

The Directors' BULLETIN

ISSUE 2 • 2010

The Official Newsletter of Singapore Institute of Directors

MICA (P) 066/04/2009

**Perspective
From The Top**

Venturing Abroad

**How Did One Of
Singapore's
Darlings Do It?**

**Chong Siak Ching From Ascendas Pte Ltd
Shares Her Views**



CONTENTS

	Page
PUBLICATION & WEBSITE SUB-COMMITTEE	
Chairman	
Yeoh Oon Jin <i>PricewaterhouseCoopers LLP</i>	
Members	
Kala Anandarajah <i>Rajah & Tann LLP</i>	
Adrian Chan <i>Lee & Lee</i>	
Mike Gray <i>Tricor Singapore Pte Ltd</i>	
Annabelle Yip <i>Wong Partnership LLP</i>	
Paul Zaman <i>Qualvin Advisory Pte Ltd</i>	
Victor Yeo <i>Nanyang Technological University</i>	
PUBLISHER	
Singapore Institute of Directors 3 Shenton Way #15-08 Shenton House Singapore 068805 Tel : 65 6227 2838 Fax : 65 6227 9186 Email: secretariat@sid.org.sg Website: www.sid.org.sg	
EDITOR	
Kala Anandarajah	
DESIGN	
Wini Tenorio	
PRINTER	
Entraco Printing Pte Ltd	
FROM THE EDITOR	1
CHAIRMAN'S MESSAGE	3
COVER STORY	
Perspective From The Top - Venturing Abroad How Did One Of Singapore's Darlings Do It?	5
FEATURES	
Ready For IPO In 2010?	8
Sovereign Wealth Funds, Governance, And Reserve Accumulation	10
The Idea Of A "Professional" Independent Director	15
Pay for Results: Aligning Executive Compensation with Business Performance	18
REGULARS	
Legal Update: MAS Invites Comments On Proposed Enhancements To The Corporate Governance Framework	22
Multiple Directorships: Is There A Magic Number?	25
EVENTS COVERAGE	27
Welcome Aboard (New Members)	33

Sponsor:

tricor

The Business Enablers



FROM THE EDITOR

2010 appears to be zipping through very quickly. The much talked about green shoots seemed to have taken some shape, although uncertainty remains. Nevertheless one must remain positive as it is such positivity that ensures some degree of risk taking which leads to business growth as well.

Hence, this issue of the Bulletin focuses on growth, within Singapore and out. What better way to obtain guidance on how to grow than to speak with the CEO of Ascendas, Ms Chong Siak Ching. Siak Ching was forthcoming and provides insights on strategy, planning and the roles of the board and management in the growth of the company. This is followed by an article which touches on the state of the IPO market in Singapore in 2010. This provides a positive upbeat to the scene.

Governance remains the key focus of this Bulletin, and with this in mind, an article which concludes that sovereign wealth funds tend to invest in countries where the governance standards are lacking is prevalent has been included. Whether this is a necessary evil that cannot be avoided remains a difficult question to answer, but at least one can argue that with such investments, sovereign funds can at least start to hand over some critical aspects of good governance to the various economies they invest in. The issue of sovereign funds is followed by a discussion on whether there should be or can be professional independent directors. This is a vexed issue for which no easy answers are available. But the discussion is timely as the Monetary Authority of Singapore recently put out a consultation paper seeking to tighten governance practices of banks

and insurance companies in Singapore. One such proposal relates to the tenure of the director. A proposal suggests that any director who has been an independent director in a company for nine years or more must necessarily not be considered an independent director thereafter.

Following through on directors, the issue of how many boards ought a director to sit on is yet another matter where easy answers elude. Regardless of what this Editor feels, the fundamental element must really depend on the aptitude and attitude of any one individual. As one renowned director noted “a directorship at the end of the day is one of trusteeship and as such the individual should be entirely mindful of his duty of care and diligence, the obligation of service, and the code of honour he or she should uphold as a director. This must be the ethos that motivates the person to be a director and to serve before considering other issues.” Likewise, Mr JY Pillay, who arguably reignited the discussion at a recent presentation that he made, rightly noted that individual directors must to be true to themselves and assess their ability, availability, knowledge etc sincerely and bear in mind the maximum number in terms of not stretching themselves when considering directorships.

In keeping with the discussions, the Institute also put out a press release published on 26 March 2010 in the Business Times on the matter, a copy of which is reproduced in this Bulletin. The article concludes that there is no magic number as to how many boards one can sit on and that this is more appropriately determined by the director



FROM THE EDITOR (Cont'd)

himself and the Nominating Committee and the Board on which he is a member. The Institute however believes good governance require regular and objective evaluation of the performance of all boards and directors and advocates listed companies to provide greater disclosure of directorships held

by their board members. We hope all members will note the Institute's position on this issue.

It remains for me to ask members to please send us their views, articles and more for this Bulletin. Till the next issue, wishing one and all the best!

Kala Anandarajah
Editor

SID Governing Council 2010

Chairman	: Mr John Lim Kok Min	
Vice-Chairman	: Mr Reggie Thein	
Vice-Chairman (Designate)	: Mr Adrian Chan Pengee	
Treasurer	: Mr Basil Chan	
Council Members	: Mr Keith Tay	Ms Kala Anandarajah
	Mr Boon Yoon Chiang	Mr Will Hoon
	Mrs Yvonne Goh	Dr Ahmad Mohd Magad
	Mr Yeoh Oon Jin	Mr Daniel Ee
	Mr Lim Hock San	Mr Yeo Wee Kiong
	Mrs Fang Ai Lian	Mr Willie Cheng
	Ms Yeo Lian Sim	

CHAIRMAN'S Message



Dear fellow members,

In this issue of our Bulletin I am delighted to update you on further developments at our Institute.

In February this year, we welcomed Mr Giang Sovann as our new Executive Director. In this position, he will be responsible for the effective functioning of our Secretariat and for the development and implementation of all strategic plans for our Institute. Sovann comes to us with more than 30 years of financial and business management experience in Canada, Singapore and the region having held positions such as Finance Director, General Manager, Executive Director, Regional Finance Director and Chief Financial Officer of multinational company, regional conglomerate, public entity and SGX listed company.

Sovann graduated from the University of Regina, Canada, with a Bachelor of Administration with distinction and qualified as a Chartered Accountant with the Canadian Institute of Chartered Accountants. He is also a member of the Institute of Certified Public Accountants of Singapore. A Singapore Permanent Resident, he has stayed in Singapore since 1969. Please join me in wishing Sovann a successful and fulfilling career with our Institute. I am sure all of you will be seeing and hearing a lot more of Sovann as he assumes executive responsibility for our affairs and assists your Council in building up the profile and contributions of our Institute in the development of the highest standard of corporate governance in Singapore.

At our first Council meeting in January this year, your Council also decided after much deliberation to propose an amendment to the key appointments in

the Council by deleting the position of President and adding an additional Vice Chairman. The executive functions of the President will be assumed by the Executive Director.

This change is subject to members' approval of the Institute's Constitution at an Extraordinary General Meeting to be called shortly. In the meantime the following Council members have been elected/re-elected:

<i>Vice-Chairman</i>	<i>Reggie Thein</i>
<i>Vice-Chairman</i>	<i>Adrian Chan (designate, subject to amendment of the Constitution)</i>
<i>Treasurer and Chairman for Finance Committee</i>	<i>Basil Chan</i>
<i>Chairman, Membership Committee</i>	<i>Lim Hock San</i>
<i>Chairperson, Professional Development Committee</i>	<i>Mrs Yvonne Goh</i>
<i>Chairman, Advocacy and Regulations Committee</i>	<i>Adrian Chan</i>
<i>Chairman, Publication & Website Committee</i>	<i>Yeoh Oon Jin</i>
<i>Chairman, Disciplinary Committee</i>	<i>Boon Yoon Chiang</i>
<i>Chairman, Annual Conference Committee</i>	<i>Reggie Thein</i>
<i>Chairman, Board and Director Services Committee</i>	<i>John Lim</i>

In addition, an Executive Committee (Exco) chaired by the Chairman and comprising the 2 Vice-Chairmen, Treasurer and the Chairperson of the Membership,



CHAIRMAN'S MESSAGE (Cont'd)

Professional Development and the Publication and Website Committees has been formed. The primary role of the Exco will be to develop and recommend policies, strategies and budgets to the Council as well as co-ordinate and oversee, on behalf of the Council, the implementation of approved plans and activities of the Institute.

As reported previously your Institute intends to significantly step up its activities in the three core areas of membership, professional development and advocacy as well as other areas relevant to the promotion and enhancement of corporate governance and board effectiveness.

To this end, I am pleased to report that the first batch of 28 successful participants of our SID-SMU Executive Certificate in Directorship programme received their certificates at a graduation ceremony on Monday 29 March at the Singapore Management University. We congratulate all the programme graduates.

We are delighted to have been able to partner SMU in this programme which has received very positive feedback from all participants. It is expected that the next and more advanced phase of this formal training for directors will be introduced in the second half of this year.

We hope more practicing and potential directors will avail themselves of this opportunity and sign up for the programme which will be scheduled on a regular basis throughout the year. More details are available from our Secretariat.

In addition, we are currently finalizing with our partners a new Listed Company Directors' Programme which will cover not only the roles and responsibilities of a director but also those of an Audit, Nominating and Remuneration Committee member. Details of this programme tailored specially for listed company directors and aspiring directors will be available shortly.

Outside the area of training and professional development, we will shortly be introducing a Corporate Membership programme as well as a Director Matching Service. Appropriate announcements for these two key initiatives will be made within the next six weeks.

