

Governance & Transparency Index

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CGIO
CENTRE FOR GOVERNANCE,
INSTITUTIONS AND ORGANIZATIONS

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INTRODUCTION

The Governance and Transparency Index (GTI) is jointly launched by The Business Times (BT) and the Centre for Governance, Institutions and Organizations (CGIO) of NUS Business School, National University of Singapore. The GTI, which is sponsored by CPA Australia and supported by the Investment Management Association of Singapore, will replace the Corporate Transparency Index (CTI), which assessed the financial transparency of companies based on their annual announcements and which had been published by BT since 2000.

The index is divided into two broad sections: governance and transparency (including investor relations) with the maximum points for each section being 75 and 25 respectively.

The governance section covers the following items:

- Board Matters
- Remuneration Matters
- Accountability and Audit

The transparency section focuses on how companies communicate with their shareholders.

In addition, the index includes a “bonus and penalty” system where companies which go beyond the requirements of the code (e.g., by including limits on directorships held by their directors) will be awarded additional points while negative events (e.g., directors or management resigning and raising corporate governance concerns) will lead to a deduction in the company’s GTI score.

GOVERNANCE

| S/N | DESCRIPTION | POINTS | REMARKS |
|---------------|---|---------------------|---------|
| BOARD MATTERS | | | |
| 1 | <i>Board size</i> If the board comprises of at least 6 members but not more than 11 | 2 | |
| 2 | <i>Board independence</i> Proportion of independent directors on board If more than 50% If 50% If between a third and less than 50% If less than a third | 5 3 1 0 | |
| 3 | <i>Board competencies</i> If the board comprises of individuals with diverse qualifications and backgrounds (e.g. accountants, lawyers, foreign directors, etc) If at least one of the independent directors has experience in industry | 1 1 | |
| 4 | <i>Directorships or Chairmanships held by the company's directors in listed companies</i> If the company discloses all the directorships and chairmanships in listed companies held by its directors, both current and those held over the preceding 3 years If only the current directorships are disclosed | 3 1 | |
| 5 | <i>CEO-Chairman separation</i> If the Chairman is an independent director If the Chairman is a non-executive director and is unrelated to the CEO If the Chairman is the CEO, is related to the CEO, is a controlling shareholder or is an executive director, but the company has a lead independent director | 4 2 1 | |

| S/N | DESCRIPTION | POINTS | REMARKS |
|-----|---|---|---------|
| 6 | <p><i>Board and committee meetings</i></p> <p>Number of board meetings held</p> <p>If the board meets at least 6 times during the year</p> <p>If the board meets at least 4 times during the year</p> <p>Number of committee meetings held</p> <p>If the nominating committee meets at least 2 times during the year</p> <p>If the remuneration committee meets at least 2 times during the year</p> <p>If the audit committee meets at least 4 times during the year</p> <p>Attendance at board and committee meetings</p> <p>If individual director attendance at board meetings is given</p> <p>If individual director attendance at all committee meetings is given</p> | <p>3</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> | |
| 7 | <p><i>Nominating committee independence</i></p> <p>If all the members are independent</p> <p>If the majority are independent (including the Chairman)</p> | <p>2</p> <p>1</p> | |
| 8 | <p><i>Selection of directors</i></p> <p>If the following information is disclosed:</p> <p>The skills/experience sought</p> <p>External search is done</p> <p>The process followed</p> | <p>1</p> <p>1</p> <p>1</p> | |
| 9 | <p><i>Board and individual director appraisal</i></p> <p>Board appraisal</p> <p>The process is disclosed in detail</p> <p>Criteria used are disclosed</p> <p>Individual director appraisal</p> <p>The process is disclosed in detail</p> <p>Criteria used are disclosed</p> <p>If an external party is used at least periodically to conduct the board and/or individual director appraisal</p> | <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>2</p> | |

