



## GCG MEMORANDUM CIRCULAR NO. 2014 – 03 (3<sup>rd</sup> ISSUE)

**SUBJECT : PERFORMANCE EVALUATION FOR DIRECTORS (PED)**

**DATE : 26 October 2015**

1. **BACKGROUND AND PURPOSE** – Section 2 of the “GOCC Governance Act of 2011” (R.A. No. 10149) declares it a policy of the State to ensure that the governance of GOCCs is carried out in a transparent, responsible and accountable manner and with the utmost degree of professionalism and effectiveness, through Governing Boards who are competent to carry out their functions, fully accountable to the State as its fiduciaries and always acting for the best interests of the State.

Section 17 of R.A. No. 10149 states that an Appointive Director “may be nominated by the GCG for reappointment by the President only if one obtains a performance score of above average or its equivalent or higher in the immediately preceding year of tenure based on the performance criteria for Appointive Directors for the GOCC.” In the exercise of the Governance Commission’s mandate under Section 5(c) of R.A. No. 10149, the Code of Corporate Governance for GOCCs (GCG MC No. 2012-07) was issued providing for the development of an Annual Performance Evaluation of the Board<sup>1</sup> that would further strengthen the competence and character of the Members of the GOCC Governing Boards.

This Circular has been accordingly issued to establish the **PERFORMANCE EVALUATION FOR DIRECTORS (PED)** in the GOCC Sector.

2. **COVERAGE**. – The PED shall cover all Appointive Directors and shall serve as the basis for the determination of whether they shall be recommended for reappointment; *Provided*, that the Appointive Director has served at least three (3) months within the calendar year and has attended at least three (3) duly called for Board and/or Committee meetings subject of performance evaluation (the “PED Period”). It shall also cover a Director who was appointed to a term of less than three (3) months, but has served as Officer-in-Charge (OIC) or Acting Chairman or President/CEO and attended at least three (3) duly called for Board and/or Committee meetings during the PED Period.

The PED shall also cover the Ex Officio Directors and their Alternates/Authorized Representatives who have attended at least 10% of the Board and Committee Meetings for purposes of being able to report to the President the performance of such *Ex Officio* Directors, and to allow the GCG to develop and evolve a good governance system for *Ex Officio* Directors in the GOCC Sector.

<sup>1</sup> See Section 17, GCG MC No. 2012-07.

3. **COMPONENTS OF THE PED.** – The PED measures the overall performance of *Ex Officio* and Appointive Directors within the PED Period based on the weighted-average of the following components:

3.1. **GOCC Performance based on the application of the Performance Evaluation System (PES) for GOCCs under GCG Memorandum Circular No. 2013-02: 60%**

3.1.1. Failure to submit the fully accomplished Monitoring Report (PES Form 3) and corresponding support documents for validation on the indicated deadline<sup>2</sup> warrants a final PES rating of 60%.

3.2. **Director Performance Review (DPR): 25%**

3.2.1. The DPR Rating of a Director shall be measured based on the following:

- (a) Self Appraisal Rating = 5%
- (b) Peer Appraisal Rating = 10%
- (c) Chairman's Appraisal Rating for each Member = 10%

3.2.2. In cases where there is no Chairman's Appraisal Rating, The DPR Rating of a Director shall be measured based on the following:

- (a) Self Appraisal Rating = 7.5%
- (b) Peer Appraisal Rating = 17.5%

3.2.3. For the Chairman, the following shall be used to measure his/her DPR score:

- (a) Self Appraisal Rating = 7.5%
- (b) Peer Appraisal Rating = 17.5%

3.2.4. Guidelines on the DPR

(a) Appraisal Forms

- (i) **Self Appraisal Form (SAF).** – Each member of the Governing Board shall accomplish a SAF as follows:

Evaluators	Forms to be used
<u>Chairman</u>	<b>SAF 1:</b> Self-Appraisal as Chairman

<sup>2</sup> GCG M. C. 2013-02 (Re-Issued) Performance Evaluation System (PES) for the GOCC Sector Section 7.3. – submission is beginning every first working day of February but not later than the last working day of April of the immediately succeeding calendar year.

Evaluators	Forms to be used
<u>Members of the Governing Board</u>	<b>SAF 2:</b> Self-Appraisal as Board Member
<u>President/CEO/ Administrator/ General Manager</u>	<b>SAF 3:</b> Self-Appraisal as CEO

- (ii) **Peer Appraisal Form (PAF).** – Each member of the Governing Board shall likewise accomplish a PAF for each of his/her co-member. All the members of the Governing Board shall evaluate one another as follows:

Evaluators	Forms to be used
Chairman	<b>PAF 1:</b> Peer-Appraisal for Members of the Board <b>PAF 2:</b> Peer-Appraisal for the CEO
Members of the Governing Board	<b>PAF 3:</b> Peer-Appraisal for the Chairman <b>PAF 1:</b> Peer-Appraisal for Members of the Board <b>PAF 2:</b> Peer-Appraisal for the CEO
President/CEO/ Administrator/ General Manager	<b>PAF 3:</b> Peer-Appraisal for the Chairman <b>PAF 1:</b> Peer-Appraisal for Members of the Board

