

Corporate Governance in an Era of Extreme Risk: *Performances and Preparedness*

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Findings of the Singapore Governance and Transparency Index 2020

Presented at the Singapore Governance and Transparency Forum

Agenda

1. Introduction

2. General Performance

3. Observable Effects

- “Closing-Up”
- Size
- Industry
- Temasek-Linked

4. Spotlight Issues

- Risk Management
- Sustainability Management

5. REIT & Business Trust Performance

6. Conclusion

- Validation
- Summary

SGTI Partnership

A Collaboration Between



Centre for Governance, Institutions & Organisations
NUS Business School



Strategic Media Partner

THE BUSINESS TIMES

SGTI Advisory Panel

Ms Rachel Eng

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Mr Loh Hoon Sun

Senior Advisor, Phillip Securities Pte Ltd

Mr Low Weng Keong

Past Global President & Chairman of the Board, CPA Australia

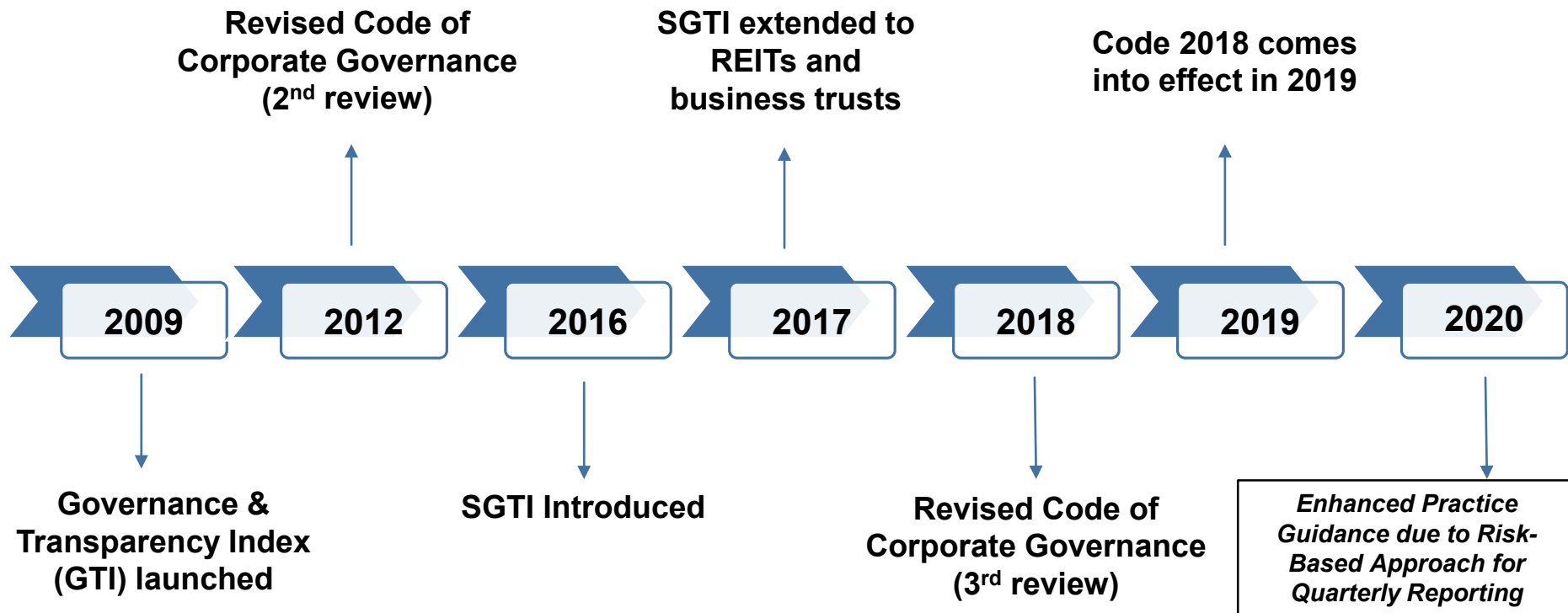
Mr Chaly Mah

**Chairman (Retired), Deloitte Singapore
Chairman, Singapore Accountancy
Commission**

Mr Wong Wei Kong

Editor, The Business Times

Corporate Governance Milestones



SGTI Coverage

General Category (577)	REITs & Business Trusts (45)
<p data-bbox="171 482 801 535">Excluding 181 companies:</p> <ul data-bbox="104 587 865 976" style="list-style-type: none"><li data-bbox="104 587 465 635">• 4 newly listed<li data-bbox="104 642 627 691">• 29 secondary listings<li data-bbox="104 698 363 746">• 71 funds<li data-bbox="104 753 749 801">• 38 suspended from trading<li data-bbox="104 809 865 857">• 4 not released report for 2 years<li data-bbox="104 864 407 912">• 33 delisted<li data-bbox="104 919 349 968">• 2 others	<p data-bbox="1078 482 1707 583">Excluding 11 Business Trusts and REITs</p> <ul data-bbox="1012 639 1630 856" style="list-style-type: none"><li data-bbox="1012 639 1373 687">• 3 newly listed<li data-bbox="1012 694 1244 742">• 3 funds<li data-bbox="1012 750 1630 798">• 2 suspended from trading<li data-bbox="1012 805 1290 853">• 3 delisted

SGTI Framework – General Category

B.R.E.A.D Base Score (100 points)

Board Responsibilities (35 points)

Rights of Shareholders (20 points)

Engagement of Stakeholders (10 points)

Accountability & Audit (10 points)

Disclosure & Transparency (25 points)

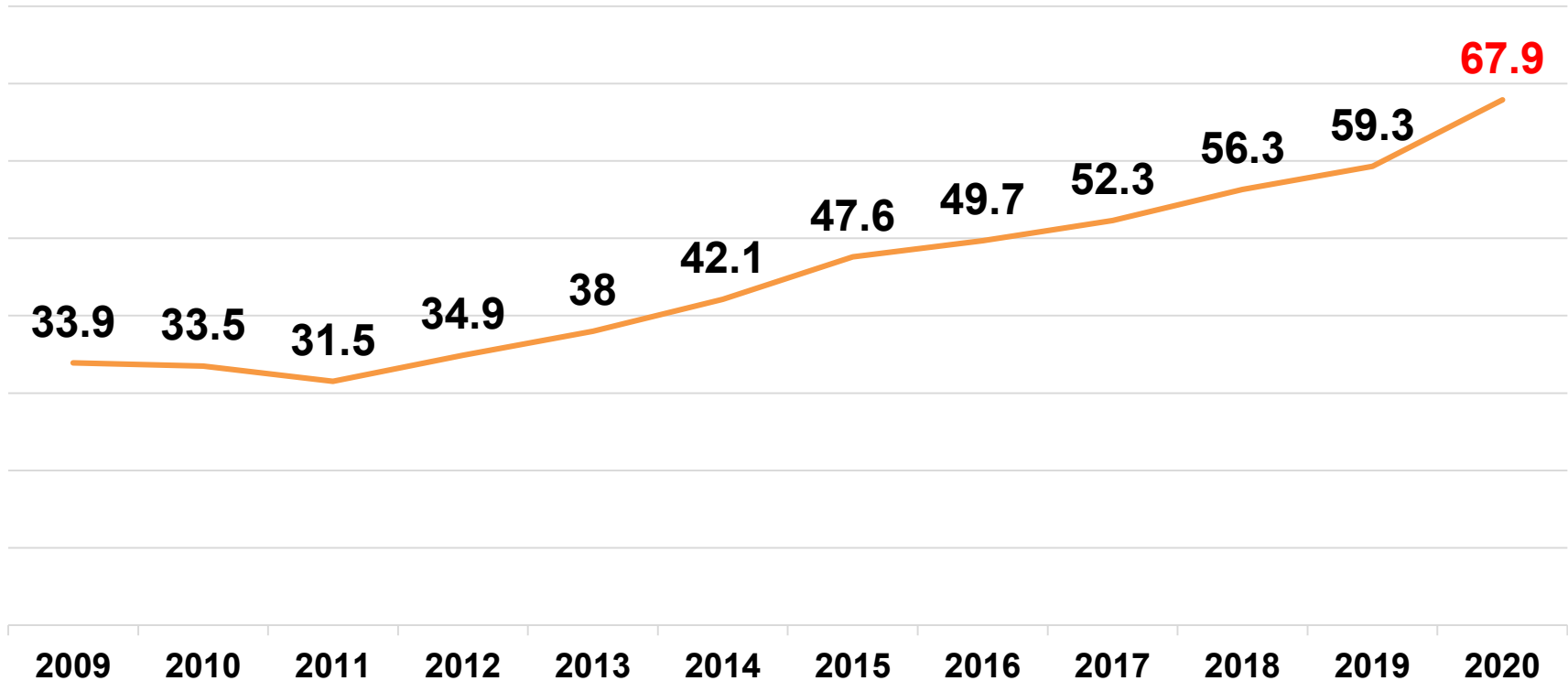
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Adjustments for Bonus & Penalty (43 points)