Last but certainly not least, I would like, on behalf of our Council and all our members, to warmly welcome Mr Willie JH Cheng to our Council. Willie who was co-opted to the Council last month needs no introduction. A former CEO of Accenture Pte Ltd, Willie is currently a Board Member of Singapore Press Holdings Ltd and NTUC Fairprice Co-operative Limited amongst others. He is the Chairman of the Lien Centre for Social Innovation and a past Chairman of the National Volunteer and Philanthropy Centre.

I have no doubts that Willie who has been a member of SID for many years will be a valuable asset to our Institute in our efforts to achieve the highest levels of corporate governance in Singapore.

John KM Lim
Chairman



Perspective From The Top Venturing Abroad

How Did One Of Singapore's Darlings Do It?

Chong Siak Ching From Ascendas Pte Ltd Shares Her Views

By Kala Anandarajah
Partner, Rajah & Tann LLP

It is evident that Singapore is a small island, where growth and expansion will be limited if companies look just within our boundaries. As such, many heed the call to venture abroad, but not all succeed. Venturing abroad requires careful planning and commitment, to say the least. It requires a critical understanding of local laws and, more importantly, an appreciation and willingness to adapt to local cultures, whilst maintaining home country standards at the very least.

Perspectives from the Top in this issue has Ms Chong Siak Ching, CEO of Ascendas Pte Ltd, sharing her thoughts and views as to how Ascendas heeded the call to go abroad, the challenges they faced, the roles of the board and management in ensuring that the call was met, and surviving the recent crisis. She also provides quick suggestions as to how other companies can follow suit.

1. Ascendas has over the last few years grown to become an international property group giant. Very broadly first, how was this achieved?

Ascendas was established in 2001 as a result of the merger of two JTC Corporation subsidiaries, JTC International and Arcasia Land (formerly Technology Parks Pte Ltd formed in 1990). Recognising that its track record and experience in developing and managing industrial and hi-tech parks will be valuable to developing countries in Asia, Ascendas started to expand into countries like India and China some 15 years ago, being one of the earliest foreign developers there. To date, Ascendas Group is present in 10 countries, 33 cities across Asia. Some of Ascendas' flagship projects include the Singapore Science Park, Xinsu in Suzhou Industrial Park and International Tech Park Bangalore in India, all of which have set the benchmark for



industry players across the region. In response to the dynamic marketplace, Ascendas continues to set new standards in business space, enhancing the 'technology park' and 'IT park' concepts which it pioneered in key markets such as Singapore, India and China, and incorporating environmentally-sustainable and work-life-play features in all its business parks. It is our aspiration to build the Ascendas brand to be a hallmark for trustworthiness, reliability and quality for our customers.

Real estate is a capital intensive business. To facilitate growth and expansion, Ascendas adopts an asset-light value creation business model which combines its own capital with the capital of external

investors through real estate funds that it sponsors and manages. Besides the publicly listed funds of Ascendas REIT and Ascendas India Trust, Ascendas manages private property funds investing in China, India, Korea and South East Asia. These funds allow like-minded investors to co-invest with Ascendas, to tap on the growth opportunities of these markets. Assets under management have grown from S\$1.7 billion in 2001 to \$9.8 billion today.

2. What sort of strategic planning in what time frame was undertaken to achieve the Ascendas dream?

When Ascendas was created in 2001, its mission was to create a total business environment that inspired people to excel and with a vision for Ascendas to be Asia's leading provider of business space, within a timeframe of 5 years. This vision and mission was crafted and committed to by the entire Ascendas team during the merger exercise. Specific strategies, goals and targets were set to measure our progress. Strategies, goals and targets are reviewed annually in our Strategic Planning Exercises (SPE) based on a 3-5 year time horizon

3. How has the board, whether through its unique constitution or otherwise, played a role in driving Ascendas to where it is currently?

The Ascendas Board is actively engaged in strategy formulation, providing guidance and direction and it has been instrumental in driving Ascendas growth and performance to date. The APL Board comprises members with significant experience in a mix of core sectors, including real estate, finance/banking, legal, overseas operations, academia and management. Both the Board members and the Ascendas management have easy access to each other, allowing the management to tap onto the wisdom and experience of the board members, individually and collectively.

There is a strong focus on corporate governance and ensuring all activities undertaken are in line with international best practices and conducted professionally. The Board of Ascendas Pte Ltd (APL), which is the holding company of the Ascendas Group, reviews corporate strategies, budgets and financial plans, and monitors organizational performance, achievements of strategic goals and objectives, as well as risk management policies and practices. Board Committees such as Board Investment and Audit Committees, have been constituted to provide additional oversight and guidance to management.

4. How does management work with the board in Ascendas in identifying opportunities and pursuing it?

Management works very closely with the Board in formulating long term strategic plans and projecting major capital commitments across the various markets that Ascendas is present. Based on business options and market trends identified by Management, the Board will evaluate and advise on these opportunities, including extending their network of contacts for management to tap on. The Board maintains familiarity with Ascendas' operations through regular visits to key markets.

5. Ascendas has likely seen at least 3 financial crisis / recessions in Singapore and across the region in which it operates. These include the crisis in the late 1990s, the problems in the early 2000s, exacerbated by SARS in 2003/4, and the most recent global financial crisis. How has Ascendas planned around these critical moments and identified appropriate green shoots to grow further? What was the board's role in these endeavours?

In each of these crises, we took immediate steps to get in touch with our customers, to better understand their businesses and the risks they were facing. For many customers, we implemented flexible solutions to support them through the tough times. Internally, we took the opportunity to enhance our internal processes and develop new products and services, looking ahead to the eventual economic upturn. During the recent crisis which was the most severe of the three, we undertook a complete review of our projects to ensure that they remain viable.

Throughout the crisis, the Board stayed very close to our activities, providing sound guidance and support as we navigated our way through, with a focus on ensuring that Ascendas remains financially strong and was able to emerge from the crisis, stronger and more efficient.

6. Does Ascendas see green shoots emerging in the last year or so? If so, which industries and which countries are these green shoots most prevalent in?

Across most Asian countries, fast moving consumer goods, food-related industries did very well over the last year despite the global economic slowdown. Another industry that has grown very quickly is alternative energy/clean technology. There is also promising growth in certain industries specific to

different countries, e.g. automotive and consumer electronics in India.

7. How can Singapore companies take advantage of these green shoots?

We are at the heart of Asia, the growth engine for the global economy in the future. There are many opportunities, both in Singapore and outside. In addition, Singapore has a strong and trusted brand name, including having good corporate governance, which Singapore companies can leverage on in seeking business opportunities overseas. Singapore companies should partner each other as they expand overseas, riding on each others' competencies, network and contacts.

Ascendas welcomes Singapore companies who would like to expand into markets where Ascendas has a presence, and is actively helping Singapore companies to launch their businesses in the projects that Ascendas manages.

8. What sort of support, not necessarily limited to financing, do these Singapore companies require, and are such support readily available?

Besides doing your own research to build a good understanding of the market and its business culture and jurisdiction, government agencies like IE Singapore, SPRING, EDB and IDA offer advisory, financial, capability building support to help Singapore companies succeed overseas. These programmes continue to be refined and improved, and in some cases, government agencies will work with the private sector to ensure these programmes remain relevant to Singapore companies. As an example, Ascendas is currently working with IE Singapore and SPRING on the iPartners programme, where Ascendas will share its experience and network with SMEs in countries such as Vietnam and India, and assist them in the set-up of their businesses.

9. What advice can you offer to young growing companies seeking to step onto the regional platform?

Having a strong base or track record in Singapore is helpful, and then identify your best people to venture overseas to expand your markets. If necessary, seek out a good and reliable partner who is strong in the market that you want to venture into. Seek out Spring Singapore or IE Singapore for assistance, if needed as they have branches and representatives overseas to help you understand and navigate the overseas market. ■

Ready For IPO In 2010?

By Max Loh

Assurance Partner and Singapore IPO leader, Ernst & Young LLP

Max Loh discusses how companies can plan a successful IPO as the market recovers.

What A Difference A Year Makes!

Seeking an IPO was hardly a subject of interest since the latter part of 2008 when the world was mired in an unprecedented financial crisis resulting in an uncertain economic environment, weak stock market conditions and negative investor sentiment. All this led to a sharp deceleration in activities in IPO markets around the world. With the exception of a few dynamic and well-received companies, many companies that were planning to go public had postponed or aborted their IPO plans in the face of poor market sentiment and more stringent valuations.

In 2009, after stagnant markets in the first two quarters, IPO activity started to pick-up in the second half of 2009, principally driven by deals from the emerging economies of Asia and South America. This trend is set to continue, driven by the pent-up demand of companies seeking to raise capital for growth and expansion. Together with the economy showing signs of recovery - albeit modest and gradual - and as a result, market sentiment improving, we can expect more companies including those who have shelved their plans earlier, to go public in the year ahead.

We strongly believe that when a company embarks on an IPO, it is not just a transaction - it is a transformation. An IPO is not the end game but the beginning of a journey that propels an organization to the next level. That is why we have been encouraging companies who are considering an IPO to make the best use of the lull period over the last

12-18 months to put in the groundwork to go public so that they are well-positioned to capitalize on an IPO once the market upturn arrives.

But first, when contemplating an IPO, a company should consider whether it is the right option given its business goals and objectives, the current stage in its life cycle and its ability to handle changes as a public entity. Assuming that an IPO is the favored approach, here are a few considerations that you should take into account as you embark on this significant journey.

Infrastructural Change

An IPO transformation involves the acceptance and implementation of change - not just by executive management, but throughout every aspect of the business, organization and corporate culture. Time and resources need to be allocated to educate the internal organization on factors pertinent to operating as a public entity and being successful in the public domain.

The systems, controls and policies that are adequate for a private company may not be best suited to grow the company or monitor its performance. The company's legal, financial and risk management infrastructure must be enhanced to facilitate regulatory compliance, manage risks, address key financial and reporting issues as well as provide achievable guidance and forecasts.

