CORPORATE GOVERNANCE HIGHLIGHTS 2016

Enhancing Corporate Governance in Singapore

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CONTENTS

LIST OF FIGURES

LIST OF TABLES

ABOUT THIS REPORT

Corporate Governance Highlights 2016 is a joint initiative by CPA Australia, NUS Business School's Centre for Governance, Institutions and Organisations (CGIO), and Singapore Institute of Directors. The report is an annual series published in the last quarter of each year, followed by the release of the Singapore Governance and Transparency Index (SGTI) rankings.

This report sheds light on the outstanding progress and stagnation of Singapore-listed companies (SGX Mainboard and Catalist) in their corporate governance practices and disclosures. The SGTI 2016 includes the 631 actively-trading companies that released their 2015 annual reports by 31 May 2016. This report examines and analyses data from the CGIO databases of the GTI from 2009 to 2015 and the SGTI from 2016.

ABOUT CPA AUSTRALIA

Founded in 1886, CPA Australia is one of the world's largest accounting bodies representing more than 155,000 members working in 118 countries around the world, with more than 25,000 members working in senior leadership positions. We have offices in markets throughout the world, including all Australian capital cities, Hong Kong, Beijing, Shanghai, Guangzhou, Indonesia, Malaysia, Singapore, Vietnam, New Zealand, and the United Kingdom.

CPA Australia advances its members' interests through education and knowledge exchange, the development of professional networks, advocacy in relation to policy, standards and regulation and the promotion of value of CPA Australia members to employers, government, regulators and the public. The CPA Australia designation denotes strategic business leadership and is recognised and valued throughout the world.

CPA Australia has been operating in Singapore for 63 years, having arrived in this market in 1954 under the auspices of the Colombo Plan. Our Singapore journey over the years has been a story of entrepreneurship, shared values, innovation, service and team work. At present, there are over 8,000 members in Singapore.

For more information, please visit cpaaustralia.com.au.

ABOUT CGIO

The Centre for Governance, Institutions and Organisations (CGIO) was established by the National University of Singapore (NUS) Business School in 2010. It aims to spearhead relevant and high-impact research on governance issues pertinent to Asia, including corporate governance, governance of family firms, state-linked companies, business groups, and institutions. CGIO also organises events like public lectures, industry roundtables, and academic conferences on topics related to governance.

NUS Business School is known for providing management thought leadership from an Asian perspective, enabling its students and corporate partners to leverage global knowledge from an Asian perspective.

NUS Business School has consistently received top rankings in the Asia-Pacific region by independent publications and agencies, like The Financial Times, Economist Intelligence Unit, and QS Top MBA. These rankings recognise the quality of NUS Business School's programmes, faculty research, and graduates. In the Financial Times Global Rankings, the NUS MBA is ranked 32nd, while the NUS-UCLA Executive MBA and Asia-Pacific Executive MBA are ranked 6th and 17th, respectively, in 2016.

NUS Business School is one of 17 schools at NUS. A leading global university in Asia, NUS is Singapore's flagship university, which offers a global approach to education and research, with a focus on Asian perspectives and expertise. NUS' transformative education includes a broad-based curriculum underscored by multi-disciplinary courses and cross-faculty enrichment. Over 38,000 students from 100 countries enrich the community with their diverse social and cultural perspectives.

For more information, please visit https://bschool.nus.edu.sg/cgio.

ABOUT SID

Formed in 1998, the Singapore Institute of Directors (SID) is the national association of company directors. It works closely with the authorities and regulators, and its network of members and professionals to uphold and enhance the highest standards of corporate governance and ethical conduct.

SID's membership comprises mainly directors of commercial companies and nonprofit organisations, as well as lawyers, accountants, academics and other professionals in the field of corporate governance. The affairs of SID are directed by an elected Governing Council and managed by a Secretariat.

SID has a comprehensive professional education curriculum that covers the entire spectrum of a director's developmental needs. Numerous courses cater to the different groups of directors – from aspiring and new directors, to experienced directors and Chairmen of Boards, and the various Board Committees.

In particular, SID provides thought leadership on corporate governance and directorship issues. It keeps directors apprised of the latest thinking and happenings through a quarterly Directors' Bulletin, boards and directorship surveys, research publications, and forums and seminars. SID is producing a comprehensive series of Corporate Governance Guides for Boards and Board Committees in Singapore.

To encourage excellence in corporate governance, SID manages the Best Managed Board Award, the Best CEO Award and the Best Investor Relations Award; these are presented at the annual Singapore Corporate Awards which it co-organises with the Institute of Singapore Chartered Accountants and The Business Times. In addition, SID and NUS Centre for Governance, Institutions and Organisations (CGIO) produce the Singapore rankings for the ASEAN Corporate Governance Scorecard.

SID also provides other value-add services to its members including regular networking events and socials, board appointment services, and a one-stop information service on governance related matters.

For more information, please visit www.sid.org.sg.

PREFACE

The Governance and Transparency Index (GTI) has established itself as an independent and credible benchmark for Singapore's corporate governance assessment. Having achieved the purpose for which it was originally created, the GTI is ready to expand in order to capture transformations in local and global governance standards. CGIO, together with CPA Australia and Singapore Institute of Directors, set out to develop the enhanced Singapore Governance and Transparency Index (SGTI) in 2016. The SGTI's success also owes special thanks to the SGTI Working Group and the SGTI Advisory Panel for their invaluable feedback and insight, especially concerning the foundation and momentum of the SGTI's assessment framework.

With the alignment of the SGTI to the G20/OECD Principles of Corporate Governance, while also seeking to improve from the principles and guidelines of the Singapore Code of Corporate Governance, the SGTI takes a more holistic approach to the corporate governance assessment of Singapore-listed companies. Furthermore, the SGTI seeks to bridge gaps in the GTI by recognising progressive trends emerging in the local and global corporate governance landscapes and raising the bar for corporate governance standards and quality for Singapore companies.

The Corporate Governance Highlights 2016 is an extension of SGTI findings jointly released at the Singapore Governance and Transparency Forum on 3rd August 2016. This report encapsulates trends across time, as well as critical developments in Singapore companies' corporate governance practices. Deeper analysis of the data also brings attention to the areas in which listed companies must develop in order to continue to thrive. The SGTI methodology is presented in detail in the appendix of this report.

Hopefully, the Corporate Governance Highlights will intrigue readers with meaningful observations and insights about the current state of Singapore's corporate governance performance. The SGTI will continue to carry out the purposes of the GTI legacy and push the boundaries of better corporate governance for Singapore companies.

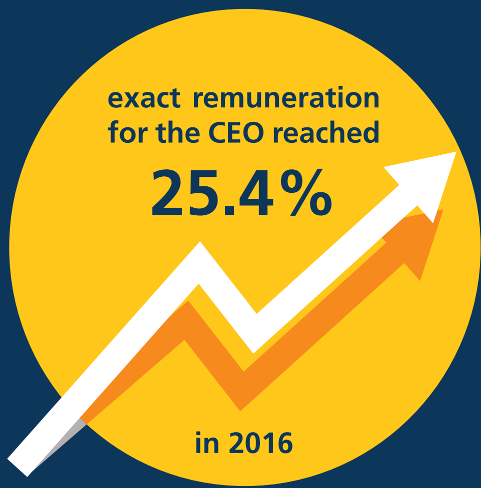
EXECUTIVE SUMMARY

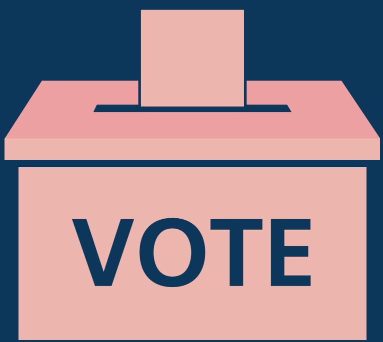
The enhanced SGTI assessment framework incorporates changes in the Code of Corporate Governance 2012 and adds a new section on stakeholder engagement. The SGTI 2016 study finds that, overall, Singapore-listed companies reached an all-time-high average score of 49.7 points, an increase of 2.1 points over 2015.

Among all included industries, the Financials sector achieved the highest average score of 59 points, a significant 9.3 points higher than the index's overall average score. The Food and Beverage sector and Health Care sector improved the most, with 5.6% and 5.3% respective jumps compared to 2015.

BOARD RESPONSIBILITIES

Much progress has been made in the area of board matters. All companies fully disclosed director attendance in both board and committee meetings. Reporting the exact remuneration for the CEO reached 25.4% in 2016, a meaningful five-fold increase over 2012. On the other hand, the progress in reducing busy directorships stalled in 2016; just 23.3% of companies set the recommended limit on multiple board memberships held simultaneously by the same director, representing a 1.4% decline since 2015.