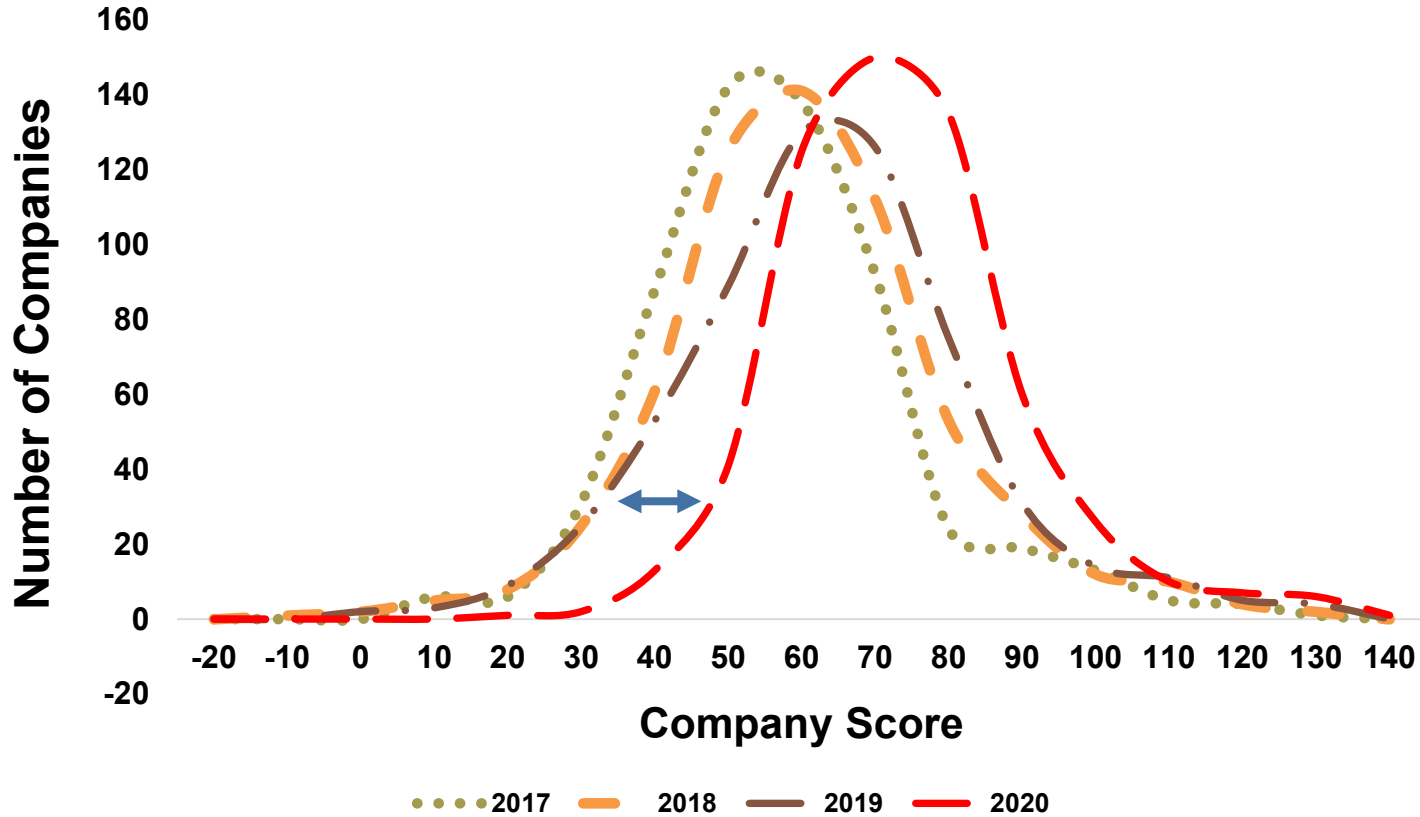
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Overall SGTI Score (143 points)