Businesses that successfully make the transition to life as a public company often start operating like one prior to listing. They ensure that all aspects of their business are ready, from operational excellence and competent personnel to communications policy and execution strategy.

The Right Team

Investors place a premium on the substance of management and the probability of execution of plans. The entire team must demonstrate commitment and operational excellence. The Board of directors should be of sufficient size, structure, quality and depth with proven experience in strategic planning, business development, industry knowledge, financial and legal matters, and corporate governance. This will enable the proper guidance of decisions and the provision of requisite oversight.

Choice Of Market

Global IPO markets attract a diversity of geographies, industries and types of companies. Since capital invariably follows a good investment story wherever it is listed, almost all companies list on their increasingly liquid home exchanges.

Notwithstanding the above, in selecting a market in which to undertake an IPO, a company should consider the industry in which it operates, investor and market analyst preferences, developing trends, the amount of capital to be raised, the costs associated with raising the capital as well as the liquidity of a particular market.

Timing

Rather than trying to time the market, companies need to take the time to plan and prepare for an IPO. Successful IPO candidates begin the transformation process well in advance of going public. A well-prepared company that has addressed all potential issues will be able to move swiftly when the market is right.

Corporate Governance And Risk Management

The ever-increasing emphasis on heightened governance standards means that companies clearly have to establish the appropriate oversight, policies and procedures, internal controls, by-laws and infrastructure to facilitate effective corporate governance practices.

Further, companies need a comprehensive process and structure to identify and manage risks. Creating a risk management framework is not an exercise in bureaucracy but a way to manage the company's risks prudently and effectively, and at the same time, provide management with the confidence to achieve growth.

Restructuring And Tax Planning

Companies need to plan and execute corporate and capital restructuring in order to ensure that they have an efficient and effective structure when going public. Key considerations include sufficiency of free float of shares, operational effectiveness as well as tax efficiency and dividend repatriation planning.

Maintaining Focus On The Business

Preparing for an IPO is a time-consuming and arduous process and it is easy for management and employees to be distracted by the enormity of the task. Companies must strike a balance between managerial focus on the IPO transaction and the day-to-day operations of the company. Being well-prepared can lead to a successful IPO outcome but the best financial presentation and investor relations will not in itself lead to business profitability and success.

Selecting Your Advisors

Selecting the right team of IPO advisors - investment bankers, underwriters, lawyers, accountants, investor relations specialists etc., is imperative in ensuring the company gets the right advice. Beyond that, for an IPO to be successful, there should be effective communication and coordination among all parties including management.

In addition, personal and tax wealth advisors may be appointed to assist with corporate and personal financial and wealth planning for the company's executives and shareholders.

It's About Going Public, And Being Public

Although an IPO may often be the single most important transaction in the company's development, it is not a destination but a transformation. The real work begins once the company is public - keeping the promises made during the IPO and road show, managing the expectations of investors and analysts, and delivering growth and value.

The focus should not just be on going public but also on being public. Only by doing so will the company reap the maximum benefits of fund-raising, level up the company, maximize shareholders' value and take that significant step towards accelerating business success and achieving market leadership. ■



Sovereign Wealth Funds, Governance, And Reserve Accumulation

By Joshua Aizenman, Professor of Economics, University of Santa Cruz and Reuven Glick, Group Vice President in charge of International Research, Economics Research Department, Federal Reserve Bank of San Francisco

This column provides evidence that there is great deal of difference between the governance standards of the economies in which sovereign wealth funds have been established and the standards of the industrial economies in which they are seeking to invest. It also discusses how the expansion of asset holdings of sovereign wealth funds may reduce official reserve holdings.

Sovereign wealth funds (SWFs) are saving funds controlled by sovereign governments that hold and manage foreign assets. While not a new phenomenon, the recent activities and projected growth of SWFs have stirred debate about the extent to which their size may allow them to affect financial markets and their policies may be driven by non-economic considerations. As an increasing share of the foreign

asset holdings of sovereign wealth funds shift from government debt obligations to private equities, concerns also have arisen about how institutions in the “investing” and “receiving” countries may need to adapt. Much discussion (Johnson 2007 and Economist 2007) has been devoted to the need for individual SWFs to be more transparent about their investment approach, by providing more information on the type and amounts of assets they hold, and about their governance structure, by clarifying how decisions are made and monitored.

Sovereign wealth funds, unlike monetary authorities holding official foreign reserves, typically seek to diversify foreign exchange assets and earn a higher return by investing in a broader range of asset classes. Sovereign wealth funds, unlike mutual and

insurance funds, generally have no specific liabilities to be paid to shareholders or policyholders. Sovereign wealth funds similarly differ from sovereign pension funds in that the latter have explicit liabilities, such as worker pensions. For this reason, SWFs typically have had less incentive to be transparent about their investment and management practices. However, as SWFs invest more of their assets in private financial markets, greater concern has arisen as to the extent to which they should follow the practices of private institutional investors and pension funds in industrial countries.

Basic Facts

In a recent paper (Aizenman and Glick, 2008), we discuss the forces leading to the growth of sovereign wealth funds and provide statistical analysis supporting stylised facts about their determinants and behaviour. Countries with SWFs tend to be fairly evenly distributed across income levels - there are high-, medium-, and low-income countries with SWFs. Applying probit regressions of the incidence of SWFs, we confirm that countries that run larger current account surpluses or that specialise in fuel exports are more likely to establish sovereign wealth funds. Not surprisingly, the ratio of foreign reserves to GDP is relatively high in many countries with SWFs, particularly in countries that have recently established such funds.

Sovereign Wealth Funds And Governance

Sovereign wealth funds differ in their strategies for investing abroad and in the information they provide about their activities. The countries of origin of SWFs

also vary in governance standards at the national level. How does the governance and transparency of individual SWFs compare with norms of behaviour in home and foreign countries? To answer this question we use the Truman (2008) governance scores for individual sovereign wealth funds and the Kaufmann, Kraay, and Mastruzzi (2007) measures of the quality of national corporate governance.

Figure 1 compares the Truman governance scores for “older” oil-export based SWFs (United Arab Emirates, Qatar, Brunei, and Oman)¹, Norway’s SWF, other SWFs, and sovereign pension funds of selected industrial countries. It shows that the older oil-exporting countries have lower Truman fund governance scores, primarily because of limited transparency and accountability, in comparison to other SWF countries. All are well below the standards of sovereign pension funds in industrial countries as well as Norway’s SWF.

Figure 2 displays the average national governance measures for our SWF country groupings. It shows that the older oil-exporting countries generally have better governance levels than those of other SWFs (except Norway, of course), but lower democracy levels. These figures illustrate how the practices of many existing sovereign wealth funds, particularly those originating in less democratic countries, differ from the practices of industrial country pension funds as well as Norway’s government fund. Clearly, there is still a great difference between the governance standards of the economies in which SWFs have been established and the governance standards of the industrial economies in which they are seeking to invest.