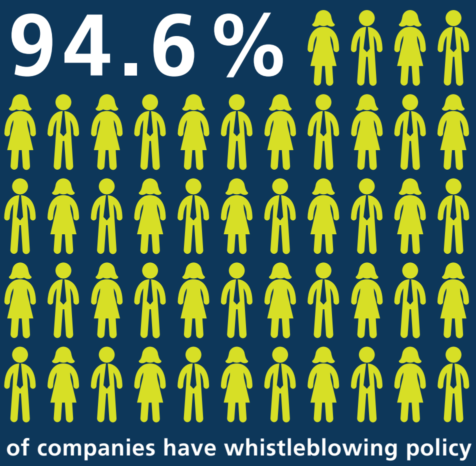


67.7%

adopt poll voting

RIGHTS OF SHAREHOLDERS

There were steady improvements from previous years in the number of companies adopting poll voting, reaching 67.7% in 2016, with detailed voting results provided by 36.9% of companies. Nevertheless, about one-fifth (20%) of companies had full director attendance at the Annual General Meeting. Less than half of companies (46.4%) made use of an independent party to count and validate votes in 2016.

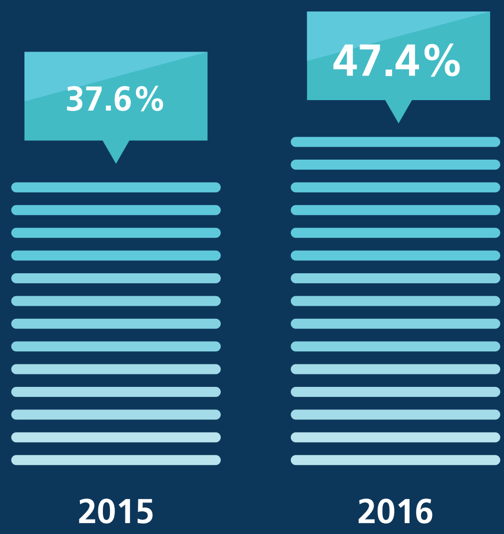


ENGAGEMENT OF STAKEHOLDERS

The vast majority of companies (94.6%) have a whistleblowing policy, yet just one-third (33.1%) disclosed their policy in detail or indicated that it includes anonymous reporting. More attention should be paid to various aspects of stakeholder engagement. Just over one-quarter (26.8%) of firms indicated they have a health, safety, and welfare policy for their employees, while just 12.5% shared the essential details and data on the training and development programmes undertaken by their employees.

ACCOUNTABILITY AND AUDIT

Just under half (47.4%) of all firms disclosed their process and framework for evaluating risk management and internal controls, an improvement from 37.6% in 2015. Similarly, 35.5% of companies confirmed whether or not their internal auditor meets the standards set by the Institute of Internal Auditors, up from 25.2% in 2015. Conversely, only 13.8% of companies set up a fully independent Board Risk Committee, down from 16% in 2015.



DISCLOSURE AND TRANSPARENCY

84.5% of firms disclosed concurrent directorships held by their boards of directors, while 62.3% reported such board memberships, including both current and past three-year appointments of their directors. More modest improvements are observed in other disclosures on websites and SGXNet. 65% of companies released their latest financial results and annual reports on time, an increase from 59.8% in 2015. Yet just 12% of firms provide the code of conduct or ethics, an incremental increase from 11.6% in 2015.

Overall, the SGTI 2016 findings indicate more widespread adoption of the Code of Corporate Governance 2012, with important progress made in board disclosure and transparency. However, Singapore-listed companies have more room to improve, especially in strengthening the rights and equitable treatment of shareholders and building better stakeholder engagement practices.

INTRODUCTION

A high standard of corporate governance is essential to continue building Singapore's reputation as a regional and global hub for businesses. Over the last decade, Singapore companies indeed made much progress in their corporate governance practices. However, businesses now operate in an increasingly complex environment, with disruptive changes challenging traditional business models and intense competition both locally and abroad. It is of paramount importance for Singapore companies to steadily uplift and improve their own corporate governance practices, not only in letter but also in spirit, in order to stay ahead in this business environment.

In the local regulatory landscape, the Singapore Code of Corporate Governance has undergone two major revisions in recent years, one in 2005 and more recently in 2012. Further, the Companies (Amendment) Act of 2014 introduced several new provisions, while the SGX listing rule now requires Singapore-listed companies to publish sustainability reports on a comply-or-explain basis by 2017.

In the international arena, the G20/OECD Principles of Corporate Governance updated guidelines and recommendations for an effective corporate governance framework in November 2015, which received the endorsement of Finance Ministers and Central Bank Governors at the G20 Leaders' Summit. The Principles advocated for inclusiveness of stakeholders' rights, roles of institutional investors and other intermediaries, and rights and equitable treatment of shareholders as part of good corporate governance. Other countries have increasingly looked to the OECD Principles of Corporate Governance as a role model for international best practices. Indeed, as early as the early 2000s, some countries have adopted OECD Principles as their national corporate governance guidelines for companies.

Recent changes and reforms in corporate governance guidelines and rules have prompted developing the GTI into the more comprehensive SGTI. This upgrade ensures that the national corporate governance assessment framework remains relevant and congruent with developments in corporate governance. The enhanced SGTI seeks to be a catalyst for future progress.

THE SGTI FRAMEWORK

The SGTI initiative benefited from the tripartite effort of CPA Australia, NUS Business School's CGIO, and Singapore Institute of Directors in 2016. The SGTI Working Group, whose members are experienced and highly respected directors and executives from the aforementioned organisations, along with the CGIO research team, conducted a rigorous study of the formulation and applicability of the enhanced SGTI instrument.

The team went through extensive literature reviews, comparative analyses, and stringent validation tests[1] of the enhanced SGTI against previous GTI series and other existing corporate governance indices for Singapore-listed companies. These tests ensure the comparability of the SGTI with the previous GTI results, while minimising any biases stemming from a focus on a particular group of firms, regardless of market size or industry. The results of the enhanced SGTI framework received positive endorsement from corporate governance and industry experts of the SGTI Working Group and the SGTI Advisory Panel.

The resulting SGTI framework presents a broader range of assessment that encompasses all requirements in the Code of Corporate Governance 2012, as well as new provisions and recommendations from the G20/OECD Principles of Corporate Governance 2015. The SGTI methodology can be categorised and weighted according to the "BREAD" framework, as in Table 1.

SGTI Areas of Assessment	Weightage
Board Responsibilities	35%
Rights of Shareholders	20%
Engagement of Stakeholders	10%
Accountability and Audit	10%
Disclosure and Transparency	25%
Total	100%

Table 1: The SGTI Framework

[1] Testing, including various statistical and data analyses, stratified random sampling, score dispersion measures, and simple and multiple regression, was conducted over the majority of the eight-month span of the study, running from late 2015 to mid-2016.

Building on the existing GTI scorecard structure and framework, the SGTI framework maintains focus on the core principles of Singapore's Code of Corporate Governance 2012. Indeed, 90% of the GTI questions are part of the SGTI. Previously, the GTI's structure covered board matters, remuneration concerns, accountability and audit, transparency, and investor relations. The "Board Responsibilities" section of the SGTI instrument includes questions formerly found in the GTI's "Remuneration Matters." This revision is in line with G20/OECD Principles of Corporate Governance.

The "Rights of Shareholders" section includes questions related to the rights and treatment of shareholders, previously in the GTI's "Transparency and Investor Relations." This section was also reinforced with additional assessment criteria, including the appointment of an independent party for vote validation, the recording of shareholders' questions and answers from the Board, management in shareholders' general meetings, the conduct of interested person transactions, etc. These enhancements were made in complete consonance with both the 2012 Code and updated OECD Principles.

One of the most significant upgrades to the SGTI is the newly added "Engagement of Stakeholders" section, which takes into account companies' accountability to a broader set of stakeholders beyond the shareholder. This enhancement also reflects the emerging importance of stakeholders to sustain firm growth. This new assessment area for stakeholder engagement makes up 10% of the total base score.

In terms of bonuses and penalties, SGTI questions are very similar to the original GTI. A few new questions were added concerning sustainability reporting, integrated reporting, and director attendance at the Annual General Meeting. As a whole, these questions reflect the international best practices recommended by many progressive jurisdictions.

The improvements to the GTI as the enhanced SGTI will better serve the goals of strengthening the current corporate governance practices of Singapore-listed companies and promoting thought-leadership. Moving forward, continuous review of the SGTI will keep the framework up-to-date for and relevant to the Singapore corporate governance landscape.

ANNUAL TRENDS

2016 is the eighth year of GTI publication and the first of the enhanced SGTI instrument. The average score has ascended steadily over the last five years (Figure 1).

