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GOH Address by Prof Tan Cheng Han, Chairman, Singapore Exchange Regulation, at the

Singapore Governance and Transparency Forum on

"Why we need Corporate Governance and Transparency"

Mr Max Loh, Prof Lawrence Loh, Ms Wong Su-Yen, Friends and Colleagues,

1. Good morning to all of you. I have to say it is a real pleasure, and a great privilege, to be invited once again by the Singapore Institute of Directors, CPA Australia and NUS Business School's Centre for Governance and Sustainability to give some remarks at this year's Singapore Governance & Transparency Forum.

2. Before getting into today's theme on governance and sustainability, I want to first take a step back to speak about the role of markets and why the transparency of related information is so critical.

3. Broadly speaking, markets exist to simultaneously facilitate the allocation of capital, and the transfer of risks. In doing so, they help enable financial innovation and productivity gains, ultimately driving economic activity and advancing prosperity.

4. Of course, you would also have to acknowledge markets are also subject to market failures, including externality effects on non-participants. And market participants themselves are almost invariably participating out of self-interest rather than for altruistic reasons. But the consensus is that markets are generally effective in channelling such self-interest in ways that lead to improvements in economic well-being at a collective level.

5. So, to increase the level of market participation and extend these economic opportunities to the wider community, we must ensure that investors, including minority shareholders, see our market as a trusted, transparent and well-governed community that safeguards their interests.

6. And of course, a fundamental pre-condition for the proper and efficient working of the market and the translation of such self-interest into collective well-being is the availability of relevant and useful information. For markets to produce sustainable benefits, investors need to know what they are investing in, how their investments are being stewarded, and need to have some assurance that the information they receive is reliable. And as the size of our capital markets grows, the governance frameworks help to ensure that necessary data is made available to participants.

7. Viewed in this context, the provision of information shouldn't be seen as a burden necessitated by an adversarial relationship between a listed entity and its investors, and I should add, between SGX and listed companies. It is

something without which the markets will not be able to function effectively, and that will be in nobody's best interests.

8. I now want to situate my comments a bit more concretely, taking reference from recent developments in the crypto-asset markets, and our own sustainability reporting initiatives.

Crypto-asset Markets

9. First, on crypto. I think all of us would be aware that there has been a significant downturn in cryptocurrency markets, and that some financial institutions have faced significant difficulties. The fundamental causes of these recent collapses – leverage, leading to magnified losses, and a loss of confidence in their creditworthiness – are of course not particular to the nature of crypto-assets. Rather, they seem to be more akin to traditional bank runs which have a long provenance.

10. One key takeaway from the collapse of these institutions and the ripple effects that they have had on the rest of the ecosystem is the critical nature of confidence. One way to maintain such confidence is to have a well-regulated environment, where participants can feel assured that certain quality or governance standards are adhered to.

11. In this regard, a key principle to be mindful of is "same risk, same activity, same treatment" that is where the same risks manifest, the same

regulatory and supervisory measures should be adopted. Most recently, the Basel Committee on Banking Supervision has published their second consultation, elaborating on how they propose to operationalize this in the context of capital requirements on banks, arising from their crypto-asset exposures. It's certainly worthwhile considering how this "same risk, same activity, same treatment" principle should be applied to the underlying markets, and associated instruments. This would naturally include ensuring that appropriate governance and transparency requirements are imposed on relevant participants, intermediaries and platforms.

12. I think what we saw in the cryptocurrency market is a particularly salient example of how the unregulated space, with lower or non-existent governance standards, can be damaging to both investors, as well as the health of the market itself.

Sustainability reporting

13. Let me now turn to sustainability reporting. There is growing consensus that the financial sector has a key role to play in driving the response on climate change, through its ability to mobilise resources and facilitate the flow of investment that is needed to get the world on the pathway to climate transition.

14. For capital allocators to understand the climate risks they are taking on, as well as the outcomes they are financing, they need access to information,

which is material and relevant to their decisions, and also comparable both within and across industry sectors.