Figure 1: Truman Scores for Different Sovereign Fund Groupings

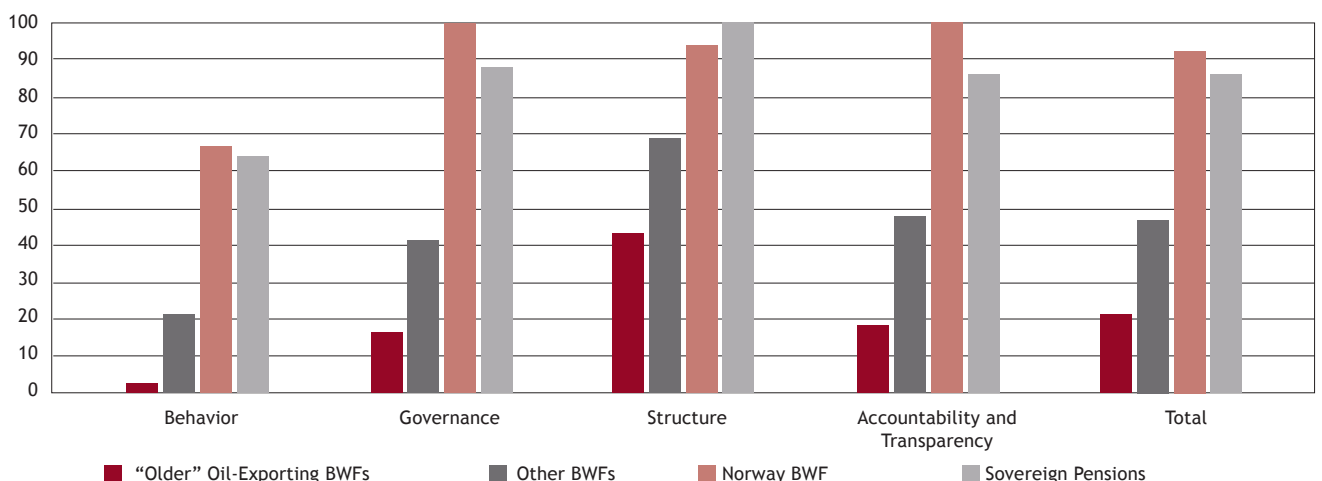


Figure 2: KKM Governance Measures for Different Sovereign Fund Groupings

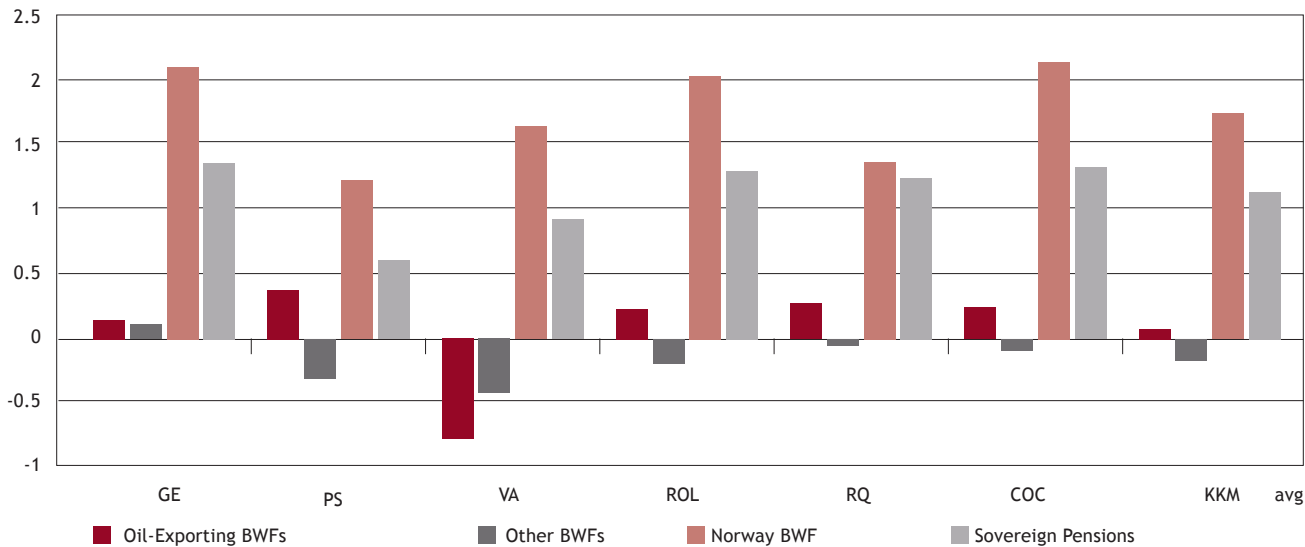


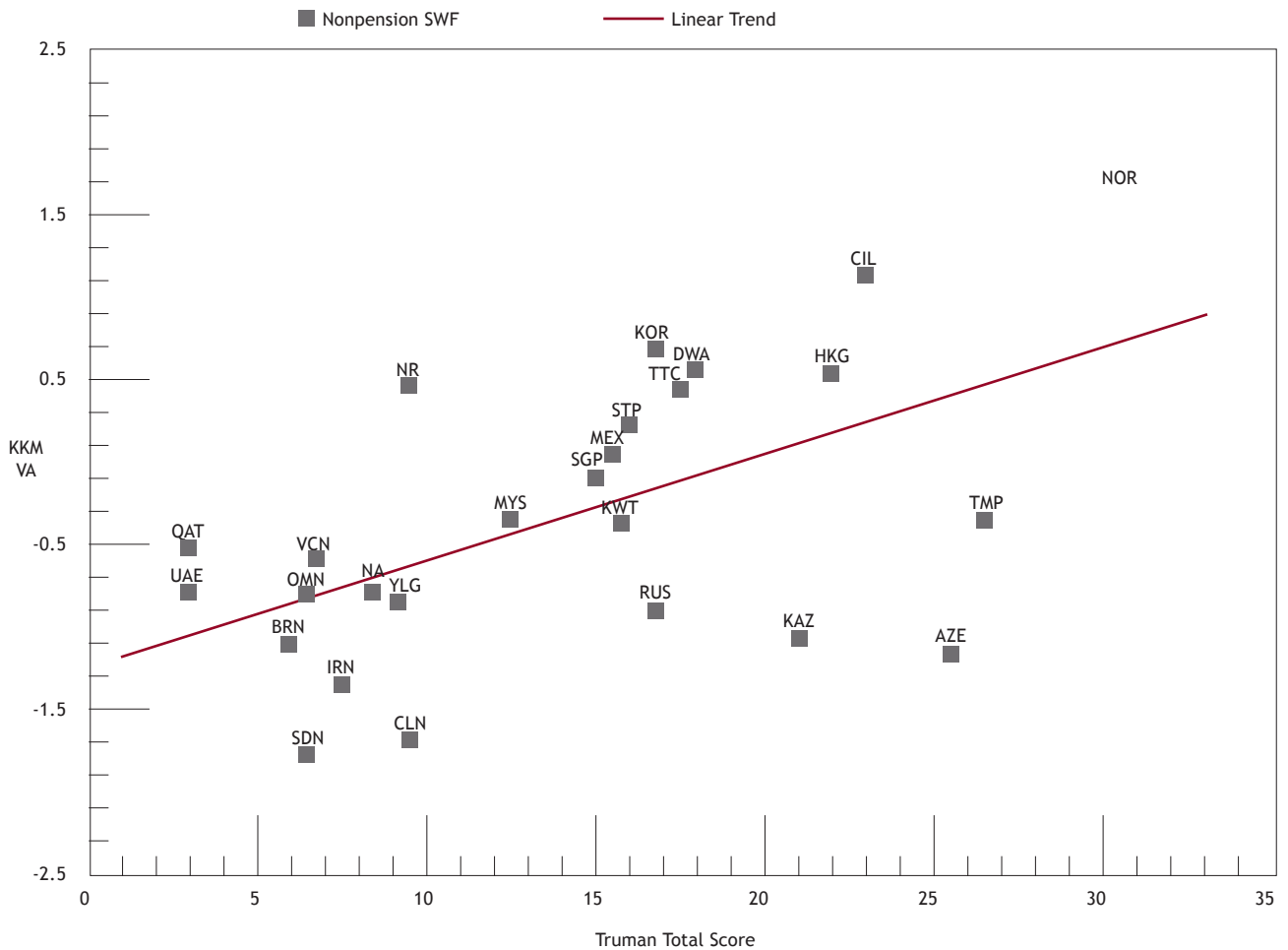
Figure 3 gives a scatter plot of the Kaufmann, Kraay, and Mastruzzi voice and accountability governance subindex, a measure of democracy, vs. Truman’s total SWF score. It suggests a positive correlation between the two measures. That is, countries characterised by greater democracy also tend to have SWFs displaying better overall governance.

The figure also shows that the oil-producing countries of the United Arab Emirates, Qatar, Brunei, and Oman (UAE, QAT, OMN, BRN, in the lower left quadrant)

have relatively low democracy levels as well as SWFs with low Truman fund governance scores. In contrast, the SWFs of the newer fuel-producing countries - Russia, Kazakhstan, Azerbaijan, and Timor-Leste (RUS, KAZ, AZE, TMP, in the lower right quadrant) - who also have low democracy scores, have higher Truman fund scores, i.e. they are more transparent than the sovereign funds in the older oil-producing countries. Why might this be so? One possible explanation is that countries that have only



Figure 3: Truman Total Score vs KKM Voice and Accountability Score



recently begun to develop their fuel resources have a greater incentive to foster more global integration by establishing institutions, such as SWFs, with more transparency and accountability. It is easier to change the level of transparency of a fund than to change a country’s political system.

Sovereign Wealth Funds And Foreign Reserves

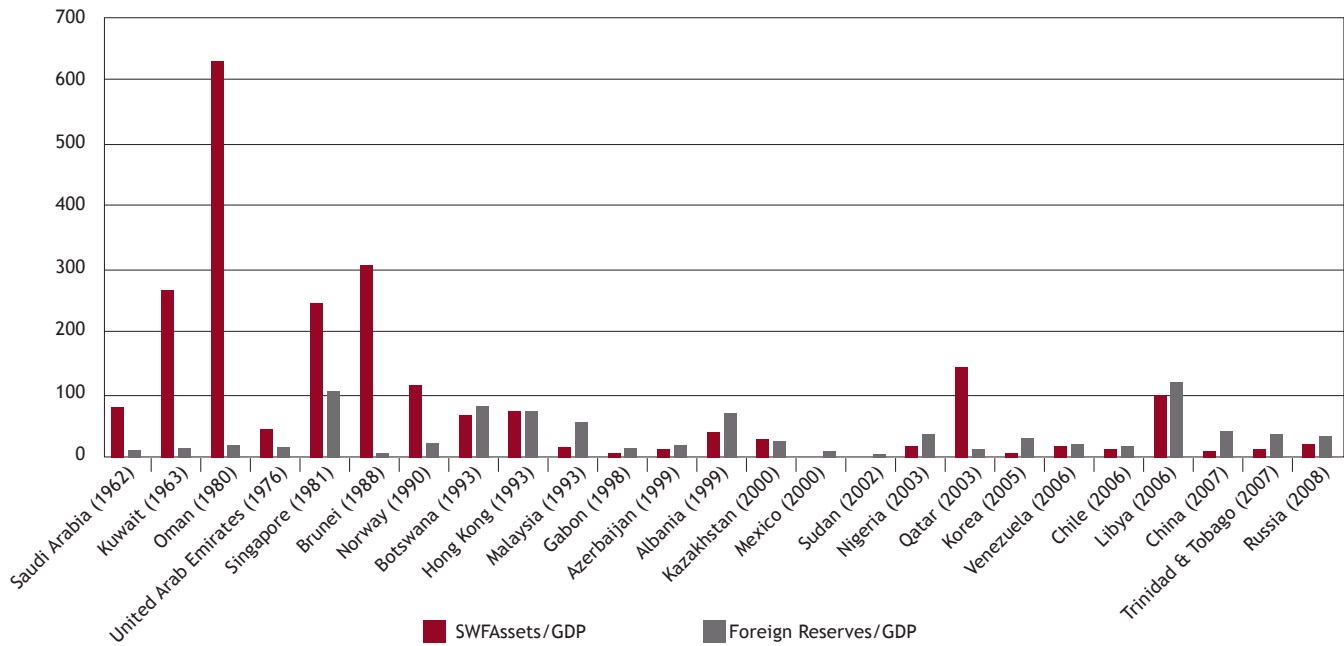
As countries choose to entrust more of their sovereign wealth to investment funds, official reserve accumulation is expected to slow, with funds likely shifting away from reserves held by the central bank. To assess this possibility, Figure 4 depicts the asset holdings of SWFs and the foreign reserve holdings of central banks, expressed as shares of GDP (at the end of 2007 and 2006, respectively), ranked by the fund’s age (years since establishment). The older SWFs not only have relatively high SWF-asset-to-GDP ratios, they also have relatively low foreign-reserve-to-GDP ratios compared to most of the

newer SWFs. This is consistent with the view that over time countries may transfer a greater share of the public sector’s foreign assets from official reserves into SWFs.