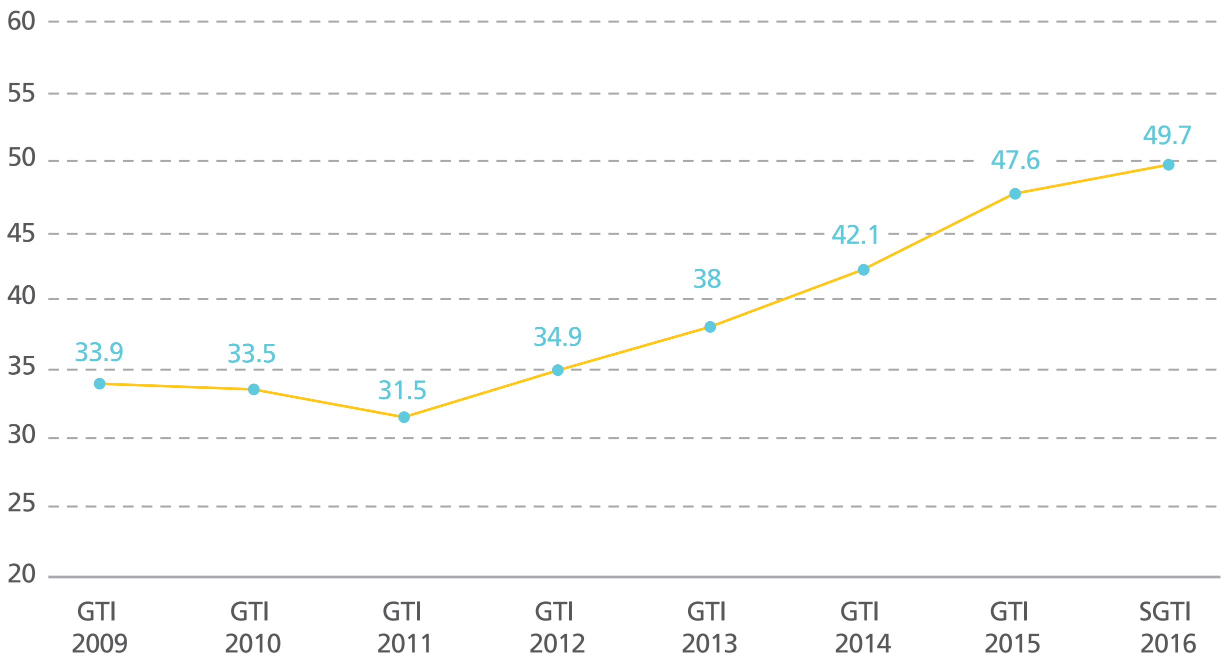


Figure 1: Average Score, 2009-2016

In general, the SGTI study finds an improvement of 2.1 points from 2015 to 2016, with companies scoring a mean of 49.7 in 2016 vs. 47.6 points in 2015. However, increases have slowed from the 4-point average annual increase realised from 2011 to 2015. This lower rate of improvement may reflect, at least in part, the addition of stakeholder engagement criteria not yet fully incorporated into the Code of Corporate Governance 2012.

	2009	2010	2011	2012	2013	2014	2015	2016
Median	34	33	30	33	35	40	46	48
75^{th} percentile	39	40	37	40	43	50	60	60
25^{th} percentile	27	27	24	26	29	31	39	38

Table 2: Percentile score distribution, 2009-2016

Importantly, Singapore's corporate governance progress is not limited to a few companies at the top. The SGTI also reports an increase in median score, along with the mean score, with the 25th and 75th percentile scores improving steadily since 2011 (Table 2).

AVERAGE CORPORATE GOVERNANCE PERFORMANCE BY INDUSTRY

All industries improved average sector scores in the SGTI 2016 compared to 2014. Companies from the Financials, Food and Beverage, Real Estate, Telecommunications and Utilities, and Transportation sectors have consistently outperformed their counterparts in other industries over the years. Companies in these industries consistently achieve higher average sector scores than the average annual GTI/SGTI score from 2014 to 2016. The Financials sector led the pack, with the highest average scores in both 2014 and 2016 at 53.6 and 59, respectively (Figure 2).

The Food and Beverage, and Health Care sectors achieved the most notable gains, with an average increase of 5.6% and 5.3% respectively, compared to 2015. Companies in the Telecommunications and Utilities sector also deserve applause for their better-than-average progress, each realizing three-point gains.

On the other hand, there is much room for improvement in the Materials and Information Technology domains. Both sectors witnessed a decline in corporate governance performance, with Materials down 2.1 points and Information Technology down 0.2 point. Alarmingly, these sectors already lag behind the general trend, with average sector scores of 40.6 and 45.3, respectively, both below the 2015 average score of 47.6.

Similarly, more can be done to improve corporate governance standards in the Retail and Services, Energy, and Industrial Production industries. Despite incremental improvements in these sectors over time, their average scores of 46, 47.8, and 49.5, respectively, likewise lag behind the SGTI 2016 overall average. Retail and Services companies, in particular, are urged to invest more resources in achieving a governance standard on par with their peers in other, better-performing sectors.

Overall, the average SGTI score across all industries stands at just 49.7, less than half the maximum 143 points. Thus, the SGTI 2016 serves as a wake-up call to companies in all industries to continue to evolve with the business and corporate governance landscape.

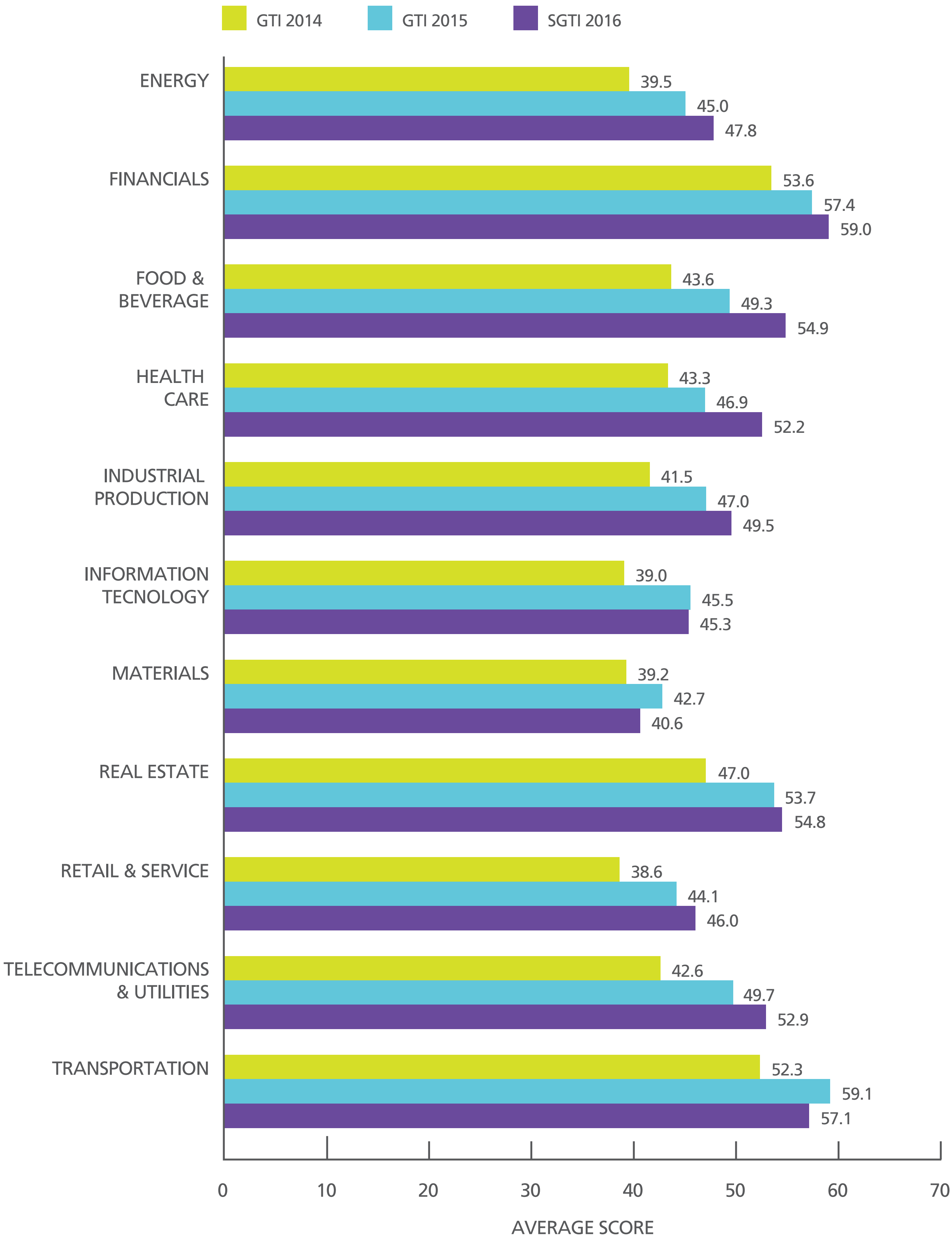


Figure 2: Average Score by Industry, 2009-2016

BOARD RESPONSIBILITIES

Overall, companies assessed in the SGTI 2016 have made considerable effort toward transparency in board matters. All Singapore-listed companies reported the attendance of directors at both board and committee meetings. About two-thirds of companies openly communicated the board appraisal process (67.4%) and criteria (70.8%). The SGTI 2016 also saw favourable improvements in the process (59%) and criteria (25%) of new director selection. Further, more than half (51.5%) of companies revealed the process they use to determine the independence of their directors. 2012 to 2016 also witnessed moderate improvement in disclosing the exact remuneration for the Chief Executive Officer (CEO) and top five executives, as in Figure 3. More than one-quarter (25.4%) of the 2016 study disclosed exact CEO remuneration, a 1.1% increase over 2015 and a significant five-fold gain since 2012. On the other hand, the improvement in reporting exact remuneration for top five executives is much more modest, with just 4.1% of companies doing so in 2016, a limited increase of 0.3% increase from 2015 and 1.3 times more than 2012.