(b) Online Submission and Assessment of DPR Forms

- (i) To increase the level of confidentiality in the DPR results, SAFs and PAFs will be answered and encoded by each GOCC Board Director using an internet-based system accessible at <http://iped.gcg.gov.ph>.
- (ii) *Ex Officio Directors* and their Alternates, and Appointive Directors shall provide an email address which shall serve as a default username account for the DPR web-based system. The email address shall also be used by the GCG to communicate directly to the GOCC Director regarding any issues and/or concerns relating to the DPR.
- (iii) The Compliance Officer/Corporate Secretary shall be tasked to identify, collate, and submit to GCG the list of the official emails of GOCC *Ex Officio* Members and their duly-designated Alternates, and Appointive Directors. It shall be the

responsibility of the Compliance Officer/Corporate Secretary to ensure that the email addresses are accurate and up-to-date.

The Compliance Officer/Corporate Secretary shall also serve as the GOCC liaison to GCG with regard to the compliance status of the GOCC Board Members to the DPR process.

(c) Schedule:

- (i) **Individual Performance Levels.** – The GOCC's Compliance Officer/Corporate Secretary shall be informed of the opening of the DPR schedule starting on the first working day of February of each year.
- (ii) **Submission.** – Within the first twenty (20) working days of February of each year, the GOCC Board Members must submit the complete accomplished forms to the Governance Commission for tabulation and evaluation.

(d) Tabulation:

- (i) The GCG shall tabulate the results from duly submitted DPR forms; *Provided*, however, that non-submission of SAFs within the prescribed time period shall warrant the GCG to automatically establish a grade for each of the Appraisal Forms, according to the following rules:

d.i.1. The Chairman's failure to submit complete appraisal forms for his/her Directors would warrant a final DPR grade of 60% for the Chairman, his SAF notwithstanding;

d.i.2. A Director's failure to submit a SAF shall warrant a self-appraisal grade of 60% notwithstanding a Director who signified decision not to submit the said form; and

d.i.3. A Director's failure to submit a PAF for a fellow Director shall cause the former a peer appraisal grade of 60% from the fellow Director that was not rated, notwithstanding submission of fellow Director's PAF.

- (ii) In cases where the Director or Alternate does not have basis for evaluation, he/she must "force submit" the DPR Form which is equivalent to submitting a blank form which will not result to a corresponding rating.

(e) Rules on Assessing *Ex Officio* Members and their duly-designated Alternates.

- (i) In cases where the *Ex Officio* Chairman did not attend Board Meetings within the PED Period, the duly-designated Alternate shall be assessed as Chairman.<sup>3</sup>

<sup>3</sup> Section 5 of GCG MC No. 2012-08 states that "A Duly-Designated Alternate of an *Ex Officio* Board Member Acts with the Same Legal Effect as the Principal Director."

- (ii) In cases where both *Ex Officio* Chairman and his/her duly-designated Alternate did not attend any board meeting during the PED Period, they shall automatically receive a final failing grade of 60%, and the Vice Chairman<sup>4</sup> shall fulfill the PED obligations of, and himself be evaluated as, Chairman for the PED Period.
- (iii) In cases where an *Ex Officio* Board Member did not attend any Board Meetings within the PED Period, the duly-designated Alternate shall be the one subjected to the PED evaluation.

### **3.3. Director Attendance Score: 15%**

3.3.1. ***Frequency of Board Meetings.*** Based on Section 8(a) of the *Code of Corporate Governance for GOCC* (GCG M.C. No. 2012-07), Governing Boards shall meet regularly, at least once (1) a month during the PED Period, unless the GOCC's Charter or By-Laws provides otherwise. Compliance with this good governance practice shall be the primary responsibility of the Chairman.

3.3.2. **Committee Memberships.** – All GOCC Directors, both *Ex Officio* and Appointive, and including the Chairman and CEO, shall be officially designated to at least one (1) Board Committee where their presence shall be determinative of quorum, and in the case of Appointive Directors, for which they shall be entitled to receive *per diems* for actual attendance. Further, all *Ex Officio* designations of Appointive Members to Committees shall be deemed to be regular memberships. The GOCC, through its Corporate Secretary, shall certify in an official document to the Governance Commission such official designation of Committee membership.

Appointive Directors may be authorized to attend Committee meetings to which they have not been officially designated, but such authorization shall be in an observer capacity where their presence is not determinative of quorum, with no right to vote and no entitlement to *per diems*. Receipt of such *per diems* is deemed unlawful.

Attendance at Committee Meetings shall be properly recorded in the DAF. Changes in committee membership will only be recognized upon submission to the GCG of necessary documents certifying such changes.

