

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS
First Regular Session

COMMITTEE REPORT NO. 903

Submitted by the **COMMITTEE ON TRADE AND INDUSTRY** on
02 MAY 2011

Re : **House Bill No. 4575**

Recommending its approval in substitution of House Bill No. 1224

Sponsors : Representatives Albert Raymond S. Garcia, Diosdado Macapagal
Arroyo and Gloria Macapagal-Arroyo

Mr. Speaker:

The **Committee on Trade and Industry** to which was referred House Bill No. 1224, introduced by Representatives Macapagal Arroyo D., Macapagal-Arroyo G., Macapagal Arroyo J.M., Castelo, and Herrera-Dy, entitled:

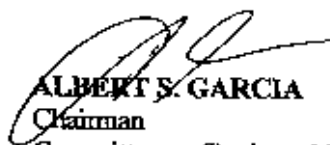
**“AN ACT
INSTITUTIONALIZING CORPORATE SOCIAL
RESPONSIBILITY, PROVIDING INCENTIVES THEREFOR
AND FOR OTHER PURPOSES”**

has considered the same and recommends that the attached House Bill No.
4575, entitled:

**“AN ACT
INSTITUTIONALIZING CORPORATE SOCIAL
RESPONSIBILITY, PROVIDING INCENTIVES THEREFOR
AND FOR OTHER PURPOSES”**

be approved in substitution of House Bill No. 1224, with Representatives Macapagal Arroyo D., Macapagal-Arroyo G., Macapagal Arroyo J.M., Castelo, Herrera-Dy, Garcia A.R., Apacible, Duavit, Biron, Defensor, Alvarez A., Treñas, Casiño, Villarica, Mandanas, Fernandez, Garay, Teodoro, Del Rosario A.R., Sacdalan, Osmeña, Joson, Rodriguez L., Lacson-Noel, Yu, Ferrer J., Sahidulla, Lagdameo A., Bonoan-David, Mellana, Sakaluran, Quisumbing, Unabia, Batocabe, Colmenares, Haresco, Villar, Pancho, Enverga, Cojuangco E., Cajayon, Rodriguez R., Tugna, Ty, Romualdez, Gonzales A., Panotes, and Bagasina as authors thereof.

Respectfully Submitted:



ALBERT S. GARCIA
Chairman
Committee on Trade and Industry

**THE HONORABLE SPEAKER
HOUSE OF REPRESENTATIVES**

FACT SHEET

House Bill No. **4575**
(In substitution of HB No. 1224)

AN ACT ENCOURAGING CORPORATE SOCIAL RESPONSIBILITY, PROVIDING INCENTIVES THEREFOR, AND FOR OTHER PURPOSES

Introduced by: REPS. DIOSDADO MACAPAGAL ARROYO, GLORIA MACAPAGAL-ARROYO, JUAN MIGUEL MACAPAGAL ARROYO, WINSTON CASTELO and BERNADETTE HERRERA-DY

*Committee Referral: **COMMITTEE ON TRADE AND INDUSTRY** (Primary)*

*Committee Chairperson: **REP. ALBERT RAYMOND S. GARCIA***

OBJECTIVES:

- To foster sustainable economic development and environmental protection by encouraging corporate social responsibility (CSR) in business organizations, whether single proprietorship, partnership or corporation.

KEY PROVISIONS:

- All business organizations established and operating under Philippine laws, whether domestic or foreign, are hereby encouraged to observe CSR defined herein as the commitment of business to contribute on a voluntary basis, to sustainable economic development by working with relevant stakeholders to improve their lives in ways that are good for business, sustainable development agenda and society at large.
- CSR-related activities shall include, but not limited to, charitable programs and projects; scientific research; youth and sports development; cultural and educational promotion; services to veterans and senior citizens; social welfare; environmental sustainability; health development; and disaster relief assistance; and employee and worker related CSR activities.
- To encourage companies to engage in CSR, Section 43 of Batas Pambansa Blg. 68, otherwise known as the "Corporation Code of the Philippines" is hereby amended to read as follows:

**Sec. 43 Power to declare dividends. -*

XXX XXX XXX

Stock corporations are prohibited from retaining surplus profits in excess of one hundred (100%) percent of their paid-in capital stock, except: (1) when justified by definite corporate expansion **OR CORPORATE SOCIAL RESPONSIBILITY** projects and programs approved by the board of directors; or (2) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its/his consent, and such consent has not yet been secured; or (3) when it can clearly show that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies."