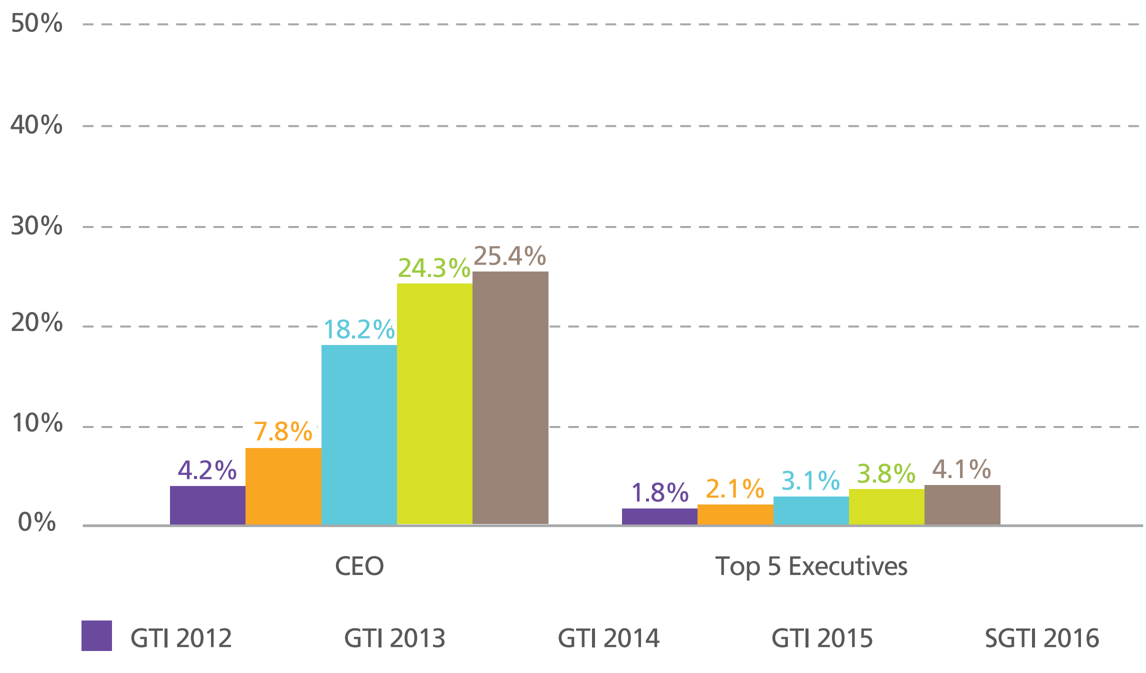


Figure 3: Exact Remuneration of the CEO and Top Five Executives

As for the composition of board committees, the SGTI 2016 finds that 38.8% of companies had the same directors sitting on all three board committees, a marginal improvement from 40.2% in 2015 (Figure 4). Yet, each board committee should comprise directors who, as a group, foster an appropriate balance and diversity of skills and are capable of conducting the committee's duties and functions. Companies with the same directors sitting on all board committees may be susceptible to groupthink and, thus, may not be able to provide the core competencies required for each committee. Companies should form each committee with a view to appoint directors who have the qualifications and capability to conduct the committee's affairs, rather than simply fulfil the independent requirements of each committee.

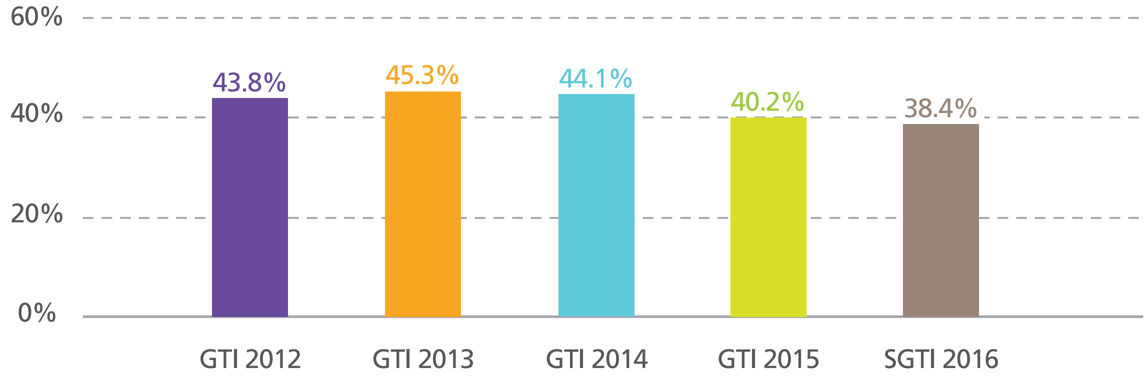


Figure 4: Having the Same Directors Sitting on All Board Committees

Notwithstanding the positive improvements highlighted above, Singapore-listed companies may wish to pay more attention to another aspect of board responsibilities. By reducing busy directorships, the SGTI 2016 results reveal that 23.3% of companies actually met the recommended limit on multiple board memberships held by the same director for publicly-listed companies (Figure 5). Unfortunately, this is a 1.4% reduction from 2015, thereby stalling the 4.4-fold increase from 2012 to 2015. Companies may wish to consider whether multiple board memberships by the same director are compatible with effective board performance and disclose this information, along with any deviations, in the annual report.

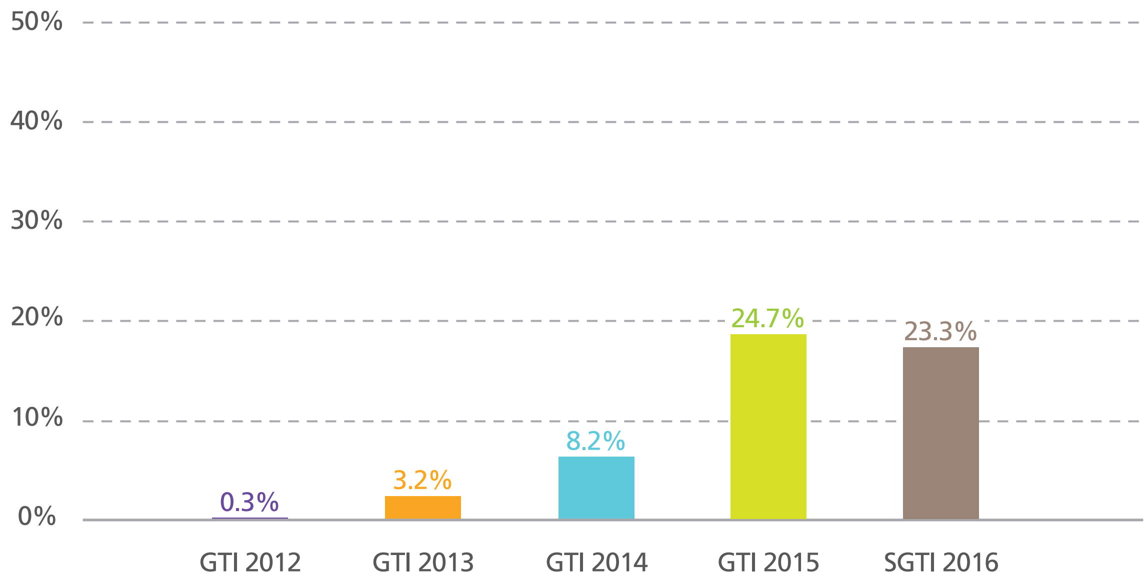


Figure 5: Setting the Limit on Multiple Dictatorships Held Simultaneously

RIGHTS OF SHAREHOLDERS

The Code of Corporate Governance 2012 stipulates that companies should facilitate shareholders' exercise of their ownership rights. Shareholders should also be able to participate effectively in general meetings based on fair and timely access to meeting procedures and company-related information. In particular, the Code recommends the use of electronic polling. The adoption of poll voting, as opposed to show-of-hands voting, continues to improve steadily, with 67.7% of firms doing so in 2016, a 12.5% gain from 2015 (Figure 6).

