Singapore Institute of Directors
SID

The Directors' BULLETIN

ISSUE 1 • 2012

The Official Newsletter of Singapore Institute of Directors

MICA (P) 075/05/2011

Steering The Company Through Global Turbulence

Singapore Institute of Directors

MISSION STATEMENT

To promote the professional development of directors and corporate leaders and encourage the highest standards of corporate governance and ethical conduct

THE INSTITUTE'S OBJECTIVES ARE:

- To be the national association of company directors for the local business community. The SID works closely with its network of members, professionals such as accountants and lawyers, and the authorities to identify ways to uphold and enhance standards of corporate governance.
- To act as a forum for exchange of information on issues relating to corporate governance and directorship in Singapore. The SID plays a leading role in holding discussions and providing feedback to the authorities on matters of concern.
- To organise and conduct professional training courses and seminars to meet the needs of its members and company directors generally. Such courses aim to continually raise the professional standards of directors in Singapore by helping them raise their effectiveness through acquisition of knowledge and skills.
- To regularly publish newsletters, magazines and other publications to update members on relevant issues, keeping them informed of latest developments. These publications also serve as reference materials for company directors.
- To be responsible for the discipline of members. The SID has drawn up a code of conduct for directors in Singapore setting out the standards to ensure they discharge their responsibilities dutifully and diligently.

CONTENTS

PUBLICATION & WEBSITE COMMITTEE

Chairman

Yeoh Oon Jin
PricewaterhouseCoopers LLP

Members

Kala Anandarajah
Rajah & Tann LLP

Adrian Chan
Lee & Lee

Mike Gray
Tricor Singapore Pte Ltd

Victor Yeo
Nanyang Technological University

Annabelle Yip
Wong Partnership LLP

Paul Zaman
Qualvin Advisory Pte Ltd

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

Sponsor:
tricor
The Business Enablers

Page

FROM THE EDITOR 2

CHAIRMAN'S MESSAGE 3

SID GOVERNING COUNCIL 4

COVER STORY

Governance In A Time Of Uncertainty 5

FEATURES

Navigating The Headwinds 8
Leading Your People Through Change

Building Risk Resilience 10

Managing Currency Risk In An Age Of High Volatility 12

Avoiding Deer In The Headlights Syndrome ("DITH") 15

Are You Compliant? 17

Financial Steering Through Turbulence And Uncertainty 19

Let's Address The Good Reasons Why Companies Do Not Conduct CEO Succession Planning 23

Broadening Boards: How Directorships Should Adapt For Challenging Times 25

First Movers In Innovative Approaches Of Arts Sponsorship 30

SID's Newly Revamped Website 33

EVENTS COVERAGE

Achieving Effective Internal Audit – What AC & The Board Must Know 34

Dealing With The Proposed Changes To The Singapore Code Of Corporate Governance And New Listing Rules 36
How Should Boards And Independent Directors Respond?

UPCOMING TALKS/COURSES 40

WELCOME ABOARD (New Members) 41

FROM THE EDITOR

A Very Happy New Year to one and all and welcome to the first issue of the Directors' Bulletin for 2012!

2012 has started off with the not so upbeat tempo that has plagued us for some time. As many try and gaze into the crystal ball to see what lies ahead, one thing that will remain the same is the fact that directors must ensure that they continue to fulfil their roles and responsibilities with the utmost skill and care. Whether in good times or bad times, the nature of the director's duty does not vary. What varies are the specific issues that a director will need to pay particular attention to.

Bearing this in mind, this first issue of the Directors' Bulletin for 2012 looks at how a company should be steered in turbulent times. The articles are not meant to jolt fear or tears, but rather they provide practical and real suggestions as to what and how directors should be managing themselves.

The series of articles start off with an article by the Chief Executive Officer of the Singapore Exchange, Mr Magnus Bocker. Writing on "Governance In A Time Of Uncertainty", Bocker begins by stressing that "trust is key". The trust that is called for here, he notes is one that requires "constant fine-tuning of corporate governance". This is reflected in the fact of how the regulators in Singapore have constantly looked to tuning different aspects of the regulatory regimes that contribute towards better governance. Some changes are welcomed, whilst others are not. But the key is that we in Singapore do not sit still. What this means for the director is that he needs to be apprised of the changing world or governance methodologies and the rules prescribed for this purpose however small the change. Bocker also stresses on the fact of risk management being an essential part of good governance, and also notes that as "a front-line regulator, SGX shares the same goal as directors of listed companies – to safeguard the integrity of the market and the best interests of shareholders and the investing public". This is certainly an article that must be read.

A critical issue during turbulent times is managing people, i.e. the personnel, whether junior, mid-management or at the senior levels. Knowing how to do this calls for specialist skills. An article by Wong Su-Yen from Mercer assists in this regard. Note that directors are not there to manage the people. They are there to provide the leadership and the guidance and the strategy that can contribute towards there being enough confidence in the company so that personnel feel the need and want to continue to contribute efficiently and effectively. A critical element for this, notes Wong, is the importance of communication.

Yet another element to managing the company in turbulent times is ensuring that there is sufficient risk resilience built so that there is no collapsing of the Jenga blocks or any other form of domino effects in the event of a problem arising. To provide guidance in this regard, Irving Low from KPMG Singapore, identifies and discusses the three priorities to build Enterprise "Risk Resiliency". He identifies financial resiliency, operational resiliency and people resiliency, with the final one sitting right on top. This links in very well to the points made by Wong as alluded to in the preceding paragraph.

There are several additional articles that contribute towards and build upon the resources available to guide directors in managing companies in these difficult times. They all carry the same message bluntly put by Andrew Sherman; Avoiding the Deer in the Headlights Syndrome. The only way to do this is to be aware of every aspect of the company, ask questions, clarify issues, and be involved. Note that being aware does not equate managing. To govern and direct, one needs to be aware.

The articles in this issue aside, this issue also includes an article that summarise a panel discussion relating to how directorships should adapt for challenging times. A comment from one of the panellist is particularly exciting for this editor: the panellist states he "would prefer a situation where boards start from the 'intrusive' side of the pendulum". Directors need to be aware of what they are governing and directing!

As promised in the last issue of the Directors' Bulletin 2011, I provide an update of the Institute's Annual Conference 2012. To be held on 12 September 2012, the Conference is themed "Corporate Governance In A New Normal". The Keynote Speaker for the Conference will be Barbara Hackman Franklin, Chairman of National Association of Corporate Directors. Many of you will recall her excellent video presentation for the 2011 Conference. Now you get to hear and meet her in person. More information on the Conference is set out at page 39 of this Bulletin. Do look out for more information on the Conference in the months to come.

Finally, a note of thanks to all the contributors to this issue of the Bulletin.

Kind regards,

Kala Anandarajah
Editor

CHAIRMAN'S MESSAGE

Dear Fellow Members,

It seemed only like yesterday when I last addressed you in our Bulletin but in fact that was some six weeks ago and we were still in 2011. 2012 however appears to have gotten off to a flying start and your Council and Secretariat are already busy with preparation for two of the Institute's major annual events.

The first is our directors' conference for 2012 which will be held on Wednesday 12th September. As you will have noted in our Editor's note, this year's theme is particularly relevant and the conference is expected to be our largest to date with a target participation of over 500 corporate leaders, regulators and academics. I would urge you to mark this date in your diary and make this a must attend event.

The second is our annual golf tournament which has been a highly popular networking event. This year's tournament will be held on Sunday 24th June at the Sentosa Golf Club and Dr. Ng Eng Hen, Minister for Defence, will be our Guest of Honour. As in previous years this event has traditionally been a sell out and golfers should take note of this date. More details will be available shortly on our website.

In my message in the last issue of the Bulletin I referred to the challenges and uncertain times for Singapore companies in 2012, with slow growth in the US, continued debt crisis in Europe and expected slowdown in growth in key Asian economies. Although there have been some encouraging signs in the US economy in recent months and some positive developments in the Euro financial crisis, global economic conditions remain uncertain for the year, particularly with the political instability in the Middle East. Directors and senior management will need to be particularly vigilant in ensuring short term viability without unnecessarily compromising long term growth and value creation for their companies. An even better understanding of their businesses and more time commitment may become increasingly necessary for some. This is likely to be the new normal.

Also, in a previous issue of the Bulletin I highlighted the various recent changes and revisions to the Listing Manual, the proposed changes to the Companies Act and to the Corporate Governance Code which collectively will raise the standard of our corporate governance and also streamline some of our existing regulations. While the proposed changes to the Companies Act and the CG Code have yet to be approved it would serve boards well to carefully review the relevance and benefits of these recommended changes in the light of their own structures and practices and make early preparations to adopt, where appropriate, the recommended changes.

As the theme of our forthcoming 2012 Annual Conference may imply, "Corporate Governance in A New Normal" is likely to see the CG practices of companies and their disclosures come under closer scrutiny. Actions and decisions of boards can also be expected to face greater shareholder queries and challenges. Directors and boards must therefore be suitably prepared and equipped to meet these new expectations and even higher standards of performance from better informed investors. In particular, the competence, independence and suitability of director candidates, both for new appointments and re-appointments, is likely to see more careful review by all stakeholders. In the end analysis, however, the ability to create and add sustainable shareholder value and to take decisions and actions that can be demonstrably seen to be in the best interest of all stakeholders will be the best measure of board effectiveness and not just compliance with best practices only. Going forward, SID will be increasing its range of services to assist its members and companies to meet the greater demands in the new normal and we look forward to more regular interaction with more of you.

The Singapore Corporate Governance Eco-system is a balance between regulation and market governance with close collaboration and appropriate contribution from all market participants. It is our objective that in the longer term this system will be sustained by a greater dosage of market governance and correspondingly less regulation. I look forward to all your contribution in the pursuit of this objective.

I wish each one of you and your organizations a blessed 2012.

Warm regards,

John KM Lim
Chairman

SID Governing Council 2011/2012

Chairman : Mr John Lim Kok Min

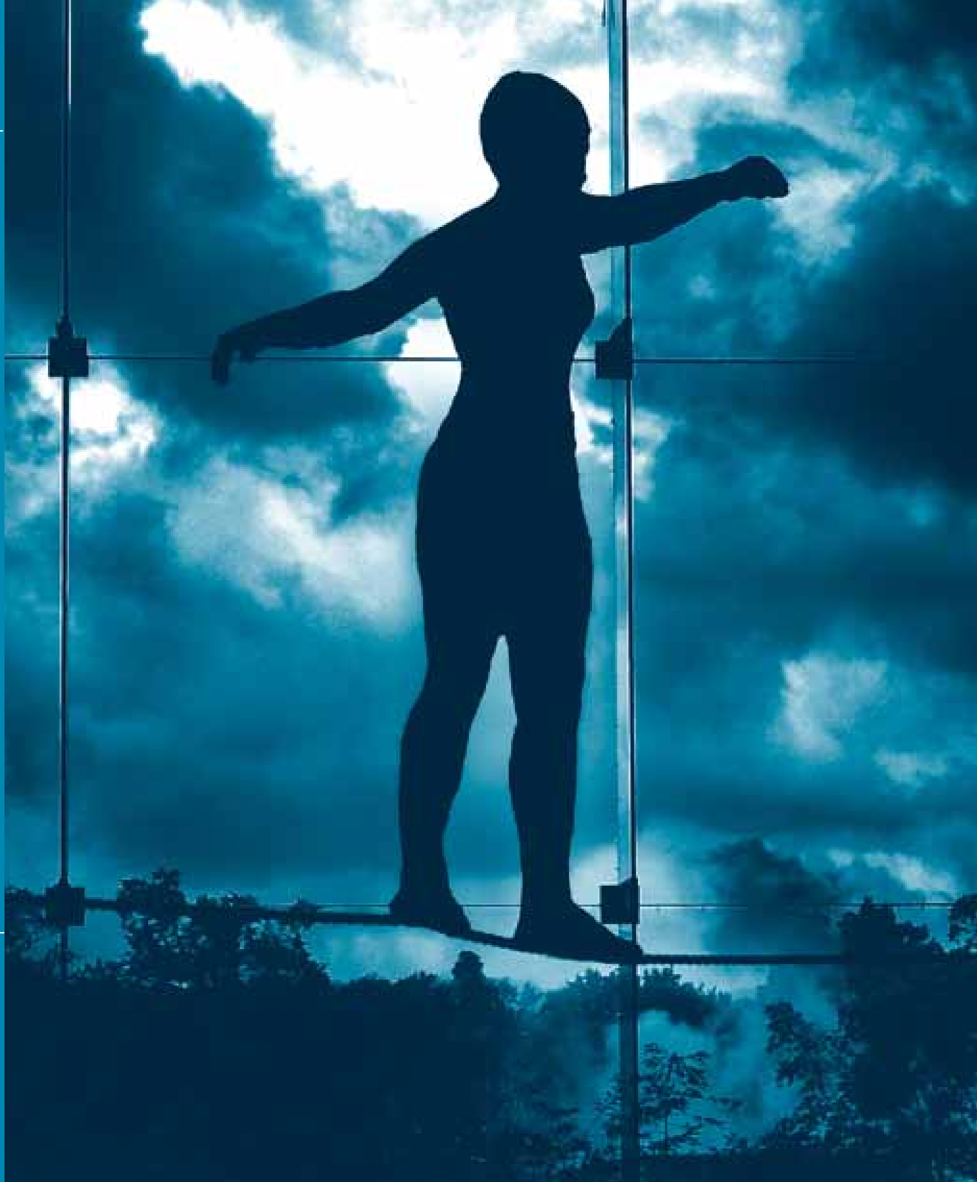
First Vice-Chairman : Mr Reggie Thein

Second Vice-Chairman : Mr Adrian Chan Pengee

Treasurer : Mr Basil Chan

Council Members :