- Full Deductibility from Gross Income. - Nothing herein shall be deemed to amend or modify Section 34 (H) of Republic Act No. 8424 otherwise known as the "Tax Reform Act of 1997" relative to the full deductibility of contributions or gifts actually paid or made to accredited donee institutions in computing taxable income which shall continue to be in force and effect.
- The State, through the Department of Trade and Industry, shall give national recognition and awards to business establishments for outstanding, innovative and world-class CSR-related services, projects and programs. It shall likewise extend endorsements and encouragement to domestic and foreign corporations doing business in the Philippines who are candidates for recognition in international award-giving bodies for their CSR-related activities
- All local government units shall extend whatever assistance is necessary for business establishments in the exercise of CSR in their areas of jurisdiction.
- The Secretary of Finance shall, in coordination with the Department of Trade and Industry and Securities and Exchange Commission shall promulgate rules and regulations of this Act.

RELATED LAWS:

- Section 43 of Batas Pambansa Blg. 68 is hereby amended.
- Section 34 (h) of Republic Act No. 8424

Republic of the Philippines
HOUSE OF REPRESENTATIVES
QUEZON CITY

FIFTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 4575
(in substitution of House Bill No. 1224)

Introduced by Representatives Diosdado M. Arroyo, Gloria Macapagal-Arroyo, Juan Miguel Macapagal Arroyo, Winston T. Castelo, Bernadette R. Herrera-Dy, Albert Raymond S. Garcia, Tomas V. Apacible, Joel Roy R. Duavit, Ferjenel G. Biron, Arthur R. Defensor, Jr., Antonio C. Alvarez, Jerry P. Treñas, Teodoro A. Casiño, Linaville Ruth R. Villarica, Hermilando I. Mandanas, Danilo Ramon S. Fernandez, Florencio C. Garay, Marcelino R. Teodoro, Antonio Rafael G. Del Rosario, Jesus N. Sacdalan, Tomas R. Osmeña, Josefina M. Josen, Isidro S. Rodriguez, Jr., Josephine Veronique Lacson-Noel, Victor J. Yu, Jeffrey P. Ferrer, Nur-Ana I. Sahidulla, Antonio F. Lagdameo Jr., Ma. Theresa B. Bonoan-David, Evelyn P. Mellana, Raden C. Sakaluran, Gabriel L.R. Quisumbing, Peter M. Unabia, Rodel M. Batocabe, Neri J. Colmenares, Teodorico T. Haresco, Jr., Mark M. Villar, Pedro M. Pancho, Wilfrido Mark M. Enverga, Enrique M. Cojuangco, Mary Mitzi L. Cajayon, Rufus B. Rodriguez, Sherwin N. Tugna, Arnel U. Ty, Ferdinand Martin G. Romualdez, Aurelio D. Gonzales, Jr., Elmer E. Panotes, Catalina C. Bagasina

AN ACT
ENCOURAGING CORPORATE SOCIAL RESPONSIBILITY,
PROVIDING INCENTIVES THEREFOR, AND FOR OTHER
PURPOSES

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

1 SECTION 1. **Short Title.** – This Act shall be known as the
2 *“Corporate Social Responsibility Act of 2011.”*

3 SEC. 2. **Declaration of Policy.** – The State recognizes the vital
4 role of the private sector in nation building and shall encourage its active
5 participation in fostering sustainable economic development and
6 environment protection in the Philippines. Towards this end, the
7 government shall mobilize its various agencies, in coordination with non-
8 government and people’s organizations, to work hand in hand for the
9 integration, promotion and strengthening of corporate social responsibility in
10 all business organizations.

11 SEC. 3. **Corporate Social Responsibility.** – All business
12 organizations established and operating under Philippine laws, whether
13 domestic or foreign, are hereby encouraged to observe corporate social
14 responsibility (CSR) in the operation of their business in the country.

