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DIRECTORS' PAY

Singapore listed firms still 'weak' in remuneration disclosure: study

By Michelle Quah
michquah@sph.com.sg
@MichelleQuahBT

Singapore

DISCLOSURE of remuneration practices by listed companies in Singapore remains weak across the board, with the information disclosed often insufficiently clear for stakeholders to make relevant decisions.

This was a key finding of a report published on Thursday by corporate governance advocate and professor of accounting Mak Yuen Teen, and MBA graduate and active investor Chew Yi Hong. Their study, supported by the Singapore Exchange (SGX), analyses the practices relating to the setting, disclosure and approval of the remuneration of directors and key management personnel for listed companies here.

The Singapore Report on Remuneration Practices: Avoiding the Apaycalypse covers all 609 companies with a primary listing on SGX, and looked at annual reports for financial years ending between April 2016 and March 2017 and published between August 2016 and July 2017.

The 55-page report highlights laudable practices, along with unsavoury ones, and includes recommendations on how companies can improve. It also provides information on remuneration amounts and mix for key executives and board members, and comparisons of companies across different market capitalisations and industry sectors.

"We found significant gaps in remuneration practices among companies listed on the Singapore Exchange (SGX) in terms of compliance with the Singapore Code of Corporate Governance (Code)," Prof Mak said. "Poor disclosures aggravate the risks of controlling shareholders and management using excessive remuneration to benefit themselves at the expense of minority shareholders."

He cited, for example, how the remuneration components disclosed by companies often lack sufficient clarity to allow stakeholders to adequately assess the remuneration structure and mix in terms of fixed versus variable, short-term versus long-term, and cash versus stock remuneration.

Another key finding challenges the oft-cited argument by companies that they withhold pay information for fear of their talent being poached. The study found that, within the same market capitalisation group, companies with higher remuneration tended to be less – rather than more – transparent in remuneration disclosures.

Continued on next page

Disclosure on remuneration practices by Singapore companies 'weak': study

Continued from Page 1

"Companies often cite fear of poaching for not fully disclosing remuneration. Fear of poaching would imply that companies are paying below the market. Our findings do not support this. On the contrary, they are consistent with the argument that companies that disclose less may be trying to avoid drawing attention to relatively higher remuneration," he said.

Other findings include:

* The disclosure of remuneration in bands together with the names of individuals is the most common disclosure method used across key executives and board members;

* Exact disclosure of remuneration amounts with names has room for improvement, with the level of disclosure for non-executive directors at 42 per cent, independent directors at 38 per cent and chairmen at 36 per cent; only 4 per cent of companies disclosed the exact remuneration amounts with name of at least one key management personnel, and only 2 per cent did so for five or more key management personnel;

* As a countermeasure for companies that report only in bands, the Code recommends that companies disclose total remuneration paid to the top five key management personnel, but more than 30 per cent of companies did not do so or disclosed with incomplete information.

Singapore Exchange Regulation (SGX RegCo) CEO Tan Boon Gin said of the study: "Shareholders, especially minorities, deserve to know why company directors and executives are paid the way they are. The board and management therefore owe it to investors, who are after all part-owners of the company, to explain the link between performance and remuneration. In so doing, companies can demonstrate to employees and other stakeholders how individual performance is valued and the firm's commitment to good governance."

The report also lauded good behaviour and identified overall leaders in remuneration practices, especially in terms of disclosure. Among these were large-capitalisation companies CapitaLand, Frasers Centrepoint, SGX and SingTel. Small caps such as Baker Technology, Dynamic Colours, Nera Telecommunications and SP Corporation also made the list.

The report also provides information on remuneration amounts and ratios, to assist companies and stakeholders in making comparisons with other companies.

For example, it said the 609 companies paid a total combined amount of S$2.5 billion in the year, or about S$4.1 million on average per company. In total, shareholders in these companies approved or pre-approved total non-executive director remuneration of $188 million, ranging from $50,000 to $4 million, with a mean of $312,000 and a median of $199,000. On a per non-executive director basis, the median fee was assessed to be $53,000.

Some of the recommendations made by the report include: having independent directors encourage their companies to be more transparent in their remuneration disclosures, and setting a good example by ensuring that their own remuneration is disclosed in exact amounts; companies disclosing the fee structure for non-executive and independent directors; and having the Code recommend disclosure of the remuneration of top five highest-paid executives individually and in total, rather than top five key management personnel.

The full report is available on Prof Mak's website at www.governanceforstakeholders.com.