Mr Keith Tay	Dr Ahmad Mohd Magad
Mr Boon Yoon Chiang	Mr Daniel Ee
Mrs Yvonne Goh	Mr Yeo Wee Kiong
Mr Yeoh Oon Jin	Mr Willie Cheng
Mr Lim Hock San	Mr Andy Tan Chye Guan
Ms Yeo Lian Sim	Mr Kevin Kwok
Ms Kala Anandarajah	Mr Soh Gim Teik



Governance In A Time Of Uncertainty

By Magnus Bocker
Chief Executive Officer
Singapore Exchange

The ongoing fiscal and economic uncertainties in the U.S. and Europe have affected investors' risk appetite and refocused their attention on corporate governance. This is unsurprising as investors are now watching their purse-strings more closely than before.

As a result, investors' expectations of the responsibilities, performance and accountability of boards and directors have increased. At the same time, boards also face external pressures from the effects of globalization, with companies becoming more international under conditions of intensified competition.

Trust Is Key

Investors recognize that companies which deliver superior sustainable performance in terms of customer satisfaction and their financials will invariably enjoy strong support from customers, shareholders and providers of capital. When such a performance is combined with fair and equitable treatment of all shareholders, clearly demonstrated accountability and transparency when making company disclosures, the company will enjoy the trust of its stakeholders in addition to their support.

Developing this trust and support requires constant fine-tuning of corporate governance standards and practices. SGX sees the cultivation and improvement in corporate governance as more than just a tightening of laws and regulations or having the best internal controls and systems. In fact, this is a collective effort which requires the support and active participation

Investors recognize that companies which deliver superior sustainable performance in terms of customer satisfaction and their financials will invariably enjoy strong support from customers, shareholders and providers of capital.

of companies, regulators, financial institutions, the media and certainly not least, investors.

Good Governance Crucial In Good And Bad Times

Good corporate governance also calls for sustained effort. This means that in good economic times and in bad, companies need to regularly review their processes with the aim of keeping abreast of, or aspiring to, best practices. Regulators have to continuously refine the principles and policies to be in line with market developments and circumstances. Lenders also have a role in that they should embed good governance as part of loan covenants while investors can vote with their wallet as to companies which demonstrate good governance beyond merely going through the motions.

The recommended revisions to the Code of Corporate Governance submitted by the Corporate Governance Council in November 2011 show that Singapore is continuing to make progress raising standards of governance. The focus of the Code, for instance, on Board matters is we feel in line with expectations today that an effective Board of Directors is at the core of the governance structure of a well-functioning company. Such a board will serve the best interest of all stakeholders with integrity and good discretion.

Board composition was highlighted in the recommendations. From my experience, an efficient and effective board allows diversity and independence to thrive. Diversity and independence are important because the best collective decisions are the product of robust debate and discussion, not of consensus or compromise. For boards to be effective and to encourage healthy discussion, debate and action, there needs to be independence and diversity of thought.

Presence Of Independent Directors Likely To Increase

Directors, independent and non-independent, are duty- and legally-bound to act in the best interest of shareholders and the company as a whole. In Asia, the proportion of independent directors on the boards of listed companies is around 10% to 30%, compared with one-third to a majority in the U.S., the U.K. and Australia. I predict that the composition will change in Asia and that we can expect Independent Directors to increase their presence within Boards.

As the board's role evolves and changes with corporate and economic conditions, boards need to look at themselves, review their performance and re-assess responsibilities to satisfy themselves that they have adequate resources and expertise among them. The composition of boards needs to be reviewed regularly to be relevant and to ensure the right mix of skill sets. A healthy board there is one which regularly goes for performance check-ups.

Working Towards A Common Goal

As a front-line regulator, SGX shares the same goal as directors of listed companies – to safeguard the integrity of the market and the best interests of shareholders and the investing public. To enable directors to carry out their responsibilities, SGX has ongoing corporate governance programmes for directors and managers. They are run in association with the Singapore Institute of Directors and other partner organizations.

In addition, together with NASDAQ OMX, we have introduced a number of tools and solutions to enable companies to increase their investor relations efforts, heighten corporate communication and enhance the board. For example, we also partnered Heidrick & Struggles to provide services to support companies in enhancing board and organizational effectiveness. Over the years, we have continued to raise the bar to improve corporate governance standards and practices in Singapore. We firmly believe that high standards of governance build trust and confidence among market participants and investors.

In the longer run, there are a few areas Singapore still needs to catch up on. One of these is sustainability reporting which reveals an organisation's economic, environmental and social performance. There is clearly only limited mainstream sustainability reporting beyond corporate governance issues in Singapore. We should applaud City Development, Hyflux, Sembcorp, Banyan Tree Holdings, Olam and Capitaland for their efforts in this regard.

Good corporate governance also calls for sustained effort. This means that in good economic times and in bad, companies need to regularly review their processes with the aim of keeping abreast of, or aspiring to, best practices.

The recommended revisions to the Code of Corporate Governance submitted by the Corporate Governance Council in November 2011 show that Singapore is continuing to make progress raising standards of governance. The focus of the Code, for instance, on Board matters is we feel in line with expectations today that an effective Board of Directors is at the core of the governance structure of a well-functioning company. Such a board will serve the best interest of all stakeholders with integrity and good discretion.

In the Asian Sustainability rating 2010, Singapore came in only as 5th out of 10 Asian countries. While we stand as a centre of excellence in corporate governance, we should also bear in mind the importance of a holistic consideration of environmental and social issues within the governance framework.

To support our companies in this aspect, SGX launched in June a guide on sustainability reports. Rather than be swayed by short-term challenges, companies should focus on the long-term benefits of embracing practices such as the culture of sustainability policies.

As I have mentioned earlier, Board Diversity is important because it is only with the appropriate mix of skills and thinking that a board can make the right decisions in response to business opportunities and challenges.

Many are quick to point to gender ratios as a measure of the diversity of a Board. Only 7% of our listed companies' board members are female, representing just 345 of 5088 board seats even though 51% of the Singapore population is female, and 44% of them are in the workforce. There is certainly room for the engagement of more female directors.

Yet board diversity should not be limited to just numbers or gender. Suitability and degree of diversity should be taken within the context of the ecosystem within which the company operates, and the needs and developments of the company. My personal experience on company boards does show that diversity promotes creativity, flexibility and competitiveness, all of which are essential for companies coping with global competition, rapid economic and social changes, and technological advances.

Risk Management As Part Of Good Governance

In the state of the world today, risks untended would only spiral out of control and potentially develop into a disaster. One of the key tenets of good corporate governance is effective risk management. For directors, this should be a top-in-your-mind issue. However, we must also be aware that effective risk management is not about eliminating risk-taking. Taking calculated risks is a fundamental part of running businesses and entrepreneurship. What we do want to do is to understand, properly manage and when appropriate, communicate to our stakeholders the risks and mitigation measures taken.

Conclusion

In closing, I would like to reiterate that corporate governance is not simply about having the strictest laws and regulations, or the best controls and systems. Rather, corporate governance is only as good and real as the people behind it.

As a leading international exchange, SGX will continue to work hard to strengthen the trust and confidence that investors have in the market and listed companies. In our commitment to uphold a sustainable and high-quality marketplace for our listed companies and investors, we will focus much effort on increasing corporate transparency and raising standards of governance. In this regard, I look to all company directors for their support and commitment towards ensuring that our marketplace remains well-regulated and highly-regarded both in Singapore and in the world. ■

Over the years, we have continued to raise the bar to improve corporate governance standards and practices in Singapore. We firmly believe that high standards of governance build trust and confidence among market participants and investors.

Navigating The Headwinds

Leading Your People Through Change

By Wong Su-Yen
Senior Partner And ASEAN Managing Director
Mercer

Turbulent times are upon us… again. A recent study that surveyed CEOs on their focus areas for adjustment given changes in the global business environment showed that topmost on their list of concerns was strategies to manage talent. This was ranked as a priority ahead of other pressing concerns such as approaches to managing risks and investment decisions.

Talent risk is increasingly recognized as a key business peril, and Boards would do well to ask the difficult questions around talent management strategies to mitigate this risk.

Troubled waters in the business landscape notwithstanding, manpower issues continue to keep CEOs awake at night as highly skilled workers in Asia are still very much in short supply and companies across the region compete vigorously for a relatively limited pool of talent.

According to Mercer's What's Working research of almost 1,000 Singapore-based employees, 42 percent are seriously considering leaving their organization at the present time. More than ever, organizations risk losing their key performers needed to continue creating value and maintaining vital stakeholder relationships.

In view of this context, what can leaders do to help their organizations engage and retain staff during this period of global uncertainty?

Leaders: Steering The Course

When experiencing pressure or uncertainty, crew members on a ship will take their cue from the captain in terms of how to react to changes, and what to focus their effort and energy on. Leaders should have absolute clarity on their organizations' purpose and objectives: is the immediate priority to improve performance, reduce costs, accelerate growth through acquisition, or expand global footprint? A successful leadership team is one that avoids sending mixed signals to employees by ensuring consistency in the communication of priorities. Furthermore, leaders must model the right behaviours, or stop old, non-productive behaviours within the workforce.

Leadership teams that lack focus or work at cross purposes will give rise to

> Talent risk is increasingly recognized as a key business peril, and Boards would do well to ask the difficult questions around talent management strategies to mitigate this risk.

disengaged and distracted employees, which will challenge the organizations' success in these testing times. On the flip side, organizations that are able to connect the dots - by fully aligning their leadership and workforce behaviour with their business strategies - will be in a position to leapfrog their competition while continuing to engage and retain their brightest and best talent. To achieve this, there are some vital steps leaders of an organization should take to engage their people and refocus them on the important task of running the business and propelling the company to windward.

Communication: Hailing The Crew

The first step in getting employees to refocus and recommit is to clarify what is important. What are the strategic priorities of the company and, just as important, what aren't? This may not be time to add more onto people's plates; it is instead time to clear away noise and clutter, and align employees to the one or two priorities that are of utmost importance.

Secondly, leaders must communicate priorities, clarify what is changing and why, and specify the implications for employees. Leaders should keep in mind, however, that "telling" is the least effective way of engaging people and creating commitment; it is important to ensure there are processes and forums in place to drive effective two-way communication. It is even more critical for leaders to ensure that they are telling the same story – consistently and with passion and commitment.

Finally, written or even spoken words are never enough. Leaders must back up their words with real and tangible action if they are going to successfully drive the right behaviour changes through the organization.