15 For purposes of this Act, *corporate social responsibility* refers to the
16 commitment of business to contribute on a voluntary basis to sustainable
17 economic development by working with relevant stakeholders to improve
18 their lives in ways that are good for business, sustainable development
19 agenda and society at large. CSR-related activities shall include, but not be
20 limited to, the following:

- a) Charitable programs and projects;
- b) Scientific research;
- c) Youth and sports development;
- d) Cultural or educational promotion;
- e) Services to veterans and senior citizens;
- f) Social welfare;
- g) Environmental sustainability;
- h) Health development;
- i) Disaster relief and assistance. and
- j) Employee and worker welfare related CSR activities

SEC. 4. *Deduction from Unrestricted Retained Earnings.* - To encourage companies to engage in CSR, Section 43 of Batas Pambansa Blg. 68, otherwise known as the "Corporation Code of the Philippines" is hereby amended to read as follows:

"Sec. 43 Power to declare dividends. -

xxx xxx xxx

Stock corporations are prohibited from retaining surplus profits in excess of one hundred (100%) percent of their paid-in capital stock, except: (1) when justified by definite corporate expansion **OR** **CORPORATE SOCIAL RESPONSIBILITY** projects and

1 programs approved by the board of directors; or (2) when the
2 corporation is prohibited under any loan agreement with any financial
3 institution or creditor, whether local or foreign, from declaring
4 dividends without its/his consent, and such consent has not yet been
5 secured; or (3) when it can clearly show that such retention is
6 necessary under special circumstances obtaining in the corporation,
7 such as when there is need for special reserve for probable
8 contingencies.”

9 **SEC.5. *Full Deductibility from Gross Income.*** - Nothing herein
10 shall be deemed to amend or modify Section 34 (H) of Republic Act No.
11 8424 otherwise known as the “Tax Reform Act of 1997” relative to the full
12 deductibility of contributions or gifts actually paid or made to accredited
13 donee institutions in computing taxable income which shall continue to be in
14 force and effect.

15 **SEC. 6. *Awards and Recognition.*** – The State, through the
16 Department of Trade and Industry, shall give national recognition and
17 rewards to all business organizations for outstanding, innovative and world-
18 class CSR-related services, projects and programs. It shall likewise endorse
19 for recognition of international award-giving bodies, deserving domestic and
20 foreign-registered corporations doing business in the Philippines who are

1 being considered for their outstanding contributions to socio economic
2 development.

3 SEC. 7. ***Local Government Units.*** – All local government units
4 shall extend whatever assistance is necessary for business organizations to
5 perform their CSR-related activities.

6 SEC. 8. ***Periodic Report.*** – All business organizations shall
7 submit the list of their CSR activities as part of their annual or regular report
8 to the Securities and Exchange Commission, the Department of Trade and
9 Industry, or the Department of Finance, as the case may be.

10 SEC. 9. ***Implementing Rules and Regulations.*** – The Department
11 of Finance shall, in coordination with the Department of Trade and Industry
12 and Securities and Exchange Commission, promulgate rules and regulations
13 for the effective implementation of this Act within one hundred twenty (120)
14 days upon its effectivity and shall monitor strict compliance therewith.

15 SEC. 10. ***Separability Clause.*** – If any provision of this Act is
16 declared invalid or unconstitutional, the remaining provisions not affected
17 thereby shall continue in full force and effect.

18 SEC. 11. ***Repealing Clause.*** – Section 43 of Batas Pambansa Blg.
19 68 is hereby amended. All laws, decrees, orders, rules and regulations, and

1 other issuances, or parts thereof, inconsistent with this Act are hereby
2 repealed or modified accordingly.

3 SEC. 12. *Effectivity Clause.* – This Act shall take effect fifteen
4 (15) days after publication in the Official Gazette or in two (2) national
5 newspapers of general circulation.

6 Approved,

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS
First Regular Session

House Bill No. 1224

Introduced by Representatives
DIOSDADO MACAPAGAL ARROYO and GLORIA MACAPAGAL ARROYO

AN ACT
INSTITUTIONALIZING CORPORATE SOCIAL RESPONSIBILITY, PROVIDING
INCENTIVES THEREFOR, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

Corporate Social Responsibility or CSR is defined by the World Bank as "the commitment of business to behave ethically and to contribute to sustainable economic development by working with all relevant stakeholders to improve their lives in ways that are good for business, the sustainable development agenda, and society at large". Companies, be it big or small, have come up with their own CSR programs and have used it as an effective tool in improving their public relations with concerned stakeholders.

