

Findings on the Singapore Governance & Transparency Index (SGTI) 2017

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Singapore Governance & Transparency Index (SGTI)

A Collaboration Between



Centre for Governance, Institutions and Organisations
NUS Business School



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THE BUSINESS TIMES

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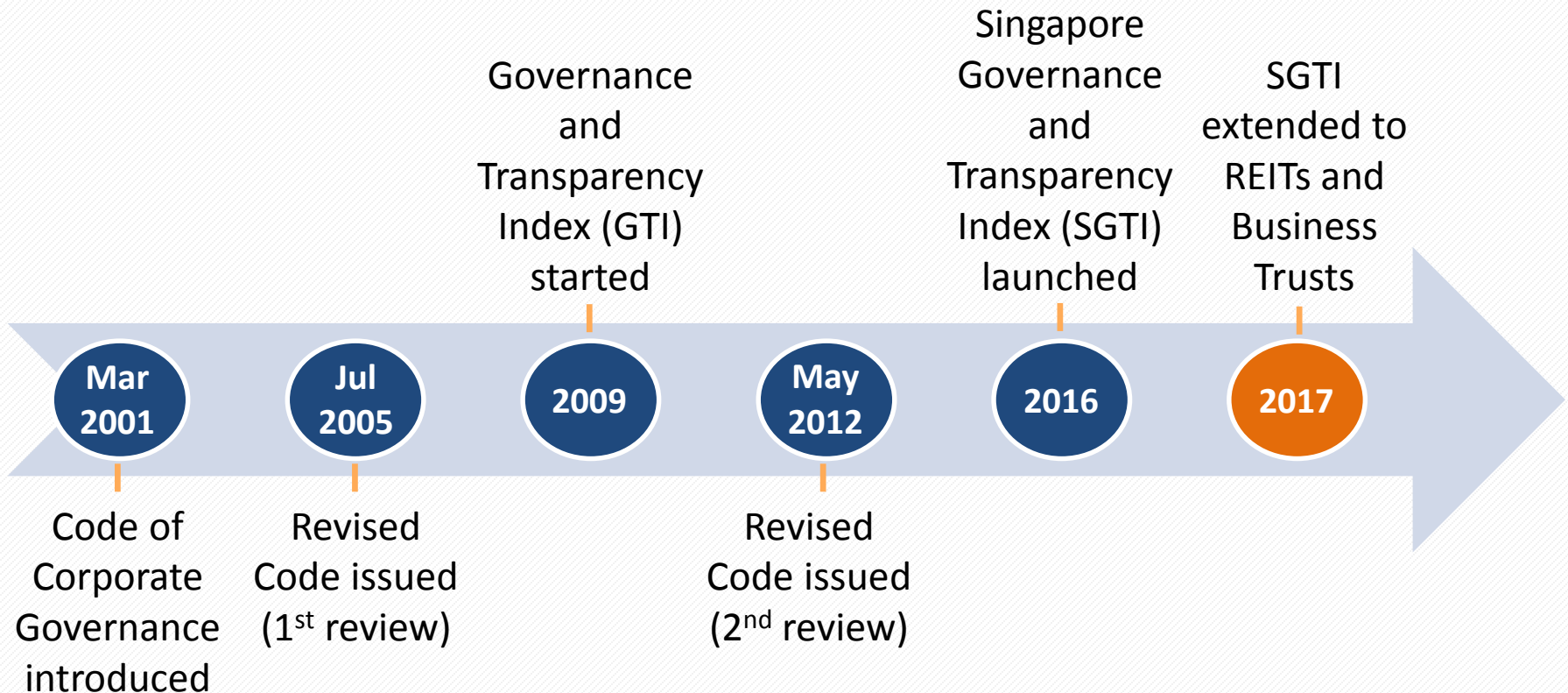
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Singapore Corporate Governance Developments



Extending the SGTI to REITs and Business Trusts

The Business Times
Thursday, August 4, 2016

“We are targeting to launch a ranking of REITs and business trusts by this time next year.”

Corporate governance scores are at a high, but concerns remain

Singtel, DBS Group, SGX top rankings; but panellists point to governance shortfalls among lower-ranked companies

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SINGAPORE companies have achieved record-high scores in the annual corporate governance scorecard – which gives reason enough to cheer, except that industry watchers say that many practices in reality leave something to be desired.

The individual score and overall ranking of each Singapore-listed company were unveiled at the Singapore Governance & Transparency Forum on Wednesday.

Singtel topped the scorecard for the sixth time, and the average score for ranked companies hit an all-time high.

However, panellists at the event, which included the chief regulatory officer of the Singapore Exchange (SGX) Tan Boon Gin and investment manager Hugh Young, were less than sanguine about the performance; both noted the number of “worrying signs” pointing to less-than-ideal corporate governance practices of listed companies here.

The rankings in the Singapore Governance & Transparency Index (SGTI)

are an enhanced version of the Governance and Transparency Index (GTI), which has been published in previous years; the SGTI incorporates new elements such as a section on shareholder engagement, and the Principles of Corporate Governance of the Group of 20 (G20) and the Organisation for Economic Cooperation and Development (OECD).

The index is jointly published by CPA Australia, the NUS Business School’s Centre for Governance, Institutions and Organisations (NUS CGIO) and the Singapore Institute of Directors (SID), with *The Business Times* as strategic media partner.

Singtel was ranked the most well-governed and transparent company in a field of 631 companies this year, on the basis of its robust disclosure of board responsibilities and exact executive remuneration, and its stakeholder-engagement practices.

DBS Group Holdings took second spot in this year’s rankings, while SGX and CapitaLand came in third and fourth respectively; Keppel Corp was ranked fifth.

The mean score rose to an all-time high of 49.7 points, above the 47.6 points from last year.

Still, the positive showing belies more worrying trends in reality, said panellists at the forum.

They noted that Singapore companies were good at complying with mandatory requirements, but less so when it came to voluntary practices.

John Lim, chairman of Boustead Projects and former chairman of SID, pointed out that, while the mean score had increased over the years, it was “still fairly low”.

“And, while we have improved, it is also important to ask: How are our neighbours doing?” he said.

Mr Young, managing director of Aberdeen Asset Management Asia, added that, “unless you mandate things, companies are not exactly rushing to embrace (new practices), other than the companies who receive awards”.

Companies tend to put out “pages and pages of boilerplate disclosures”, he added; on the other hand, information that should be included – and which are not terribly costly to disclose, such as the bands under which the various directors’ pay falls – is not included.

“The cost of doing that is basically zero, but people don’t want to do it,” he said.

Mr Young added that corporate governance issues stem from boards

not being renewed enough, and that Singapore companies seem reluctant to part with senior board members who have been there for a decade.