However, a panel regression of the determinants of foreign reserves relative to GDP over the period 1985-2006 does not support the view that the establishment of a SWF eventually leads to lower official reserve levels. One possible reason is that most of the SWFs in the sample have been established relatively recently, leaving insufficient time for effects on the level of central bank reserve holdings to occur.

In our paper, we also present a model with which we compare the optimal degree of diversification into safe foreign reserve assets and other higher-yielding, but risky, foreign assets by a central bank versus that of a sovereign wealth fund. We show that if the central bank manages its foreign assets with the objective of reducing the probability of

**Figure 4: SWF Assets/GDP and Foreign Reserves/GDP (percent)
Ordered by Date of SWF Establishment**



sudden stops, it will place a high weight on the downside risk of holding risky assets abroad and will tend to hold primarily safe foreign assets. In contrast, if the sovereign wealth fund, acting on behalf of the Treasury, maximises the expected utility of a representative domestic agent, it will opt for relatively greater holding of more risky foreign assets. We also show that, as a country’s overall foreign asset base increases, the opportunity cost associated with the limited portfolio diversification of the central bank induces authorities to establish a wealth fund in pursuit of higher returns.

The present global financial crisis illustrates the importance of the precautionary purpose for holding

international reserves by central banks. While the recent drop in global commodity prices and equity returns may have reduced the relative appeal of sovereign wealth funds, a resumption of global growth may restore their attractiveness. However, if the “great moderation” period is indeed over and volatility in financial markets remains high, monetary authorities may place a high weight on holding more reserves as a means of minimising the expected costs of sudden stop crises.

Editors’ note: The views expressed do not represent those of the Federal Reserve Bank of San Francisco or the Board of Governors of the Federal Reserve System. ■

References

Aizenman, Joshua and Reuven Glick (2008), “Sovereign Wealth Funds: Stylized Facts about their Determinants and Governance,” NBER Working Paper No. 14562.

Economist (2007), “Fear of Foreigners,” August 14 (online only).

Johnson, S. (2007), “The Rise of Sovereign Wealth Funds,” *Finance and Development*, 56-7.

Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi (2007), “Governance Matters VI: Aggregate and Individual Governance Indicators, 1996-2006,” *World Bank Working Paper WPS4280*.

Truman, E. (2008), “A Blueprint for Sovereign Wealth Fund Best Practices,” *Peterson Institute for International Economics, Policy Brief No. PB08-3, Washington DC*.

1 There is no Truman data for Saudi Arabia.



The Idea Of A “Professional” Independent Director

By Umakanth Varottil, Doctoral candidate at the Faculty of Law, National University of Singapore, where he is a Lee Kong Chian Scholar

Introduction

The institution of the independent director continues to play a vital role in corporate governance. Although it has been subjected to some level of criticism, particularly in the aftermath of various corporate governance scandals unearthed from time to time, its importance has been undeterred. Anecdotal evidence of this phenomenon is aplenty. Recently, independent directors of companies affected by financial improprieties and wrongdoings have taken on a frontline role to revive and resuscitate such companies and thereby protect the interests of the public shareholders. The Sino Environment case is one such example. Regulators too are pinning greater hope and responsibility on independent directors. SGX’s recent proposal that requires offshore principal subsidiaries of listed companies to have at least one Singapore-resident independent director is emblematic of this trend.

All this leads to the crucial question as to whether independent directors are well-positioned to undertake such demanding responsibilities. In an era of increased complexity in business transactions and uncertainty in the business environment, independent directors are not only required to possess exceptional business expertise and acumen, but they are also required to devote substantial amounts of time and attention to the affairs of the boards on which they sit.

Currently, independent directors are typified by business executives such as CEOs and senior managers of other companies, or by professionals such as lawyers, accountants and consultants, or by government officials or academics. These are individuals with primary ‘day jobs’ for whom the independent directorship of a company is but one of many tasks. They devote only a certain number of days a year for board responsibilities. Prior to board and committee meetings, they are required to plod

through reams of reports and other information, which are often technical as well as plentiful. When a company is performing well, the independent directors tend to adopt a more tolerant approach towards management in the absence of any 'red flags'. However, when a crisis situation emerges, they are compelled to be at the forefront and take charge of the affairs of the company. Can independent directors be relied upon to avert crises in the first place? Arguably not, if their role in the affairs of the company is minimal as it currently is.

The Concept Of A Professional Director

In these circumstances, it is worthwhile to consider the concept of a 'professional' independent director. Although the idea, which was conceived a few decades ago, has not yet received the momentum it deserves, the ever-increasing demands on independent directors merits its reconsideration. Joseph Barr defines a 'professional director' as "a man ... who spends all his time in the discharge of his responsibilities as a director of various publicly held corporations". Such an individual embraces independent directorship as a profession to the exclusion of all else. This idea was subsequently popularised by two U.S. law professors who argue that this class of directors would possess the skill, time and necessary incentives to more ably perform the role of independent directors.

Let us now consider the broad contours of such a position. Under this scheme, each board may have one or more professional independent directors in addition to conventional independent directors as well as executive directors. The most appropriate candidate for professional directorship would be a retired senior business executive, or a partner at a law firm or accounting firm, or a leading academic in business or other relevant discipline. Such an individual, who possesses the requisite expertise and experience, would commit all his time and energy to being an independent director on various boards. It is necessary to ensure that there is a limit placed on the number of such directorships an individual may hold. Imposing a maximum of five to six directorships seems suitable.

Advantages

A distinct advantage of this option is that it allows such individuals to focus their attention exclusively towards performing their directorship roles efficaciously in companies on whose boards they sit. As they are not distracted by any other principal

occupation, they can spend greater amounts of time and attention towards the companies' affairs. It enables greater interaction with managements of companies (at various levels) resulting in a smoother flow of information to the board, and more specifically the independent directors.

Apart from these professional directors being experts in their own right, they can potentially benefit from participating on boards of several companies. They can enrich themselves by learning from their experiences on one board, and then apply that on other boards, thereby resulting in a cross-fertilisation of ideas and best practices. This generates an optimal outcome for all the companies on which the individuals are directors.

Appropriate incentives are to be made available to the professional directors so that they undertake their role with earnestness. They have to be adequately remunerated by the companies, either through salaries, stock options or other recognised perquisites. At the same time, care must be taken to ensure that the remuneration is not so excessive as to impinge upon the independence of the directors. In other words, the directors ought not to be beholden to management. Even in this respect, the proposal for professional directors presents an elegant solution. The incentive scheme would work such that the aggregate remuneration received by a professional director from all companies in which he holds a position can be comparable to what he was earning prior to adopting such a role that suitably motivates the individual to do a good job. But, the remuneration from each such company will not be so significant as to impair objective decision-making on the board.

Addressing Drawbacks; Defining The Role

The introduction of a professional independent director is not without drawbacks. First, it would be a daunting task to identify a sufficient number of individuals with the requisite competency to adopt such a role by giving up their existing occupations. Second, companies and their managements may be averse to the idea as professional directors may tend to act as super-monitors and interfere in the day-to-day functioning of companies. Some of these constraints can nevertheless be addressed. As regards the first concern, it is not as if every independent director should satisfy these characteristics. The professional director will be a minority in each

company, and considering that each individual would be occupying positions in other companies as well, the number of such individual required would not be significant. As for the second concern, that can be alleviated by carefully carving out a role for the independent director, a matter to which I now proceed.

It is recommended that the role of independent directors consist of two parts: (i) advisory; and (ii) monitoring. Independent directors need to bring value to the company in terms of their ability to provide inputs on strategic, business, marketing, legal, compliance, or other relevant aspects, and also carry out monitoring functions (by acting as watchdogs) in order to protect the interests of shareholders. These roles are to be clearly outlined so that independent directors are not subject to any uncertainty on this front. Admittedly, it may be a tall order to require every independent director to perform both advisory and monitoring functions, and that may not be practicable to begin with. However, the board could be comprised of independent directors with different capabilities so that the board as a whole may be in a position to perform both these functions effectively.

The next key issue pertains to the constituencies that deserve the attention of independent directors. In countries such as the U.S. and the U.K., where shareholding in companies is diffused, the shareholder body is homogenous and hence independent directors can merely take into account shareholder interest as a common factor. However, in countries such as Singapore where shareholding is

generally concentrated, the shareholder body itself would be bifurcated into two distinct interests, being that of the controlling shareholders and of the minority shareholders. Since controlling shareholders are in a position to exercise some level of dominance over a company's affairs by virtue of their voting power, independent directors would have to specifically cater to the interests of minority shareholders. If independent directors (whether of the professional type or the conventional type) are to play a meaningful role in corporate governance, some of these roles and functions have to be better clarified.