Mean Score Trend – General Category

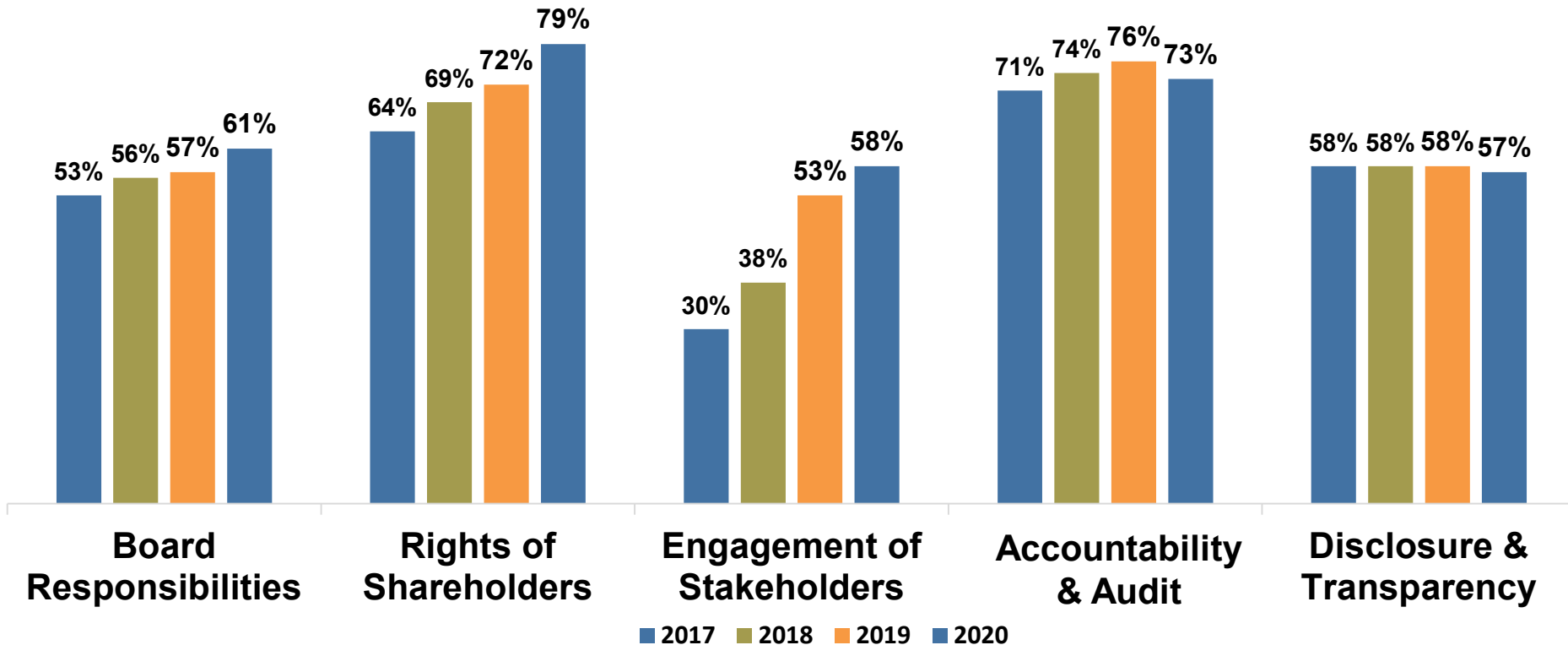


Score Distribution



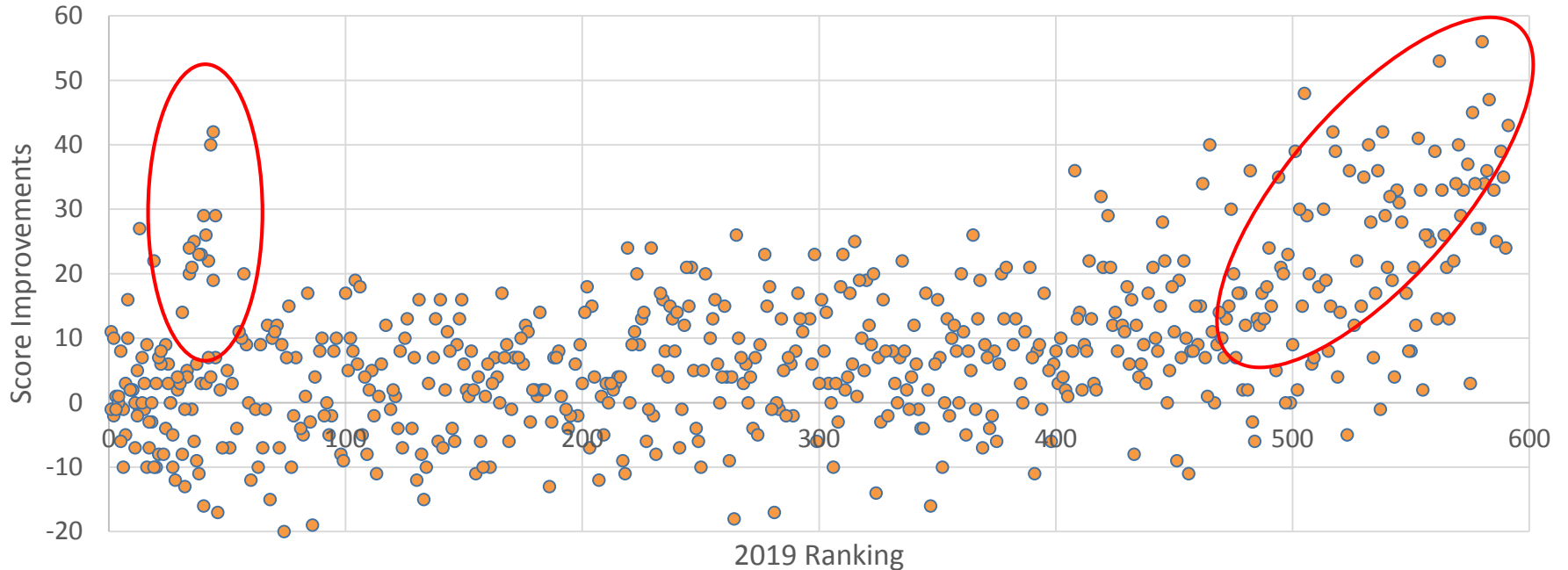
Sectional Scores

B.R.E.A.D Score by Percentage



Score Improvements

Score Increments (from 2019 to 2020) against 2019 Ranking



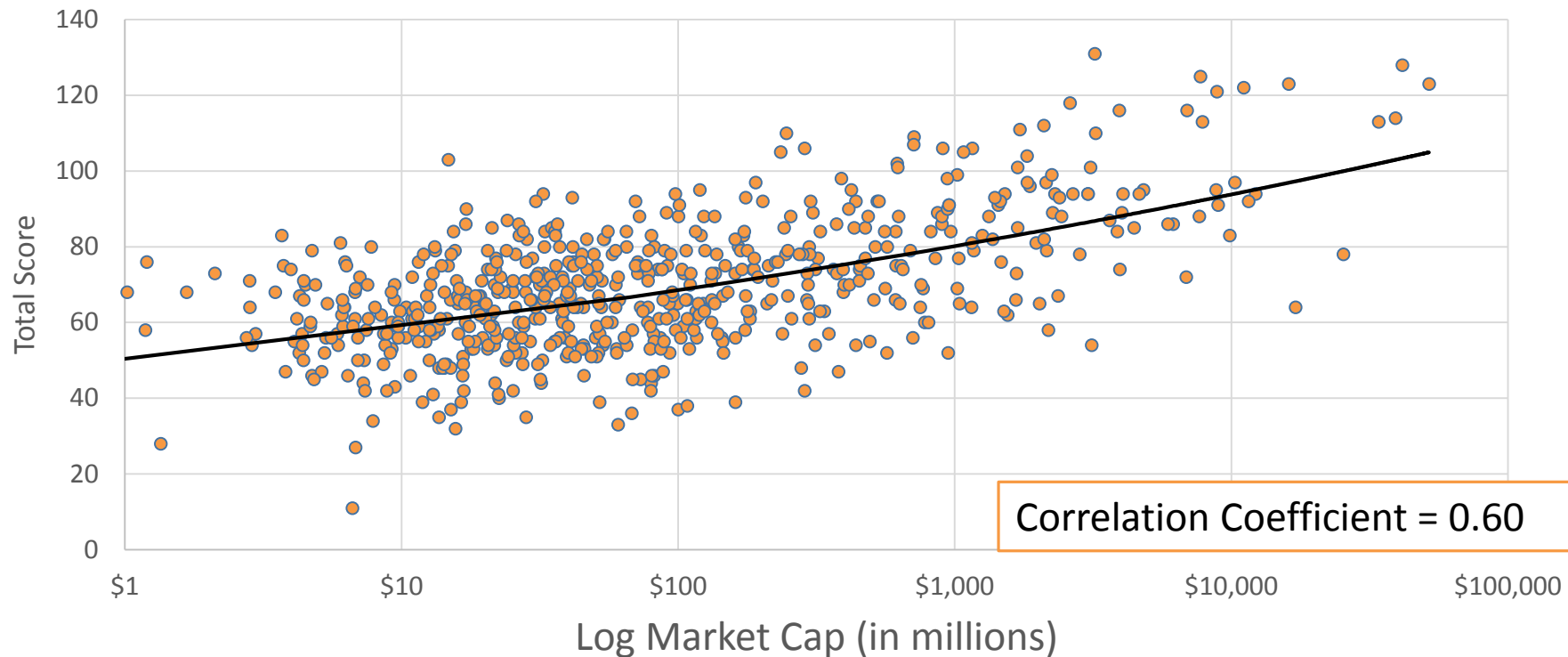
- Companies that ranked last 100 in 2019 showed significant improvement (more than 20 points).
- Companies that ranked between 25th to 50th position also showed significant improvement.