It is observed, however, that despite this, many corporations and other business organizations have shown very little care for the welfare of society, community where they operate and the natural environment around them. Their sole purpose is to maximize their respective returns on investment totally disregarding the impact of their activities on customers, employees, shareholders, communities and environment.

This bill, therefore, seeks to foster sustainable economic and environment development and environment protection, among other things, by institutionalizing corporate social responsibility in corporations, whether domestic or foreign, partnership and other establishment performing business in the country. Under this bill, all business organizations are mandated to take into

consideration the interest of society by taking responsibility for the impact of their activities on customers, employees, shareholders communities and environment. In return, businesses which shall comply with the mandate of this proposed measure shall be entitled to full deductions of the expenses incurred in connection thereto.

In view of the foregoing, the enactment of this piece of legislation is earnestly recommended.



DIOSDADO MACAPAGAL ARROYO
Second District, Camarines Sur



GLORIA MACAPAGAL ARROYO
Second District, Pampanga

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS
First Regular Session

House Bill No. 1224

Introduced by Representatives
DIOSDADO MACAPAGAL ARROYO and GLORIA MACAPAGAL ARROYO

AN ACT
INSTITUTIONALIZING CORPORATE SOCIAL RESPONSIBILITY, PROVIDING
INCENTIVES THEREFOR, AND FOR OTHER PURPOSES

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. *Short Title.* – This Act shall be known as the “Corporate Social Responsibility Act of 2010.”

SECTION 2. *Declaration of Policy.* – The State recognizes the vital role of the private sector in nation building and shall encourage its active participation in fostering sustainable economic development and environment protection in the Philippines. Towards this end, the government shall coordinate its various agencies and non-government organization to work hand in hand for the integration, promotion, and strengthening of corporate social responsibility in all business organization.

SECTION 3. *Corporate Social Responsibility.* – Any corporation, whether domestic or foreign, partnerships and other establishments performing business in the country are hereby mandated to observe its corporate social responsibility or the obligation to consider the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations.

SECTION 4. *Deductibility.* – All expenses incurred by any corporation in the exercise of its corporate social responsibility shall be fully deducted from its gross income.

SECTION 5. *Periodic Report.* – All corporations and other business organizations shall submit their annual report of activities relative to their corporate social responsibility not later than January 31 of each year.

SECTION 6. *Implementing Rules and Regulations.* – The Department of Trade and Industry shall, in coordination with the Securities and Exchange Commission, the Department of Environment and Natural Resources and the Department of Labor and Employment shall promulgate rules and regulates for the effective implementation of this Act and shall regularly monitor strict compliance therewith.

SECTION 7. *Separability Clause.* – If any provision of this Act is declared invalid or unconstitutional, the remaining provisions not affected thereby shall continue in full force and effect.

SECTION 8. *Repealing Clause.* – All laws, decrees, executive issuances, rules and regulations inconsistent with this Act are hereby repealed or modified accordingly.

SECTION 9. *Effectivity Clause.* – This Act shall take effect after fifteen (15) days following its publication in two (2) newspapers of general circulation.

Approved,

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH (15th) CONGRESS
First Regular Session

MINUTES OF THE MEETING OF THE COMMITTEE ON TRADE & INDUSTRY HELD ON FEBRUARY 22, 2011 AT CONFERENCE ROOMS 9 & 10, SPEAKER RAMON V. MITRA, JR. BUILDING, HOUSE OF REPRESENTATIVES COMPLEX, BATASAN HILLS, QUEZON CITY

AGENDA:

Deliberation on the draft substitute bill in substitution to House Bill No.1224, entitled: "AN ACT INSTITUTIONALIZING CORPORATE SOCIAL RESPONSIBILITY, PROVIDING INCENTIVES, THEREFORE, AND FOR OTHER PURPOSES"

I. CALL TO ORDER

Rep. Albert S. Garcia, Committee Chairman and Presiding Officer, called the meeting to order at 2:10 pm.