SGX’s Mr Tan said the SGTI findings resonated with a study on the corporate governance practices of Singapore companies which the SGX released earlier this year, in that there was room for improvement when it came to non-mandatory practices.

“Areas in which companies did the best were where we provided the most guidance and where it is mandated in some form or other in the listing rules,” he said.

In what was perhaps a suggestion that stronger regulatory presence was needed, he quipped at a later point in the discussion:

“There’s a saying ‘Integrity is what you do when no one’s watching’.

What I believe is, ‘Integrity is what you get when somebody is watching you all the time’.”

Well-known corporate governance advocate associate professor Mak Yuen Teen later raised a question from the floor about an apparent disconnect between the improving scores in index and what plays out in practice:

“Is there perhaps a change in the distribution in the scores? Maybe the good ones are getting better? Because we can see that the companies in the bottom tier are not doing so well.”

Associate Professor Lawrence Loh who is CGIO director and who prepared this year’s index, replied: “The best are getting better, and the worst are getting worse. One of the charts plotted shows that the standard deviation has increased over the years.”

Also announced at the forum on

Wednesday was the plan to include real estate investment trusts (Reits) and business trusts in the SGTI. These are now excluded because of their different set-up and structures.

Philip Yuen, chief executive of Deloitte South-east Asia and the Singapore divisional president of CPA Australia, said in his welcome address on Wednesday: “There is a vibrant Reits and business-trust market in Singapore

“There are also enhanced regulatory requirements for governance in this category of listings. So, we believe the time is right to give focus to governance issues at Reits and business trusts. We are targeting to launch a ranking of Reits and business trusts by this time next year.”

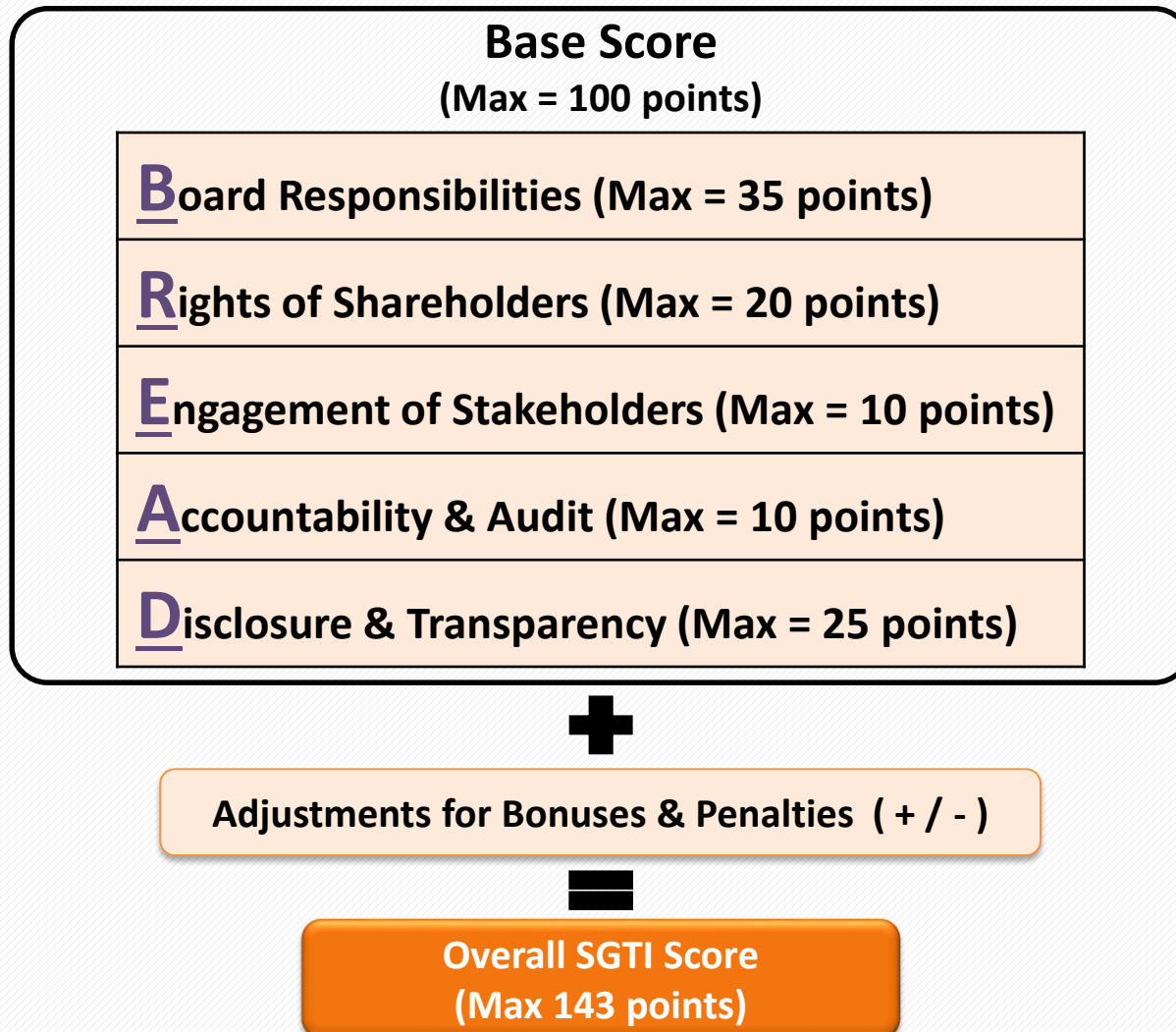
◀ Full Singapore Governance & Transparency Index rankings and commentary, Pages 10-11

SGTI Assessment - Information Sources

- Annual reports released as of 31 May 2017
- Corporate websites
- Company announcements on SGX: 1 Jan 2015 to 31 Dec 2016
- Media coverage from 1 Jan 2015 to 31 May 2017
- Responses from companies' Investor Relations

