

CORPORATE GOVERNANCE

Corporate governance has made progress, but practices need to evolve, 2019 index finds

But index finds little improvement in board responsibilities category. Singtel is top among the 578 listed companies ranked; CapitaLand Commercial Trust heads the list of 46 Reits

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THE scores for the Singapore Governance and Transparency Index (SGTI) may have reached new highs this year, but a substantial proportion of companies are still struggling to adopt corporate governance best practices that are in step with the times.

SGTI 2019, released on Wednesday, scored a total of 578 Singapore-listed companies and 46 real estate investment trusts (Reits) and business trusts that had released their annual reports by May 31.

The average or mean score for companies in the general category increased to 59.3 this year, up from 56.3 in 2018; the mean score in the trusts category rose from 74.5 to 78.6. Both figures are all-time highs for their respective categories.

The SGTI's authors ascribed the improvements to the companies and trusts' "persistent attempts to improve (their) corporate governance disclosures".

However, the authors also noted that there is still much room for growth, particularly in the area of board responsibility.

The SGTI is published annually by CPA Australia, the National University of Singapore (NUS) Business School's Centre for Governance, Institutions and Organisations (CGIO) and the Singapore Institute of Directors (SID).

It assesses companies on their corporate governance disclosures and practices, as well as the timeliness, ac-

cessibility and transparency of their financial results announcements.

The ranked companies showed notable improvements in the areas of shareholders' rights, audit standards and increased stakeholder engagement.

In the general category, Singtel topped the rankings, scoring the same 129 points that propelled it to the top of the table last year.

Making up the rest of the top 10 were DBS (second), CapitaLand (third), Singapore Exchange (fourth), City Developments (fifth), Oversea-Chinese Banking Corporation or OCBC, SATS and Sembcorp Industries (joint sixth); United Overseas Bank or UOB (ninth), Singapore Press Holdings (10th).

In the trusts category, CapitaLand Commercial Trust overtook CapitaLand Mall Trust to lead the rankings this year. Ascott Residence Trust, CapitaLand Retail China Trust and Frasers Commercial Trust rounded out the top five, in that order.

The companies and trusts were awarded a base score. To this, bonus points were added for good practices, and penalty points deducted for issues that pointed to poor corporate governance.

Just as there were noticeable areas of improvement, there were also glaring areas of deterioration in this year's index.

In the general category, bigger bonuses were handed out this year for good practices such as producing an annual sustainability report, and

providing comprehensive disclosures of how the company assesses the independence of its directors.

But the penalties meted out also grew in size.

The authors noted that under a third (29 per cent) of companies had an audit committee consisting of all non-executive directors and an independent chairman. This is concerning because the figure has not only remained low since 2017, but has fallen, they said.

There was also no overall improvement in the areas of disclosure and transparency, and no real improvement in the category of board responsibilities.

The disclosure of director appraisals fell six percentage points from last year, and the number of companies

with more than one board director having served for more than nine years went up.

In the trusts category, the authors noted that Reit managers are still striving towards greater disclosure, evident from the continued disclosures and audit reviews of significant interested person transactions.

CPA Australia's Singapore divisional president Chng Lay Chew said: "With disruption being the new normal, corporate governance has to evolve. It is imperative for boards and management to embrace the highest standards of governance to meet the increasing expectations of stakeholders – not just in letter but also in spirit."

Adrian Chan, SID's vice-chairman, built on that point: "We believe that

companies have to go beyond pragmatic tokenism and compromise to truly embrace the profound changes occurring around them, and good corporate governance provides the means and the framework to do that."

Associate Professor Lawrence Loh, director of CGIO, concluded that while the results of SGTI 2019 show that listed companies still need to work on specific aspects of board independence and business integrity, "good corporate governance is a continuous journey and the Singapore corporate sector has been moving at a strong pace in the right direction".

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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 Singapore Institute of Directors. The strategic media partner is *The Business Times*.

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.

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

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 sections ("BREAD"):

- board responsibilities;
- rights of shareholders;
- engagement of stakeholders;

- accountability and audit; and
- disclosure and transparency.

The aggregate of bonuses and penalties is incorporated to the base score to arrive at the company's SGTI total score.

For 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 (converted to 75 points) as well as trust-specific items for Reits and Business Trusts (25

points) which covers five aspects ("SLICE"):

- structure;
- leverage;
- interested person transactions;
- competency of Reit manager/trustee-manager; and
- emoluments.

SGTI 2019 covers 578 Singapore-listed companies in the General Category as well as 46 Reits and Business Trusts which released their annual reports by May 31, 2019.

The sources of information for SGTI assessment include annual reports, websites, announcements on SGXNet, and investor re-

lations' email responsiveness. Announcements made on SGXNet as well as in media coverage, which occurred between Jan 1, 2017 and May 31, 2019, have been 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 SGTI, reports or advice cannot be provided to individual companies.