II. ROLL CALL AND DETERMINATION OF QUORUM

On motion of Rep. Tomas Apacible, duly seconded by Rep. Victor Yu and there being no objection, the Committee dispensed with the Calling of the Roll.

III. APPROVAL OF THE MINUTES OF THE PREVIOUS MEETINGS

On motion of Rep. Yu, duly seconded by Rep. Apacible and there being no objection, the Committee dispensed with the reading of the Minutes of the Meeting held on December 14, 2010 and thereafter approved the same.

IV. OPENING REMARKS OF THE CHAIRMAN

Rep. Garcia thanked the Members and resource persons who responded to the Committee's invitation to the meeting.

The Chairman explained that the meeting was called for in order to deliberate on two (2) proposed laws which if passed, will significantly change the way how business is done in this country.

The first of these measures aims to encourage and integrate social responsibility into business as an important component to nation building.

The second legislative proposal calls for the enactment of an anti-trust law to level the playing field in business and to protect consumers from anti-competitive agreements, abuse of dominant position, and anti-competitive mergers.

Submitted for the Committee's evaluation is the draft bill prepared in substitution to House Bill No. 1224 seeking to institutionalize corporate social responsibility or CSR among publicly-listed corporations.

The proposed CSR Act endorsed by the Technical Working Group (TWG) on HB 1224 addresses several key concerns raised during the hearing conducted on the same bill last December 14, 2010.

Thus, Section 3 of the draft bill defines *Corporate Social Responsibility* as the commitment of business to behave ethically and, on a voluntary basis, contribute to sustainable economic development by working with relevant stakeholders to improve their lives that are good for business, sustainable development agenda and society at large.

On the same section, CSR-related activities shall include, but not limited to, charitable; scientific; youth and sports development; cultural or educational; services to veterans and senior citizens; social welfare; environmental sustainability; health development; and disaster relief assistance.

Still on Section 3, any publicly-listed corporation, whether domestic or foreign, is hereby encourage to observe CSR to complement the performance of its business in the country.

Rep. Garcia also pointed out that the proposed CSR Act provides two sets of incentives for corporations engaging in CSR work.

On Section 4 of the draft bill, all expenses incurred by any publicly-listed corporation in the exercise of its CSR as approved by the Board of Directors may be deducted from the unrestricted retained earnings of the corporation as provided under Section 43 of Batas Pambansa Bilang 68, otherwise known as the Corporation Code of the Philippines.

On Section 5 of the same bill, the State, through the Department of Trade and Industry, shall give national recognition and awards to publicly-listed corporations for outstanding, innovative and world-class CSR-related services, projects and programs.

It shall likewise extend endorsements and encouragement to domestic and foreign corporations doing business in the Philippines who are candidates for recognition in international award-giving bodies for their CSR-related activities.

He stressed that in terms of implementation, Section 8 of the substitute bill specifies that the Secretary of Finance shall, in coordination with the DTI and Securities and Exchange Commission, promulgate rules and regulations for the

effective implementation of this Act and shall regularly monitor strict compliance therewith.

With these salient features in place, the Chair thereafter referred the draft substitute bill for the consideration of the Body.

V. DELIBERATION ON THE DRAFT SUBSTITUTE BILL

Atty. Vernetta Umali-Paco, General Counsel of the Securities and Exchange Commission (SEC), affirmed that her office fully supports the objectives of the proposed measure with certain proposed amendments.

On Section 3 of the draft bill, she recommended that the term "*publicly-listed corporations*" be replaced with "*listed and public companies*" since this term has a specific meaning in the Securities Regulation Code RA (8799).

She also suggested that the scope of CSR-related activities shall be modified to include, but not limited to, charitable programs and projects; scientific research; youth and sports development; cultural or educational promotion; services to veterans and senior citizens; social welfare; environmental sustainability; health development; and disaster relief assistance.

On Section 4 of the same bill, she opined that instead of just deducting CSR expense incurred by any listed and public company, these businesses shall be exempted from the unrestricted retained earnings under Section 43 of Batas Pambansa Blg. 68 or the Corporation Code of the Philippines.