The Way Forward

As for implementing the professional independent director concept, the way forward would be for companies to identify such individuals and begin engaging with them. Once its success is determined in a few companies, it can be expanded to others. It is advisable to introduce this requirement as a matter of best-practice rather than through regulatory intervention or through imposition as a matter of law. This process can be aided through effective utilisation of directors' databases and exchange of information. Thus far, we have not considered the concept of a professional director as requiring some sort of registration or accreditation with a suitable professional or peer body. In due course, it may augur well to implement such a system accompanied by training (both initial and continuing) that would inculcate an innate sense of professionalism in the institution of the independent director. ■

References:

Joseph W. Barr, "From the Boardroom: The Role of the Professional Director", *Harvard Business Review*, May-June 1976, at 18.

Ronald J. Gilson & Reinier Kraakman, "Reinventing the Outside Director: An Agenda for Institutional Investors", *43 Stanford Law Review* 863(1991).

A man in a dark suit and red tie is looking upwards and to the right. In the background, there is a semi-transparent overlay of a financial candlestick chart with various data points and lines. The chart shows an overall upward trend with some fluctuations. The man is holding a white folder or tablet.

Pay for Results

Aligning Executive Compensation with Business Performance

By Fermin Diez, Worldwide Partner & Derek Berry, Principal
Mercer (Singapore) Pte Ltd

The corporate governance environment is changing dramatically. Shareholders are demanding that pay be commensurate with outcomes, in a way that is transparent and tangible. In many countries including US, UK, Canada, Hong Kong and Australia, the disclosure rules for publicly traded companies require that performance measures be disclosed in most cases and that companies explain how their pay programs relate to organizational performance. The market has continued to focus on this issue, prompted in part by the global economic crisis and the excesses in some companies and geographies. Whilst Asia has generally avoided the excesses, the focus on executive pay governance is happening globally.

In our previous article, we focused on the roles Shareholders, Directors and Management should have on designing and implementing Long-Term compensation plans for their Executives. We ended that article on the notion that the right Performance Metrics are the key to successfully implementing

responsible Executive Pay. The present article focuses on how to achieve this.

Performance Measurement As The Key To Good Governance

There are many factors that influence how smoothly the system of governance functions in an organization. You must have clarity of roles and effective division of labor. There must be an appropriate investment of time and resources and a well - rounded and flexible process for decision making. Directors and executives must exhibit leadership, while at the same time be able to work as team members when collaboration is called for. They must also possess deep knowledge of the business and have a thorough understanding of the factors influencing the market in which they operate. When it comes to executive remuneration governance, all of these things are important, but a solid performance measurement system is, perhaps, the single strongest determinant of whether or not stakeholder interests will be met.

Performance measurement serves as the basis on which decisions are made and judged and provides a common language for communicating the goals of the organization so as to align everyone behind shared objectives. This helps position the company for long-term, sustainable value creation; not surprisingly, high performing companies tend to have fewer problems in the governance arena.

Performance measurement is important to shareholders, directors, and executives alike. Each of these stakeholders has different priorities when it comes to monitoring and rewarding results, and the most effective measurement systems will be responsive to a wide range of interests (See below).

What Investors, The Board And Management Want

- Alignment with the particular business strategy and other organizational processes (no cookie-cutter metrics).
- Strong line of sight to individual behavior.
- Reasonable, defensible pay and performance outcomes.
- Simplicity and ease of communication.
- Motivational goals that contain the right amount of “stretch.”
- Flexibility to address both retention and measurement challenges as they arise.
- Meaningful and fair calibration between results and payouts (no free rides).
- Direct linkage to shareholder value creation.
- Appropriate management of risks
- Clear and transparent disclosure of performance standards and compensation decisions.

When it comes to Executive Compensation, the goal of compensation committees, senior leaders, and human resources professionals is to develop a balanced and defensible approach to performance measurement – one that fairly and accurately captures results so that companies can more confidently reward executive contributions.

Change Is In The Air

Besides the shifting governance paradigm, there have been many other developments that have shaped the executive remuneration environment over the past decade. While these vary from region

to region, they encompass such things as converging accounting practices, enhanced disclosure, heightened attention on executive perquisites, benefits, and severance arrangements and, lately, increased regulatory interest.

New executive compensation disclosure rules abroad, as well as likely here in the country, will continue to put the spotlight on pay and performance alignment, equity and pension values, and termination and change-of-control benefits. In addition, the continued say-on-pay activism we’ve seen in Australia, the UK and other countries may impact board decision-making processes and compensation program design. Even non-binding votes on executive pay in other jurisdictions has increased transparency and allowed shareholders to express their views, while leaving final decision making in the hands of the board.

The impact of these changes has been widespread. While trends have played out differently in different regions, some common themes have emerged:

- Increased focus on variable remuneration.
- Shift from stock options to full value shares.
- Greater use of performance-based equity.
- Elimination of egregious perquisites and benefits.
- Imposed limits on non-performance based pay, including severance and change-in-control benefits, supplemental executive retirement, and deferred compensation.
- Greater diversity in remuneration packages.
- Dual performance hurdles for long-term incentives are becoming more common (e.g., relative TSR coupled with strategic goals in areas like customer service and risk management).

These developments are moving executive remuneration practices in the right direction. Around the globe companies are taking a more comprehensive approach to executive remuneration design and making strides to improve the link between pay and performance. From increasing the use of variable pay to attaching performance conditions to long-term incentives, executive remuneration programs are becoming more balanced and more responsible.

To get a better sense for how these trends are playing out in the marketplace, let us review current practices in mature and developing markets, and contrast that with what we typically see in Singapore.

Pay Mix

In mature markets, executive remuneration is delivered primarily through variable pay. This means a significant portion of the remuneration opportunity is at risk and is contingent upon achieving positive performance results. Both short-term incentives (typically an annual cash bonus plan) and long-term incentives (generally some form of equity) are prevalent in the market place, with a greater emphasis on long-term remuneration at most organizations (particularly in the US, the UK, Canada and Australia where companies continue to rely heavily on equity-based remuneration).

Companies in developing countries, such as those in Latin America and some in Asia, tend to rely more heavily on fixed remuneration, such as base salary and executive benefits, although the use of both cash and equity incentives continues to grow. Singapore tends to follow this latter model, where base pay typically makes up 60-70% of top Executive pay, although the larger companies are likely to have base pay at 50% or less.

Short - Term Incentive Remuneration

Short-term incentives are highly leveraged in mature markets. In the United States, annual executive bonus opportunities typically range from 50 to 200 percent of salary, sometimes reaching upward of 300 percent of base salary at maximum. In the United Kingdom and other mature markets, maximum annual bonus levels have traditionally been lower but are now trending upward. Short-term bonuses are also relatively common in emerging markets. However, such opportunities typically represent a smaller portion of the total pay package. Economic uncertainty or high inflation in these regions can make it difficult to set goals even one year out, so shorter performance periods (quarterly, semiannual) are sometimes used. In Singapore, most of the bonus schemes pay out on an annual basis and represent around on average 3-4 months of top management's pay, ranging up to 7-12 months of pay for exceptional performance. Across Asia there is evidence of increasing target levels of bonus.

There is significant variety in short-term performance measurement practices from company to company in Singapore, but some common themes emerge:

- Profitability metrics are the most common measures of short-term performance in the country, as well as around the world.

- Most companies use more than one metric to measure performance in their annual incentive plans. Most companies include individual achievement against KPI's and many use some degree of discretion in assigning bonus payout amounts.
- Strategic objectives are sometimes, but not always, used in combination with financial metrics.
- Measuring results against absolute goals is more common than relative performance measurement.

Long - Term Incentive Remuneration

The use of multiple equity vehicles to deliver long-term incentive remuneration has become commonplace in mature markets, although the long-term incentive mix varies by region. For example, time-vested stock options continue to be prevalent in the US and Canada, but are declining in use in the UK and Australia, despite a recent uptick in ESOS usage driven by current low share prices. In Singapore, it is not common to see more than one plan in any given company, and many plans currently follow a plain-vanilla retention based approach.

A portfolio style approach is beneficial to both executives and shareholders because it adds balance to the overall remuneration program design and increases the likelihood that remuneration outcomes will be fair and reasonable in light of performance. Long-term performance measurement practices also tend to fall along regional lines. Companies in North America have significant flexibility in designing long-term incentive programs, and metrics include everything from revenue to economic profit to share price goals. In the United Kingdom and Australia, there is more consistency in practice as a result of institutional shareholder guidance. Companies in these regions tend to vest performance shares or options based on the achievement of earnings per share goals or relative total shareholder return measured against industry peers. The use of long-term incentives has been much less prevalent in emerging markets. In some countries in Asia regulatory restrictions or other implications make it difficult to implement equity programs. In other regions, market volatility has hindered the motivational value of equity, while unstable economic conditions have historically made long-term goal setting a challenge. In Singapore, as mentioned earlier, the trend has been to use Options with early progressive vesting and no performance

criteria attached. The tides are turning, however, and a growing number of companies in the region are looking to add a performance based long-term component to the total executive remuneration package, following the example of large, local companies. Singapore has tended to be a leader in the use of a performance condition where restricted share plans are adopted.

The Verdict

How successful have the design changes outlined here been in improving the link between pay and results? Research on the relationship between pay and performance among large and mid size companies in the United States suggests that there continues to be room for improvement. Overall, year-over-year changes in total direct remuneration (base salary plus actual bonus payouts plus expected long-term incentive values) appear to be reasonably well aligned with performance. However, remuneration levels were up for more than half of the “bottom” performers, suggesting that companies could better balance upside opportunity with more meaningful downside risk. The bottom line is that companies are on the right track, but in order for programmatic changes – like adopting performance-based equity – to really enhance the pay for performance relationship, companies need to get performance measurement right.

Bringing Defensibility To Executive Remuneration

Without a sound performance measurement system, it is impossible to assess the reasonableness of executive remuneration programs and payouts. You must know whether or not the company is creating shareholder value and the degree to which that value creation (or destruction) can be attributed to executive performance.

The objective is to bring your measurement practices and, by extension, your executive remuneration programs to a new level.