Change: Sailing Unchartered Seas

Leaders of an organization should use proven change management methodologies and tools and ensure that initiatives are resourced appropriately particularly in unchartered waters. Without the appropriate infrastructure in place to support the change, milestones and targets can easily be missed.

Change can in fact present many opportunities to seize. This period of uncertainty can serve as a burning platform for companies to re-evaluate and realign their rewards and performance management processes and programs.

- Differentiate – Clarify and calibrate performance expectations across the organization. Train managers on how to set SMART goals, provide real-time feedback and conduct strenuous performance assessments. Spend limited dollars wisely, and make sure that those who are making a disproportionate contribution are rewarded disproportionately.
- Get creative – When money is short, identify and use other rewards. Companies should tap into their employee value proposition and consider implementing things that employees may have been asking for, like flex-time, mentoring, work-site development and career advancement (especially for their best and brightest talent), or access and exposure to senior leaders. Sabbaticals, for example, are one way that companies can maintain flexibility, while providing employees with the opportunity to pursue personal interests for a period of time – a win-win situation.
- Build your bench – A company could benefit from another company's misfortune. Counterintuitive though this may seem, this may be a great time to find and recruit fresh new talent from the outside. During tough times, some companies will invariably lose key talent, which presents an opportunity for you to attract candidates that might not otherwise be available.

When implementing changes, connecting the dots will make all the difference. For example, a leader can communicate changes in employee benefits offered as being linked to the company's corporate strategy; a leader of another company that introduces a new performance management process can position this change as yet another way to support a culture of accountability. Making such connections will help employees accept the changes that are happening, because they are seen as part of a rational journey.

Leaders are in fact one of the most effective levers an organization can use to engage its workforce. Mercer's What's Working research in Singapore found that quality of leadership is among the top factors motivating people to stay in a company or to perform. Given the precarious environment and growing need for people to feel engaged, captains of today's organizations must be equipped with the right skills and mindset to motivate and foster commitment among their crew.

As Antoine de Saint Exupery, French author of The Little Prince, once said, "If you want to build a ship, don't drum up the men to gather wood, divide the work and give orders. Instead, teach them to yearn for the vast and endless sea." ■

Building Risk Resilience

By Irving Low
Head Of Risk Consulting
KPMG Singapore

The past two years have proven to be challenging in many respects. Barely three years after the last credit crisis in 2008, the world is witnessing yet another global financial crisis unfold. Natural disasters of catastrophic proportions have cost governments and businesses billions of dollars in rebuilding costs and losses.

Sony reported direct losses estimated at US$270 million from the recent tsunami in Japan. Likewise, Toyota estimated that floods in Thailand disrupted the production of 260,000 vehicles. The fast-spreading spate of political unrest in the Middle East has also affected businesses globally – problems in Libya caused a substantial drop in oil supply, triggering a spike in oil prices.

Top Three Priorities To Build Enterprise 'Risk Resiliency'

To survive in these turbulent times, companies must build a sound system of risk resiliency. This article outlines the top three priorities of risk resiliency.

Financial Resiliency

This global financial crisis appears to be more severe and protracted than the last. Economic cycles are becoming shorter and financial markets have become increasingly vulnerable to

he magnitudes of recent natural disasters, coupled with the ever-looming risk of a global pandemic, have highlighted the need for companies to challenge their crisis preparedness assumptions.

systemic shocks. With such volatility and uncertainty in the markets, companies must ensure that their financial resources are safeguarded to meet current obligations, as well as to capitalise on emerging opportunities. In performing their governance and oversight responsibilities, directors should focus on the following aspects of a company's financial resiliency programme.

- Ensure that a sound and robust Financial Risk Management framework is in place and functioning effectively. This would include structures, policies and processes to manage cash-flows, market risks (interest rates, and so on), foreign exchange exposures and liquidity.
- Establish a set of clearly articulated risk appetite and tolerance limits to guide measured and consistent risk taking behaviors (e.g. investment decisions) across the organisation.
- Work with management to develop, implement and monitor Early Warning Signals which indicate the current and projected financial health of the company. The Board should see a 'dashboard' of key ratios and metrics which reflect the key drivers of the business sector that the company operates in (e.g. gearing, solvency, and so on).

Operational Resiliency

The magnitudes of recent natural disasters, coupled with the ever-looming risk of a global pandemic, have highlighted the need for companies to challenge their crisis preparedness assumptions. Threats such as earthquakes, floods and pandemics have the potential to cause severe disruption to supply chain and business continuity, destroy or cripple assets and infrastructure, drain manpower and clock up substantial uninsured financial losses. To be assured that their companies are prepared for crisis, directors should focus on these aspects of operational resiliency:

- Ensure that the company has an effective system of policies and procedures in place to govern processes and manage exceptions. This is particularly crucial for companies operating in multiple geographical locations across different business sectors, and which have grown significantly through mergers and acquisitions.
- Implement and test the robustness of a Business Continuity Management (BCM) framework to respond to various threat scenarios. An effectively functioning BCM framework and plans would include structures, policies and processes to respond, recover and carry on business operations following a crisis event, and hence minimise disruptions and financial losses.

People Resiliency

Regardless of economic climate, human capital is one of the most critical assets of any company. Yet, it is often also the most under-valued, as many still hold the belief that 'nobody is indispensable'. In turbulent and uncertain times, human talent play an even more pronounced and crucial role in steering the company safely through the storm. Traditionally, the Board's focus is on the senior leadership. Today, directors should extend their lens beyond the top rungs of the organisation, and challenge management to place greater emphasis on human capital by placing particular focus on the aspects listed below:

- Ensure that there is a measured and long-term view of human capital risk management. According to a survey done by the Singapore National Employers Federation (SNEF) in October, only about 4 per cent of companies indicated that they would consider cutting their headcount, with less than 1 per cent indicating that they would actually lay off workers. This is a clear indication that companies have learnt their lesson from having 'knee-jerk' reactions of cutting manpower costs drastically in unfavourable economic conditions.
- Forge and reinforce a strong and cohesive organisation culture. This means ensuring that employees are consistently and effectively engaged through communications from the leadership, regardless of whether the messages are positive or negative. An engaged workforce is one that has high-morale, is productive and unified in helping the company steer through turbulent times.
- Reviewing the performance measurement and incentive system to ensure that it promotes rational and sustainable business activities, as well as the right behaviours from employees. A right-sized performance system should encourage team to respond positively even in these difficult and challenging times.

Suffice to say, the next two to three years will prove to be extremely challenging and fraught with danger. Whilst many will succumb, history has also shown that there will be companies who will emerge stronger and better. The key difference lies in the resiliency of these companies to stay on track despite the head-winds, and turn crisis into opportunities. ■

Managing Currency Risk In An Age Of High Volatility

By Chris Matten
Partner
Financial Services Industry Practice
PricewaterhouseCoopers LLP

Singapore's extremely open economy means that a large proportion of our business activity involves imports and exports. Consequently, many if not most Singaporean businesses are exposed to currency risks as these imports and exports will typically be denominated in foreign currencies, while local operating costs are typically denominated in Singapore dollars. Companies need to manage the risk of fluctuations in these foreign currencies, to avoid volatility in earnings, if not outright losses.

Chart 1 shows the 5-year trend of the SGD/USD exchange rate, and Chart 2 shows the SGD/EUR rate over the same period.

It can be seen that, especially over long periods of time, quite significant movements in FX rates are possible, and the Euro has been particularly volatile in the wake of the Eurozone financial crisis which, at the time of writing, remains unresolved. Indeed, despite the concerns over the recent fall in the Euro, people quickly forget that at the time of launch of the Euro as the functional currency of

Chart 1: SGD/USD over past 5 years

Chart 2: SGD/EUR over past five years

the Eurozone some nine years ago, the exchange rate against the USD quickly fell below 1.00 (it is currently trading at around 1.27, having reached a high of around 1.60 in early 2008).

Fluctuations in exchange rates of this magnitude can cause havoc with a company's operating plans, as it is very hard to make accurate projections of the expected cash flows and profits, and makes it difficult to fix and hold prices.

There are essentially three ways companies can protect themselves against this sort of uncertainty, and after explaining these briefly we will concentrate on the third one, as it is the one where we frequently see businesses getting themselves into difficulty.

Firstly, a business can operate at a fixed margin to its costs, either in the form of 'cost-plus' contracts (common in fields such as public infrastructure projects) or simply by passing on price changes to its customers. The latter is of course a tricky proposition, as competitors may not follow suit, or customers may simply reduce their purchases. However, it is not unusual for some industries to include a variable surcharge to allow for fluctuations in operating costs outside of their control – the fuel surcharge added to the costs of airline tickets is a good example.

Secondly, businesses can look for natural hedges. These are offsetting components of the cash flows of the company which allow for volatility in the price of one element to be offset by volatility in the price of another. These may occur in unlikely places or in ways that are not intuitively obvious, but it is worthwhile investigating these as they are very valuable sources of stability. Property prices and interest rates, for example, are often highly correlated. So a property developer might fund itself with variable-rate loans rather than fixed-rate loans, as when property prices are rising it is common for central banks to raise interest rates, so the gain from higher prices is offset by higher borrowing costs. But in the opposite situation, where property prices are falling it is typically against a background of falling interest rates, so lower sales prices are offset by lower borrowing costs.

However, there is only so much that can be achieved by passing costs on to customers or taking advantage of natural hedges, and companies may then look to financial hedges to manage the remaining volatility. The first thing to note here is that there is rarely a free lunch in finance, and certainly no such thing when it comes to companies hedging their exposures in the financial markets. So Boards need to understand three things: (1) companies should seek to take maximum advantage of the first two options for hedging listed above, before accessing the financial markets, as there is a cost involved; (2) companies need to be very careful that they have a high degree of confidence in the expected cash flows before trying to hedge them, as otherwise they can make earnings volatility worse, not better; and (3) some financial products, especially those with embedded leverage such as derivatives, can be dangerous if not handled by someone with the proper skills, and where a company gleefully reports a windfall gain on its hedges it is usually the case that it just got lucky, and the opposite outcome was just as likely.

Accessing financial markets comes at a cost. These costs come in various forms. For some transactions, banks may require collateral, or they may charge an evident fee. Other costs are less transparent to anyone who is not a specialist – even in the case of simple spot FX transactions there is a 'bid/offer spread' (the difference between the price at which the bank is prepared to buy and to sell) which represent a source of profit for the provider. Where companies buy options, it is hard for anyone who is not an expert to assess what the fair value of those options is, and therefore how much of the price is the true value of the option, and how much is the bank's profit. The more complex the product, the less transparent this is. Banks do offer products that are described as 'low cost' or 'zero cost' hedges, but, as we will see later, this merely refers to an absence of any upfront cash flows – the cost comes

Fluctuations in exchange rates of this magnitude can cause havoc with a company's operating plans, as it is very hard to make accurate projections of the expected cash flows and profits, and makes it difficult to fix and hold prices.

> Some financial products can be dangerous. The safest and simplest form of financial hedge is a forward transaction, such as an FX forward, under which the company agrees now to exchange an expected foreign currency cash flow at an agreed future date into its functional currency, thus locking in the rate.

in the form of the company taking on more risk. It is vitally important for Boards to understand the cost and effectiveness of the company's hedging activities, so avoid unpleasant surprises.

Confidence in expected cash flows is necessary. Where a company hedges an underlying commercial transaction, and that transaction does not materialise for whatever reason, the 'hedge' will operate as an outright speculative position on the financial markets, resulting in a gain or, worse, a loss which will be reflected in the company's earnings. For this reason, many companies that operate regular hedging transactions will not hedge 100% of the expected cash flows, and may decrease the hedge ratio as the time period extends further out into the future. For example the company may hedge 80% of its expected needs for the first quarter ahead, 60% of the second quarter, 40% for the third quarter and 20% for the fourth (a so-called 'declining wedge') approach. As times moves on, and the second quarter becomes the first quarter ahead, the expected cash flows are re-forecast and the hedges updated accordingly. It is important to Boards to understand what the expected exposures are, how robust the forecasts are, and the nature of the proposed hedged, so that they can assess whether the hedging program will deliver the desired degree of stability of earnings.