“Closing-up” Effect

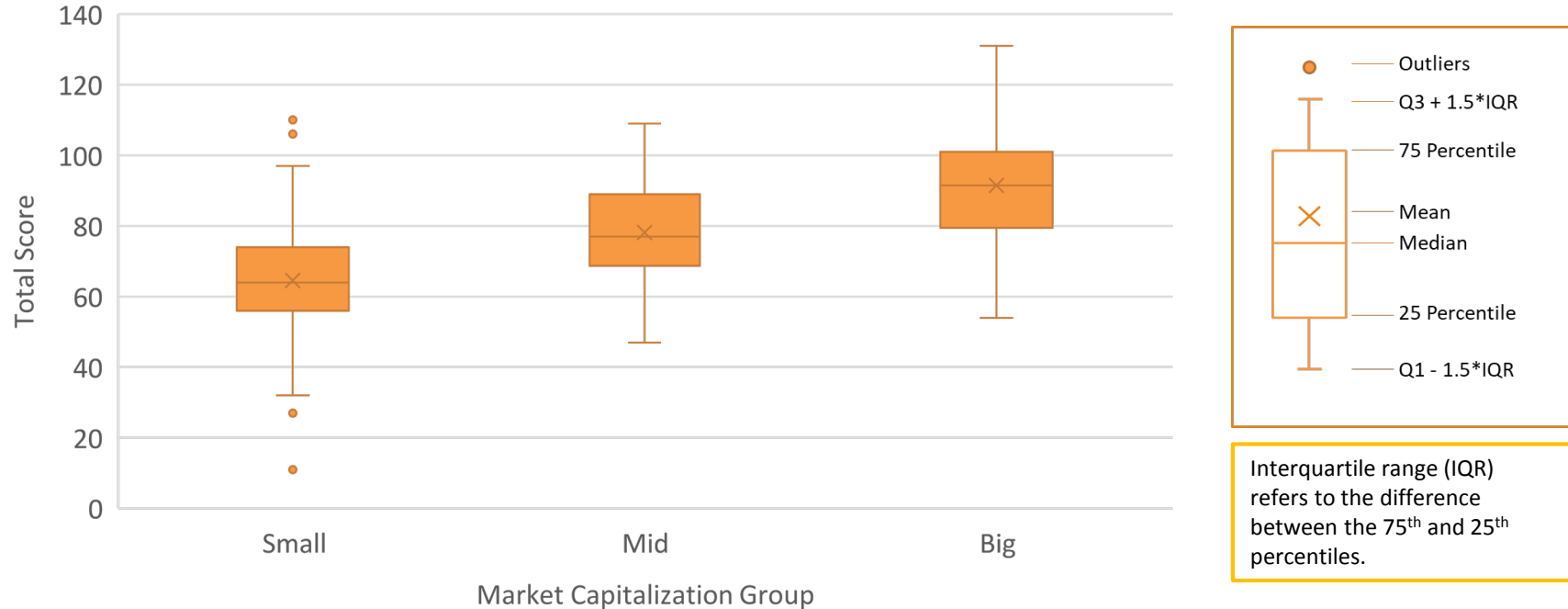
Point Changes in SGTI 2020 for Rankings in SGTI 2019	Count	Proportion	Mean Score Difference
Top 20	20	4%	3.1
21 st – 150 th	121	22%	0.8
151 st – 300 th	144	26%	4.5
301 st – 450 th	138	25%	8.3
Beyond 450 th	129	23%	20.5
Total	552	100%	8.3