To develop sound Performance Metrics Remuneration Committees need to focus on the following:

- Abandon the guesswork and start making informed decisions based on solid research, in-depth quantitative analysis, and intelligent discussion.
- Review the potentially weak link between compensation and performance due to heavy reliance on base pay. Scarce use of equity or

other long-term incentives focuses management resources on short-term, rather than long-term results.

- top working backward by agreeing on a definition of value for your organization up front – and then identifying those factors that have the greatest impact on its creation.
- Use the business strategy as the basis for selecting performance metrics, rather than relying heavily on what competitors or analysts tell you to measure.
- Use both internal planning and external trends and economic data to set performance targets that will motivate your executive team to shine – and let your shareholders sleep at night.
- Test the relationship between award and performance levels thoroughly to make sure that pay outcomes will be reasonable under all performance scenarios – both strong and weak.
- Make your measurement system a high -impact one by anticipating problems before they happen and investing the necessary time and resources in implementation.
- Greater focus on succession planning and leadership development is likely, as it is becoming imperative to develop executive talent from within. Measuring this risk is a key role for the Boards of Asian Companies. Balancing paying for performance with the need to attract and retain top-flight talent continues to be a challenge in light of increased scrutiny.

Change is in the air, and companies must meet the challenge of performance measurement head-on to ensure that their remuneration programs are reasonable and defensible to all stakeholders. Further disclosure and regulation of executive pay are being discussed but would result in additional complexities and constraints on boards’ ability to set remuneration policy in line with company structure and business strategy.

When times are good, it is less critical to have a perfect measurement system, but during more volatile times, the stakes are bigger and given recent moves to regulate markets and give shareholders an even stronger voice, companies simply cannot afford to be wrong. Directors and management need to partner together to make pay for performance a reality before shareholders take matters into their own hands. ■

Legal Update

MAS Invites Comments On Proposed Enhancements To The Corporate Governance Framework

By Ang Gek Joo*
Associate, Rajah & Tann LLP

Introduction

The Monetary Authority of Singapore (“MAS”) issued a consultation paper on 18 March 2010 on proposed enhancements to be made to the Corporate Governance framework (“Proposals”). The Proposals relate to the Banking (Corporate Governance) Regulations 2005, the Insurance (Corporate Governance) Regulations 2005 (collectively referred to as the “Regulations”, individually referred to as the “Banking Regulations” and “Insurance Regulations” respectively) and the Guidelines on Corporate Governance for Banks, Financial Holding Companies and Direct Insurers which are incorporated in Singapore (“Guidelines”).

The Proposals emphasize the following:

- a. the importance of a Board’s role;
- b. the need for directors to be equipped with the appropriate skills and have the commitment to oversee operations of the financial institutions; and
- c. the important role that the Independent Directors play as a check and balance to the management and majority shareholders, protecting the interests of the financial institutions as a whole.

This update provides a quick summary of the key changes.

The Proposals Summarised

(a) Continuous Development

It is important that the Boards of financial institutions comprise competent directors with integrity, knowledge, business, industry experience and motivation to carry out their fiduciary duties in the best interests of the financial institution and its stakeholders, especially, the depositors and policy owners. To this end, it is important thus for the nominating committee to assess the current skills of the Board on a regular basis and to establish a continuous development programme for its directors.

To ensure the above, it is proposed that the following be included:

- To introduce in the Regulations a requirement that the nominating committee shall conduct an assessment of the skills of the directors on an annual basis.
- To include additional guidance in the Guidelines that the nominating committee should, inter alia,
 - i. establish a continuing development programme for all directors (thus ensuring that they are equipped with the appropriate skills to perform their roles on the Board and the Board committees);

*With input from Kala Anandarajah, Partner, Rajah & Tann LLP

- ii. develop a framework to identify skills that the Board collectively needs in order to discharge its responsibilities effectively; and
- iii. assess, at least annually, if the Board and Board Committees lack any skills to perform their roles effectively and identify steps to improve their effectiveness.

(b) Time Commitment

In a bid to ensure adequate commitment by directors, this proposal requires directors to ensure that they devote time, effort and energy to serve as a director by not over-committing themselves. This is intended to be over and above the need to have the right skills-set to contribute effectively to the Board.

Hence, it is proposed that the nominating committee should set internal guidance on the time commitment expected of each director (e.g. number of Board memberships each director may hold). Any deviation from the internal guidelines should be disclosed and explained in the financial institution's annual report.

(c) Director Independence

Director independence continues to be a vexed issue. It has been long felt that long-serving independent directors, in particular those that serve under the same Chairman or Chief Executive Officer, could have certain entrenched interest that may impact their ability to act independently. Some jurisdictions have considered the length of service on the Board as an additional criterion to assess a director's independence. Hence, it is intended to introduce in the Regulations a new requirement for a director to be deemed non-independent after he/she has served for a continuous period of 9 years on the Board. (This includes a director who is independent from management, business relationships and substantial shareholders.) The proposal provides that notwithstanding the proposed 9 year threshold, the nominating committee should assess whether the length of service of a director has assessed his/her independence on an annual basis.

Interestingly, the proposal provides that where composition requirements are met, a director who has served more than 9 years can still remain as a non-independent director. Yet, all director appointments continue to require MAS' prior approval. MAS would not ordinarily approve an appointment of a person as an independent director if there is an indication of an intention to circumvent the spirit of this

new requirement (taking into account his previous length of service on the Board and the interval between his last appointment and current proposed appointment).

Next, it is proposed to include in the Guidelines (i) that the financial institution should consider appointing a lead independent director if the Board Chairman has other relationships with the financial institution, and (ii) additional guidance on the role of the lead independent director. The aim is to allow a lead independent director who is appointed some form of independent leadership on the Board, especially if the Chairman is not independent, or when the rights of minority shareholders are weak due to the presence of controlling shareholders on the Board. The lead independent director is expected to assume more responsibilities such as chairing a meeting consisting of independent directors to appraise the Board Chairman's performance.

(d) Composition Of Board And Board Committees

To ensure that the Board has a strong and independent element to enable it to exercise objective judgment on affairs relating to the financial institutions, there is a proposal to introduce a new requirement that financial institutions shall not appoint a person who is a member of the immediate family of the Chief Executive Officer as the Board Chairman. This will not affect existing Board Chairmen who do not meet this requirement (though this will be subject to annual approval by the MAS). One key reason for this is that the Board's decision-making should not be dominated by any individual or small group of individuals.

However, a single substantial shareholder holding 50% or more of a locally incorporated bank / significant life insurer can continue to have majority representation on the Board, nominating committee and remuneration committee provided the financial institution's Board comprise at least one-third of directors who are independent directors.

Next, it is proposed to raise the number of independent directors on the Board, nominating committee and remuneration committee from the current one-third to a majority.

(e) Governance Over Remuneration Framework And Practices

In the continued aim to strengthen governance processes over the determination of remuneration, it is proposed to include in the Regulations the following:

- i. additional components and factors that the remuneration committee must consider in the design and operation of the remuneration framework;
- ii. that the remuneration committee must ensure that the remuneration practices of the financial institution are aligned and accord with the remuneration framework;
- iii. that the remuneration committee must review the remuneration practices annually;
- iv. that the remuneration committee must have unfettered access to information in the financial institution for the purposes of carrying out its responsibilities; and
- v. and additional guidance for financial institutions to adopt the Financial Stability Board (“FSB”) Principles and Standards on Sound Compensation Practices.

The FSB Principles and Standards on Sound Compensation Practices are aimed at reducing incentives for excessive risk-taking that may arise from the structure of compensation schemes. The MAS proposes to incorporate FSB Principles and Standards on Sound Compensation Practices into Singapore’s corporate governance framework.

(f) Governance Over Risk Management

It is clear that the Board and senior management must take an integrated, firm-wide perspective of a financial institution’s risk exposure. The Board should be in the position to define the financial institution’s risk appetite and effectively manage risk. The Board should also ensure the risk management framework includes detailed policies setting prudent limits consistent with the financial institution’s risk appetite and capacity.

To this end, the following have been [proposed]:

- a new requirement for financial institutions to establish a dedicated Board Risk Management committee (“RMC”) at the Board level, which must comprise at least 3 directors and a majority (including the chairman of the RMC) must be non-executive directors.
- a new requirement for financial institutions to seek MAS’ approval for the appointment of the Chief Risk officer (“CRO”).
- additional guidance in the Guidelines on:
 - i. MAS’ expectations on the Board’s roles and responsibilities in overseeing the financial institution’s risk management system;
 - ii. Appropriate skills that the Board should have in order to perform this role effectively;
 - iii. (Where a CRO has been appointed) The Board should ensure that the CRO has a direct reporting line to the Board; and
 - iv. The RMC must comprise at least 2 directors with relevant technical financial sophistication in risk discipline or business experience (as determined by the Board in its judgment).

Things to note

If the proposals are adopted, then the intention is that they should be implemented no later than the first Annual General Meeting of each financial institution held on or after 1 January 2011, save for proposals (c) and (f), which should take effect no later than from the first Annual General Meeting of each financial institution held on or after 1 January 2012.

This takes into consideration that financial institutions need time to reconfigure their Boards and Board Committees to meet the proposed requirements on independence and composition.

Any comments to the Proposals should be submitted by 19 April 2010. ■



Multiple Directorships: Is There A Magic Number?