General Category

General Category - Scoring Structure



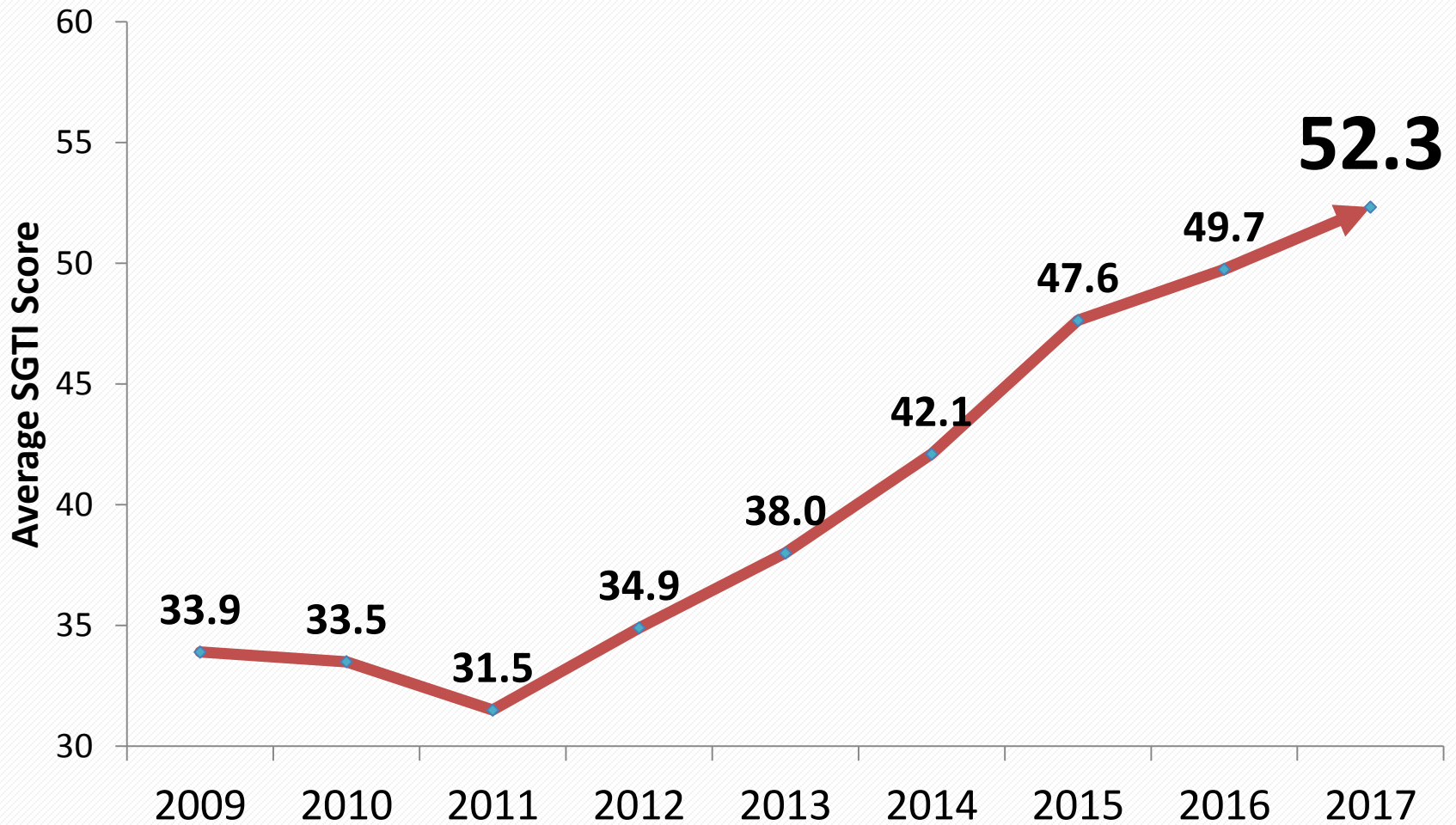
General Category - Data Coverage

606 companies that released annual reports for Financial Year end 2016

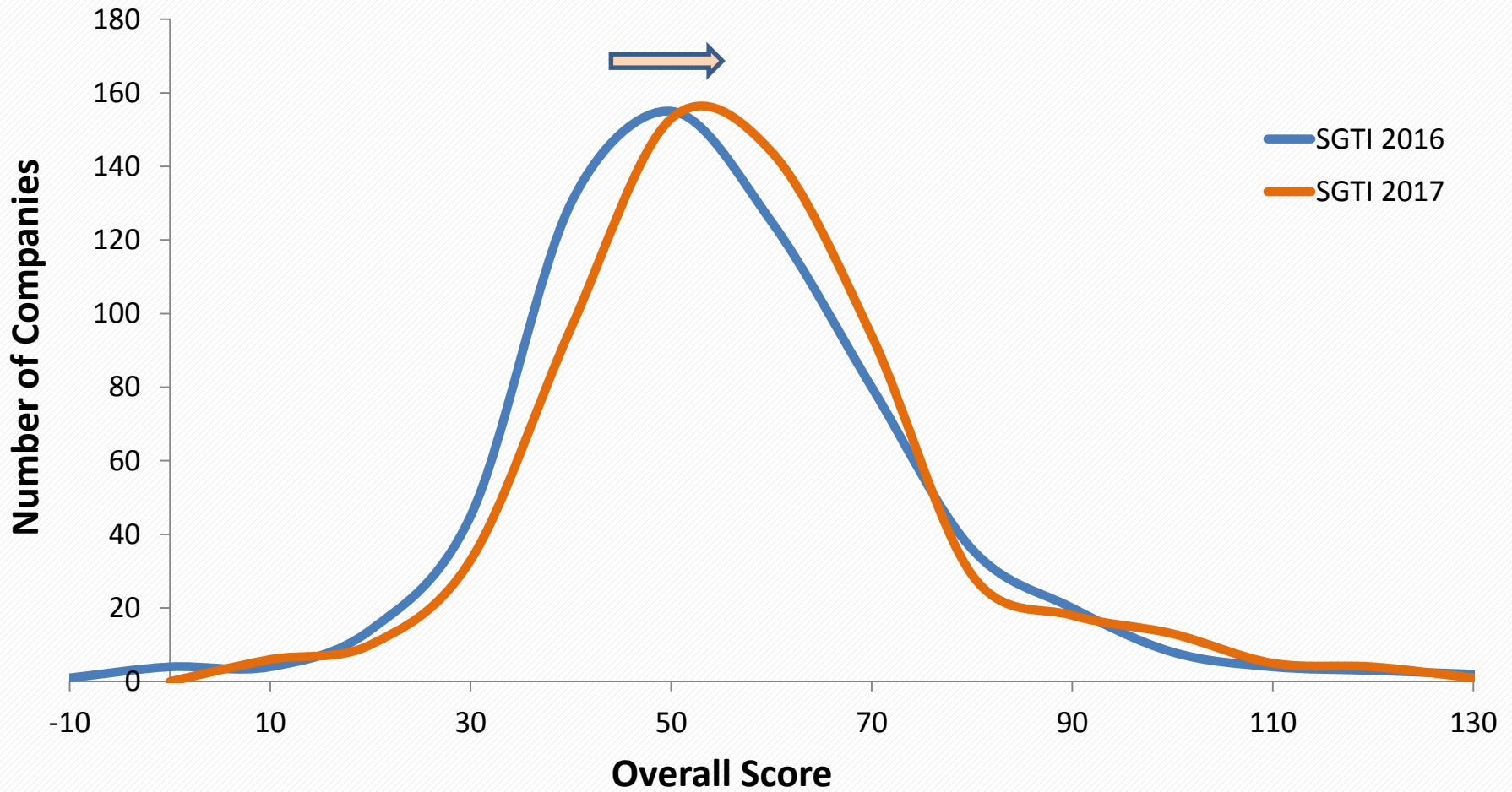
114 companies excluded

- Newly-listed companies that do not have a full year's financial report (**17**)
- Companies that are listed as secondary listings on SGX (**36**)
- Company that complied with another code of corporate governance (**1**)
- Funds (**9**)
- Companies that are suspended from trading (**50**)
- Company that did not release annual report for the past 2 years (**1**)