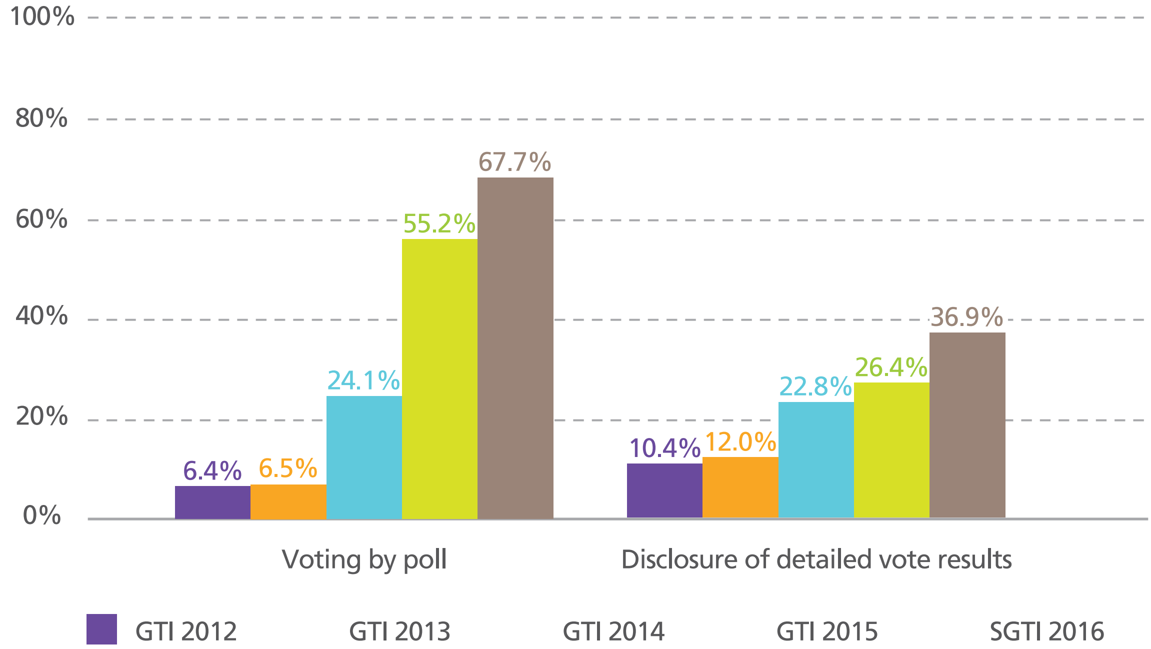


Figure 6: Voting by Poll and Disclosure of Voting Results

On the other hand, a little over one-third (36.9%) of companies embraced comprehensive disclosure of decisions taken at each Annual General Meeting (AGM). Interestingly, the rate of poll voting adoption increased two-fold annually from 2013 to 2016. During the same period, however, the rate of disclosing voting results increased less than 0.5 times per year, on average. To fulfil this requirement, companies are advised to report passed resolutions and corresponding vote shares, comments, and discussion when relevant and applicable to the resolution.

In the current study, the SGTI captures a broader overview of the rights and treatment of shareholders with new questions in order to assess whether shareholders rights are protected and facilitated for effective participation at general meetings of shareholders. The Code stresses the importance of all directors' attending shareholder meetings, especially the board chairperson, respective chairpersons of all board committees, and external auditors. The SGTI reveals that just one-fifth (20%) of companies in 2016 had full attendance of their directors at the AGM (Table 3). Further, 39.5% of companies delineated voting procedures before meetings' starts, while 46.4% utilised an independent party for vote counting and validation.

Director's Participation at the AGM	
All directors attended the AGM	20%
Procedures in the Conduct of Shareholder Meetings	
Declaration of the voting procedures	39.5%
Independent count or validation of votes	46.4%
Opportunities for Shareholder Participation at the AGM	
Approval of remuneration for non-executive directors	70.7%
The AGM Minutes recorded questions and answers	60.1%

Table 3: Conduct of Shareholder Meetings

Moreover, facilitating shareholder participation can be clarified by the descriptions of the agenda items and AGM minutes. More than two-thirds (70.7%) of companies acknowledged that shareholders had an opportunity to approve remuneration or changes in remuneration for non-executive directors.

The Code encourages companies to prepare minutes from shareholder meetings and include substantial correspondence regarding the meeting agenda, queries, and answers between shareholders and the board and management. 60.1% of companies claimed they practice recording shareholder questions, comments, and answers to shareholder queries in AGM minutes. However, in terms of full transparency and disclosure of conduct at shareholder meetings, not all companies in this 60.1% provided their AGM minutes. Indeed, as of 31 May 2016, the cut-off date for annual report release, we find that that just 11 companies (1.7%) released their AGM minutes on the company website. Companies are strongly encouraged to publish AGM minutes, even redacted versions, in this manner.

ENGAGEMENT OF STAKEHOLDERS

Since the GTI 2012, more companies have taken the initiative to create a transparent organisation culture by adopting a whistle blowing policy. The SGTI 2016 reports continued improvement in this area, with 94.6% of companies indicating they have a whistleblowing policy in place (Figure 7). About one-third (33.1%) of companies pay attention to disclosing key details of the policy and provide for anonymous reporting, a 9.8% increase from 2015. This steady improvement is truly meaningful and inspiring for all companies listed in Singapore. It is hoped that the progresses in whistleblowing policies and anonymous reporting become status quo for Singapore-listed companies.

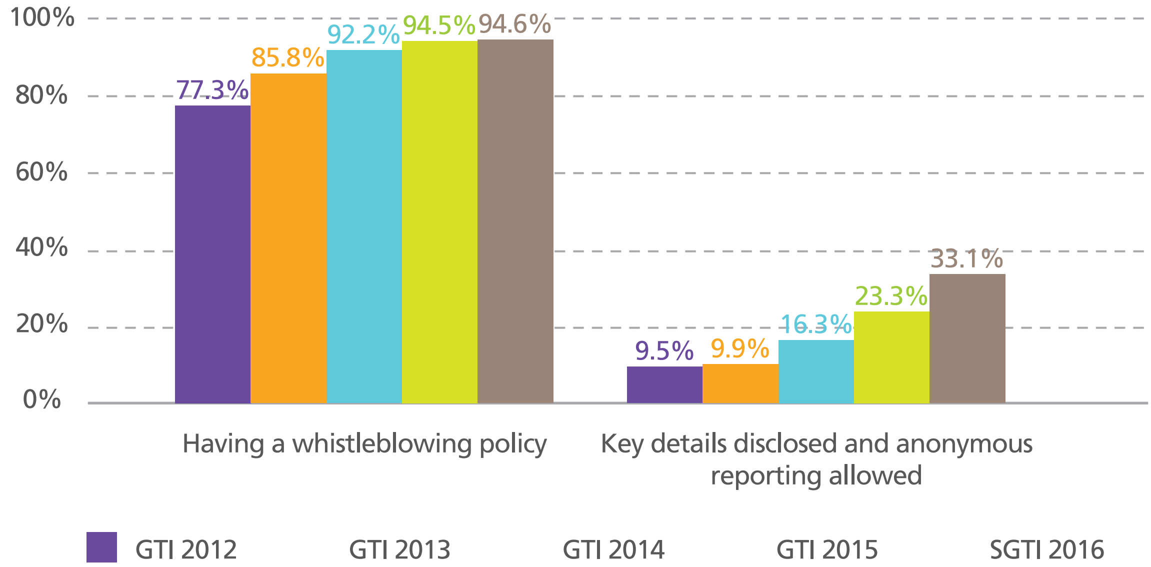


Figure 7: Whistleblowing Policy and Anonymous Reporting

Expanding beyond the board-centric model of corporate governance, the G20/OECD Principles of Corporate Governance advocates for cooperation between the company and its stakeholders. The updated Principles calls for the inclusion of accountability of a broader set of stakeholders beyond the traditional board, management, and shareholders, a major shift from the 2004 OECD Principles of Corporate Governance.

In line with these updated guidelines, the SGTI 2016 includes seven new questions in the "Engagement of Stakeholders" section. A stakeholder-centric approach is concerned with the interaction between the company and its investors, employees, customers, suppliers/contractors, and creditors, as well as the company's impact on the environment and community at large.

Internal stakeholders, like employees, are fundamental to a company's sustainable growth. Yet, the SGTI finds that about one-quarter (26.8%) of companies discuss health, safety, and welfare policies for their employees. In terms of staff training and development, just 12.5% of companies displayed relevant details and data about these training and development programmes (Figure 8).