Size Effect

Market Capitalisation (Log Scale) against Total Scores

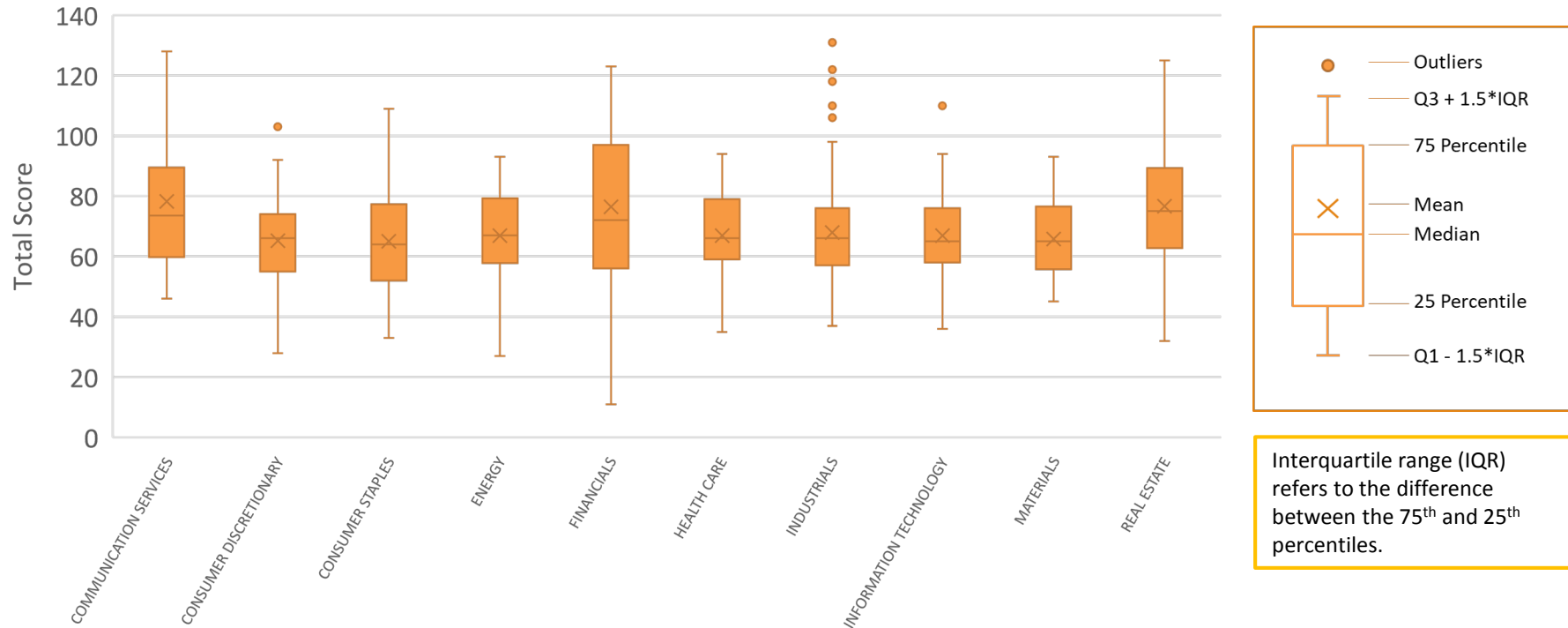


Size Effect



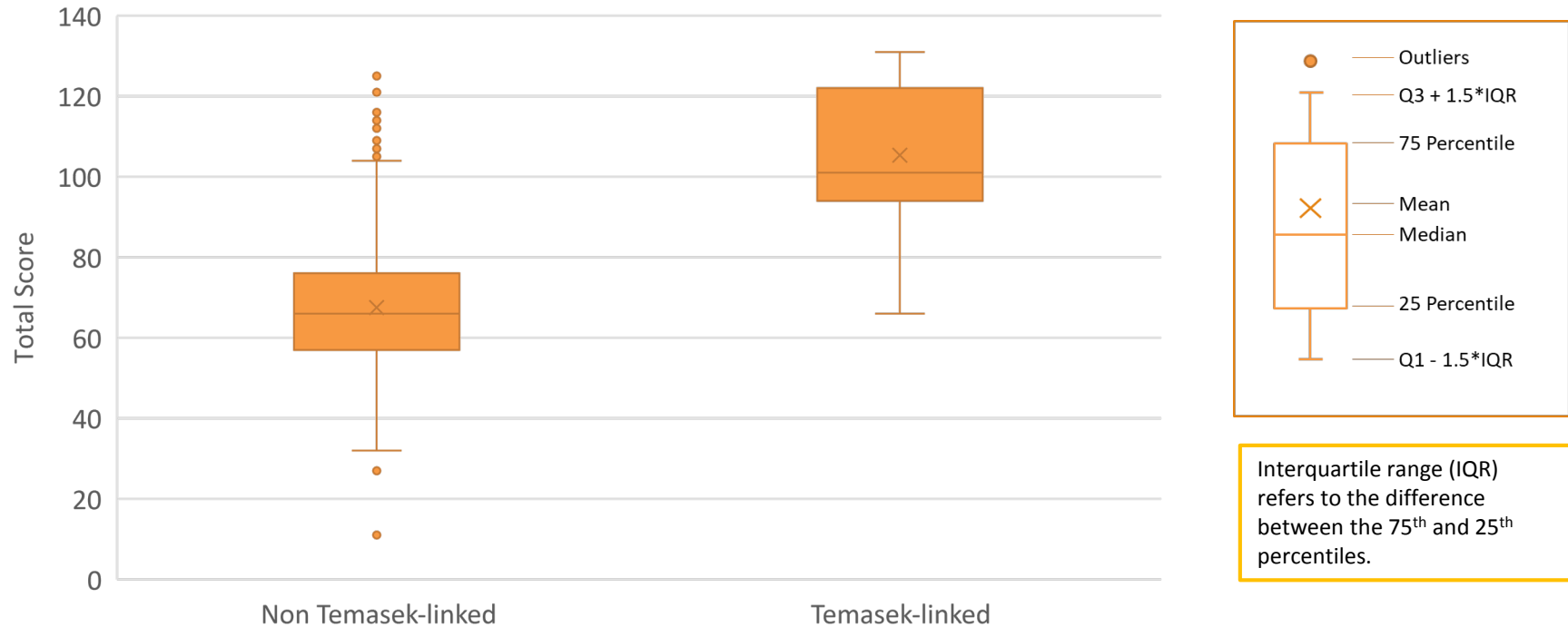
- Big cap companies on average had highest total scores, followed by mid cap companies and small cap companies.
- There are significant average score differences among different market capitalisation groups.
- Small companies tended to have larger variabilities with more extreme outliers as compared to other groups.

Industry Effect



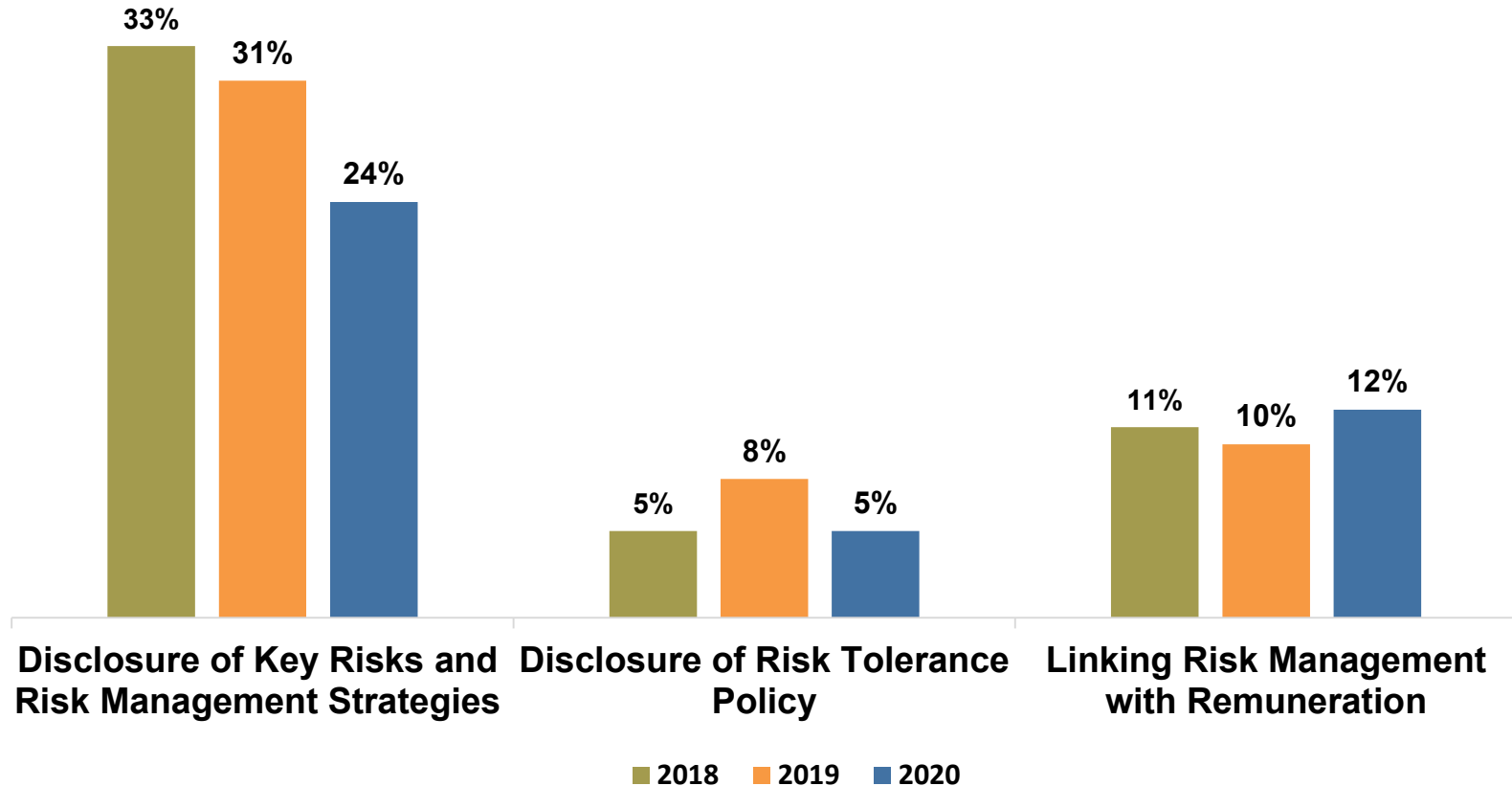
- Real estate companies had higher mean total scores than the companies in other industries.
- Financial companies had the largest variability, with some having extremely low scores.