Some financial products can be dangerous. The safest and simplest form of financial hedge is a forward transaction, such as an FX forward, under which the company agrees now to exchange an expected foreign currency cash flow at an agreed future date into its functional currency, thus locking in the rate. These can be used for foreign exchange, commodities and a range of other exposures. The relationship between the hedge and the underlying exposure is linear – a 1% gain from the underlying exposure will be offset by a 1% loss on the hedge, and vice versa. Where the amount of the hedge is the same as the underlying exposure, the gain or loss will be exactly offset (but, as noted above, companies may not hedge all of the exposure, due to uncertainty as to the underlying commercial cash flows). More sophisticated strategies may involve options. The thing to note with options is that the buyer of an option cannot lose more than the purchase price of the option, so if the underlying exposure increases in value the company gets to enjoy the benefit, less the cost of the option, but the company is protected against a fall in the value of the underlying exposure. But the seller of an option can potentially lose an unlimited amount, or at least a very significant multiple of the premium earned from the option sale, and selling options should be generally avoided unless a company has the required degree of expertise to manage the risk. Where companies often come unstuck is with 'low cost' or 'zero cost' hedges. These are often described in a way that makes them look as if they are just forward transaction, such as with 'ratio forwards'. However, the reason these products typically involves no upfront cash flow is that they consist of both a bought option and a sold one – the premium payable for the option purchased is offset against the premium receivable for the option sold. This is often fine, but it is also not unusual, as in the case of 'ratio forwards', for the options to be asymmetrical, such that the potential gain provided by the bought option is a fraction of the potential loss on the sold option. So if the company is using these to hedge import costs, say, then a 10% rise in import costs is offset by a 10% gain on the 'hedge', but if import costs fall by 10% the loss on the 'hedge' could be a multiple of this, typically 2 or three times. So these 'hedges' work very well if things go your way, but can magnify losses when they don't.

For these reasons, it is vital that the Board ensures that:

- The company adopts a very clear hedging policy, appropriate for the size and nature of the company's exposures as well as the degree of sophistication of its staff and monitoring systems
- The policy is robustly enforced, and treasury activities are regularly reviewed by suitable competent internal auditors
- The Board understands the nature of the company's hedging activities, and receives regular reports on the past performance of hedges versus what was forecast at the time they were entered into, as well as oversight of proposed and existing hedges of future expected cash flows and/or exposures
- Proper controls are in place, such as confirmation of bank transactions by someone independent from the originator
- All bank facilities are approved by the Board, based on clearly set-out internal standards, and reviewed annually, even if not required by the bank, to establish whether they are still needed ■

Avoiding Deer In The Headlights Syndrome ("DITH")

By Andrew Sherman
Partner
Washington D.C. Office Of Jones Day

In today's turbulent times, boards of directors and organizational leaders must be prepared to make difficult decisions on an informed and objective basis and then live with the consequences of their actions or inactions.

At the governance level, when an 18 wheel truck sized problem or challenge is coming at you at 75 mph, you must lead the company to a path to the right or a path to the left or very bad things will happen if you remain stagnant, freeze up in your steps, are blinded by the light or suffer through paralysis by analysis. Be decisive. Do not allow the fear of the consequences of the decision you reach to prevent you from making any decision at all. Companies blinded by fears or over-deliberation have leaders who suffer from a severe case of DITH syndrome.

Colin Powell has been often quoted to observe that in the heat of battle, if you have less than 40% of the information you need to make a decision, it is probably too soon to decide, and if you have more than 70%, it is probably too late. Embrace this now famous "70/40 rule" as long as it meets the legal standards of care that board leaders assume as fiduciaries to the shareholders of the company. The true enemies of governance are complacency, apathy and procrastination.

What is this standard of care from a legal, management and ethical perspective?

Decision-making at the leadership or board level should be fully-informed, with leaders properly briefed by those who report to them, with time to review all materials that have been prepared, be given opportunities to ask critical and analytical questions and time for healthy debate among board members. These are the standards and protocols that corporate law requires to reach a well-reasoned decision that may have significant financial consequences to thousands and even millions of shareholders and other stakeholders in the company. Extreme volatility in the capital markets and the rapid pace of today's technology may mean that these decisions must be made on an expedited basis, but the decisions still must be reached on a fully informed basis and DITH syndrome must be avoided at all costs.

Balancing the legal standards which apply to decision-making with Colin Powell's sage advice in his "70/40" Rule is not an easy task. But neither is being a genuine and respected leader.

Colin Powell has been often quoted to observe that in the heat of battle, if you have less than 40% of the information you need to make a decision, it is probably too soon to decide, and if you have more than 70%, it is probably too late. Embrace this now famous "70/40 rule" as long as it meets the legal standards of care that board leaders assume as fiduciaries to the shareholders of the company. The true enemies of governance are complacency, apathy and procrastination.

Indecision over the fear of consequences of a decision or decisional paralysis due to the need to have an over abundance of political "buy-in" is not leadership at all. True leaders make tough decisions with a clear understanding of the risks and consequences and then manage and mitigate those risks and consequences as best that they can. When leaders act in good faith based on experience and instinct, guided by integrity, empathy and objectivity, the people affected by the consequences of their decisions are more likely to respect the process and be more accepting of the impact of the decisions on them, even if it is negative.

The standard of care from a legal perspective that is most relevant to decision-making at the board and executive level is known as the "business judgment rule." In a nutshell, this rule recognizes that humans are not perfect and mistakes will be made on the decision-making process. Boards cannot be held accountable for every wrong decision that they make, unless those decisions were negligent, premature, uninformed, riddled with self-interest, or a reflective of a breakdown in the fiduciary duties owed to shareholders. In its own way, the rule recognizes that in times of turbulences and "field of battle" circumstances, hard decisions need to be made, but encourages leaders to make them properly without the fear or risk of being sued.

The business judgment rule at its core is a legal principle that makes officers, directors, managers, and other agents of a corporation immune from liability to the corporation for loss incurred in corporate transactions that are within their authority and power to make when sufficient evidence demonstrates that the transactions were made in good faith on a fully informed basis.

To help directors and officers meet these challenges without fear of liability, courts have given substantial deference to the decisions the directors and officers must make. Under the business judgment rule, the officers and directors of a corporation are immune from liability to the corporation for losses incurred in corporate transactions within their authority, so long as the transactions are made in good faith and with reasonable skill and prudence.

Courts have further held that the business judgment rule will cover the actions of directors only when the directors are disinterested and independent with respect to the action that is at issue. A director is independent when she or he is "in a position to base [her or his] decision on the merits of the issue rather than being governed by extraneous considerations or influences"; conversely, a director is considered to be interested if she or he appears to be on both sides of a transaction or expects to derive personal financial benefit from it, as opposed to a benefit to be realized by the corporation or all shareholders generally.

To make an informed decision and have the confidence to act decisively, leaders must be ready to listen. Really listen. Do not surround yourself with managers who will tell you what you want to hear, rather reward people who are willing to tell you what you need to hear, without a hidden agenda or self-interest as their impetus.

Opportunity and productivity require an appetite and tolerance for risk. When we become timid as leaders, opportunity rots on the vine or collects dust, somewhat akin to the dormancy of the estimated $2.5 trillion that is sitting in the treasuries of the Fortune 1000 companies as of today. Resources must be deployed to drive shareholder value or we'll continue to have to settle for subpar GDP growth rates in a rudderless economy lead by spineless boards and policy-makers. ■

To make an informed decision and have the confidence to act decisively, leaders must be ready to listen. Really listen. Do not surround yourself with managers who will tell you what you want to hear, rather reward people who are willing to tell you what you need to hear, without a hidden agenda or self-interest as their impetus.

Permission to reprint granted by the author

Are You Compliant?

By Tim Hill
Partner
Eversheds

It is all too easy, particularly if you are the government, to try and argue businesses are tied up in red tape and need to be given more freedom simply to get on with their own business. Indeed, some Republicans in the US would go a lot further by moving towards a completely free and unregulated market in every sense. On the other hand, one does not have to think too far to see the very severe consequences to businesses of being publicly 'named and shamed' where systems and processes have resulted in a failure to be compliant in a particular area, thus resulting in a drop in market confidence and, fundamentally, consumers or the public no longer having faith in either an organisation or one of its key brands.

How Does The Board Ensure It Is Fully Compliant With All Necessary Criminal Regulatory Requirements?

The last few years have seen the emergence of a whole range of different issues involving regulatory compliance, not just to do with product safety but also to do with regulatory obligations on the operations of a business whether by means of licensing or permitting or other formal requirements that a business must adhere to. This throws up a whole series of fundamental questions which a Board needs to get to grips with. While these apply equally to all businesses, they are particularly important to the industrial engineering and manufacturing sectors where you are ultimately producing goods which need to be of good quality and meet all necessary legal requirements.

What Do You Need To Be Compliant With?

One of the biggest challenges is the sheer breadth of requirements that are now in place. There are international standards, EU standards, individual country requirements, industry good practice: many of these will overlap but in some cases can, at least on the face of it, appear either confusing or even contradictory. One example is the EU system for

applying a CE mark to a very broad range of goods. There are a large number of different categories of goods, for example electrical or mechanical right through to medical devices, all of which require compliance with specific standards.

It is incumbent upon either the manufacturer and/or importer into the EU to ensure that these standards have been met and that appropriate CE marks have been applied. While this all sounds straightforward in theory, in practice it is often very difficult to unravel the EU directives and local regulations which apply and particularly where goods will often pass through a chain of different organisations, it is not always clear whose responsibility it is to obtain the CE mark. The specific classification of goods also has inevitable grey areas at the edges where different views can be taken by different organisations or regulators as to whether a particular product should or should not have a CE mark attached to it.

Why Is This Important?

There is also the risk that this may seem technical and bureaucratic, so why is it so important? Clearly if a product has been released onto the market and a CE mark has not been obtained properly then first and foremost this constitutes a criminal offence, certainly within Europe. Although the penalties are relatively modest, the impact of being subject to a criminal investigation followed by a prosecution, potentially followed by a conviction is a very different and difficult prospect. It could ultimately result in a company having a 'criminal record' which would then have to be disclosed in future contracts either with suppliers or customers. It also runs the risk of very severe adverse publicity – for example look at the issues that are currently facing BMW Mini after it became apparent that they needed to do a recall on certain aspects of their water pump systems. This underlines an identical problem which we have experienced in such cases namely that the impact goes way beyond the formalities of simply applying a logo to your goods or fixing a minor fault, and at least gives the suggestion that your systems and processes are weak and therefore questions whether any confidence should be placed in the broader organisation.

What Should You Do?

So how can you respond having identified which regulatory requirements are applicable to your products or services? It is clearly important to have competent and qualified individuals or teams looking at your products in very specific terms and, more importantly, being able to demonstrate compliance by having all the correct documentation in place, in date and kept under regular review.

The difficulty we often see in practice is that while all organisations will generally have someone tasked with this important exercise, it is not always given the importance or significance it deserves. Furthermore, due to the very complex nature of complying with a whole raft of detailed, potentially scientific or technical requirements, as and when an individual or a team are put in place to deal with this area, they are not always effectively managed, for the simple reason that the manager may themselves have insufficient technical knowledge (or at least believe that they do) to understand fully what should be happening and, more importantly, whether it is in fact happening. But this simply underlines the important need for appropriate processes and controls to be in place so that at Board level you can be satisfied that things are happening as they should. It is another area where good governance will ensure positive results.

We have had a number of significant cases with which we have been involved in recent weeks and months where there has been an over-reliance on a single individual: in some cases that individual does not perhaps hold the necessary competencies in all areas which have been passed to them, and as a result things have not been done properly. Even worse, when potential challenges are made to certain individuals, their responses are often accepted without question for no other reason than 'they must know what they are doing' or being told that 'this is standard across the industry', without any evidence to support that assertion.

The resulting problems which can then ensue may well result in, for example, significant product recall issues and all of the contractual and insurance obligations which that may entail. That in turn could lead to contractual issues at a much higher level in terms of whether people are prepared to continue to deal with your organisation. In some cases it can lead to regulatory investigation and criminal enforcement action resulting in criminal convictions and financial penalties. In the very worst cases, we have seen failure to ensure compliance leading to the departure (either voluntarily or forced) of a number of senior managers and potentially even directors; in other cases it has lead to question marks over the future viability of that aspect of the business.