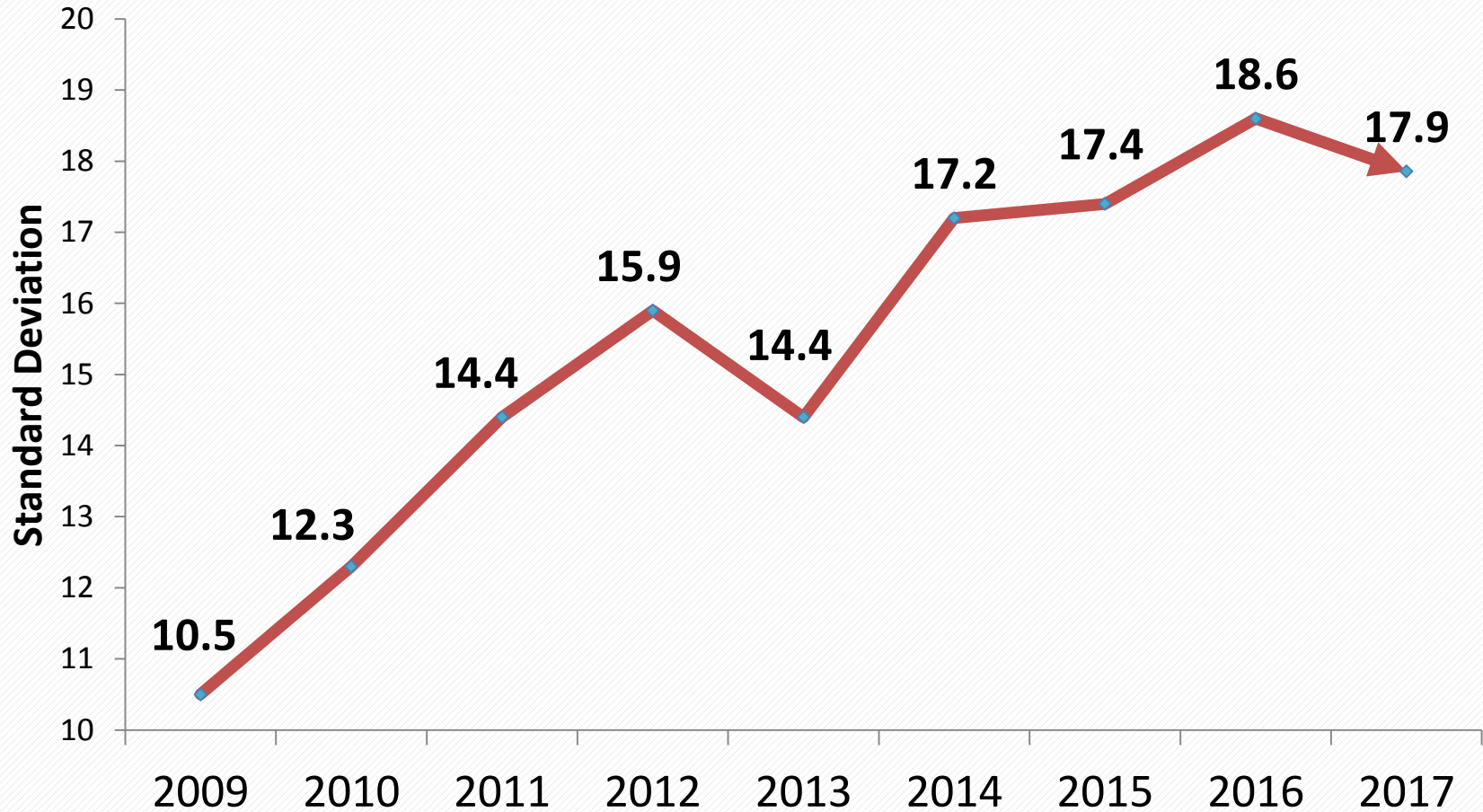
Overall Trend



Score Distribution



Score Dispersion Trend



Key Findings

Board Responsibilities



- Board Competencies & Appraisal
-

Rights of Shareholders



- Shareholder Communication
-

Engagement of Stakeholders



- Disclosure of Relevant Policies & Practices
-

Accountability & Audit



- Risk Management
-

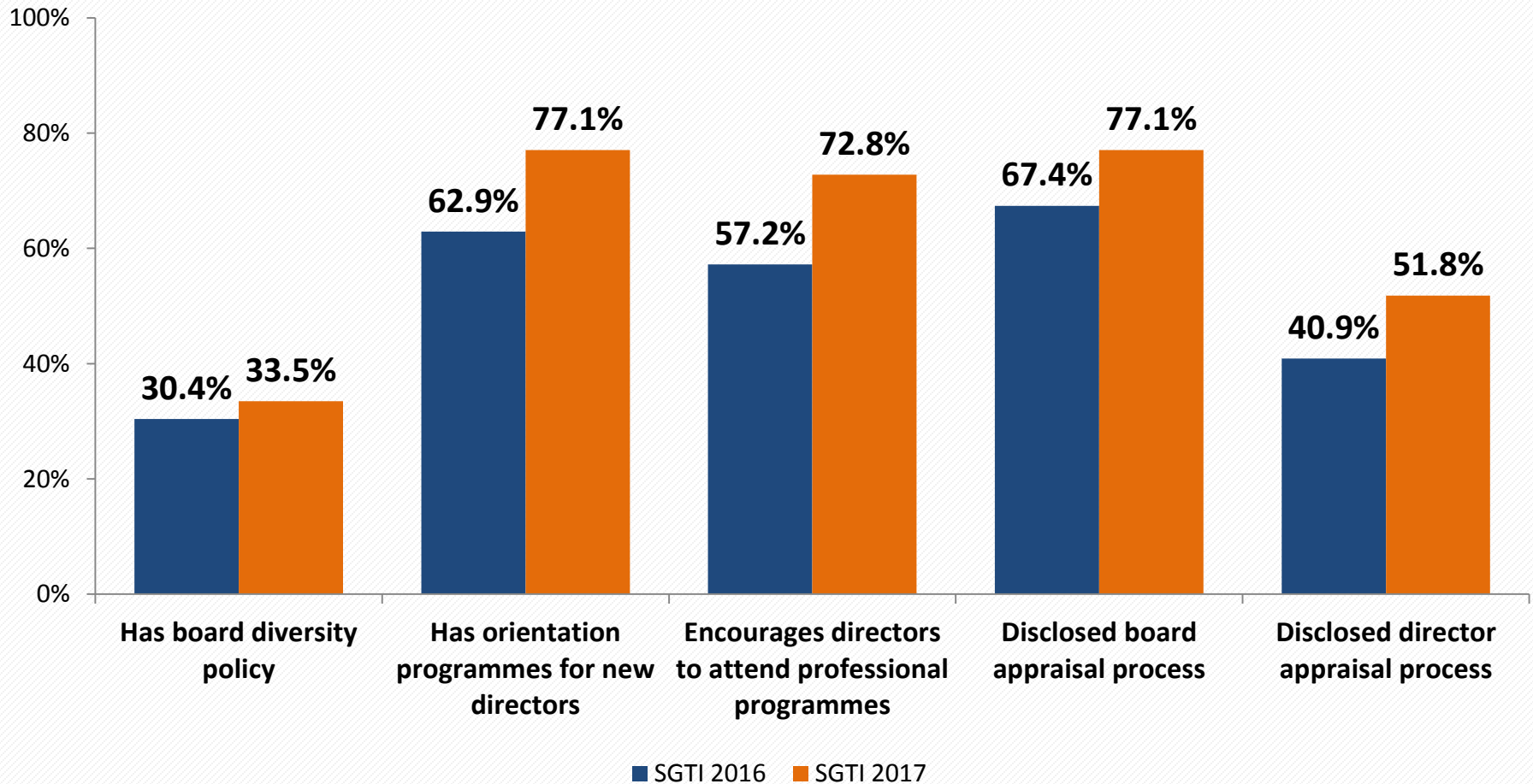