Hence, Paragraph 2 of Section 43 shall be amended to read as follows:

"Sec. 43 POWER TO DECLARE DIVIDENDS. –

x x x

x x x

x x x

Stock corporations are prohibited from retaining surplus profits in excess of one hundred (100%) percent of their paid-in capital stock, except: (1) when justified by definite corporate expansion projects and programs, OR IN CONJUNCTION WITH CSR-RELATED PROJECTS approved by the Board of Directors. x x x

He explained that on the draft bill, only the amount spent by the covered companies for CSR-related activities may be deducted from its unrestricted retained earnings.

If after deducting the CSR-related expense, the unrestricted earning of the company is still beyond the threshold, then it has to declare dividends.

It will be different if the amount spent for CSR will be considered as an exception to the prohibition to retain surplus profit in excess of 100% of its paid-in because any retained surplus profit need not be declared as dividends.

Ms. Consuelo Suello of the Office of Rep. Gloria Macapagal Arroyo commented that the Author is amenable to the amendments submitted by SEC, especially on the proposed improvements on Section 4 of the draft substitute bill.

On the query of Rep Osmeña if unrestricted retained earnings have the same effect or meaning as "tax deductible to income tax returns", Atty. Umali-Paco illustrated that suppose company X, with a paid-in capital stock of P10M, has unrestricted retained earnings in the amount of P15M.

Applying Section 4 of the proposed bill, if Company X spends P1M for CSR-related activities, it will deduct said amount from its unrestricted retained earnings, leaving P4M to be declared as dividends.

On the other hand, if spending for CSR related-activities will be considered as an exception to the general rule under Section 43 of the Corporation Code, then Company X is allowed to keep P15M of its unrestricted retained earnings, including the P1M intended for CSR, without being required to declare dividends.

On the same query of Rep. Osmeña, Atty. Juanito Balbastre of the Bureau of Internal Revenue (BIR) replied that as provided for under the National Internal Revenue Code (NIRC), if a corporation accumulates profits or if a corporation does not declare dividends to its shareholders, it will be subjected to improperly accumulated earning stocks which is ten percent (10%) tax of the accumulated profits.

As a rejoinder, Rep. Osmeña said that what he has in mind is whether a corporation can abuse the situation in cases wherein they have excess inventory of some products where they cannot move and sell at full market value and instead of selling, they will donate and get one hundred (100%) percent tax deductions on those goods donated.

He is more concerned that this proposed measure on CSR may become a loop hole or a tax shelter to corporations.

Atty. Francis Lim, Managing Partner of ACCRA Law Office, commented that the impact of the subject provision under the proposed CSR bill will be on the shareholders and not on the taxing authority because it refers to Section 43 of the Corporation Code which relates to the powers of the corporation to declare dividends.

Atty. Lim argued that the possible impact on tax is that the tax that may be derived from the improperly accumulated dividends.

Consistent with the observation of the Chairman, he said that the welfare of investors is sustained since companies are encouraged and not mandated to engage in CSR on a voluntary basis.

Mr. Eufe Tantia of the Pharmaceutical and Healthcare Association of the Philippines (PHAP) averred that pharmaceutical products have short shelf lives, and that a pharmaceutical product which is within six months from expiry date usually has no more market value.

He inquired whether it is possible for a pharmaceutical company be credited for tax purposes from the donation of such expiring products.

In reply, Atty. Balbastre clarified that such a case does not apply since there is no deductibility incentive with respect to donations on the proposed bill.

Noting that the only incentive as proposed is the deductibility of their expenses from unrestricted retained earnings, Atty. Balbastre added that corporations might abuse this same incentive by taking on projects which they may claim as CSR related activities in order to avoid improperly accumulated earnings in relation to Section 43 of the Corporation Code.

On the point raised by Rep. Osmeña, Rep. Apacible said that strict compliance in monitoring as provided for under Section 7 refers to the purpose of the law and not to mandate corporations to engage in CSR activities.

The Chairman agreed to the suggestion of Senior Vice Chairman Apacible that all business establishments may now be included in the proposed bill which shall be encouraged to observe CSR in the operation of their business in the country.

To address the concerns of Rep. Osmeña on deductibility issue, Atty. Francis Lim suggested the inclusion of the phrase *"in accordance with the Implementing Rules and Regulations of this Act"* so that the fair market value can be factored in.