Conclusion

The biggest problem that a Board needs to get to grips with when considering the question 'are you compliant' is the need to wrestle with Donald Rumsfeld's much maligned discourse on 'known unknowns and unknown unknowns'. Once a problem has arisen it may well be too late to do anything effective and the consequences can be very significant for the business and individual Board members whose responsibility it is to have made sure systems were in place.

The challenge is raising issues and challenges now which are not seen as questioning individuals or teams responsible for compliance but are seen in a positive light in terms of simply auditing good practice and encouraging the organisation to be open and self critical rather than defensive. Above all, it is vital to engender a far better culture that extends way beyond the issue of safety and regulatory compliance and demonstrates a positive and productive workforce and a management team working together to grow the business. ■

Permission to reprint granted by the author

Financial Steering Through Turbulence And Uncertainty

By Eric Pascal
Senior Committee Member
CFA Institute Singapore

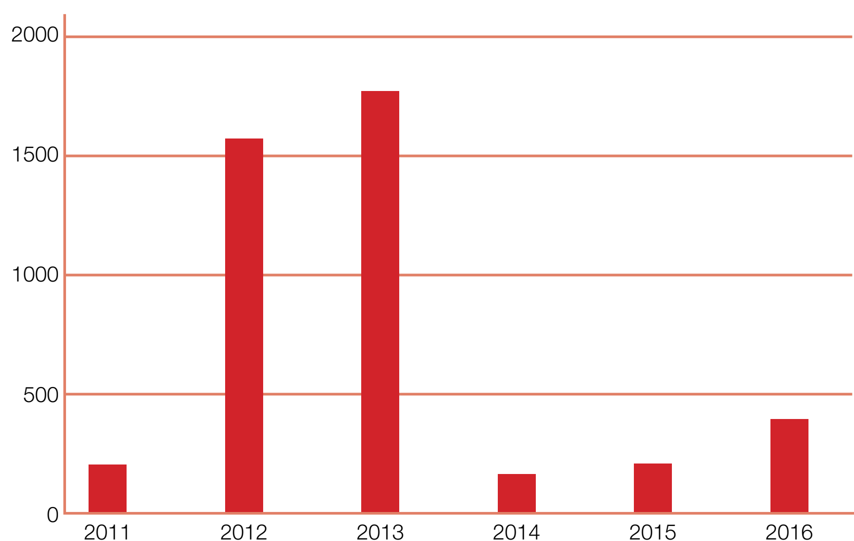
As I write this I think of September 1998 and almost exactly 10 years later September 2008. The first crisis was called the Asian Currency Crisis, spurred by the failure of LTCM and the second the Banking Liquidity/Credit crisis spurred by the failure of Lehman Brothers. Undoubtedly this will happen again. In both cases the global financial markets reacted with a significant drop in liquidity, bank lines, with credit generally unavailable and at the very least much more expensive. In November of 1998 Caterpillar which had consistently been an A2/A rated heavy equipment manufacturer in the US had existing bonds trading at Libor + 3.25%. They had never paid more than Libor + .20-.50%. Better hope they do not need to refinance at that time.

Some specific steering guidance through these kinds of market anomalies would include the following.

1. DEBT maturity profile. – Lengthen and distributes.
2. Protect cash flow (futures, contracts lt, fees, and int rates) loan extensions.
3. Protect capital – off balance sheet
4. Fund raising – MTN access
5. Cheap opportunity – buy stuff cheap. – heard it 1000 times.

Debt maturity. Sure this has been mentioned more than a few times. But the lessons back in 1998 were hard learned as most treasurers were funding basically in 9-18 month buckets. Even the person with the best luck will not be able to circumnavigate a down cycle which will last 18-24 months. When the crash took place many companies, some listed, failed only because they could not access liquidity in sufficient time and size; but otherwise these were strong companies. The easiest lesson in this case is to diversify maturities as well as sources of funding.

Maturities. This is critical. Depending on your business the best case is to spread maturities as evenly as possible



of the next 5-10 years. S0 10% of your funding/debt in each year for the next 10 years. This helps ensure that the most capital the company will ever need to raise is 10% of total assets in any given year. In addition it will make your ability to command a premium easier in the markets as there will be a consistent credit curve for your name, company. It is important that many investors hold your name and ultimately trade it in order to gauge its price.

Example below shows great exposure in years 2013 and 2014 especially if that business foresees a possible downturn in their revenue/market structure. This chart shows the amount of debt maturing in each of the next few years. Very clearly there are some fairly large amounts coming due in 2012 and 2013 relative to the other years. This business will have significant difficulty in refinancing in a weak economic environment. The idea would be to move some amounts from 2012 and 2013 and mature the debt in one of the other years. This can be done by re-structuring the existing debt into several different maturities (called Tranches) of the same loan or bond. This distributes the resulting maturities among many more years and over a greater period of time. What this means is that in a downturn the refinancing amount is more limited or manageable. Also, it protects the business because as it pushes out maturities to different years, the probabilities of more than 1 of the years being in a downturn is extremely low. The key is to ensure that whatever debt exists, it is small and structured so it does not fall on a downturn year.

Lengthening. This is useful if your revenue and contract profile can be considered to be very long. The idea here is to create a matching of the circumstances in timing and amounts of the debt repayments with your revenue or cash flow stream. This will also greatly help in obtaining bank lines as most institutions are very sensitive to the length and duration of cash flows at the source of their repayment profile. I.e. if you can show a bank your revenue/cash flow stream is contracted for 10 years you can (and probably should) in times of uncertainty always obtain 10 year financing. It may not always be possible or advisable if a company has very short term cash flow streams.

Sources. This does not only mean the different banks that you are dealing with but the TYPE of investor. Basically most markets have at least 5 different kinds of debt investors.

- Banks – by far the largest group with preferred tenors in 3-5 years
- Insurance – Large volumes but like longer dated 5-10 year tenors.
- Asset Managers – medium term and very picky with credit, 5-7 year tenors.
- Private funding, Private equity style. 1-5 years but high cost
- Private Bank clients – typically invest based on a known name 1-3 years

The typical breakdown by type in terms of existing investors in any company is roughly;

- 40% banks
- 35% Insurance
- 15% Asset Managers
- 5% Private Funding
- 5% Private Bank

This will allow your company to draw on different maturity spectrums as well as a different style of investment. The same goes for geography. Finding investors outside of your home market is useful but difficult unless the name brand is known or there is a credit rating.

Protect Cash Flows. Typically this means ensuring that cash flow IN is not subject to repricing in a down market and cash flow OUT is not subject to repricing in an up market. Believe it or not this can be managed to a great extent. This is NOT a formula for extending the

Lengthening – This is useful if your revenue and contract profile can be considered to be very long. The idea here is to create a matching of the circumstances in timing and amounts of the debt repayments with your revenue or cash flow stream.

> Protect Cash Flows – Typically this means ensuring that cash flow IN is not subject to repricing in a down market and cash flow OUT is not subject to repricing in an up market. Believe it or not this can be managed to a great extent.

trade cycle of the organisation. What this means is;

- In a down market – give your customers incentive to sign longer term contracts. This will help in 3 ways.
  - Your customers are seeing this as value add as they are signing at lower rates.
  - As rates in the economy continue down our cash flows are still at "higher-than-market" levels.
  - Your liabilities managed below are repricing at lower and lower levels relative to your revenues.
- In an up market give your creditors incentive to sign longer term funding agreements – or just extend loans as the slowdown occurs. This will work for your company in 3 ways.
  - In an "up" market interest rates will also rise. Therefore it will cost more the longer you wait to extend duration/tenor of loans.
  - It will provide insulation from potential shocks during a period of large growth in the economic cycle.
  - Your liabilities will have a consistent level while your revenues continue to rise as prices reprice upwards but your cost remains the same.

Honestly this is the most available and practical form of downturn, uncertainty management. As the evidence of slow down continues to show in various economic indicators, the MTI, the purchasing behaviour of your customers, take these steps, before the company's commitments become skewed.

Futures. This is an easy and readily available source of cash flow protection which is typically cost free at the outset but will mean that you are locked in to value. Futures exist in terms of interest rates commodities and other forms of costs such as electricity and natural gas. What this allows is the sale or purchase of such an underlying at some point in the future. Markets make longer tenors available past 24 months for example in most of these asset classes. This mean you now have control over what you will get paid for delivery of a commodity or good in the future relative to what your customers are saying or that you will control the amount of expense that you have (in an up market) by buying the asset/commodity (electricity) in the future at a price known today.

Protect Capital. The basic nature of capital is that it is long term. What you are protecting is the long term value of your company. However, the main lesson learned from the past few crises (1998, 2008) is that when faced with uncertainty the usual lending institutions refrain from lending. Access to capital therefore becomes more difficult AND expensive. Therefore if Europe has been anything of an Omen for economic things to come, then very clearly the writing is on the wall. Conserve your capital or recycle it NOW, not next year when it may be too late. The main message here is one of creating scalability in order to access what I would call "capital efficient" instrument. These vary in nature but the common thread is that they will allow for a reduction in the amount and use of capital that sits on your balance sheet.

Some examples include factoring of receivables or other assets and trust based instruments where the trust owns the asset, but the most powerful is a combination (as usual) of such instruments with a market fund raising. Specifically this means using a trust which is private at first to hold assets that your business would need for its operations. The Trust then signs a management agreement with you and you continue to operate the assets. The Capital and Assets however are on the balance sheet of the trust. The trust can then list on an exchange if you so desire providing a useful and profitable (most of the time) return of your capital for a rainy day or other ventures (expansion, M&A, new product lines etc.). Singapore's capital markets are particularly well suited for this kind of

> Protect Capital – The basic nature of capital is that it is long term. What you are protecting is the long term value of your company. However, the main lesson learned from the past few crises (1998, 2008) is that when faced with uncertainty the usual lending institutions refrain from lending. Access to capital therefore becomes more difficult AND expensive.

Fund Raising – This goes under the category of "be prepared". There are several formats that can accommodate a fairly "quick" access to funds or liquidity. The key is to have the documents prepared and or the credit available.

financial activity. There are some caveats however, most notably size and type of asset class.

Fund Raising. This goes under the category of "be prepared". There are several formats that can accommodate a fairly "quick" access to funds or liquidity. The key is to have the documents prepared and or the credit available. Basically do this when times are good and it will pay off handsomely when times are bad.

A few instruments/facilities include MTN programmes and Liquidity facilities. Get these when times are good and sit on them. An MTN programme honestly is nothing more than an offering memorandum that allows for multiple issuances. The issue is always the upfront costs in terms of legal fees. Banks generally charge nothing to be a dealer or underwriter of an MTN UNTIL there is an issuance of debt. However, the most obvious benefit is that this can allow your business to issue debt to ANY of the investor classes noted above, ANY currency and ANY maturity.

Liquidity facilities are effectively standby credit form a bank or other financial intermediary. This does involve a cost because the bank will need to apply for and obtain a credit line for your business that is "committed" and so means the bank MUST give your business the money in most circumstances, whenever you ask for it. The cost is called a commitment fee and ranges from 50-100 basis points of the facility that is unused. Of course when the facility is used then your business is paying interest and so the commitment fee is no longer payable. This is invaluable as the bank is unlikely to remove this facility without first telling you or finding a significant deterioration in your business for doing so. Therefore it will generally be available when you need it most. But you will need to pay a small amount while you are NOT using it. Good to pay small amount in terms of commitment fees to have access to liquidity at ANY time.

Opportunity. You have heard this 1000 times. In bad times assets are cheap. Buying opportunity. Well, yes but what they don't tell you is that you have to position the business in order to do that. And everything that precedes this paragraph is meant to prepare your business for this "opportunity".

It's the same for entrepreneurs and businesses of all sizes. When economic growth slows there is generally never been a better opportunity to strike bargains with suppliers. Most are desperate for business, so this is the moment to invest in the things you need – and your supply chain is one of the keys to long-term growth.

This is also the moment to look for new markets. If you have capital, put it to work now. Invest in expansion. This does not mean taking on more debt than you can afford. But if you do have to borrow money, there may never be a better time than now. Interest rates are low. Again see the above as a method for preparing for this.