Disclosure & Transparency



- Interested Person Transactions (IPTs)

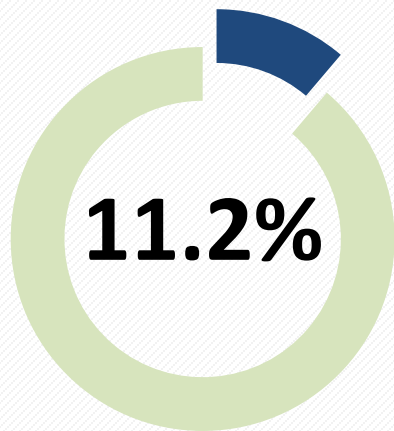
Board Responsibilities

Board Competencies & Appraisal

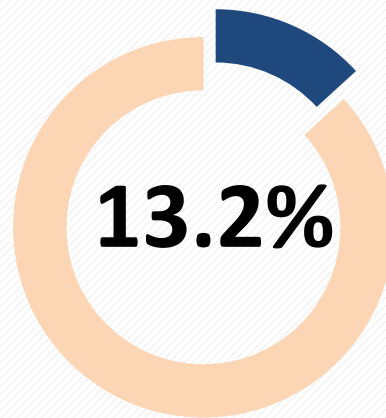


Rights of Shareholders

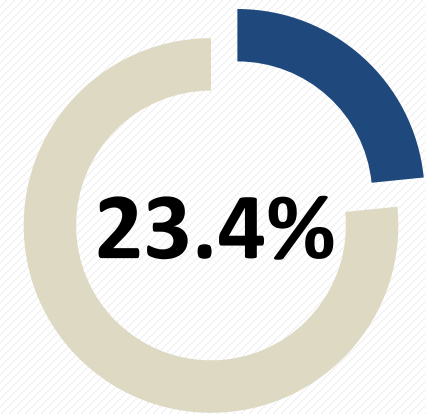
Shareholder Communication



Analyst's briefing



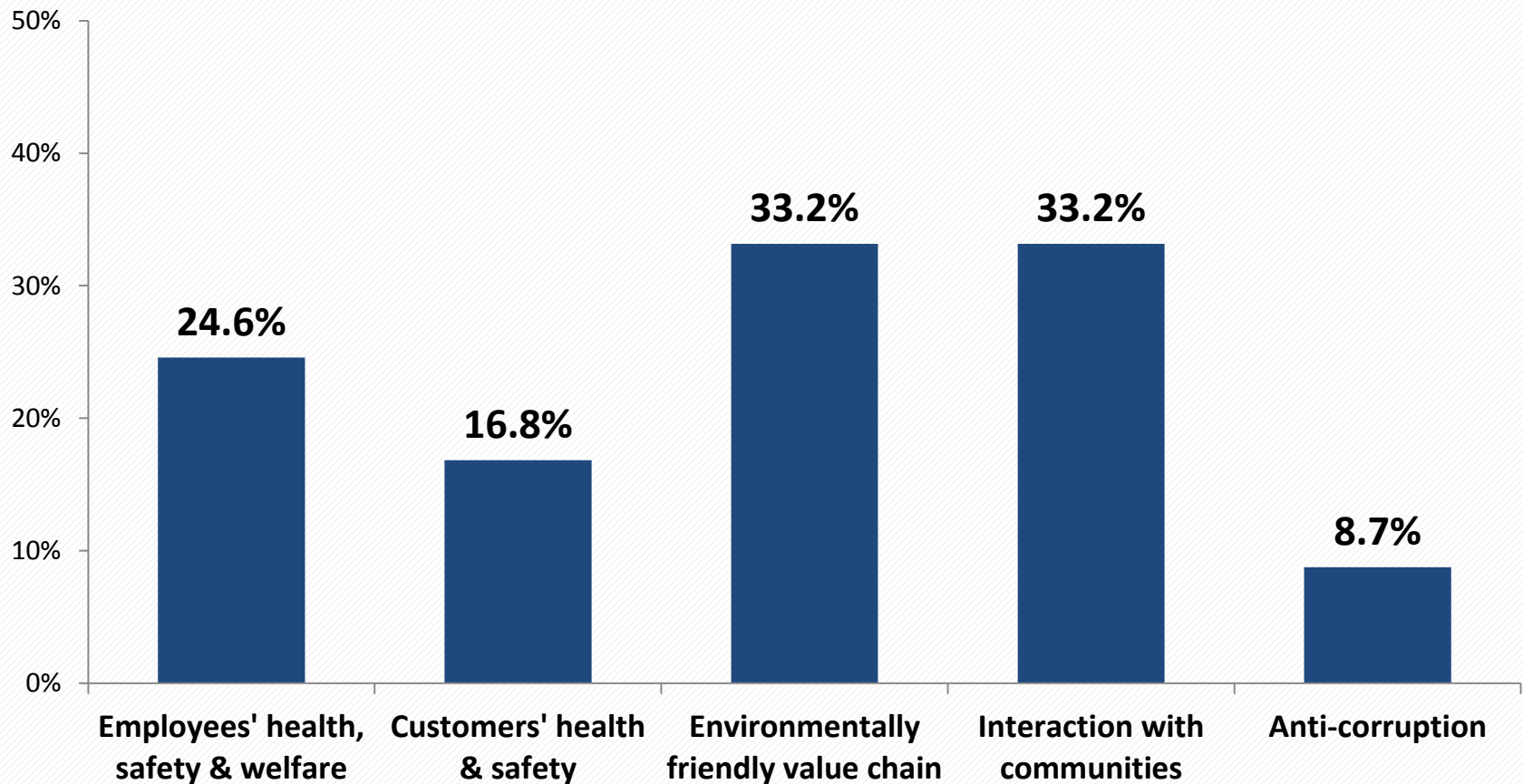
Presentation slides available on SGXNet/website