Temasek-Linked Effect



- Temasek-linked companies, on average, scored significantly higher than non Temasek-linked companies.
- The non Temasek-linked group had larger variability, with outliers scoring above 120 and below 20.

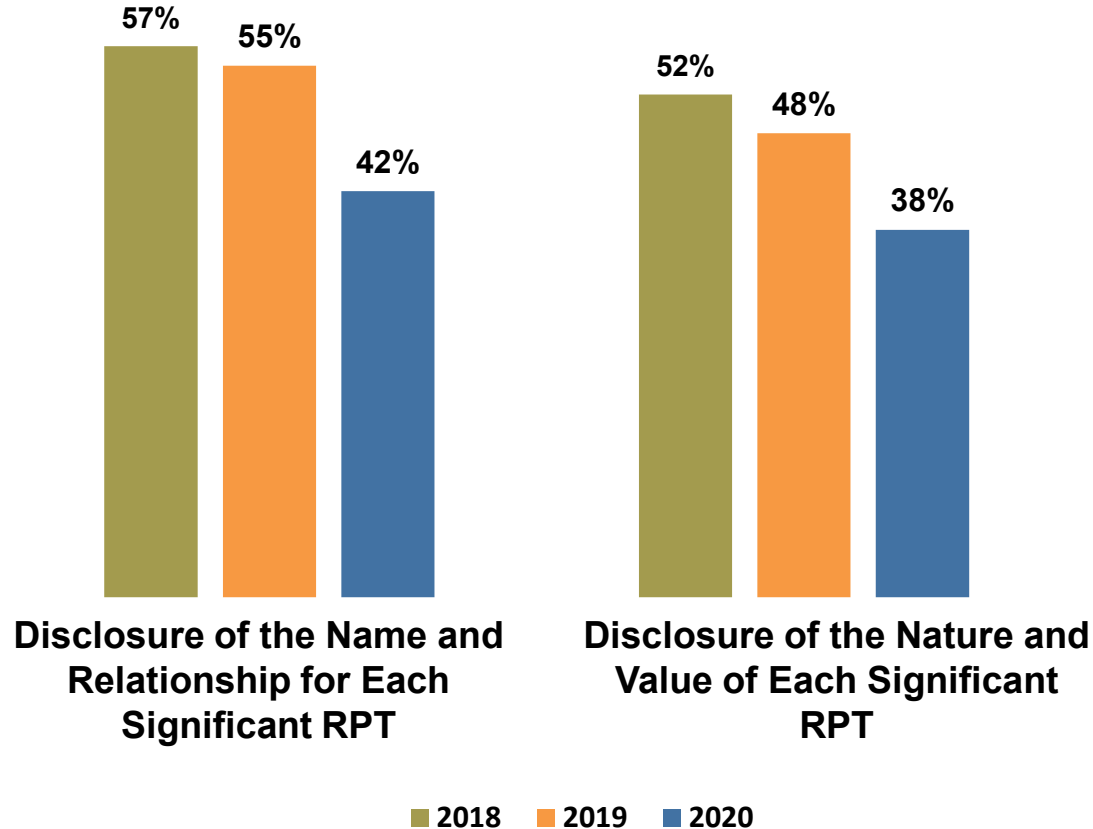
Risk Management: Corporate Practices



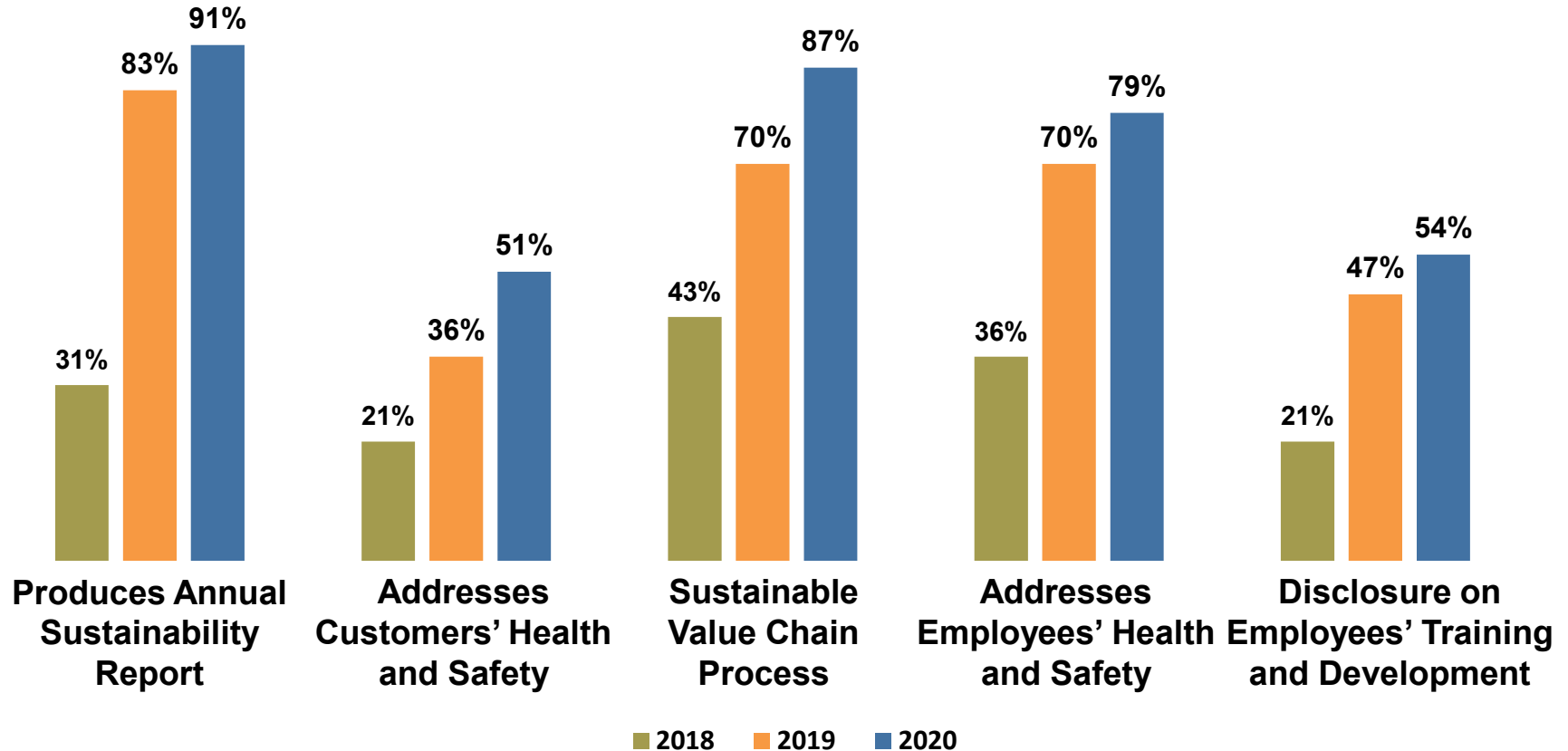
Risk Management: Corporate Practices

Improvements in Risk Management By Ranking Intervals			
2019 Ranking	Disclosure of Key Risks and Risk Management Strategies	Disclosure of Risk Tolerance Policy	Linking Risk Management with Remuneration
Top 20	0.0%	10.0%	25.0%
21st -150th	5.8%	5.0%	5.0%
151st – 300th	7.6%	2.1%	6.3%
301st – 450 th	6.5%	0.7%	9.4%
Beyond 450 th	3.1%	0.8%	5.4%