Ms. Eli de Castro, Executive Director of the League of Corporate Foundations (LCF), explained that the Philippine Council for NGO Certification (PCNC) is a private self regulating body that certifies NGOs, foundations or entities that do CSR or community development work.

The PCNC assesses and certifies institutions which can qualify to become donee institutions, and endorses the same to the BIR for the issuance of certificate for tax exemption.

Ms. de Castro informed the Committee that the LCF commends the intent of HB 1224 in encouraging the practice of CSR among corporate citizens of the country.

The LCF defines CSR as a corporation's continuing commitment to perform as a responsible member of society by behaving ethically and contributing to economic development while improving the quality of life of its workforce, the community and the environment.

Moreover, the LCF viewed that legislating CSR is not needed.

Business entities in the Philippines have been fulfilling their societal obligations for a very long time, going way beyond mere compliance with existing laws in order to ensure a healthy business environment for its stakeholders, investors, communities, clients and shareholders.

The practice of CSR should be a voluntary commitment to ethical business principles, as guided by the several, existing government regulatory bodies and structures that are already in place.

Having stated their stand, Ms De Castro indicated that the LCF still would like to participate in the deliberations of HB 1224, and put forward their foregoing comments and recommendations:

- a. the phrase "publicly listed" should be removed since publicly-listed companies constitute a very small part of the business community. The majority of the CSR practitioners belong to the group of not publicly-listed corporations.
- b. in Section 2, the Statement of Policy should be revised to include the phrase *"Towards this end the government should provide an enabling environment for the practice of CSR"*
- c. in Section 3, the phrase *"CSR activities shall include, but not limited to the following"* should be rephrased as *"CSR activities shall cover human and ecological security undertakings that are aligned with the Philippines commitment to the Millenium Development Goals and contribute to the realization of the UN Global Compact."*
- d. Section 4 of HB 1224 is a repetition of the National Internal Revenue Code of 1997. Paying of proper taxes is part of business responsibility to society and to the community it operates in and derives profit from. She added that in the substitute bill, the incentive of deducting from "unrestricted retained earnings" implies a one-size-fits-all model which is inapplicable to many CSR practitioners. Existing regulations should be reviewed in order to develop incentives that are tailored for various business entities.
- e. as regards Section 5, experience has shown that inadequate support from local government units (LGUs) leaves CSR programs, particularly those intended to benefit the community and the environment, implemented solely by business entities. The bill does not provide measures to address absence of support from LGUs, thus, reinforcing the weakness of the bill.
- f. as regards Section 6, reporting CSR activities is already an SEC requirement. The submission of "sustainability reports" is suggested to encourage better performance and transparency, and to keep up with global standards in sustainability reporting. On another note, there should be no deadline on such reports, in contrast with the Senate bill which imposes one.

She then reiterated their stand that the legislation of CSR is not necessary, and that the government should revisit and strengthen existing structures that promote an environment conducive for growth and development of Philippine businesses.

She summed up that should the government push for the legislation of CSR, it should present a greater understanding of CSR in the context of contributing to national development.

VI. ACTION TAKEN BY THE COMMITTEE

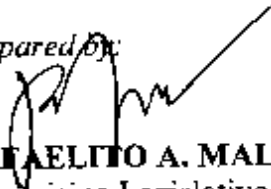
On motion of Rep. Apacible and duly seconded by Rep. Arnel Ty, the draft substitute bill in substitution to HB 1224 was approved as amended and subject to style.

VII. SUSPENSION

There being no other matter to be taken up, the meeting was suspended at 3:12 p.m.

Certified true and correct to the best of our knowledge and ability.

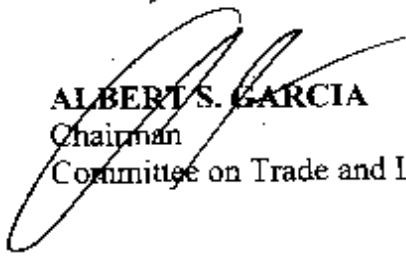
Prepared by:


RAFAELITO A. MALIMET
Supervising Legislative Staff Officer I
Committee on Trade and Industry

Certified Correct by:


VALENTINO R. PALANCA
Committee Secretary
Committee on Trade and Industry

Noted by:


ALBERT S. GARCIA
Chairman
Committee on Trade and Industry