Media briefings/press conferences

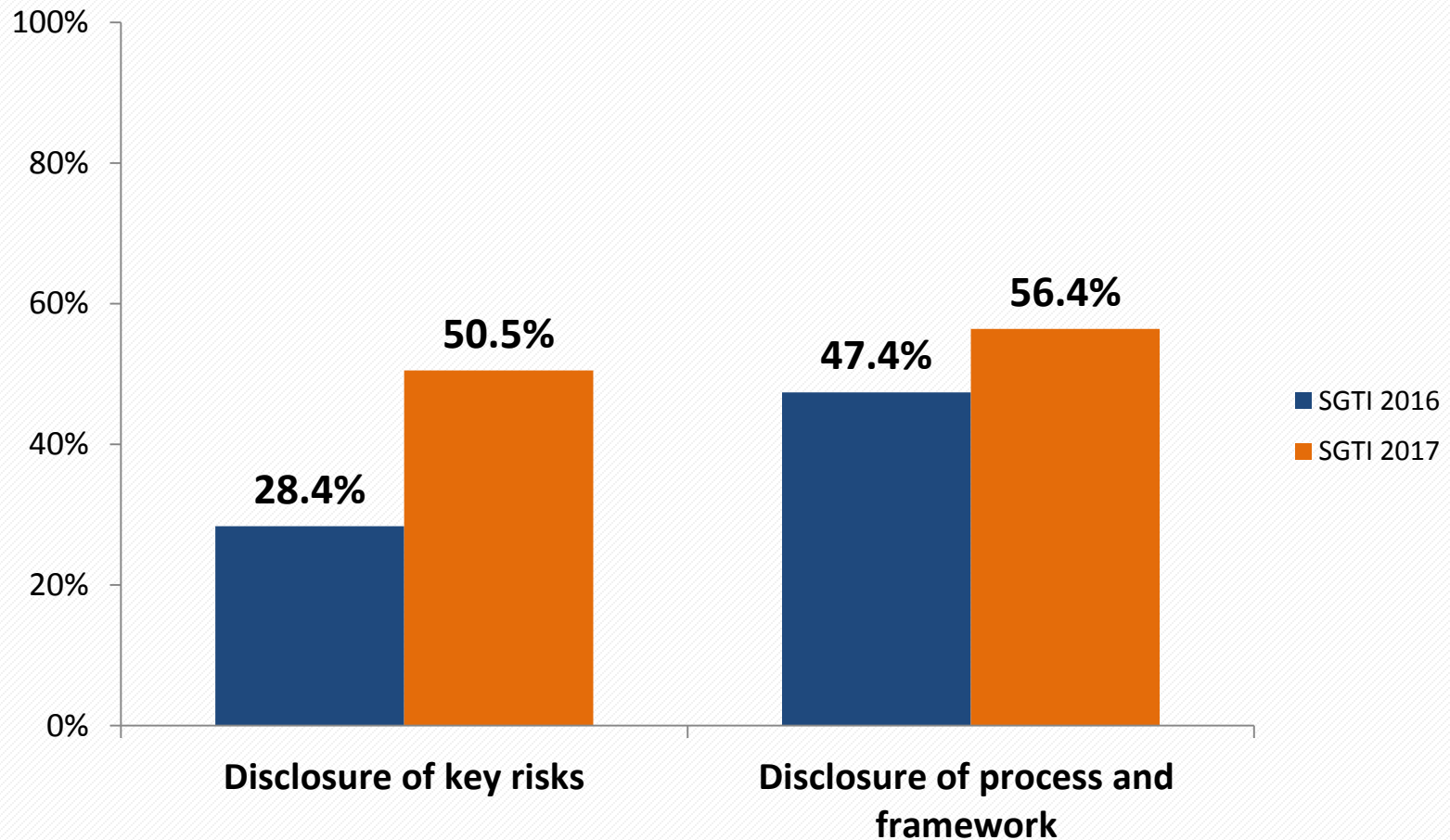
Engagement of Stakeholders

Disclosure of Relevant Policies & Practices



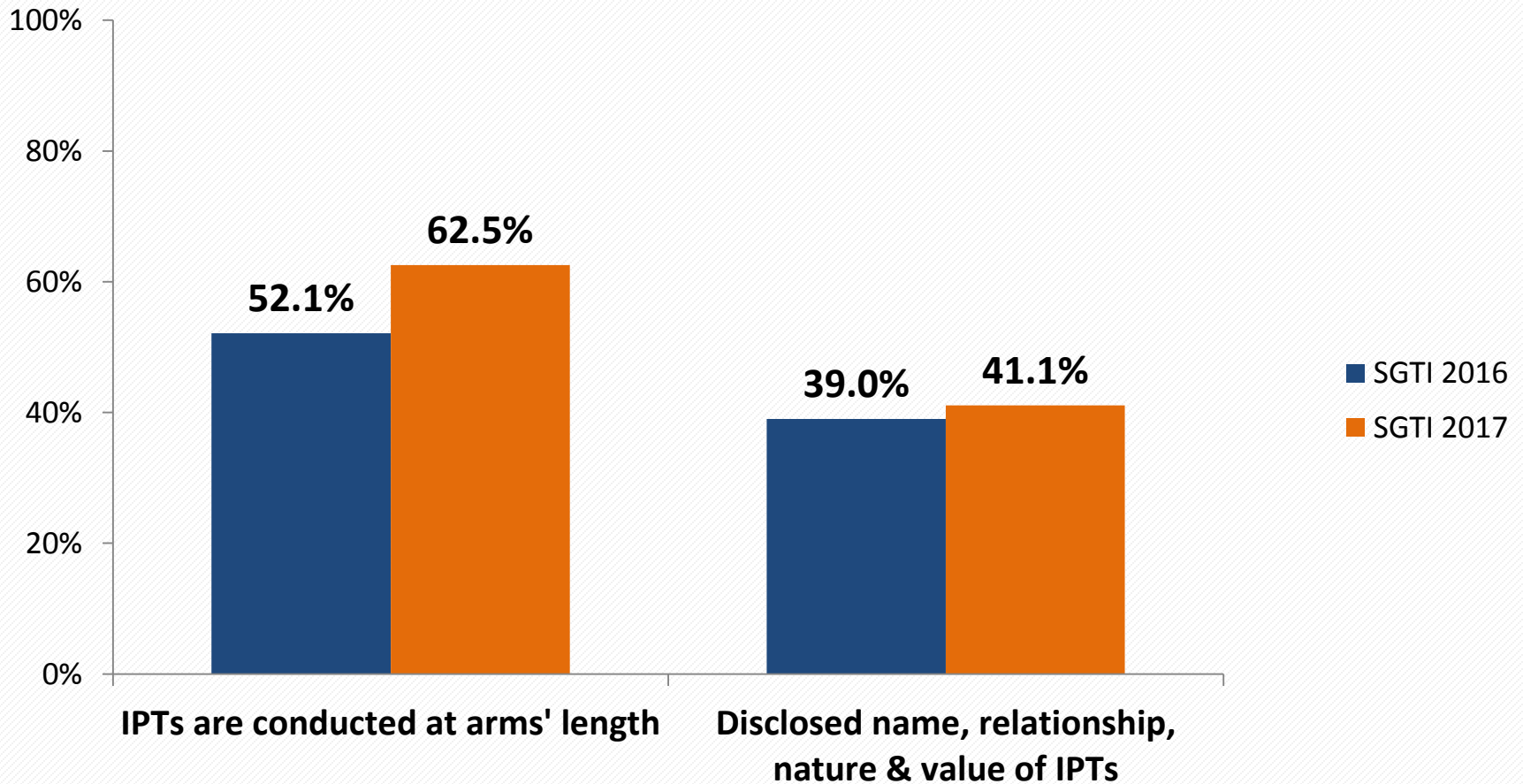
Accountability & Audit

Risk Management



Disclosure & Transparency

Disclosure of IPTs



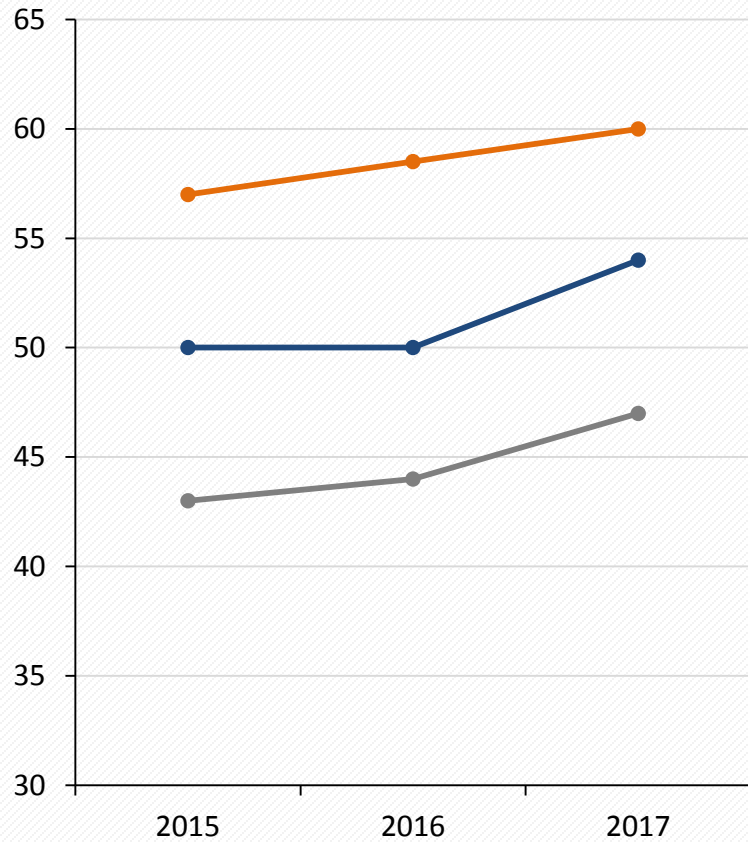
Comparison amongst Components: The Big Cap Effect

	Average Score by Component				
	<u>B</u> oard Responsibilities (35 points)	<u>R</u> ights of Shareholders (20 points)	