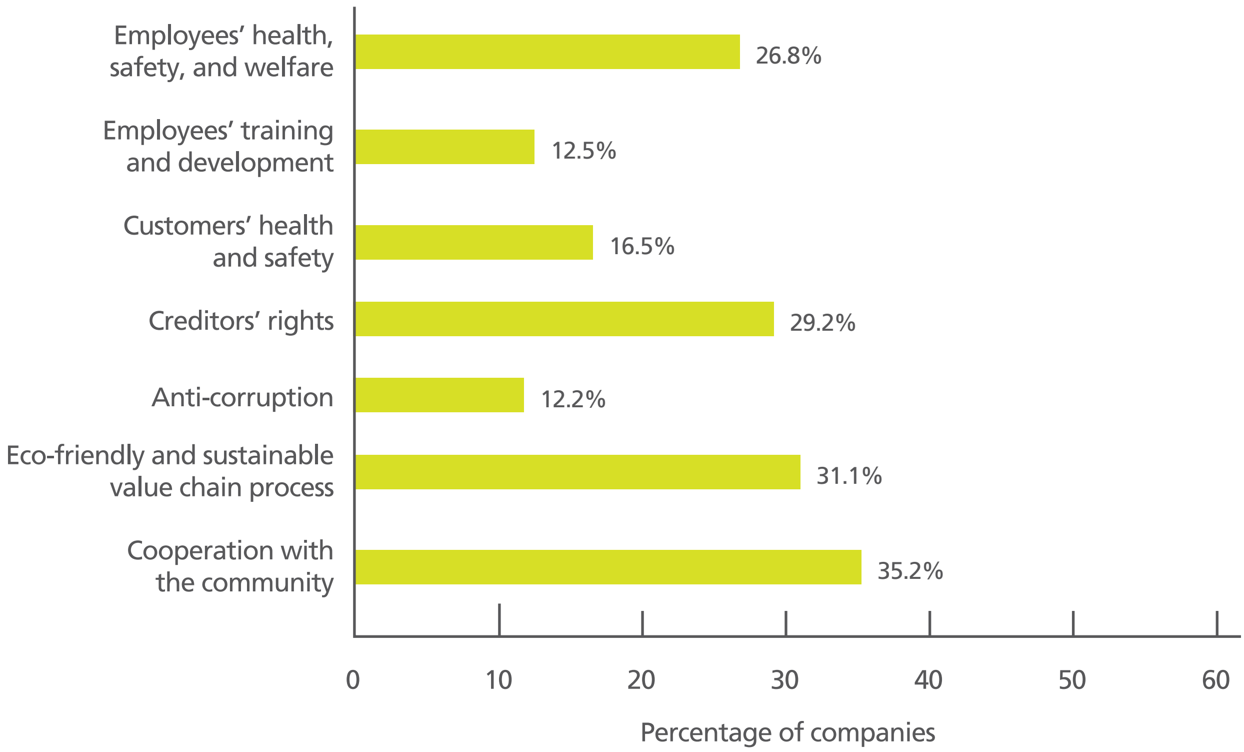


Figure 8: Selected Issues on Engagement of Stakeholders

The SGTI also tracks a few other stakeholder matters concerning the social and environmental impact of businesses. In particular, results show that just 12.2% of firms have well-established anti-corruption programmes and procedures in place. Companies fared better in their commitment to sustainable development, with 31.1% of firms practicing eco-friendly and sustainable value chain processes. Similarly, more than one-third (35.2%) of firms elaborated on their community programmes or interactions with related communities with clear, measurable objectives and results.

These new SGTI questions are constructed with the aim of facilitating collaborative relationships between companies and their stakeholders. Hopefully, this new SGTI section will help companies familiarise themselves with the progressive thoughts and practices in corporate governance and sustainability.

ACCOUNTABILITY AND AUDIT

Implementing effective and adequate risk management and internal control systems help companies identify their weaknesses and improve their perspectives on the relevant risks they may face. Thus, companies should make advanced preparations, like establishing procedures for standardised risk reporting and mitigation measures before an adverse event occurs. Furthermore, having a formal risk governance system in place, like the Enterprise Risk Management (ERM) framework, enables companies to gather data in risk management, make better use of their resources, and reduce the number, type, and severity of adverse events. The SGTI 2016 finds that more companies are seeing the benefits of a formal risk governance system. Specifically, the study reveals that 47.4% of companies disclose both this framework and process in their risk management and internal control systems, a 9.8% gain from 2015, as in Figure 9.

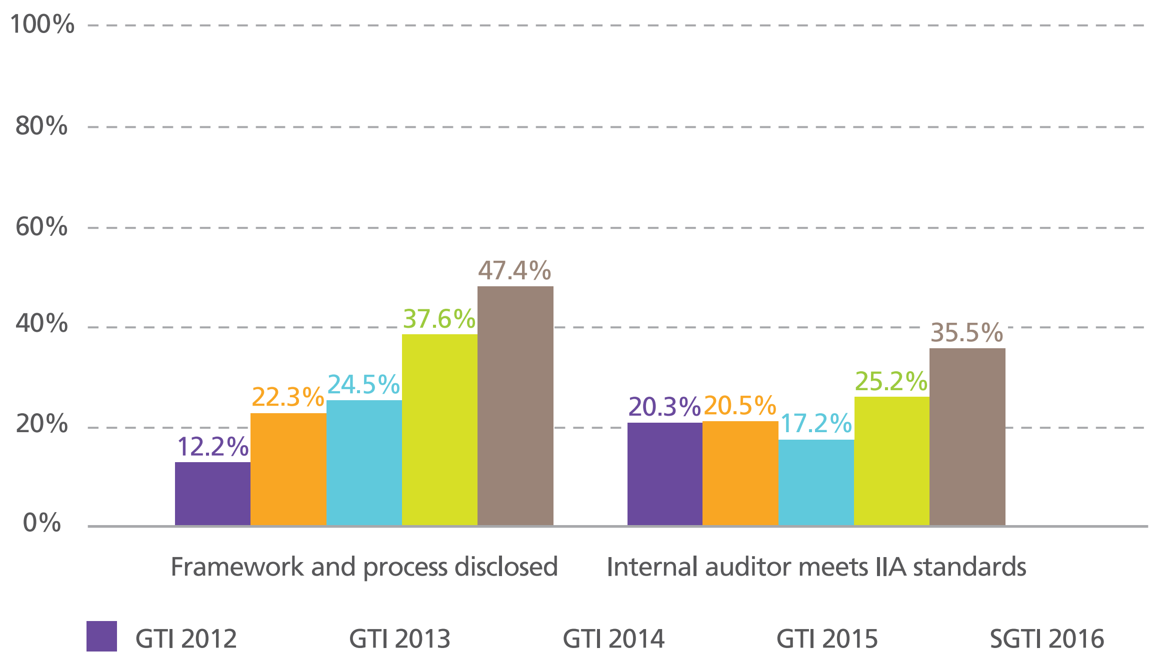


Figure 9: Framework and Process of Risk Management, and Internal Audit Function

Another important aspect of accountability and audit functions concerns the individuals with internal audit duty. Regardless of whether the internal auditor is in-house or outsourced, the Code of Corporate Governance recommends that s/he be accredited by reputable and professional bodies, like the Institute of Internal Auditors. Companies have been responsive in this regard, with over one-third (35.5%) ensuring their internal auditor met the Standards for Professional Practices of Internal Auditing set forth by the Institute of Internal Auditors, a 10.3% jump over 2015 (Figure 9).

The catchphrase "it's not if but when" aptly captures the increasing pervasiveness of cyber-attacks targeting businesses and organisations. On a smaller scale, the possibility of security breaches in either employee or customer information is quite imminent, even for small and medium sized firms. Therefore, the importance of having a fully independent board risk committee may no longer be optional but necessary for publicly listed companies.

The Code suggests establishing a separate board risk committee to oversee the operation, finance, compliance, information technology, and other external risks to the firm and its shareholders and stakeholders. Unfortunately, companies in the SGTI 2016 did not pay enough attention to this practice, with only 13.7% maintaining a fully independent board risk committee, a 2.2% decline from 2015 (Figure 10).

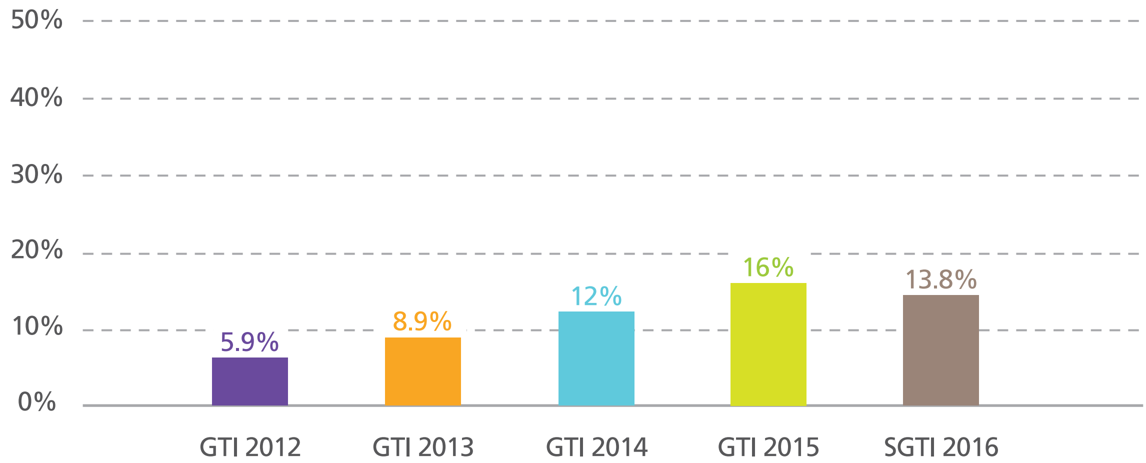


Figure 10: Establishing an Independent Board Risk Committee

DISCLOSURE AND TRANSPARENCY

In general, Singapore-listed companies have demonstrated greater transparency in their annual reports, company websites, SGX announcements, and other public releases over the past five years. In terms of annual reports, data from the SGTI 2016 reveal an increase in the number of companies disclosing all directorships held by directors in listed companies over the past three years. 62.3 % of companies provide full disclosure of current and past three-year appointments of directors in listed companies, an 8% increase from 2015 (Figure 11). This disclosure practice is fundamental and useful for a Board conducting a transparent process of director appointment or re-appointment and preventing apparent conflicts of interests in turn.

