

LEGAL ALERT

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Revised Corporation Code Signed into Law

On 20 February 2019, President Rodrigo Duterte signed into law the Revised Corporation Code of the Philippines, which may be considered as a landmark legislation updating the 38-year-old Corporation Code of the Philippines to adjust to modern times in doing business.

Implications for business in the Philippines

According to Senator Franklin Drilon, principal sponsor and author of the Code, the amendments are focused on “removing barriers hindering the entry of both small and large enterprises into the Philippine market” as it aims to foster smoother transactions in doing business in the Philippines. The honorable senator also mentioned in his speech on 26 March 2019 during the Joint Forum on the Revised Corporation Code that the critical changes in the Revised Corporation Code would create an investor-friendly environment conducive for business to thrive and prosper, whereby it contains four major reforms:

- there are policies that will enhance the ease of doing business in the Philippines
- the law strengthens stockholder protection and institutionalises corporate governance provisions
- the law institutionalises provisions that will instill corporate civic responsibility
- The law will strengthen the country’s policy and regulatory corporate framework.

Key reforms and significant provisions of the law

The following are some of the key reforms under the Revised Corporation Code vis-à-vis the four abovementioned reforms:

Ease of doing business

The Revised Corporation Code introduced seven key reforms intended to enhance the ease of doing business in the Philippines:

- removal of prior-to-incorporation endorsements from different government agencies;
- adoption of electronic filing and monitoring system;
- adoption of streamlined incorporation process starting with a simplified name verification standard and procedure;
- shift to perpetual corporate term;
- introduction of “one-person corporation”;
- improvement on stockholder and director participation in corporate decision-making; and
- removal of subscribed and paid-up capital requirements.

Corporate governance

The law also introduced new provisions intended to strengthen stockholder protection and institutionalise corporate governance provisions:

- expansion of the grounds for director-disqualification;
- requirement of corporations vested with public interest to have independent directors and compliance officers;
- modification of certain quorum requirements; and
- spelling out of the corporate reportorial requirements and expansion of the corollary right of inspection and reproduction by enumerating the documents that the corporation must make available to its stockholders and by allowing stockholders to name authorised representatives or counsel to inspect corporate documents, as it is often the case that stockholders are not be well-versed in corporate parlance.



Corporate civic responsibility

The law instills corporate civic responsibility by imposing corporate criminal liability and penalties for graft and corruption. Furthermore, the erring corporation's registration may also be revoked.

Strengthening the policy and regulatory corporate framework

There are amendments made to the regulatory powers of the Philippine Securities and Exchange Commission ("SEC") and provisions on arbitration:

- the Revised Corporation Code aligned the SEC's powers with those under the Securities Regulation Code. The Revised Corporation Code defines, reinforces and expands the investigatory, prosecutorial and regulatory powers of the SEC.
- disputes in the corporation among its stockholders arising from the implementation of the articles of incorporation or by-laws and other intra-corporate matters shall also be referred to arbitration when so provided in the company's Articles of Incorporation.

Conclusion

The enactment of the Revised Corporation Code comes at an appropriate time wherein the Philippine government has been active in campaigning and promoting for ease of doing business in the Philippines. This new law will certainly go hand in hand with the Ease of Doing Business Act passed in 2018 as well as with the more liberal Foreign Investments Negative List issued on October 2018, and other laws and regulations in relation to doing business. Philippine business players look forward to the better changes that can be brought about by the Revised Corporation Code in order to improve the Philippines' competitiveness as an investment destination.

If you have any questions or require any additional information, please contact [Felix Sy](#) or [Donald Onghanseng](#) of Insights Philippines Legal Advisors (a member of ZICO Law).

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