15. My colleague Tan Boon Gin, the CEO of SGX RegCo, recently spoke about the importance of having sustainability-related information be available, comparable, and trusted. This is necessary to address growing concerns about greenwashing, or the provision of misleading information that obscures true environmental impact. We're thus involved in a whole slew of initiatives to address these concerns and I'll just highlight a couple here.

16. One such initiative that we're working on is ESGenome, an ESG digital disclosure platform to give users a single point of access to a company's climate disclosures. Second, with the Accounting and Corporate Regulatory Authority (ACRA), we have also set up the Sustainability Reporting Advisory Committee to advise on a sustainability reporting roadmap for Singapore-incorporated companies.

17. That said, we are conscious that these initiatives impose certain costs, especially for issuers and other companies required to provide such information. The constant developments in this space also mean that it can be a struggle to keep up.

18. But we think it is apparent that such information is important for investors and other stakeholders. The growing demand for such information is not exclusive to our region. Just last month, members of the European

Parliament and EU governments struck a provisional agreement on new reporting rules for large companies, requiring both listed as well as unlisted large companies to disclose ESG risks and opportunities, and the impact of their activities on the environment and people.

19. We also encourage companies to view the exercise of preparing these disclosures as an opportunity to improve your understanding of the sustainability-related risks you face, and your risk management. Those that have capacity to bear these transitional costs should thus go ahead, so you can become the standard-bearers for the rest of our market community.

20. Keeping the challenges faced by issuers and the need for disclosures in mind, we are also looking to eventually standardise the playing field for all companies. As we are looking to work with the entire community and ecosystem, we want to ensure that the supporting infrastructure – including the surrounding ecosystem of preparers, assurers, and technological systems – is in place. Many of these areas, such as external assurance, are still developing. Though no standards or frameworks for sustainability assurance have yet been established, there are promising signs. The International Auditing and Assurance Standards Board, for example, has announced that it is targeting to propose new sustainability assurance standards for public comment during the second half of 2023. In due course, and with the progress made by standard-setting bodies, we hope that these standards will eventually be adopted across the entire market.

21. The flip side of this facilitative approach, though, is the need to also ensure that these governance and disclosure standards are adhered to. As the regulator, we will need to adopt a risk-based approach towards this, and prioritise our resources. And let me also assure you that to the fullest extent possible, we will do our best to ensure that whatever standards we introduce will truly be necessary and add value to the market. I want to emphasise that we are conscious that new standards and rules are not costless to companies. And therefore, as a regulator we must be mindful that when something is introduced it really adds value to the entire market, to the entire ecosystem and is not merely a box ticking exercise.

22. Boon Gin and I are very much in tandem, of one mind, that whatever we introduce, we must be really personally satisfied that this is something that's important, something that's valuable, even if it is painful. But especially if it is painful, it must really be valuable, it must really be useful for our market. We really don't want this to just be an exercise where we say "look, we've met a KPI because we've introduced A, B, and C" without really thinking through how useful this is to the overall community. I want you all to have our personal assurance that we will really look into this, and pay a great deal of attention to this very important issue. Because if we expect you to do something, then we jolly well better be sure that we are satisfied that it meets the burden of proof, if I may say as a lawyer. So that's a point I really want to give you assurance on.

Conclusion

23. So by way of conclusion, let me just say that when the modern corporation was born in the mid-19th century, one rationale was that such vehicle, of allowing incorporation, was ultimately beneficial to society because it facilitated investment for industrial development that would in turn spread the benefits of such investment to the wider public. So in other words, the corporation, without which we would not be here today, was seen as a means to benefit society, and not merely for wealth creation. This duality should continue to guide us. Today's debate over sustainability may herald a significant business opportunity, that of the virtue economy, and companies that can harness this may be among the champions of tomorrow.

24. So I hope I've given you some food for thought on why we place such importance on corporate governance and transparency. And of course, I want to congratulate Professor Loh on the great work that he's done, and happy to see that the results continue to improve year on year.

25. And so once again, let me thank all of you especially Mr Max Loh and Ms Wong Su-Yen for inviting me to speak this morning. It's a great pleasure to meet all of you, and I look forward to continuing our conversations, even after today. Thank you so much, everyone.

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