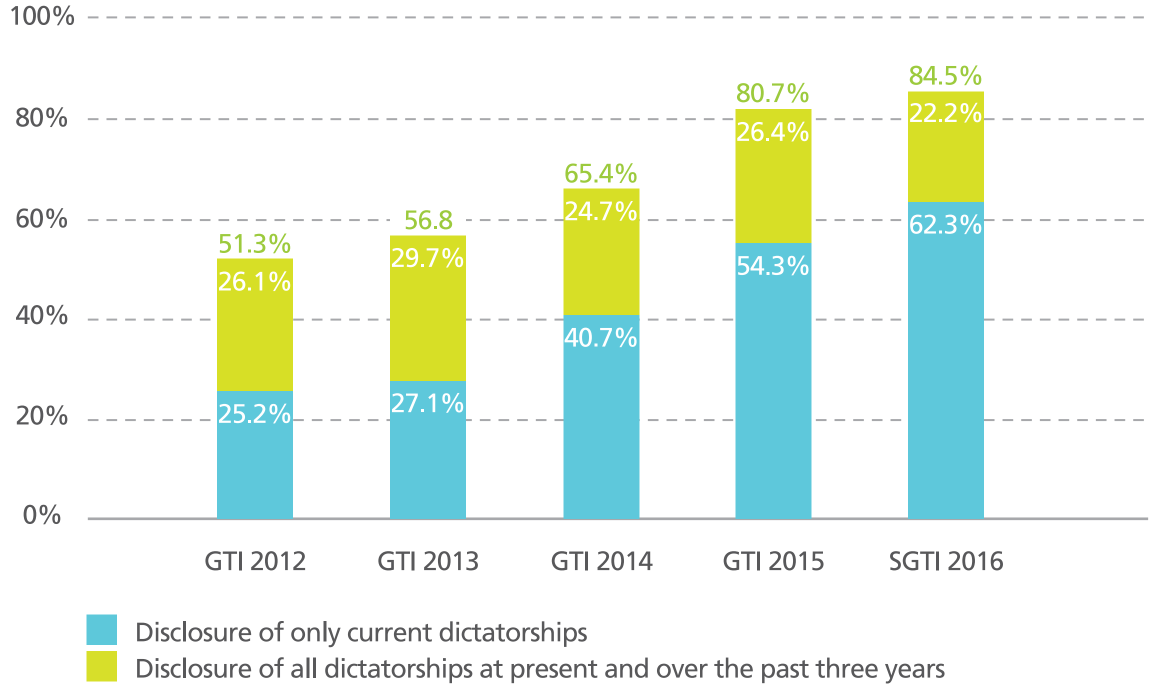


Figure 11: Disclosure of Directorship/Chairmanship

On their official websites, companies made only modest improvements in disclosing their communication with shareholders. Figure 12 shows that 65% of companies released financial statements and annual reports on their company and/or SGXNet website in a timely manner. The five-year period of 2012 to 2016 witnessed 3% annual growth, which is ultimately quite small.

Similarly, more attention should be paid to maintaining an active and valid company website and properly sharing this address in the annual report and on SGXNet. Company websites are prime, practical resources for shareholders, potential investors, and relevant stakeholders to find company information. In this digital age, companies that neglect to disclose and update their sites diminish shareholder confidence and market share. Unfortunately, SGTI 2016 results show that, while 78% of companies keep company websites up-to-date, this constitutes a decrease of 8.9% from 2015. Furthermore, the four-year trend from 2013 to 2016 witnessed an average annual reduction of 5.5% in the number of companies maintaining their website (Figure 12).

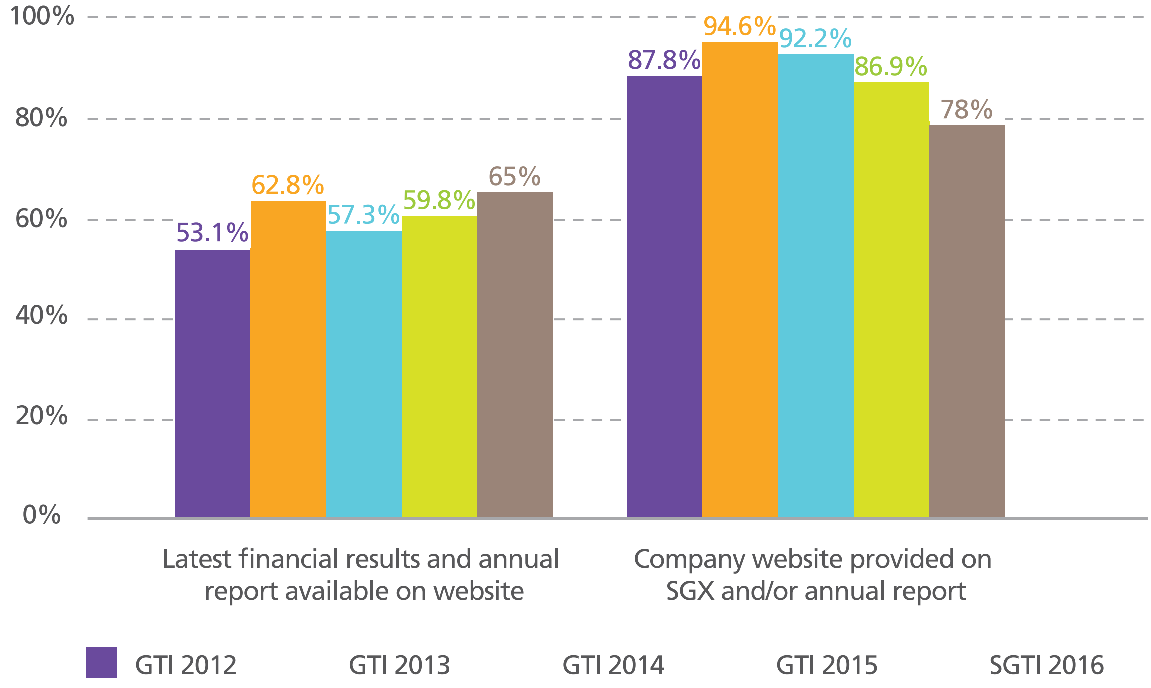


Figure 12: Selected Governance Practices on the Company Website and SGXNet

Greater transparency and more effective communication with shareholders and stakeholders are also realised in SGX announcements and other public releases like online publication of company policies, such as code of conduct and investors' day briefings. While the 12% of companies that disclose their codes of conduct or ethics may seem like a small percentage, they actually highlight double digit gains each year through 2015 from a starting point of 1.6% in 2012, as in Figure 13.

Having an established, company-wide code of conduct or ethics serves to set high standards of fairness and transparency. Benefits of such codes include building credibility and trustworthiness for the Board, executives, and management, as well as upholding the long-term interests of the company. Hopefully, companies will make strides to maintain their rate of progress in this regard.