By Giang Sovann
Executive Director, Singapore Institute of Directors

Mr. JY Pillay was quoted in his speech on 19 March 2010 at the Singapore Chinese Chamber of Commerce & Industry that small and medium-size enterprises (“SMEs”) should start the process of good governance early even before they are listed. Michelle Quah, in her Business Times article “Sound suggestions from JY Pillay” on 24 March 2010 said, “Companies need to realize that good governance is a way of life. It has to be an attitude that permeates the entire organization, supported by well-thought-out practices that improve how they are run”. The Singapore Institute of Directors (“SID”) is in total agreement with these statements. In our Letter to the Editor entitled “Professional training available for company directors” published on Business Times on 17 March 2010, we had mentioned that, among other initiatives, we would be introducing a corporate management and governance training

program specifically tailored for directors (both executive and non-executive) and senior management of small- to mid-cap listed companies as well as non-listed SMEs. These courses would go a long way to address some of the concerns raised by Mr. JY Pillay and Michelle Quah.

Recent opinions have also been expressed in the press that some listed companies are more concerned about corporate governance compliance in form rather than substance, ie just tick the boxes. Is this due to their independent directors holding too many directorships, or is it a case of lack of understanding of proper governance practices, lack of will to challenge management, or lack of appreciation for director’s duties and responsibilities? While the process of corporate governance is an evolving one and rules can be expected to be generally tightened

from time to time, it is also a learning process for directors. To assist our directors we have developed a systematic and comprehensive program to train our current pool as well as develop a larger pool of directors. As mentioned in our 17 March 2010 article, we have designed the Listed Company Director's Program to provide such training and all listed company directors especially independent directors are encouraged to complete the Program consisting of five modules.

However, no amount of corporate governance tightening and training would be adequate if the director himself makes no attempt to fulfill his responsibilities as a company director. For such a director, one directorship is already one too many. A director must act in good faith and to the best interests of the company at all times. He must exercise power for proper purpose, avoid conflict of interest, and act with skill and care. A director must take his board responsibilities and accountabilities to stakeholders seriously and continually review his commitments in the light of his workload and ability to discharge his duties adequately and as expected by the company and its shareholders. Mr. JY Pillay was quoted that "if a director is sitting on diverse large company boards, my personal view is that there can be not more than five". We strongly advocate that every director should follow his good example of an honest self assessment.

While we in principle support limiting the number of directorships that a person can effectively serve, we do not believe setting a mandatory arbitrary number is the most appropriate solution. The requirements of each company differ significantly depending on the size, nature, complexity, mix and locations of their business which make it difficult to try to equate them numerically. Additionally, the non-business and other commitments of individual

directors, including their employment status, will also determine the ability and capacity of the individual to take on board appointments.

Consequently, we believe the nominating committee and the board of the company on which the individual is a director and the director himself are in the best position to determine if the director is able to fully discharge his responsibilities as a board member. The nominating committee and board must continuously evaluate the performance of the director. We advocate more detailed disclosures in annual reports on the directorships that the individual directors hold, so that the market can better evaluate and judge for themselves, as befitting a disclosure-based regime. Market forces will be a good way to ensure pressure is exerted on companies and their boards to be transparent. Nominating committees and boards should respond to shareholder concerns and objectively determine whether a director is able to fulfill his responsibilities.

Companies should also be encouraged to widen their search for competent and independent minded individuals who are able, from an ability, experience and time availability perspective, to effectively carry out their responsibilities if appointed. SID is in a position to assist companies in this search. We will soon introduce a new Board Appointment Service (BAS) for our members and companies will be able to list their requirements for a computerized and transparent search through our members' data base to identify the best matching candidates.

Therefore, while SID fully supports the continual improvement and tightening of corporate governance practices from time to time, we do not advocate the setting of an arbitrary number which may end up being another box ticking exercise which may detract the need for a proper evaluation process by the nominating committee and the board. ■

References:

An edited version of this article was sent to the Press for publication.



Audit Committee Essentials

The Institute, SGX and PwC jointly organized 2 workshops on “Audit Committee Essentials” as follows:

Module 1 - Overview of High Performing Audit Committees and the Guidebook for Audit Committees in Singapore - held on 29th January 2010.

Module 4 - Assessing the integrity of Financial Reports - held on 15th January 2010.

The AC Essentials Series is designed to provide Audit Committee members and all practitioners supporting AC with practical guidance and best practice examples.

Mr Ng Siew Quan, Partner, Pricewaterhouse Coopers, led the 1st Module. He provided an overview of the roles and responsibilities for the audit committees and the guidance and best practices provided in the ACGC handbook in Module 1.

Module 4 was presented by Mrs Kok Moi Lre, Partner, PricewaterhouseCoopers LLP. This 4th workshop focused on risk management systems other than financial risks. This workshop provided an opportunity to learn what an audit committee needs to understand to fulfill its responsibilities

in connection with the ensuring the integrity of Financial Statements and to discuss practical issues and approaches when interfacing with the company’s management and auditors.

Each of the modules ended with a panel discussion touching on the challenges in meeting expectation relating to the roles and responsibilities of Audit Committees, on improving the effectiveness of Audit Committees.

The Institute thanks its strategic partners and partners for their presence at both workshops.



Audit Committee Essentials (Cont'd)





SGX Listed Companies Development Programme Understanding the Regulatory Environment in Singapore: What Every Director Ought to Know

The 18th and 19th runs of the SGX Listed Companies Development Programme on “Understanding the Regulatory Environment in Singapore: What Every Director Ought to Know” were held on 12th January 2010 and 19th March 2010 respectively at the Marina Mandarin.

Both the seminars were attended by over 50 members and non-members each.

The programme, designed jointly by SGX and SID, covered topics such as directors’ duties and responsibilities, corporate governance, SGX regulations and compliance.

The presenters were Ms Kala Anandarajah, a partner at Rajah & Tann LLP and Mrs Yvonne Goh, Managing Director of KCS Corporate Services Pte Ltd. Both are

Governing Council Members of SID. Panel discussions involving all presenters and representatives from SID and SGX were held at the end of each programme.

The Institute thanks all the presenters and panelists for their contribution and all participants for their attendance.



SGX Listed Companies Development Programme
Understanding the Regulatory Environment in Singapore: What Every Director Ought to Know (Cont'd)



Doing Deals, Raising Finance In Today's Environment

SID and PwC jointly organized a breakfast event on “Doing deals, raising finance in today’s environment”. The event was held on 17th March 2010 at the Marina Mandarin Hotel.

The presentation covered how companies should be considering deals and raising finance in today’s environment. It provided an insight into current market conditions as well as illustrations with examples of recent deals and methods of financing in Singapore and the region.

The session was presented by Mr Amitava Guharoy, Partner, Advisory and Mr Keith Stephenson, Partner, Advisory, PriceWaterhouse Coopers (PwC).



Doing Deals, Raising Finance In Today's Environment (Cont'd)



Welcome Aboard

January 2010

Geoff Miller
Leong Mun Cheeze
Hesketh David
Yan Chengda
Chen Siew Ik
Go Christopher
Low Suk Ling
Low Chee Wah
Ng Hong Peow
Cheng Gary
Tan Sin Huat Dennis
Tay Kng Chuan
Chan Wai Teng Priscilla

Chong Hon Leong
Khiatani Manohar Ramesh
Wu Wing Yeu Michael
Toh Choo Huat
Toh Chew Leong
Toh Swee Kim
Lam Larry
Tan Jok Tin
Lim Chong Boo
Chew Teck Soon
Neo Chee Beng
Lock Kai Sang
Thum Ban Shi

Yeow Ooh Teng
Bocker Magnus
Liew Yew Chong Melvin
Wolf Roger
Diong Tai Pew
Christiansen Lars
Lee Choon-Jhen
Choo Kah Wah
Cullum Simon Hugh
Yap Yin Yin Iris
Chiam Toon Fock Jack

March 2010

Alzain Talal Ali
Lepine Serge
Koh Sian Kwee Kenny
Poli Peter Kevin
Agarwal Suresh

Stuart Richard
Beri Manoj Kumar
Tang Choy Kuen
Wheeler Supiyah
Tung May Fong

Goh Peng Ooi
Parekh Neil
Loh Wai Kiew Isabella



NEW COUNCIL MEMBER

Profile of Mr Willie Cheng

Mr. Cheng was co-opted as a member of the Governing Council in March 2010.

Mr Cheng is a former country managing partner with Accenture. He retired in 2003. He is currently a director with Singapore Press Holdings, NTUC Fairprice Cooperative and Singapore Health Services. He is active in the nonprofit sector, sits on several nonprofit boards and is author of *Doing Good Well: What does (and does not) make sense in the nonprofit world*.

He is a fellow of Singapore Computer Society, Institute of Certified Public Accountants and the Singapore Institute of Directors.

Call for articles, thoughts, snippets, etc.

The institute would like to hear from you. Send us articles, thoughts or even short snippets of issues that you are keen on, that you want to share about, or that keeps you awake at night. It only needs to relate to directors and/or corporate governance. For articles, keep it to 1200 to 1500 words at most. Send your materials by email to the Institute at secretariat@sid.org.sg

Put your business in front
of the competition.

Let us take care of your
back office needs.

We enable you to focus on growing your business.



BANGKOK | BEIJING | HONG KONG | JOHOR BAHRU | KUALA LUMPUR | MACAU | PENANG | SHANGHAI | SHENZHEN | SINGAPORE | TORTOLA (BVI)

tricolor

The Business Enablers

Tricor Singapore Pte Limited

Tricor Barbinder
Tricor Evatthouse
Tricor Outsourcing
Tricor Executive Resources

T: (65) 6236 3333
F: (65) 6236 4399
E: info@tricolor.com.sg
www.tricolor.com.sg

Accounting | Company Formation | Corporate Governance | Company Secretarial | Executive Search & Selection | Initial Public Offerings | Share Registration | Payroll Outsourcing | Treasury Administration

Tricor has built its reputation and professional expertise through the acquisition of certain practices from major international accounting firms in Hong Kong, Mainland China, Singapore, Thailand and the BVI.

Member of BEA Group.