NUS National University of Singapore

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Disclosures on risk management 'strong'

But Singapore Governance and Transparency Index finds that companies still have a way to go in engaging stakeholders. BY LAWRENCE LOH

THE past two years have seen significant growth in the scope and coverage of the Singapore Governance and Transparency Index (SGTI).

Last year, the index was enhanced from the Governance and Transparency Index (GTI); this year, for the first time, real estate investment trusts (Reits) and business trusts are included in the index, so they can be assessed alongside companies with the same rigour.

In addition, the assessment timing is opportune, following the recent formation this year of the Corporate Governance Council by the Monetary Authority of Singapore to review the Code of Corporate Governance, which was last revised in 2012.

The hope is that the index will help guide discussions, both in areas companies should be commended on and the areas in which more attention might be necessary.

In addition, the review may consider expanding the code to include pertinent matters related specifically to Reits and business trusts.

In the latest index released on Tuesday, three areas stand out – the commendable disclosures made by companies in the area of risk management and the continued poor disclosures in the area of stakeholder engagement; the third area pertains to Reits and business trusts.

Continuing disclosure on risk management

In general, this year's index shows that disclosure on risk management, including internal controls, has been strong (*see Figure 1*).

The index found that 306 companies – just over half of those surveyed – disclosed key risks and how these risks are assessed and managed.

A slightly higher proportion (342 companies) disclosed the process and framework used to assess the adequacy of risk management, while around two-thirds (393 companies) disclosed the name of the external firm engaged or the head of internal audit.

Meanwhile, almost all the companies (580 companies or 95.7 per cent) included a statement by the board or audit committee on the adequacy of the risk-management system in their annual report.

Almost as many (574 companies) provided assurance from the chief executive officer and the chief financial officer regarding the effectiveness of the company's risk management.

Stakeholder engagement continues to be lacking

Companies are accountable to their stakeholders, who are a frequently neglected group; this year's index shows this continues to be the case (*see Figure 2*).

Just 53 companies (8.7 per cent) disclosed their zero-tolerance/anti-corruption programmes and procedures. Likewise, only 96 companies (15.8 per cent) described how creditors' rights are safeguarded.

When it comes to policies related to customers and employees, disclosure is also poor. Only 102 companies (16.8 per cent) stipulated the existence and scope of the company's efforts to address customers' health and safety.

Furthermore, barely a quarter (149 companies) explicitly disclosed their health, safety and welfare policies for employees.

Only 64 companies (10.6 per cent) disclosed relevant data on the training and development programmes undergone by their employees.

New ranking of Reits and business trusts

To broaden the scope of the index and complete the coverage of all listed stocks, Reits and business trusts have been included in the index for the first time.

Reits and business trusts have to consider many trust-specific corporate-governance issues due to the relationship that they have with their trustees (trustee-managers in the case of business trusts).

As a result, new questions tailored to this unique structural configuration by covering five trust-centric areas, were developed to complement the existing SGTI framework (*see Table 1*).

Key findings for trust-specific items

Overall, the 42 assessed Reits and business trusts performed well, with a robust average score of 60.4 points. However, the index reveals a mix of strong disclosures in some aspects and weaker ones in others (*see Figure 3*).

We found that 37 Reits and business trusts (88.1 per cent) have a distribution policy, and that 29 Reits and business trusts (69 per cent) disclosed that their audit committee reviews significant Interested-Person Transactions (IPTs) while unitholders have rights in assessing IPTs.

There are, however, a few areas requiring attention.

Particularly alarming is that only a third of the Reits and business trusts (14 of them) have disclosed provisions for the removal of the trust managers (trustee-managers in the case of business trusts).

We also found that only 10 Reits and business trusts (23.8 per cent) used a performance benchmark for their managers/trustee-managers.

Further, a gearing policy is considered to be set in place by business trusts when they disclose their gearing ratio, and by Reits when the gearing ratio is below 45 per cent.

Unfortunately, only 2 Reits and business trusts (4.8 per cent) have a gearing policy.

Going forward

While the average score in this year's SGTI has hit an all-time high, improvements are dispersed unevenly among several aspects.

The positive changes in the area of risk management are to be welcomed, but more can be done on the various aspects of stakeholder engagement.

At present, the jury is still out on the sort of changes that await the Code of Corporate Governance.

Yet, given the growing role that Reits and business trusts are playing in the investment landscape, it is worthwhile considering trust-specific issues in the code beyond the best-practice approach in other relevant codes, especially for Reits.

To that end, the inclusion of Reits and business trusts in the SGTI rounds out the scope of coverage in corporate governance assessment. This will, in many ways, uplift the full corporate governance ecosystem in Singapore and beyond.

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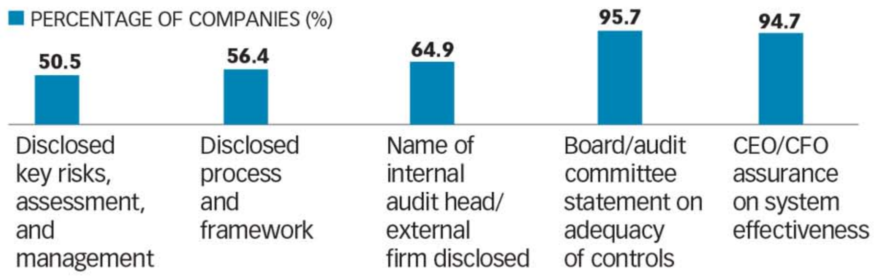
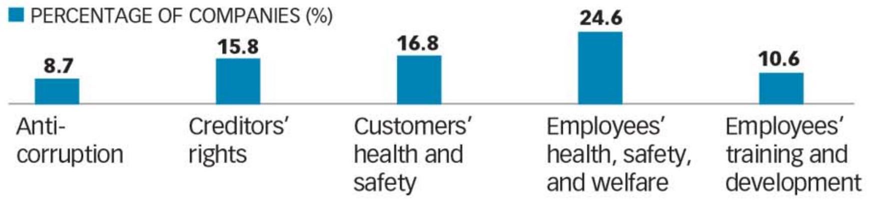
Risk management

Figure 1



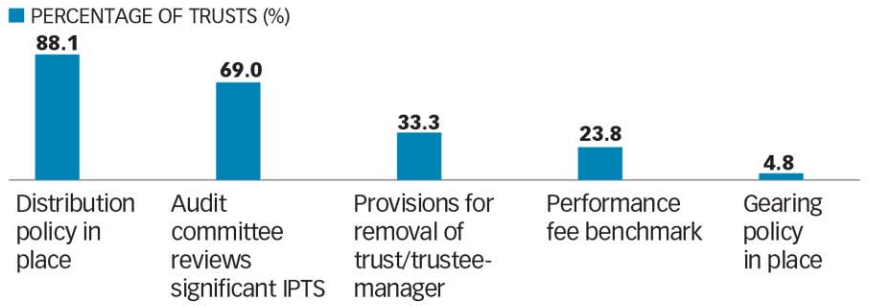
Engagement of stakeholders

Figure 2



Disclosures on trust-specific items

Figure 3



Source: NUS CGIO

SGTI assessment framework "BREAD-SLICE"

Table 1

ITEMS IN THE SGTI BASE SCORE	TRUST-SPECIFIC ITEMS
Board responsibilities	**S**tructure
Rights of shareholders	**L**everage
Engagement of stakeholders	**I**nterested-person transactions
Accountability and audit	**C**ompetency of Reit manager/ trustee-manager
Disclosure and transparency	
	Emoluments

Source: NUS CGIO