Risk Management: Related-Party Transactions



Sustainability Management



SGTI Framework – REITs & Business Trusts

Normalised Base Score (75 points)
(B.R.E.A.D)

Board Responsibilities

Rights of Shareholders

Engagement of Stakeholders

Accountability & Audit

Disclosure & Transparency

Trust-Specific Items (25 points)
(S.L.I.C.E)

Structure

Leverage

Interested Person Transactions

Competency of Trust Manager

Emoluments

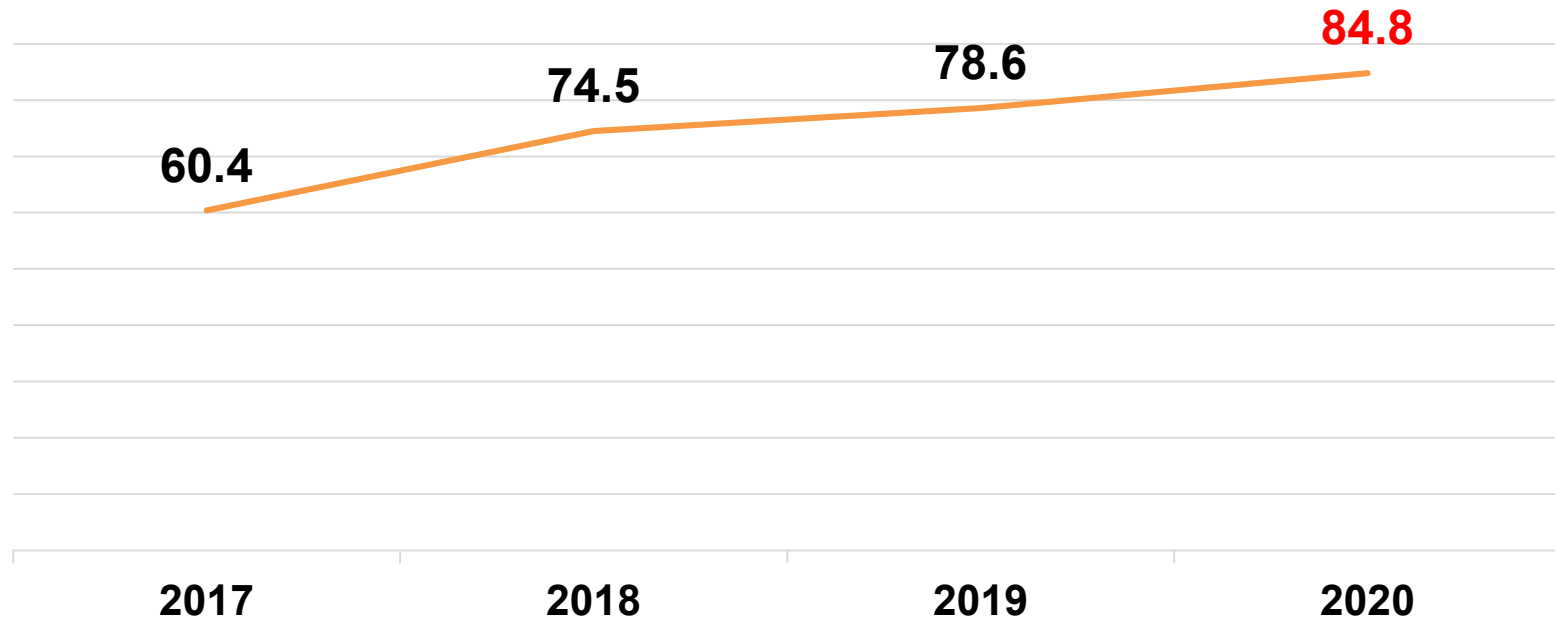
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Adjustments for Bonus & Penalty (43 points)

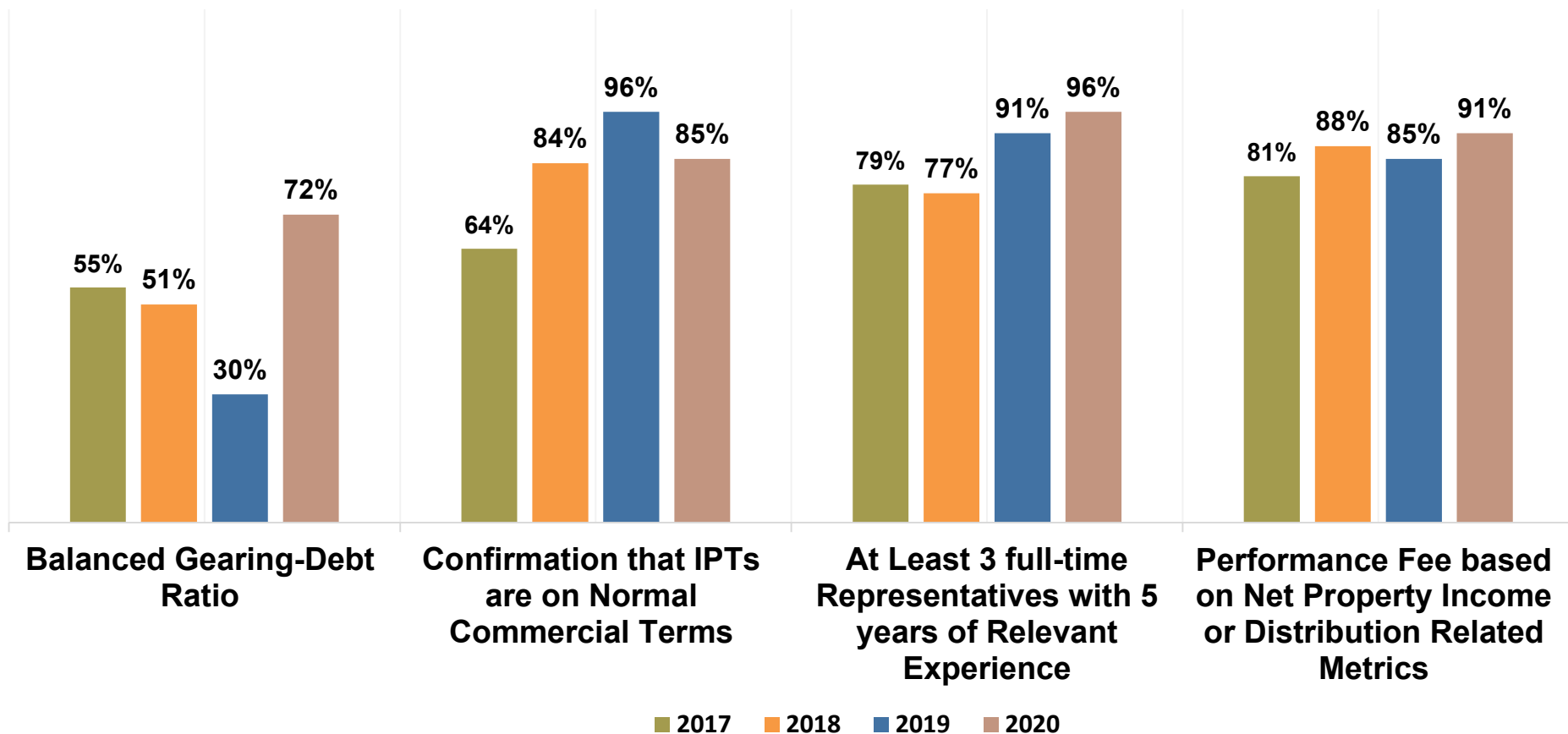
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Overall SGTI Score (143 points)

