NUS National University of Singapore

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Corporate governance reaches new high but better stakeholder engagement needed

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SINGAPORE companies have raised their corporate governance practices to a new level, going by the Singapore Corporate Governance and Transparency Index (SGTI) released on Tuesday. Closer examination, however, reveals that more remains to be done in areas such as disclosures of stakeholder engagement.

Also of note on Tuesday was Singapore Exchange Regulation (SGX RegCo) chairman Tan Cheng Han's remarks at the unveiling of the SGTI, which signalled yet again the possible end to quarterly reporting and the possible advent of dual-class shares here.

For SGTI 2017, Singtel topped the field of 606 Singapore-listed companies that released their annual reports by May 31 this year, with CapitaLand coming in second. Both blue chips scored well, thanks to more comprehensive disclosures of board responsibilities and stakeholder engagement.

They were followed by DBS Group and Singapore Exchange, which tied for third place.

The companies are scored on their corporate governance disclosure and practices, as well as the timeliness, accessibility and transparency of their financial results announcements. The SGTI is published annually by CPA Australia, NUS Business School's Centre for Governance, Institutions and Organisations (CGIO) and the Singapore Institute of Directors (SID).

The average score of all companies in the SGTI hit an all-time high this year, suggesting that standards of corporate governance practices have improved overall.

Also notable were the improvements made by SATS and Olam International, which moved up 15 and 21 places, respectively, to make it into the top 20 this year. Both were said to have shown great improvement in practices such as the disclosure of board attendance at annual general meetings (AGMs). SATS also disclosed more details of its code of conduct, while Olam provided more comprehensive disclosure of its internal audit function.

This year's index also saw companies paying more attention to potential conflicts of interest, in the wake of the SingPost saga. More than half the companies now have a policy on directors recusing themselves from board discussions if there is a conflict of interest, up from just over a third in 2016.

This year's index also saw the inclusion of real estate investment trusts (Reits) and business trusts for the first time.

This inclusion comes about a month after a standalone index on Reits and business trusts, the Governance Index For Trusts (Gift), was launched by corporate governance advocate Mak Yuen Teen.

The moves reflect the growing importance of Reits and business trusts in the market.

SGTI rankings

Top 10

2017	2016	COMPANY NAME
1	1	Singtel
2	4	CapitaLand
3	2	DBS Group Holdings
3	3	Singapore Exchange
5	5	Keppel Corp
6	6	Sembcorp Industries
7	7	Tuan Sing Holdings
8	10	City Developments
9	11	Global Logistic Properties
9	9	OCBC

Source: Centre for Governance, Institutions and Organisations, NUS Business School

CapitaLand Mall Trust topped the SGTI's Reit and business trust category, which featured 42 such trusts. Trust-specific questions were developed and included to address structure, leverage, interested person transactions (IPTs), competency of Reit manager/trustee-manager, and emoluments.

Melvin Yong, Singapore country head at CPA Australia, commented: "Singapore-listed companies have continued to raise the bar on corporate governance and transparency. But the journey for even higher standards does not stop here, given the fast-changing and disruptive business landscape. Apart from compliance with regulations and standards, it is critical that leaders and directors of corporations have the strength, knowledge and flexibility to provide the moral compass for companies to function and excel."

Areas that Singapore companies could improve upon include shareholder and stakeholder engagement. The SGTI found that less than a tenth of companies disclosed their anti-corruption programmes and procedures, down from over 12 per cent in 2016. Disclosure of relevant data on training and development programmes undergone by employees was also around 10 per cent, down from 12.5 per cent in 2016.

Companies were also found to be lacking when it came to reaching out to the investor community. Only a third disclosed the steps they had taken to solicit and understand the views of their shareholders, a deterioration from 42.9 per cent last year. Investor relations teams were also less responsive to queries, with timely responses declining to 12 per cent, from 23 per cent in 2016.

And, taking the opportunity to also share his thoughts on the development of corporate governance and the market regulatory framework in Singapore was Prof Tan. In his opening address, he said that he welcomed different perspectives on these issues, as they "seek to achieve the same end, namely a healthy and robust market".

"On my part, I remain open-minded about this initiative. It seems to me that, if DCS (dual-class shares) is implemented, it could lead to the enlargement of choice for investors with DCS companies available only to those who want shares in such companies."

Singapore Exchange Regulation chairman Tan Cheng Han

He said that SGX RegCo would look at, among other things, "if our rules are appropriate ... including whether (they are) proportionate and practical". He said that Singapore "should not adopt something simply because other people elsewhere do so", that it has to be "appropriate for our market", and that, "if a rule is necessary, it should to be in force even if it is a pain point".

"For example, while I appreciate why quarterly reporting was introduced 14 years ago, developments since then should prompt us to re-evaluate its usefulness today. I am not saying that it should be removed but, given widespread views that it adds little value today and gives rise to significant compliance cost, we ought to study the matter carefully."

Prof Tan also said that SGX RegCo would continue to explore innovative ideas that would help develop the market, including the possibility of allowing listed companies here to issue dual-class shares (DCS).

"Could a DCS structure help the market even if it never becomes as large a group as Reits and business trusts? If the right companies with such structures list in Singapore, could there be other benefits as well?

"On my part, I remain open-minded about this initiative. It seems to me that, if DCS is implemented, it could lead to the enlargement of choice for investors with DCS companies available only to those who want shares in such companies."

☛ **Disclosures on risk management 'strong'; full GTI rankings, Pages 8 & 9**

How scoring for the index is done

THE Singapore Governance and Transparency Index (SGTI) is a joint initiative of CPA Australia, NUS Business School's Centre for Governance, Institutions and Organisations (CGIO) and the Singapore Institute of Directors. The strategic media partner is *The Business Times*.

From this year, the SGTI is a unified framework comprising two separate categories – the General Category and the Reit and Business Trust Category. These categories are distinct and are not to be compared directly with each other.

The objective of the SGTI is to evaluate listed companies, including Reits and business trusts, on their corporate-governance practices and disclosures, as well as the timeliness, accessibility and transparency of their financial results.

For the General Category, the SGTI score has two components: the base score and the adjustment for bonuses and penalties. The base score for companies contains five pillars: board responsibilities (35 points), rights of shareholders (20 points), engagement of stakeholders (10 points), accountability and audit (10 points), and disclosure and transparency (25 points). The aggregate of bonuses and penalties is incorporated to the base score to arrive at the company's SGTI total score.

In the Reit and business trust Category, the companies are evaluated on a similar set of criteria, but with added coverage on the unique nature of their operations. The base score for Reits and business trusts includes items in the base score for the SGTI (75 points) and trust-specific items in the base score for the SGTI for Reits and business trusts (25 points) that focus on structure, leverage, interested-person transactions, competency of Reit manager/trustee-manager, and emoluments.

SGTI 2017 covered 606 Singapore-listed companies in the General Category and 42 Reits and business trusts which released their annual reports by May 31, 2017.

The sources of information for SGTI assessment included annual reports, websites, announcements on SGXNet and investor relations' e-mail responsiveness.

Announcements made on SGXNet as well as in media coverage between Jan 1, 2015 and May 31 this year were used to update the scores.

Further information on the scoring methodology, including the full instrument and past results, may be obtained from CGIO's website at *http://bschool.nus.edu.sg/CGIO*. Queries about the SGTI may be sent to *cgio@nus.edu.sg*. In order to maintain independence and fairness of the index, reports or advice cannot be provided to individual companies.