Governments are desperate to generate growth and willing to hand out grants in the right circumstances. The UK public sector has fallen victim to spending cuts, but the government is about to remove planning restrictions in a way that is sure to create opportunities in the long-depressed construction business. However more than 200,000 new businesses were launched in the first half of 2010, the largest number in any year this century in the UK.

Every sector is different, and so is every continent and every country. In Asia, service industries are proliferating rapidly, from insurance and other traditional financial services. Where is the greatest scope for expansion? It might be in the public sector, or it might be the private sector.

All of these elements and ideas will ensure that your business has liquidity and capital. The real job is in operating the business and that is what you do best. ■

Opportunity – You have heard this 1000 times. In bad times assets are cheap. Buying opportunity. Well, yes but what they don't tell you is that you have to position the business in order to do that. And everything that precedes this paragraph is meant to prepare your business for this "opportunity".

Let's Address The Good Reasons Why Companies Do Not Conduct CEO Succession Planning

By Dean Stamoulis
Global EA Lead
Russell Reynolds Associates

The global business press continuously has observed the following: effective CEO Succession is important to the continuity of a business, it is one of a board's most important purposes, yet in practice it is rarely conducted well. The National Association of Corporate Directors in the US reported several years ago that 42% of public companies lack an effective succession planning process. This state of affairs should not be a surprise anymore.

The question has been what to do about it. Over the past 10 years, businesses broadly have been encouraged to do better. In the US, the pressure in this area has increased. More and more shareholder groups (especially powerful institutional investors) have been asking boards to disclose details of a given company's CEO Succession plan. In late 2009, the US Security and Exchange Commission felt the need specifically to weigh in on the matter via Bulletin 14E by holding boards accountable for ensuring the presence of CEO Succession planning and processes.

The issue is nuanced in situations in which board independence may not be high and/or in situations in which there is substantial controlling interest. The objective likely for areas of the world such as Singapore is to create approaches that benefit from effective CEO Succession principles, but do not involve substantial regulation. The best way to do this is to probe under the surface as to why companies are inconsistently effective in CEO Succession planning. It is only in this manner that hidden obstacles have a chance of being overcome.

There are actually many good reasons why organizations do not engage in overt CEO Succession planning, yet these reasons rarely are discussed openly. Ralph Ward, a wonderful writer about boards and governance, summarized it effectively: CEO Succession is similar to funeral planning—inevitable, but denied for as long as possible. The denial and delay relate to the following factors:

1. Controlling interest may have a clear person in mind for the CEO role and/or desire a closed and limited process; they may not want to

> More and more shareholder groups (especially powerful institutional investors) have been asking boards to disclose details of a given company's CEO Succession plan. In late 2009, the US Security and Exchange Commission felt the need specifically to weigh in on the matter via Bulletin 14E by holding boards accountable for ensuring the presence of CEO Succession planning and processes.

consider a broader group of options or a broader process

2. Board does not want to inadvertently convey a lack of confidence in the incumbent CEO that produces a difficult or uncomfortable board versus CEO dynamic
3. Stakeholders/ shareholders may mistakenly perceive that there is a problem with the incumbent CEO and/or inaccurately believe that the incumbent CEO's tenure will end sooner than is accurate; therefore, the incumbent CEO will lose power inside and outside of the company during an active CEO Succession planning process
4. Internal CEO candidates will be overly competitive and not constructive with each other
5. Internal talent who is not a part of CEO Succession planning will become demotivated and leave the organisation
6. Belief that external talent likely is better than the internal talent options, therefore there is no need to attend to internal succession
7. Belief that moving CEO Succession candidates around the business to help them in their development will be too disruptive to the business; leaders in the business do not want to lose their best talent to other parts of the business
8. Many organizations are not exactly sure who does what (and when) in CEO Succession processes; in a related sense, it is not seen as an urgent business need

Most of these factors can be mitigated if the CEO Succession process is repositioned as primarily a leadership development process. This emphasis on development has many benefits. First, development necessarily involves a clarification of criteria based on needs of the organization in the future and then the subsequent assessment of leadership talent in relation to these criteria. These steps are important within development yet are also seen as components of an effective CEO Succession process by academics, consultants, and regulating agencies. Second, with an emphasis on development, the process can be more comfortably inclusive, broader, and continuous. Controlling interests that have a strong preference for a certain candidate can be comfortable that through ongoing development they are doing their best to prepare their candidate. Also, an enhanced focus on development would provide far less opportunity for perceptions both inside and outside the organization to inaccurately fear that the organization contains near-term festering problems that might lead to CEO turnover. Third, an added orientation to development will reduce competitiveness amongst leaders and in contrast increase the prospects for retention. Fourth, the use of specialized search consultants such as from Russell Reynolds Associates as interviewers within development-oriented assessment can provide a practical, benchmarked view about how good internal talent is in comparison to the relevant external talent market. Therefore, an external point of view about internal talent can be embedded within development. Fifth, added weight to development will help organizations realize that new work assignments and responsibilities are not "nice to do" but "must do" (along with in parallel mentoring or coaching, and appointment to an external board).

Finally, regarding roles, we see the CEO and enterprise head of Human Resources as running the proactive, continuous leadership development process. We look at the board as ensuring this takes place, and as ensuring they are up to date regarding the quality of the supply of talent that could eventually fit the CEO position. On a related point, we understandably have observed a clear trend in which boards want more time and better time with leadership talent under development. They want to have an opportunity to thoughtfully and personally evaluate leaders (for example, within two-day visits to field sites and organizations), as well as to be potentially useful to their development. It is in this way that members of a board can be at their best in taking part in one of the most important decisions in their careers. ■

> There are actually many good reasons why organizations do not engage in overt CEO Succession planning, yet these reasons rarely are discussed openly.

Broadening Boards: How Directorships Should Adapt For Challenging Times

Contributed by the
Singapore Management University

"Will good governance lead to greater profitability and business sustainability?" This was the question that framed the lively panel discussion that also involved banter on a broad range of issues, from gender diversity to boardroom theatrics.

The panel, comprising Choo Chiau Beng, chief executive at Keppel Corporation Limited, Jeanette Wong, group executive at DBS Bank's Institutional Banking Group, Gan Seow Ann, president at Singapore Exchange Limited, and Peter Buerger, senior advisor at Pickering Pacific, spoke at the graduation ceremony of the Singapore Management University ("SMU") – Singapore Institute of Directors ("SID") Executive Diploma in Directorship programme.

Opening the dialogue, Annie Koh, dean of SMU's Office of Executive and Professional Education and an associate professor of finance, noted that a recurring "theme" she had been hearing over the past few years is the criticality of a "good" board. A mounting public interest in such matters is hardly surprising, given the 2008 global financial crisis and recent episodes at HP, Olympus and MF Global.

It would thus seem that organisations with the "right" board members would stand better chances of survival and success, or at least, avoid unwanted public drama. But what makes a "right"

or "good" board is a perennial question with no clear answers.

Get Involved – But Not Too Involved

To what extent should board members involve themselves within the organisation? "It's a delicate balance," answered Choo, a seasoned member of several boards and board committees, including the Energy Studies Institute, American Bureau of Shipping, Det Norske Veritas South East Asia, and a host of Keppel Corporation subsidiaries.

"The board must be clear about what it means to be a director at the board-level, and what it means to be a manager… The board looks at the big things, like strategy and risks. Day-to-day business should be left to the management," he said.

Concurring, Wong added, "You cannot execute on behalf of management; it would be impossible. But you need to ask enough questions… from all angles. And you need to do your own homework." Wong, who sits on boards like Neptune Orient Lines, DBS China, DBS Taiwan, the University of Chicago's Booth School of Business, is also chair of SMU's Lee Kong Chian School of Business advisory board.

Spending time at the company or giving it "mindshare" must be part and parcel of a director's job, she said. Before accepting directorships, Wong makes it a point to assess if she can afford the time and commitment required. For her, it is the responsibility of directors to probe, examine strategies, and not simply endorse whatever management proposes.

"Your role on the board is to ensure that the company survives long term; that it is sustainable and profitable. A lot of this has to do with market positioning and corporate leadership in the light of industry changes. The worst thing you can do is to go to a board meeting without reading any of the papers and have not thought through the issues and questions," she added.

Buerger, an alumnus of the SMU Directorship programme, took it one step further and proposed that directors should spend time at the company – at least a day per month – in order to understand what the organisation is doing and not doing. He acknowledged, however, that such "time" is not always possible for directors, who are more often than not, fully employed and engaged with multiple commitments. Perhaps board roles should be filled by semi-retired professionals, Buerger quipped. After all, can directors really give the right advice if they do not put in the time?

Pressed for a view, Gan said that the demands and responsibilities of directors

> "The board must be clear about what it means to be a director at the board-level, and what it means to be a manager… The board looks at the big things, like strategy and risks. Day-to-day business should be left to the management,"...
>
> Choo Chiau Beng

"We have many situations where boards are a little too hands-off… While the 'correct answer' lies somewhere in-between (non-intervention and intervention), I think it's better to start from (the latter) and then try to move back (to the former),"...

Gan Seow Ann

have increased in recent years. While he generally agrees with the other panellists that a fine balance must be maintained between directors and managers, he would prefer a situation where boards start from the "intrusive" side of the pendulum.

"We have many situations where boards are a little too hands-off… While the 'correct answer' lies somewhere in-between (non-intervention and intervention), I think it's better to start from (the latter) and then try to move back (to the former)," he said.

"It's a lot more difficult to start from the other (non-interventionist) end, and then try to tell the director that he needs to understand the company a lot more," Gan added. "The ground has shifted", so members have to either up their game or get left behind.

Gentlemen's Club… And No Gender Quotas, Please

Diversity is one important means by which boards can safeguard themselves from group-think. Yet, it would not be an exaggeration to say that most boards in Singapore are still, by and large, gentlemen's clubs.

According to the 2011 "Singapore Board Gender Diversity Report", 60 per cent of Singapore Exchange ("SGX") listed firms do not have a single woman on their board. Of the 5,138 directorships, 356 positions were occupied by 324 women – a paltry 6.9 per cent. Contrast this with Hong Kong's 8.6 per cent, Malaysia's 7.8 per cent, the UK's 12.5 per cent, or the US' 15.7 per cent. Meanwhile, Norway's 39.5 per cent – the highest in the world – has been attributed to the country's gender quotas.

None of the panel speakers seemed to be in favour of such quotas for Singapore, though everyone agreed that existing gender imbalances ought to be addressed. Gender representation is not easy to legislate, said Wong. On the one hand, legislation can encourage more women to step into arenas traditionally dominated by men, but on the other hand, it can be perceived as tokenism – the affirmative action versus meritocracy debate.

"Meritocracy" was the clear favourite amongst the panellists, all of whom, in their own words, argued that ability and aptitude know no gender.

"The key point is not about gender, but about competency; whether or not a director can contribute to the board and its functions," said Choo. However, he admitted that it has been difficult, however, to persuade women to take on directorships.

Adding to that difficulty is the fact that few Singapore females take on leadership roles, which, in turn, places women less favourably in the running for directorship positions. "It's a chicken and egg, because we can say we're looking for female directors, but then we don't have enough women in leadership," Koh noted.

Also, while it may seem like gender quotas have improved board compositions in some European countries, Gan noted that such policies are quite recent. So the jury is still out on whether or not increased female representation as such will translate to a more effective board.

Be that as it may, should regulatory bodies assume some responsibility in helping to bring more minority groups into boardrooms?

Gan is of the view that an effective board serves both majority and minority interests. "I think it is better that we do not go with a trend of being too prescriptive," he said.

"At the end of the day, there is a business to be run and you've got to allow some latitude for that… I think a board member's obligation is to the company and to shareholders in general – not particular shareholders. If a board director does his job well, he will be taking care of both the majority and the minority shareholders."

In the absence of quotas, the chairman has an important role to play when it comes to diversifying the board, Choo and Wong said – and one thing that chairmen of boards can do is to actively seek the participation of women.

