediately issued two (2) Executive Orders that laid the groundwork for rationalizing the compensation in GOCCs:

1. Executive Order No. 7, s. 2010, which imposed a moratorium on increases in salaries, allowances, incentives and other benefits and created the Task Force on Corporate Compensation to review the compensation granted to members of Governing Boards or Appointive Directors, and recommend reforms that would ensure a reasonable compensation system that is reasonable yet competitive with the private sector to ensure that GOCCs can still attract, retain and motivate a corps of competent civil servants.
2. Executive Order No. 24, s. 2011, which rationalized the compensation of Appointive Directors to only 2 forms:
   a. *Per Diems* for actual attendance at meetings; and
   b. Performance-Based Incentives, which may only be granted if a GOCC achieves its targets based on agreed metrics.

The compensation was rationalized according to the size of each GOCC, which is based on the parameters below:

EO 24 Class	Assets	Revenues
A	≥ 100 Billion	≥ 10 Billion
B	≥ 25 Billion and < 100 Billion	≥ 2.5 Billion and < 10 Billion
C	≥ 5 Billion and < 25 Billion	≥ 500 million and < 2.5 Billion
D	≥ 1 Billion and < 5 Billion	≥ 100 million and < 500 million
E	< 1 Billion	< 100 million

In turn, the compensation for Appointive Directors based on the size of the GOCC where they serve is as follows:

EO 24 Class	Board Meetings (₱)		Committee Meetings (₱)		Total Max of Per Year (₱)
	Max Per Meeting	Max Per year	Max Per Meeting	Max Per year	
A	40,000	960,000	24,000	576,000	1,536,000
B	20,000	480,000	12,000	288,000	768,000
C	15,000	360,000	9,000	216,000	576,000
D	10,000	240,000	6,000	144,000	384,000
E	5,000	120,000	3,000	72,000	192,000

The Board Chairperson may receive not more than 20% of the per diem rate for Board meetings only.

Appointive Directors representing a GOCC in a private corporation where the GOCC has investments may also receive compensation their services as such, but the same is subject to the same caps that apply to the GOCC represented. Any excess shall accrue and be remitted to the GOCC represented within fifteen (15) days.

In June 2011, Congress also responded to the call of the President by enacting into law the *"GOCC Governance Act of 2011"* (R.A. No. 10149), which consolidated the President's reform efforts and enhanced the ability of the National Government to regulate the GOCC Sector through the creation of a central oversight and policy-making body known as the Governance Commission for GOCCs (GCG).

Q: How was the formula for the amount of Performance-Based Incentives for Appointive Directors determined?

A: All other forms of compensation such as retainer fees, salaries, and stock options that are traditionally granted in the private sector regardless of performance were instead converted into Performance-Based Incentives (PBIs). Hence insofar as the annual total compensation of companies in the private sector ranked at the median are concerned, Appointive Directors in GOCCs will only receive the same or comparable amount with such companies if their companies perform. Otherwise, they are restricted to the *per diems*.

Accordingly, GCG Memorandum Circular 2012-14 set the formula for computing the PBI of an Appointive Director as follows:

Rating in Performance Scorecard of the GOCC	**Incentive Entitlement per Director / Trustee**
100%	100% of Total Actual Annual Authorized *per diems* received
95%	90% of Total Actual Annual Authorized *per diems* received
90%	80% of Total Actual Annual Authorized *per diems* received
Below 90%	None

Furthermore, R.A. No. 10149 provides that the term for Appointive Directors is only one (1) year, and they may only be reappointed for the next year if they obtain a performance score of above average or higher.

Q: What is the basis for determining whether a GOCC can grant Performance-Based Incentives to the members of its Governing Board?

A: The GOCC must achieve a weighted-average of 90% on its Performance Scorecard (see GCG MC No. 2013-02). The Performance Scorecard, in turn, is the product of negotiations between the GOCC and the GCG before the start of each calendar year.

GCG negotiates with the GOCCs to set targets for the year that are not only aligned to their mandate and national development plans, but more importantly reflect the highest possible outcome that can be achieved by the GOCCs within one calendar year. This may at times involve requiring them to at least start certain important projects or initiatives that will improve service delivery even though these cannot be completed within the year.

GOCCs, in turn, negotiate with GCG to ensure that the targets set are achievable given their existing resources, the market conditions in which they operate, and the conditions in which they operate.

Performance-Based Bonuses/Incentives are an important tool for motivating the entire workforce of a GOCC behind shared goals, and this includes the members of the Governing Board. Under R.A. No. 10149, where the performance of an Appointive Director is not above average, he/she cannot be reappointed. Correspondingly, when a GOCC performs well under the leadership of the Governing Board, such performance is also recognized through the Performance-Based Bonus/Incentive.

In all cases however, the Officers and Employees must be granted first, and total cost of the granting Performance-Based Bonuses/Incentives in a GOCC shall not result in a net loss before subsidy and after income tax in the GOCC's actual audited financial statements for FY2012.

Q: Is the current system and rates for the compensation of Appointive Directors moral/ethical given they are in public service?

A: The answer to the question would ultimately hinge on whether it is moral/ethical for the government to adopt a policy with the objective of attracting, retaining and motivating a competent corps of civil servants and ultimately improving public service.

GCG was mandated by Congress to implement this policy, and has benchmarked the rates for GOCCs with companies at the private sector that are ranked at the median in line with the guiding principle that the compensation system must be both reasonable and competitive with the private sector.

Q: Should GOCCs such as SSS use the members' funds to give themselves bonuses?

A: The recognition of good performance is a necessary cost of good governance and better service delivery. R.A. No. 10149 mandates that the cost of this recognition is reasonable, competitive with the private sector, and consistent with the financial viability of the GOCCs.

Under the leadership of the current SSS Governing Board, the net revenues for CY 2012 increased by ₱2.99 Billion. The bonuses authorized for the members of the Governing Board amount to 0.33% of the increase in their net income. Performance-Based Incentives are authorized only when this would not adversely affect the financial viability and services of the GOCC

Q: Why is SSS increasing the actuarial life of the fund at the expense of the members and granting itself bonuses at the same time?

A: Bonuses are granted based on performance but always taking into consideration the financial viability of a GOCC. The decision to increase the actuarial life of the fund through increasing the required contributions of the members is an exercise of business judgment by the SSS Governing Board. As a matter of policy, the Commission generally does not interfere with the business judgment of the GOCC Governing Boards. The Commission's mandate is limited to creating an enabling policy environment that provides safeguards against abuse while at the same time ensuring that GOCCs adhere to the highest standards of corporate governance, transparency and accountability.