SINGAPORE INSTITUTE OF DIRECTORS

STATEMENT OF GOOD PRACTICE

FEES PAYABLE TO NON-EXECUTIVE DIRECTORS

This Statement has been superseded by the Remuneration Committee Guide.

Whist companies do not compete for directors on a monetary basis, they need to make sure that remuneration is set a level which is fair and reflective of the role, responsibilities and the amount of work expected of them.

The Code of Corporate Governance gives explicit guidance on this subject. Guideline 8.3 of the Code specifically states:

"The remuneration of non-executive directors should be appropriate to the level of contribution, taking into account factors such as effort and time spent, and responsibilities of the directors. Non-executive directors should not be over-compensated to the extent that their independence may be compromised. The RC should also consider implementing schemes to encourage non-executive directors to hold shares in the company so as to better align the interests of such non-executive directors with the interests of shareholders."

The process for setting directors' fees is different from other aspects of remuneration. A company's remuneration committee (RC) proposes fees for the consideration of the board and then fees are put to shareholders for their approval, invariably at the company's annual general meeting. Whilst not deciding their own remuneration, directors are put in a position to strongly influence it. With that in mind, these guidelines provide a necessary objective approach to considering the issue.

Setting Fee Levels

The demands placed on non-executive directors have increased significantly in recent years. The nature of their work is becoming more complex; the workload is increasing as are the responsibilities.

Given the diversity and size of companies and differing complexities of various businesses, it is not appropriate to set a standard rate of fees.

Establishing fee rates can be approached from two directions:

1. A consideration of the time spent by directors to ensure that fees are compelling. Whilst few directors would keep detailed records of their time spent, they should be able to estimate the amount of time committed to various board activities. Estimated time can then be compared to prevailing rates of professional service fees.

2. An external reference provides the necessary input to ensure that the fee levels are in line with market practice. The external comparison should have reference to similar companies and with the key points of similarity being industry and company size. In reviewing and analysing comparative practices, it is important to recognise similarities and differences in governance structures, particularly the nature of the chairman's role, the structure of board committees and the overall governance environment.

Fee Structures

The standard method of recognising the different work levels and responsibilities of various non-executive directors is to adopt a detailed fee structure. Such structures define fees for different roles and it is convenient to express these as a multiple of a base fee (i.e. the amount paid simply for being a board member with no other roles).

As a guide, the following scale could be adopted:

Role	Additional Percentage of Base Fees
Board Chairman	75 to 100%
Lead Independent Director	20 to 40%
Chairman of Audit Committee	50-75%
Chairman of Nominating, Remuneration, Risk and other Board	25-50%
Members of Board Committees	50% of the respective committee chairmen's fees

The total amount of fees that such a structure implies as well as the prospective fees for individual directors should be checked to ensure that they are reasonable.

Where directors have to make extensive travel commitments to attend meetings, it may also be appropriate to include specific fees for attending meetings and to reimburse travel expenses. Otherwise, the payment of meeting fees sends a signal that the only work that directors do is during meetings (when in reality their responsibilities are ongoing and continuous) and can lead to administrative difficulties, including determining whether or not a meeting is formal (and remunerated).

In special circumstances, for example when a company is undergoing major restructuring or other situations requiring significant increased input from directors, companies may wish to consider additional and once-off payments to their directors for these special duties.

Use Of Equity

When non-executive directors hold shares in their companies, their interests are in line with those of other shareholders. The Code of Corporate Governance recognises this in encouraging companies to implement arrangements to encourage non-executive directors to hold shares.

Shares can be provided as an alternative to paying fees in cash or as an additional grant to recognise particular achievements. However, including non-executive directors in options plans, performance share plans or other performance related arrangements should only be done after a full consideration of the attendant risks that such arrangements may compromise the directors' independence or judgement.

Where directors have been awarded shares, they should be further encouraged to hold them for the long-term and refrain from trading in their shares based on short-term considerations.

Disclosure

In their annual reports, companies are encouraged to disclose the dollar amounts of fees paid to each individual director on a named basis together with the value of any equity granted. It is also helpful for shareholders to understand the structure of and the basis for all director fee arrangements.

Fees For "Nominee" Directors

Directors have duties to the company and to all shareholders irrespective of whether or not they are independent. With this in mind, non-independent and non-executive directors (who may, for example, be representing a particular shareholder) should still be paid director fees in accordance with the agreed scales. It is then a matter for their employer to allow them to retain or to recoup the fees.

Approvals

It is good practice for the payment of fees and allowances for non-executive directors to be approved by shareholders in advance rather than in arrears. Accordingly, fees for non-executive directors should be recommended for approval at the annual general meeting during the year for which the fees are to be paid. In the unlikely event that it is found necessary to pay additional fees during the year, these can be approved at the subsequent annual general meeting.

Once the fees have been approved, they can be paid quarterly following regular board meetings or on some other regular basis.

Formalising Fee Reviews

Non-executive director fees are not increased regularly in the same way as salaries. Often, fees can go for many years without increases even though workloads are increasing and prices are rising.

In order to address the possible reluctance that Boards face in asking for fee increases, they should consider formalising a process whereby a formal, perhaps independent, review of fees is conducted on a regular basis, which can be, for example, every three years.

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