"I like the idea of active seeking and active engagement – where the board goes out and makes extra effort to achieve (diversity)," said Buerger. However, "diversity" should not be limited to gender, but also different competencies, professional experience, race and age. "The spectrum can be much wider," he reminded the group.

Governance – More Than Just Rules

Companies like Enron and Lehman Brothers have catapulted buzzwords like "governance" and "risk management" to the forefront of public consciousness – and these words are, as such, talked about in board rooms – or are they?

"I wonder if boards are spending enough time on risk management," Gan asked, noting that while existing policies ensure that SGX-listed companies have audit, remuneration and nominating committees, "governance" also has much to do with studying the broader economic climate and wide market changes.

Gan believes that rules and regulations have a role to play, of course, but that these mechanisms do not ultimately determine effective "governance". Rather, it is the alignment between the board and management, together with board diversity, commitment, time, and passion that determines the extent of "governance".

From her own experience, Wong feels there is too much emphasis on directors' professional qualification. "A lot people

> "Your role on the board is to ensure that the company survives long term; that it is sustainable and profitable. A lot of this has to do with market positioning and corporate leadership in the light of industry changes. The worst thing you can do is to go to a board meeting without reading any of the papers and have not thought through the issues and questions,"…
>
> Jeanette Wong

look to fill functional gaps – the lawyer, the auditor, the C-suite leader", as opposed to looking at personality-fit and critical-thinking skills i.e. people who are courageous enough to challenge and speak up, and those who have the humility to accept contradictory viewpoints.

Such skill-sets are often overlooked. "The problem is (when) you haven't got people with the right temperament, the courage to disagree, or allow room for alternative counterpoints, then you will allow things to happen that shouldn't happen… and sometimes these things happen because people did not speak up or ask the right questions," she said.

"When board members get too cosy and start to get a little complacent and not question one another or question the management; that cosiness leads to group-think, and that can be dangerous," Gan added.

"At the end of the day, rules and laws will not prevent fraud," Choo said. "A lot ultimately depends on the people involved." ■

Congratulations
To the Inaugural Graduates of SID-SMU Executive Diploma in Directorship
And the second cohort of SID-SMU Executive Certificate in Directorship
15 November 2011

This event marks the graduation of the pioneer cohort of 20 directors and senior executives who have successfully completed the Executive Diploma in Directorship programme conducted by Singapore Institute of Directors (SID) and Singapore Management University (SMU). The programme comprises of six rigorous modules, complete with formal assessments. Through real life case studies and exchanges of personal experiences, the essential knowledge expected of company and board directors are discussed.

The partnership between SID-SMU was established in 2007 to jointly promote the upgrading and professionalisation of directorships. Since 2007, close to 200 directors and professionals have attended the various modules and 41 senior executives have been awarded the Executive Certificate in Directorship.

Graduates of Executive Diploma in Directorship 2011

- Mr Abdul Rashid Karyeo
- Mr Chandran Nantha Kumar
- Ms Chen Biqing Joyce
- Mr Chua Chee Thiam, Alvin
- Ms Cynthia M. Dickins
- Mr Jan Gert Vistisen
- Mr Jason Ho
- Mr Johan Grundlingh
- Mr Jonathan C.Y. Lee
- Mr Lee Chee Yeow, Francis
- Mr Lee Thang Chiang
- Dr Lim Chu Sing, Daniel
- Mr Ng Chee Seng
- Mr Peter Buerger
- Mr Sanjay Vasantrao Chavan
- Mr Steven Ng Kwang Seng
- Mr Tan Hee Meng, Lawrence
- Mr Tan Min Jih
- Mr Wu Wing Yeu, Michael
- Mr James Yip Mun Foong

Graduates of Executive Certificate in Directorship 2011

- Mr Allen Law Ching Hung
- Mr Boe Ragnar
- Mr Chan Kok Fai, Calvin
- Mr Chan Tuck Lee
- Mr Cheng Lim Kong, Peter
- Mr Choong Tuck Oon
- Mr David Anthony Lamb
- Mr Diren Peter Dorai Raj
- Mr Edbert Koh
- Ms Grace Chong Chui Peng
- Mr Koh Seng Geok
- Mr Lock Kai Sang
- Mr Martin Parent
- Mr Michael Teo Hong Wee
- Mr P'ng Chuen Ooi
- Mr Stephen Chan
- Mr Suresh H Punjabi
- Mr Teo Hong Hee
- Mr Teo Hong Yeow Chris
- Ms Wong Ai Lin, Aileena

This article was first published on 19 January 2012 in Knowledge@SMU. Permission to reprint granted by the Singapore Management University.

First Movers In Innovative Approaches Of Arts Sponsorship

Contributed by the
National Arts Council

Former President S R Nathan and Mr Frank Benjamin, Executive Chairman of F J Benjamin at a gala benefit dinner for SSO

As companies become more experienced in doing sponsorships, they tend to seek out more interesting and creative ways to help that are, at the same time, also better aligned with the company's brand position. The arts offer many interesting opportunities for such sponsorships.

Says Ms Yvonne Tham, Deputy Chief Executive Officer, National Arts Council: "The arts industry is full of creative people so it is not surprising that companies are able to find innovative sponsorship opportunities here."

Take the examples of Asia Pacific Breweries, F J Benjamin and Ernst & Young. These are three different companies from three completely different industries. The one thing they have in common though is that they are major supporters of the arts, albeit in very different ways.

Asia Pacific Breweries ("APB") Foundation promotes contemporary Asian art by sponsoring an arts prize while high-end fashion retailer F J Benjamin encourages young classical musicians through bursaries and a competition. Ernst & Young, on the other hand, has turned over part of its office into a gallery space to showcase young artists from around Asia.

Why do they support the arts? For APB Foundation, supporting the arts is about quality of life. "Our support of the arts stems from the belief that a vibrant arts scene represents the pulse and creativity of the people and significantly contributes to quality living," says Mr Roland Pirmez, Chief Executive Officer, Asia Pacific Breweries Limited.

Mr Nash Benjamin, the Chief Executive of the F J Benjamin Group, believes it is an obligation to give back to society. "Being a public company, we have social responsibilities," he says. "We see art as having the potential to make society better, more refined and more reflective."

Mr Ong Yew Huat, the Executive Chairman of Ernst & Young, says that arts and culture are crucial to Singapore. "Our history doesn't go back thousands of years; hundreds only. Having a short history, it is so much more important to find the common origins of what shapes us."

That all three companies have taken different approaches to supporting the arts, demonstrates the many possibilities

Mr Roland Pirmez of the APB Foundation, with the Signature Art Prize Jurors' Choice winners (from left to right): Indian artist Ms Sheba Chhachhi, Australian artist Mr Daniel Crooks, Japanese artist Mr Aida Makoto

available for companies interested in getting involved. APB Foundation, for example, focuses on contemporary art and artists from Asia and works with the Singapore Art Museum to encourage contemporary Asian artists through the Signature Art Prize.

The Signature Art Prize is a triennial premier art prize that was first launched in 2008 and aims to recognize and promote contemporary art in Singapore and the region by acknowledging significant visual artworks created across the Asia Pacific region in the preceding three years.

This collaboration came about because the foundation saw a gap it could fill and an experienced partner who shared its vision. Says Mr Pirmez: "In recent years, we have seen a growing worldwide interest in contemporary Asian art with its specific and unique aesthetic language. Despite this, there have been very few institutionally-led directions in supporting contemporary art in the region. We had a desire to fill this gap and our decision to work with the Singapore Art Museum (SAM) was encouraged by their focus on promoting and developing contemporary art and artists in Asia, with a particular interest in those from Singapore and Southeast Asia. With APB Foundation's firm commitment to nurturing the development of a vibrant arts scene in the region and cultivating artistic talent and audiences for contemporary art, we saw an alignment with SAM's initiatives."

The foundation has since worked closely with SAM and has established an engaging and meaningful partnership through the APB Foundation Signature Art Prize that it hopes will further foster artistic talent and bolster the growth of human capital in the region.

Following the success of the inaugural edition in 2008, APB Foundation doubled its funding for the APB Foundation Signature Art Prize from $2.25 million to $4.45 million.

This increased funding support for the 15-year partnership allowed the foundation to create opportunities for a wider pool of talented artists from across the entire Asia Pacific region to participate, says Mr Pirmez. "It is hoped that the APB Foundation Signature Art Prize will continue to grow to become an award which validates artists and their work, providing not just financial support but also a level of recognition for their successes."

While APB Foundation worked with visual artists, F J Benjamin focused on music. The company worked with the Nanyang Academy of Fine Arts (NAFA) and the Singapore Symphony Orchestra (SSO) to launch the F J Benjamin Music Award in 2011 with two initiatives to boost the development of music in Singapore – the F J Benjamin-NAFA SYT Music Competition and the F J Benjamin-SSO Bursary.

"It is my dream to see a young Singaporean music talent perform on the world stage," says Mr Frank Benjamin, Executive Chairman and founder of F J Benjamin Holdings. "With this award, we wish to encourage greater music excellence by giving additional opportunities to potential music greats to improve their skills.

"In addition to current government funding for the arts, we hope to take the lead to spur on other private organisations to support the many young music talents we have in our midst. Every gift must be treasured and the right training needs to be provided to shape their artistic development and

refine their skills."

Ernst & Young takes a different tack. Through the Ernst & Young Asean Art Outreach, struggling artists from Asia have the opportunity to be exhibited in Singapore in front of a well-heeled crowd.

Rather than working with a partner, the well-known international accounting firm relies on the personal contacts of Mr Ong, its Executive Chairman who is an art lover himself. As a result, Ernst & Young also goes beyond providing financial assistance. Every four months, the walls of the company's 17th and 18th floors at its One Raffles Quay headquarters are graced with paintings from a new artist selected by Mr Ong.

Mr Ong Yew Huat with Ernst & Young Asean Art Outreach featured artist Ha Manh Thang (Painting : Self portrait 2, c 2008, oil on canvas).

From his contacts among the arts community, he identifies artists who are established but who are under the radar. Once selected, the artist only needs to bring his or her works to Singapore; Ernst & Young's gallery space can exhibit up to 30 works at a time. The firm designs the catalogue in-house according to a template, prints 800 copies and distributes them to an exclusive list of clients, friends and art lovers. All paintings are for sale.

Ernst & Young does not charge a gallery fee for the exhibition. Instead, in an interesting twist, 20 percent of the proceeds from the sale is given to charity instead. Buyers write two cheques, one made out to the artist and the other made out to one of the firm's three regular charities: Lion's Befrienders Services, Club Rainbow or the Cancer Research Foundation.

"This way, it helps the artist, it helps the charity and it gives the buyer a good feeling," notes Mr Ong.

The Ernst & Young Asean Art Outreach has been going on since 2007. Mr Ong says that they have been successful because they have the advantages of good space, location and traffic. In fact, the office was designed with the art space in mind, with sliding rails and solid (instead of glass) walls to hang paintings on. Being in the business district means that it is easy for people to get to. Finally, the firm regularly meets clients in its office, thus providing a market. "It's not the art collector traffic but it is good business traffic, lawyers and bankers and such," says Mr Ong.

The initiative is now so popular that people ask for previews. Naturally, as the organiser, partners at the firm get an early peek but the firm has developed a process for handling a situation when one of the partners is interested in a work that someone outside might also be eyeing. When this happens, they offer essentially a silent auction, giving the work to the person willing to pay more than the sticker price, with the extra money going to charity.

There is no shortage of good causes in the arts to choose from, so the secret is to find a connection. In the case of Ernst & Young, Mr Ong is an art collector himself whose interest in the arts was sparked as a child learning to do charcoal sketches under avant garde Chinese painter Chen Wen Hsi. Mr Ong was one of the neighbourhood boys at Kingsmead Road who benefitted from the personal tuition of one of Singapore's leading pioneer artists.