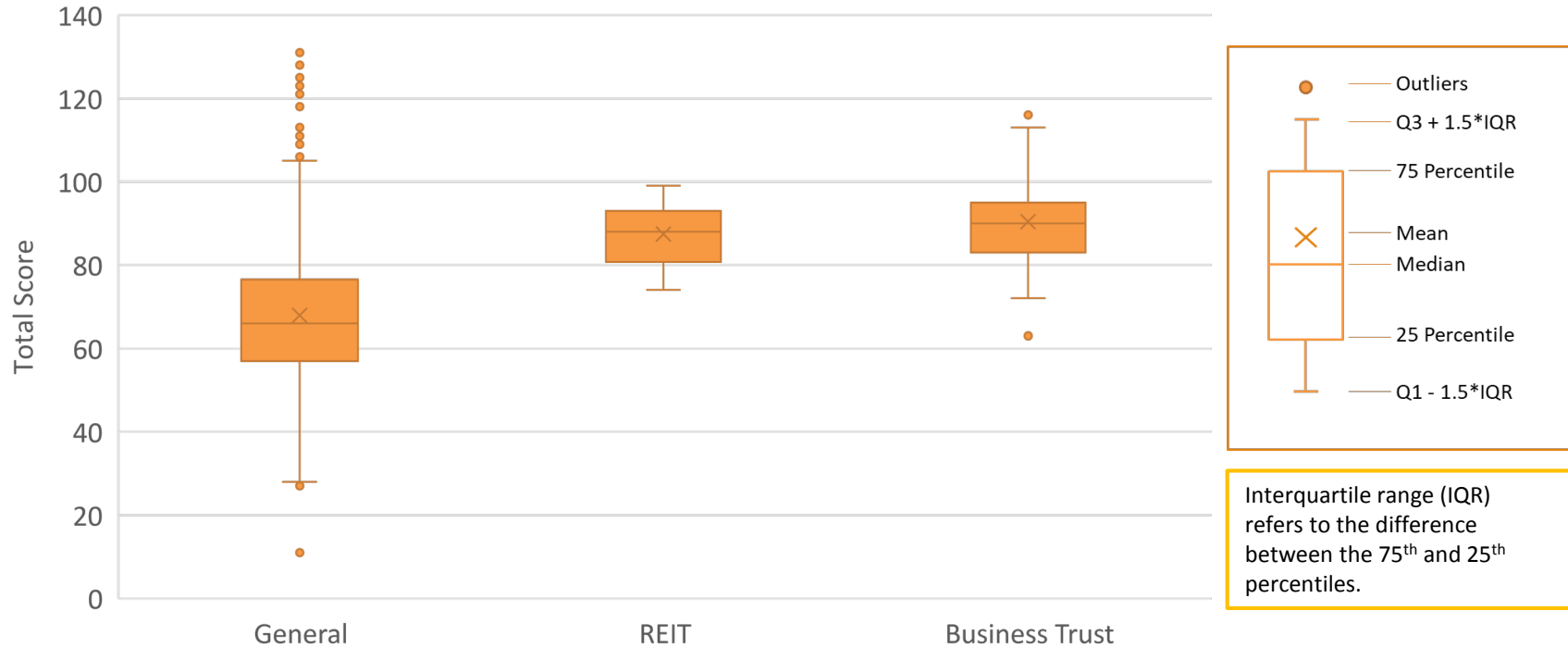
Mean Score - REITs & Business Trusts



Key Findings – REITs & Business Trusts



Comparative Performance



- REITs and business trusts, on average, scored significantly higher than companies in general category.
- Companies in general category had large variability, with significant amount of outliers scoring above 100.

Validation: SGTI Ranks & Scores Shown on SGX Website



Securities Fixed Income Derivatives Indices Research & E

Home > Securities



SATS (S58 / SATS.SI)

Industry

Transportation Airport Services

This company reports in this currency: SGD

2.940
+0.04 / 1.379%
As at 21 Jul 2020 05:16 PM

Prices & Chart

Day Week Month 1 Year 5 Years



Governance & Transparency Index (GTI) ①

GTI Year	Rank	Score ②
2019	6	115
2018	5	114
2017	11	100
2016	26	86
2015	11	94
2014	5	108
2013	9	89
2012	8	84
2011	5	88
2010	9	74

News

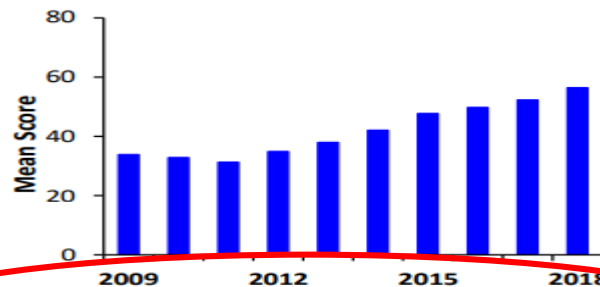
Governance & Transparency Index (GTI)

Consensus

Source: Singapore Exchange (SGX)

Validation: SGTI Data Used by MAS Financial Stability Review

Chart 3.14
State of Corporate Governance Disclosures



Source: NUS Centre for Governance, Institutions and Organisations (CGIO)

SMEs optimistic on future prospects, banks remain supportive of SME financing

Business sentiment among SMEs has improved over the past year, but firms remain wary of rising uncertainties from ongoing trade tensions.¹¹⁵ According to DP Information Group, improved trading conditions have led to quicker settlement of debts for SMEs, with the average time taken to settle debts decreasing from 35 days in Q2 2017, to 33 days in Q2 2018.

Source: Financial Stability Review, Macprudential Surveillance Department, Monetary Authority of Singapore (MAS), November 2018

Summary

1. **SGTI 2020** reached **all-time high scores** of 67.9 (General Category) and 84.8 (REIT and Business Trust Category)
2. The **distribution** of total scores has **shifted to the better end** across the board.
3. In the components of SGTI (“BREAD”), **attention needs to be paid** to two declining components, namely **Accountability & Audit** and **Disclosure & Transparency**.
4. The **“closing up” effect** is evident as lower ranked companies improved more than top ranked companies.
5. There is a clear **size effect** as larger companies tend to perform better than the smaller ones.

Summary

6. There is some **industry effect** where certain sectors have better performances.
7. There is a possible **Temasek-linked effect** as the companies under Temasek tend to perform better.
8. Several **aspects of risk management need improvements** and these include disclosures of risk, risk tolerance policies, linking risk to leadership compensation and related-party transactions.
9. **Companies are on track** in the progress on **critical aspects of sustainability management**, due to recent regulatory augmentations.
10. **REITs and business trusts** continued in the **momentum of good performance**.