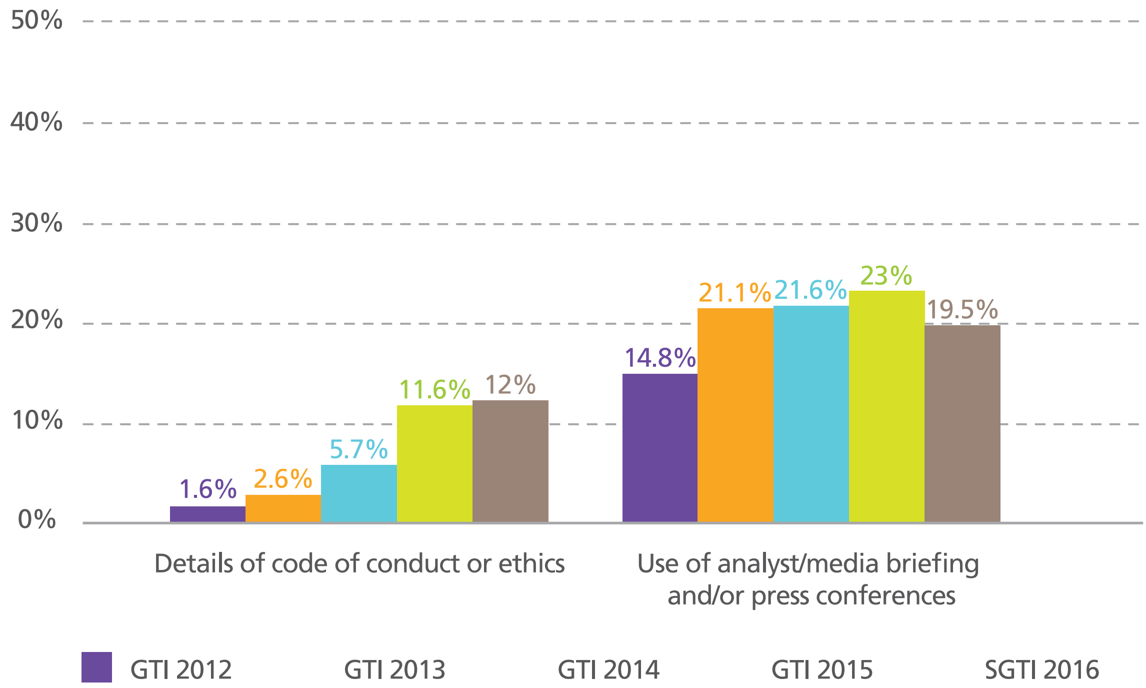


Figure 13: Disclosure of Code of Conduct/Ethics and Analyst/Media Briefings

Companies are also encouraged to make more use of the available communication channels with shareholders through regular dialogues, investor road shows, analyst briefings, and/or press conferences. Managing market expectations is more effective through regular and effective briefings with shareholders or media. Moreover, the transparency of briefing materials is key to adding value to publicity over time.

This is another area where the gradual improvements from 2012 to 2015 took a downturn in 2016. Less than one-fifth of companies (19.5%) in the SGTI 2016 recognised the value of holding analyst briefings and/or press conferences and posting briefing presentation slides or podcasts on company websites (Figure 13). This represents a drop of 3.5 percent from 2015.

CONCLUSION

2016 was a memorable year. This report shows that Singapore companies' corporate governance practices continue to evolve in the right direction. Average scores across industries show steady increases over the course of the GTI through the enhanced SGTI.

Furthermore, the SGTI 2016 reflects a general increase in meeting corporate governance standards where board responsibilities, rights of shareholders, accountability and audit, disclosure, and transparency are concerned. Notable developments include full disclosure of director attendance at all board and committee meetings and increased adoption of poll voting and displaying vote results. More companies also explain the framework and process of risk management and internal control systems. The SGTI also gauges increased disclosure of current and past three-year board memberships held by directors.

The SGTI's enhancement, which consolidates the latest developments in both the Code of Corporate Governance 2012 and the G20/OECD Principles of Corporate Governance, made it possible for Singapore-listed companies to progress more rapidly.

A strengthened corporate governance assessment framework for Singapore must extend coverage to a new asset class of Real Estate Investment Trusts (REITs). The number of initial public offerings in REITs increased substantially in recent years. As the REIT market has been in development for over a decade, improving corporate governance disclosures and practices in this sector is becoming an increasingly urgent task.

Given the unique structure of these businesses and the perceived agency issues between the interests of unit holders and REIT managers, corporate governance assessment of REITs will promote a more comprehensive understanding of the Singapore corporate governance landscape. Further, corporate governance assessment of REITs will provide broader oversight of the financial market for shareholders and stakeholders alike.

Using the SGTI framework as a basis, CGIO, in collaboration with CPA Australia and Singapore Institute of Directors, will develop and launch a corporate governance index specially designed for REITs in the SGTI 2017.

APPENDIX: THE SGTI METHODOLOGY

The Singapore Governance and Transparency Index (SGTI) is a joint initiative by CPA Australia, NUS Business School's Centre for Governance, Institutions and Organisations (CGIO), and the Singapore Institute of Directors, with the Business Times as a strategic media partner.

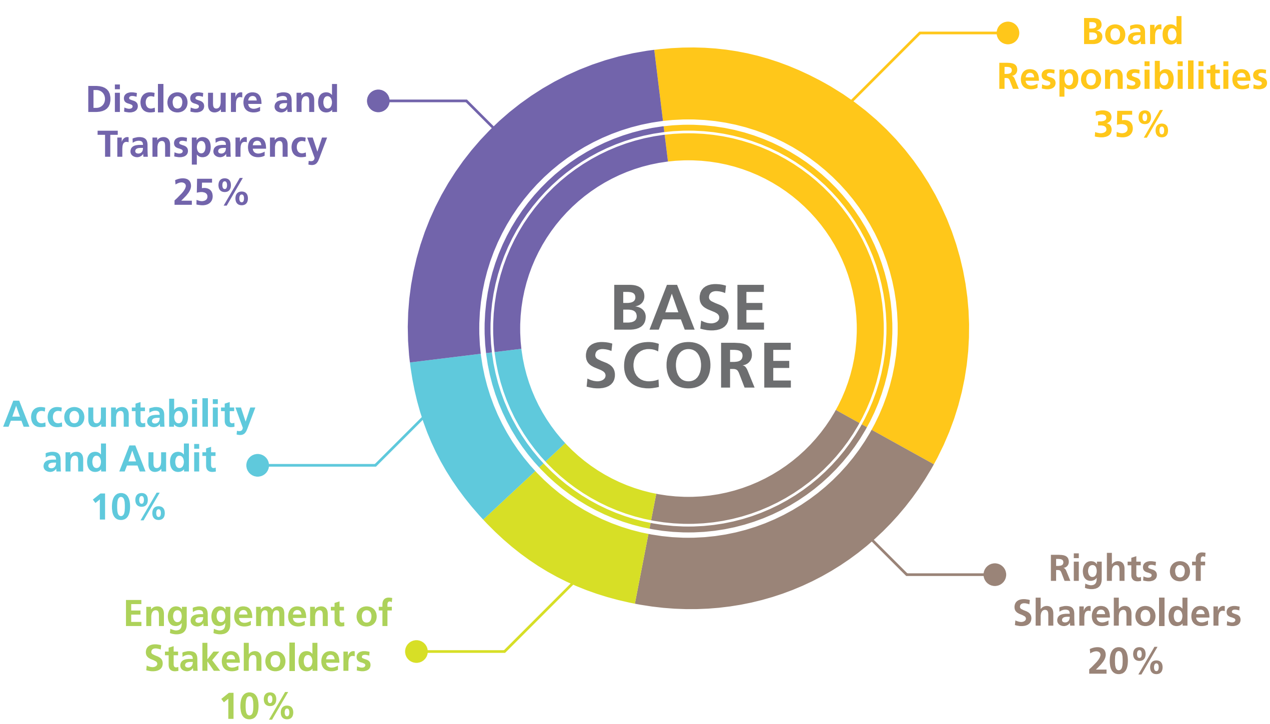
SGTI evaluates companies on their corporate governance practices and disclosures, as well as the timeliness, accessibility, and transparency of their financial results. SGTI uses an enhanced framework based on the Governance and Transparency Index utilised from 2009 to 2015, with an updated section on stakeholder engagement.

The SGTI score has two components: base score and bonus/penalty adjustments. The base score covers five areas: board responsibilities (35 points), rights of shareholders (20 points), engagement of stakeholders (10 points), accountability and audit (10 points), and disclosure and transparency (25 points).

The aggregate of bonuses and penalties is added to the base score to derive a company's total SGTI score.

The 631 SGX-listed companies that released their annual reports by 31 May 2016 were included in the SGTI 2016. Sources of information analysed include annual reports, websites, announcements on SGXNet, and investor relations' email responsiveness. Announcements made by companies on SGXNet, as well as in media coverage, between 1 January 2014 and 31 May 2016, have also been incorporated into scores. In addition, companies were contacted to obtain information not publicly available.

Further information on scoring methodology, including the full instrument and past results, may be obtained from CGIO's website at http://bschool.nus.edu.sg/CGIO. Queries about SGTI may be sent to cgio@nus.edu.sg. In order to maintain the independence and fairness of the SGTI, reports or advice cannot be provided to individual companies.



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The SGTI Advisory Panel is greatly appreciated for their continued guidance and critical feedback on the SGTI project. The Advisory Panel members are:

- Mr Loh Hoon Sun, Managing Director, Phillip Securities Pte Ltd
- Mr Low Weng Keong, Past Global President and Chairman of the Board, CPA Australia
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SGTI Working Group

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- Ms Joyce Koh, Executive Director, Singapore Institute of Directors
- Mr John Lim, Immediate Past Chairman, Singapore Institute of Directors
- Dr Lawrence Loh, Director, Centre for Governance, Institutions and Organisations
- Mr Melvin Yong, Country Head - Singapore, CPA Australia

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- Mr Philip Yuen, Divisional President - Singapore, CPA Australia
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- Mr Willie Cheng, Chairman, Singapore Institute of Directors
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All the staff at CPA Australia and Singapore Institute of Directors are greatly appreciated.

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