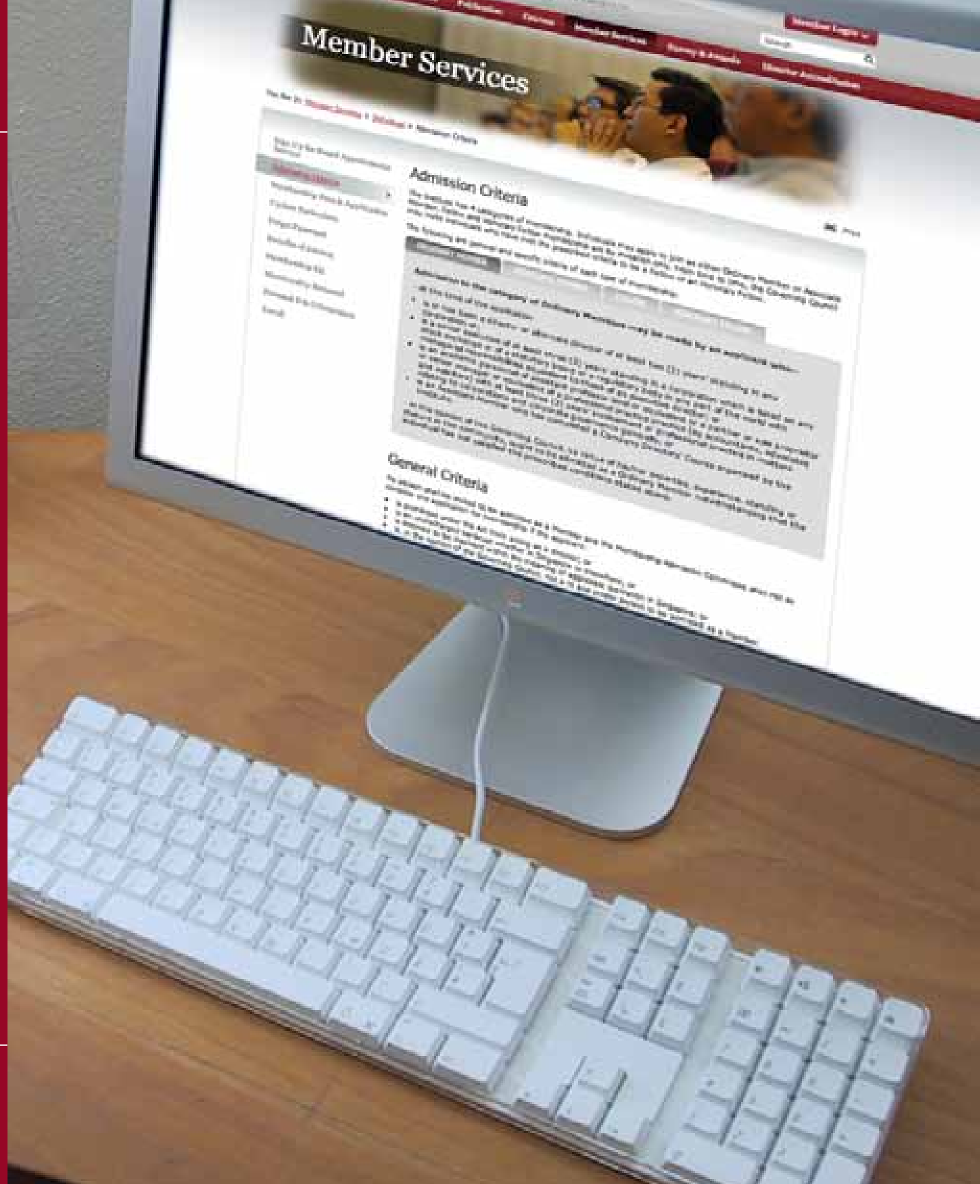
In the case of F J Benjamin, there is a personal connection with music through Mr Douglas Benjamin, the Chief Executive of F J Benjamin Singapore, who is the nephew of Mr Nash Benjamin. Douglas' wife, Odile, is a lover of classical music. She joined the Singapore Symphony Orchestra Ladies League in 2004 and was appointed Chairlady just two years later. In 2008, she was appointed to its Board of Directors and it was her love for music that steered the group to focus on the SSO.

Mr Nash Benjamin recommends that companies interested in sponsoring the arts find a champion who has that personal connection. "Some kind of affinity must be the first link," he believes.

Adds NAC's Yvonne Tham: "It's great if there is an internal champion who is passionate about the arts. If not, the NAC is able to help. We can recommend suitable arts programmes that promote employee engagement bonding, as well as match companies' CSR interests with arts groups or projects to deepen employees' connection with the arts."

To learn more about sponsoring the arts, email jenny_teo@nac.gov.sg ■

SID's Newly Revamped Website



The Institute has recently spotted a newly revamped website. It gives a bird's eye view of the upcoming courses and events as well as the services provided. Core programmes offered are the Listed Company Director (LCD) Programme and the Effective Board Leadership (EBL) Programme, each comprising 5 modules.

The services provided are as follows:

- Board Appointment Service (BAS)
- Board Advisory Services
- Corporate & Individual Membership
- Board of Directors Survey
- NED Fees Report

Please visit our website at www.sid.org.sg to find out more!

Achieving Effective Internal Audit – What AC & The Board Must Know

The half day seminar, jointly organised by SID, RSM Ethos and The Institute of Internal Auditors Singapore (IIAS), was held on 6 December 2011 at Raffles Hotel. It provided insights to the Board on the responsibilities and scope of work that an internal audit (IA) function should perform to effectively assist the Board in discharging its governance responsibilities.

Ms Tan Peck Leng, immediate past president of IIAS, Ms Tan Boon Yen and Ms Jenny Tan of RSM Ethos, discussed whether IA functions were doing enough to enhance corporate governance and how these functions be given sufficient mandate to be performed effectively. Joining the speakers at the panel discussion were Mr Derrick Lim, Divisional Vice-President of Internal Audit, Singapore Airlines, and Mr Reggie Thein, Vice-Chairman of SID and audit committee director/ chairman of several listed companies.

SID thanks the speakers and panellists for their contributions as well as the participants for their presence. ■

Dealing With The Proposed Changes To The Singapore Code Of Corporate Governance And New Listing Rules

How Should Boards And Independent Directors Respond?

On 13 January 2012, at Marina Mandarin Hotel, Mr Irving Low, Head, Governance, Risk and Compliance Services of KPMG Advisory LLP and Mr Tan Chong Huat, Managing Partner of RHL Law LLP discussed the implications the proposed changes to the Code of Corporate Governance and SGX Listing Rules 719 and 1207(10) have on the Board and the audit committee. The presentation also touched on the differences between the changes and the negative assurance required under the existing Rule 705 and the internal controls under Principle 12 of the Code of Corporate Governance.

Joining the lively panel discussion together with the speakers were Mr Adrian Chan Vice-Chairman of SID and Senior Partner of Lee & Lee and Mr Soh Gim Teik, Council Member of SID and Finix Corporate Advisory LLP. All in all, it was a well received breakfast session attended by more than 60 participants. ■

Adrian Chan
Irving Low
Tan Chong Huat

Personal D&O Insurance

Allianz Insurance Company of Singapore Pte Ltd and Aon Singapore Pte Ltd in collaboration with the Singapore Institute of Directors (SID) have recently launched a Personal D&O Insurance program exclusive to SID members, protecting them against liability arising from their responsibilities as a director, of up to $1 million. The first group of policies has already been issued on the 15th October 2011.

Personal D&O Insurance provides similar protection as traditional D&O Insurance policies, but is taken out in the name of an individual director or officer rather than as an entire board of directors. Cover can be provided for up to three separate directorships.

Why Is It Necessary?

Personal D&O Insurance provides directors and officers with an individual, portable policy for their exclusive benefit. Such cover is relevant to all directors, and is of particular importance to the following:

- Directors of companies that do not purchase D&O Insurance.
- Directors of companies that purchase inadequate insurance, whether in terms of breadth of cover or policy limit.
- Independent directors.
- Directors who are resigning or retiring from their positions, and who seek run-off protection.
- Professionals who assume positions on client company boards.

"Independent directors are uniquely exposed to liability arising from the companies whose boards they sit, while lacking the ability to directly assure that the company purchases relevant insurance coverage to respond to these exposures," said Mr James Amberson, Regional Manager of Financial Lines for Allianz Insurance Company of Singapore. He added that the insurance program developed in collaboration with Aon and SID is a proactive response to this issue and provides directors with the opportunity to mitigate this risk for themselves.

We are delighted to partner with Allianz and the SID in providing this innovative protection to directors in Singapore. Personal D&O Insurance provides the opportunity for directors to control the breadth and level of protection available to them," said Mr Michael Griffiths, Director of Professional Services at Aon Singapore.

Exclusive to SID Members

Personal D&O Insurance cover is available exclusively to SID members.

A $1 million Personal D&O Insurance policy covering up to three separate directorships will cost S$1,000 plus GST.

For further details please refer to the SID Website,
or call Gladys Ng at Aon Singapore on 6239 8880 or email gladys.ng@aon.com.

SAVE THE DATE

SID

Singapore Institute of Directors

SID DIRECTORS CONFERENCE 2012

Corporate Governance In A New Normal

The annual one-day conference organised by Singapore Institute of Directors (SID)

9.00 am to 5.00 pm, Wednesday, 12 September 2012

Marina Bay Sands, Singapore

Keynote Speaker:

Barbara Hackman Franklin

Chairman Of National Association Of Corporate Directors

"Corporate Governance In A New Normal" features speakers exploring the contemporary issues in governance from an International and Asian perspective. Apart from the keynote addresses and the first panel discussing the key Theme, there will be 2 other panel discussions on the subjects of "Board Diversification & Dynamics – Finding The Right Director" and "Fusion Of Businesses In Social Sectors". The Conference is expected to be a draw for company directors from Singapore and the region, and we are looking at in excess of 500 delegates.

For those involved in corporate governance - whether as directors or as observers and supporters - this is the conference to attend.

Upcoming Talks/ Courses

Upcoming Events

MARCH 2012

Wednesday, 7 March	LCD Director Programme Module 1 Listed Company Director Essentials: Understanding The Regulatory Environment In Singapore: What Every Director Ought To Know
Wednesday, 9 March	SID-RSM Ethos-IIAS How Boards Can Work With The Internal Auditor & Management To Satisfy Regulatory Requirements On Internal Control
Wednesday, 21 March	LCD Director Programme Module 2 Audit Committee Essentials
Wednesday, 28 March	LCD Director Programme Module 3 Risk Management Essentials

APRIL 2012

Wednesday, 4 April	LCD Director Programme Module 4 Nominating Committee Essentials
Wednesday, 11 April	LCD Director Programme Module 5 Remuneration Committee Essentials
Tuesday, 17 April	Effective Board Leadership Programme Module 1 Effective Board

MAY 2012

Thursday & Friday 17 & 18 May	LCD Mandarin Programme in Qingdao
Wednesday, 23 May	EBL Module 2 The Board and Fund Raising
Tuesday, 29 May	LCD Director Programme Module 1 Listed Company Director Essentials: Understanding The Regulatory Environment In Singapore: What Every Director Ought To Know
Wednesday, 30 May	EBL Module 3 Enterprise Risk Management

SID-SMU Executive Certificate in Directorship

Modules	Programme Dates	Assessment Date
Module 1: The Role Of Directors: Duties, Responsibilities & Legal Obligations	10 to 12 April 2012	Take-home assessment
Module 3: Finance For Directors	21 to 23 March 2012	Take-home assessment

Welcome Aboard

January 2012

Ang	Eng Hieang
Arumugam	Umavathy
Chin	Chung Keong
Egerton	Anthony
Ho	Jason
Ho	Teik Tiong
Khong	Kok Toong
Koh	Tong Por Moses
Kuek	Tee Meng
Lai	Wai Keen
Lai	Foong Nin
Lim	Chin Hu
Lim	Bee Ing
Loo	Hock Leong
Mohamed Gani	Mohamed Ansari
Narayanan	Narasimhan
Ng	Angie
Ng	How Hwan Kevin
Samuel	Kamal
Sibbing	Mattijs
Tan	Meng Khiang
Tang	Kwok Wah
Tay	Poh Har
Teng	MK Jenny
Teo	Piang Nien Gary
Thng	Patrick
Ting	Hock Ming Victor
Zhang	Kathy

Call for articles, thoughts, snippets, etc.

The institute would like to hear from you. Send us aricles, 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

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

tricor

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@tricor.com.sg
www.tricor.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.