3.3.3. ***Rules on Attendance.*** – For purposes of reappointment, an Appointive Director must have attended at least 75% of all authorized and duly called for Board and Committee meetings (to which he/she is officially designated) in any given year. In determining the total number of authorized and duly called for

<sup>4</sup> Vice Chairman shall refer to the Vice Chairman as named by the Charter/ By-Laws or any Member of the Board who assumes the position of the Chairman in the absence of the *Ex Officio* Chairman and his Alternate.

Board and Committee meetings, the following rules shall be observed:

- (a) Attendance through teleconferencing or video conferencing in accordance with Securities and Exchange Commission (SEC) Memorandum Circular No. 15, 2001, is allowed.
- (b) Absences arising from the actual conduct of official business for the GOCC, its Subsidiary, Affiliate, or for the National Government, are considered excused absences and thus counted as attendance on the part of the Director. *Provided*, the GOCC or the Director shall provide official documentation<sup>5</sup> of such official business, such as, but not limited to, a travel authority, certificate of appearance, attendance sheets and invitations.
- (c) Absences arising from serious medical conditions<sup>6</sup> shall be considered excused only upon submission of official documentation such as medical abstract or certificate.
- (d) Absences arising from filial obligations shall not be considered excused, even if approved by the Governing Board; and
- (e) Vacation leaves shall not be considered as excused, even if approved.

3.3.4. **Director Attendance System (DAS).** – An internet-based Director Attendance System, duly prescribed by the GCG and to be accessed at <http://iped.gcg.gov.ph>, shall be used to encode the attendance of the GOCC Governing Board Members.

The Compliance Officer/Corporate Secretary shall certify the accuracy and correctness of the information encoded in the DAS. In encoding the attendance information the following rules shall apply:

- (a) Attendance of an Appointive, Ex Officio, or Alternate/Authorized Representative to a Board/Committee meeting shall be marked as "Present" or "P", while non-attendance shall be marked as "Absent" or "A".
- (b) In cases where an absence is caused by an actual conduct of official business (OB), supporting documents must be uploaded to the DAS as herein prescribed in Section 3.3.3(b). Non-submission of supporting documents shall cause the GCG to convert said OB to A.

3.3.5. **Individual Attendance Score.** – The Compliance Officer/Corporate Secretary shall submit to the GCG, on or before the 15<sup>th</sup> of January of each year, the attendance record and official Committee designation

<sup>5</sup> Certificates issued by the Director himself/herself or by the Corporate Secretary are not considered official documentation.

<sup>6</sup> Sickness or physical condition that prevents a Director from physically attending a Board or Committee Meeting or effectively participating through teleconferencing, as certified by a medical doctor.

for the previous calendar year of all members of the Governing Board, both Appointive and *Ex Officio*.


4. **OVERALL GRADE EQUIVALENT.** –

Overall Score	Equivalent
<u>100%</u>	EXCELLENT
<u>95% to 99.99%</u>	OUTSTANDING
<u>85% to 94.99%</u>	ABOVE AVERAGE
<u>80% to 84.99%</u>	AVERAGE
<u>70% to 79.99%</u>	BELOW AVERAGE
<u>Above 60% to 69.99%</u>	POOR
<u>60% and Below</u>	VERY POOR

5. **ELIGIBILITY FOR REAPPOINTMENT.** – Appointive Directors who receive an overall rating of less than 85% will not be qualified to be included in the shortlist of nominees for the following term; *Provided*, that when in the GCG's evaluation, the down-rating received by an Appointive Director is not warranted, the particular Appointive Director may still be included in the shortlist for proper consideration of the President with proper explanation thereof.
6. **RESULTS OF THE PED.** – The GCG shall submit to the Supervising Agency and GOCC Chairman the results of the PED. It shall be the responsibility of the GOCC Chairman to disseminate and explain the PED results to the rest of the Members of the Governing Board.
7. **CHECKLIST OF SUBMISSIONS.** –
- (a) Self Appraisal Forms (SAF) of each member of the Governing Board (*SAF Forms 1, 2, and 3*);
  - (b) Peer Appraisal Forms (PAFs) accomplished by the peer evaluators in assessing the performance of their fellow members in a GOCC Governing Board (*PAF Forms 1, 2, and 3*);
  - (c) Supporting documents determined initially by the GOCC, without prejudice to the request for further documents/records by the GCG from the GOCC concerned.
8. **SANCTION.** – Failure of an Appointive Director to comply with the conditions of the PED shall be basis for the Governance Commission not to include his/her name in the shortlist of Appointive Directors and the non-entitlement to PBI.

9. **REPEALING CLAUSE.** – All other GCG orders, circulars, issuances, and decisions, as well as Board resolutions, or parts of the foregoing, which are inconsistent with this Memorandum Circular are hereby repealed or modified accordingly.
10. **EFFECTIVITY CLAUSE.** – This Circular shall take effect immediately upon its publication in the Governance Commission's website at [www.gcg.gov.ph](http://www.gcg.gov.ph).

  
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