<u>E</u> ngagement of Stakeholders (10 points)	<u>A</u> ccountability & Audit (10 points)	<u>D</u> isclosure & Transparency (25 points)
Big Cap	24.0	15.0	6.1	7.9	18.2
Mid & Small Cap	17.8	12.6	2.7	7.1	12.8
Score Difference	6.2	2.4	3.4	0.8	5.4
Score Difference (% of Max Points)	17.7%	12.0%	34.0%	8.0%	21.6%

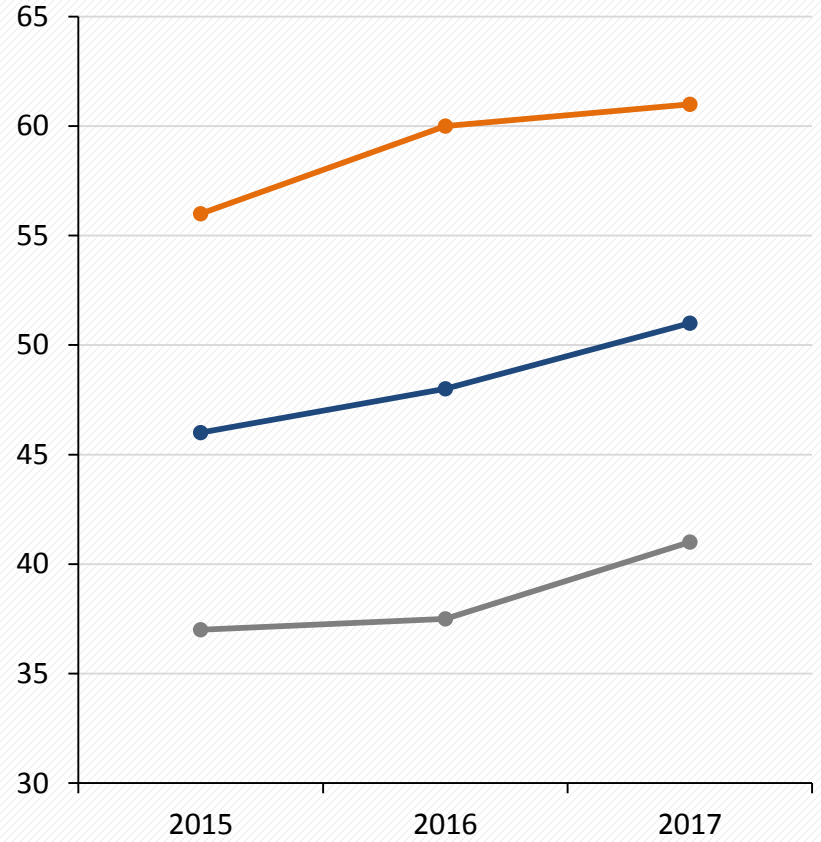
Note: Market capitalisation: Big Cap – more than S\$1 billion; Mid Cap – from S\$300 million to S\$1 billion; Small Cap – below S\$300 million

Scores by Percentile

Base Score



Overall Score



—●— 75th Percentile

—●— 50th Percentile

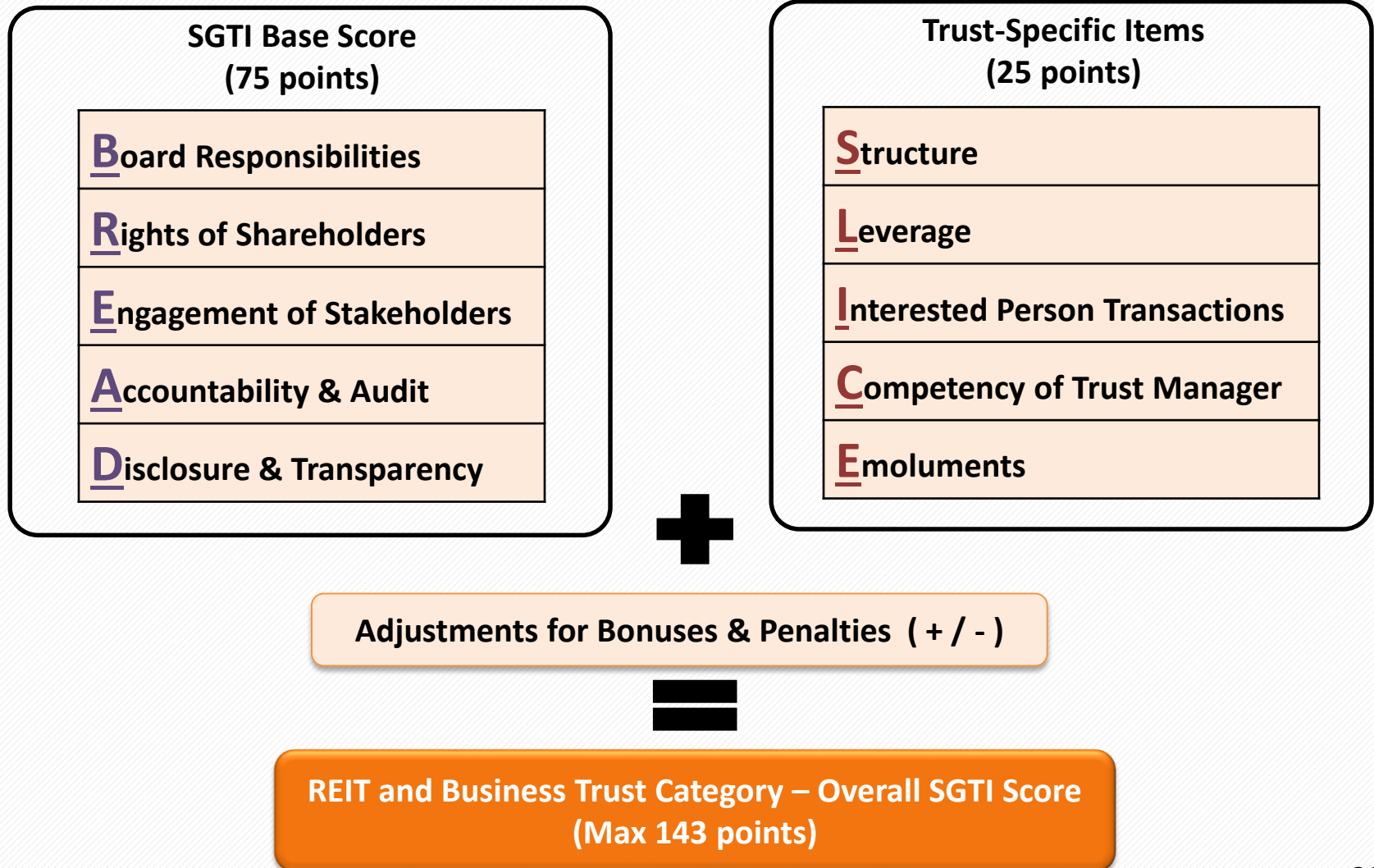
—●— 25th Percentile

REIT & Business Trust Category

REIT and Business Trust Category - Overview

- Total market capitalisation: ~S\$80 billion (approximately 10% of the entire SGX)
- For REITs, Singapore is the third largest market in Asia-Pacific, after Japan and Australia
- SGTI 2017 covers a total of 42 REITs and Business Trusts (34 REITs and 8 Business Trusts)
 - 4 REITs and Business Trusts excluded:
 - Listed as secondary listings on SGX (1)
 - Newly-listed, do not have a full year's financial report (3)

REIT and Business Trust Category – Scoring Structure



Key Findings on Trust-Specific Items

Structure



- Rationale for appointment of Trust/Trustee Manager (**16.7%**)
 - Provisions for removal of Trust/Trustee Manager (**33.3%**)
-

Leverage



- Gearing policy (**4.8%**)
 - Balanced gearing-to-debt maturity ratio (**54.8%**)
-

Interested Person Transactions



- Significant IPTs reviewed (**69.0%**)
 - IPTs on normal commercial terms (**64.3%**)
-

Competencies of Trust Manager



- CEO & directors with 10 years of relevant experience (**9.5%**)
 - At least 3 full-time representatives with 5 years of relevant experience (**78.6%**)
-

Emoluments



- Base fees disclosed (**92.9%**)
- Methodology & amount of acquisition (**92.9%**) & divestment (**90.5%**) fees disclosed

Comparison between Categories: The Trust Effect

	Average Score by Component				
	<u>B</u> oard Responsibilities (35 points)	<u>R</u> ights of Shareholders (Unitholders) (20 points)	<u>E</u> ngagement of Stakeholders (10 points)	<u>A</u> ccountability & Audit (10 points)	<u>D</u> isclosure & Transparency (25 points)
General Category	18.3	12.8	3.0	7.1	13.2
REIT and Business Trust Category	18.9	11.0	4.9	8.0	18.2
Score Difference	0.6	-1.8	1.9	0.9	5.0
Score Difference (% of Max Points)	1.7%	-9.0%	19.0%	9.0%	20.0%

Conclusion

- Inclusion of REITs and Business Trusts in SGTI rounds out scope of coverage, uplifting corporate governance ecosystem in Singapore and beyond
- Improvement still needed even though average SGTI score for General Category is at an all-time high
- REITs and Business Trusts performed well with adequate disclosures but more attention required for rights of unitholders
- Companies reached stage where they are ready to move on to next level of accomplishment, in tandem with ongoing review of Code of Corporate Governance