| S/N | DESCRIPTION | POINTS | REMARKS |
|----------------------|---|--------|---|
| REMUNERATION MATTERS | | | |
| 1 | <i>Remuneration committee independence</i> If all the members are independent | 2 | |
| | If the majority are independent (including the Chairman) | 1 | |
| 2 | <i>Executive directors/Top 5 executives' remuneration</i> Level of executive director remuneration If exact remuneration of executive directors is disclosed | 4 | |
| | If remuneration of executive directors is disclosed in bands of \$100,000 or less | 3 | Must not have unlimited top band, e.g., \$500,000 and above |
| | If remuneration of executive directors is disclosed in bands of between \$100,000 and \$250,000 | 2 | Must not have unlimited top band, e.g., \$500,000 and above |
| | If remuneration is disclosed in bands of S\$250,000 | 1 | Must not have unlimited top band, e.g., \$500,000 and above |
| | Level of top 5 executives' remuneration If exact remuneration of top 5 executives is disclosed | 4 | |
| | If remuneration of top 5 executives is disclosed in bands of \$100,000 or less | 3 | Must not have unlimited top band, e.g., \$500,000 and above |
| | If remuneration of top 5 executives is disclosed in bands of between \$100,000 and \$250,000 | 2 | Must not have unlimited top band, e.g., \$500,000 and above |
| | If remuneration is disclosed in bands of S\$250,000 | 1 | Must not have unlimited top band, e.g., \$500,000 and above |
| | If the names of the top 5 executives are disclosed along with their remuneration | 1 | |

| S/N | DESCRIPTION | POINTS | REMARKS |
|---------------------------------|--|----------------------------|---|
| | <p><i>Executive directors/Top 5 executives' remuneration...continued</i></p> <p>Mix of executive director remuneration</p> <p>If short-term incentives are used</p> <p>If long-term incentives are used</p> <p>Performance measures</p> <p>If the company discloses the performance measures of its executive directors</p> | <p>1</p> <p>1</p> <p>1</p> | <p>Use of options without disclosure of vesting periods, or grant of shares which vests immediately and do not have minimum holding requirements, will not be counted as long-term incentives</p> |
| 3 | <p><i>Non-executive director fees</i></p> <p>Level of non-executive director fees</p> <p>If exact fees of non-executive directors is disclosed</p> <p>If fees are disclosed in bands of S\$10,000 or less</p> <p>Structure of non-executive director fees</p> <p>If the fee structure (e.g. fees for attending meetings, for being committee members, for being committee chair, etc) is disclosed</p> | <p>3</p> <p>1</p> <p>2</p> | |
| 4 | <p><i>Stock options</i></p> <p>If the vesting period of stock options is over a period of 3 years or more</p> | <p>1</p> | |
| ACCOUNTABILITY AND AUDIT | | | |
| 1 | <p><i>Composition of the audit committee</i></p> <p>Independence of audit committee members</p> <p>If all are independent directors</p> <p>If all are non-executive directors with an independent chairman</p> <p>If one or more of the directors are executive</p> | <p>3</p> <p>1</p> <p>0</p> | |

| S/N | DESCRIPTION | POINTS | REMARKS |
|-----|--|--|---------|
| | <p><i>Composition of the audit committee...continued</i></p> <p>Competencies of audit committee members If at least a majority of the audit committee has accounting or finance qualification or work experience</p> <p>If at least one member has accounting or finance qualification or work experience</p> <p>Competency of audit committee chairman If the audit committee chairman has accounting or finance qualification or work experience</p> | <p>2</p> <p>1</p> <p>2</p> | |
| 2 | <p><i>Risk management, internal control and internal audit</i></p> <p>If the key risks (including operational risks) are disclosed in the annual report</p> <p>If there is disclosure of how these risks are assessed and managed</p> <p>If there is disclosure of the process and framework used to assess the adequacy of internal control systems and risk management</p> <p>If there is disclosure that the internal auditor meets or exceeds the IIA standards</p> <p>If the annual report has a statement by the board or audit committee on the adequacy of the internal controls (including operational, financial and compliance) and risk management systems</p> | <p>2</p> <p>2</p> <p>2</p> <p>2</p> <p>2</p> | |
| 3 | <p><i>Whistleblowing policy</i></p> <p>If the company has a whistleblowing policy in place, discloses key details about the policy and does not disregard anonymous complaints</p> <p>If the company has a whistleblowing policy in place but does not disclose any further details</p> | <p>3</p> <p>1</p> | |

TRANSPARENCY & INVESTOR RELATIONS

| S/N | DESCRIPTION | POINTS | REMARKS |
|--|---|--|---------|
| COMMUNICATION WITH SHAREHOLDERS | | | |
| 1 | <p><i>Timeliness of release of full-year results</i></p> <p>If released within 30 days</p> <p>If released within 31 – 60 days</p> <p>If greater than 60 days</p> | <p>5</p> <p>3</p> <p>0</p> | |
| 2 | <p><i>Corporate website</i></p> <p>If the company has a website, and the link is provided on the SGX website and/or annual report</p> <p>If the website has a clearly dedicated “Investor Relations” link instead of providing such information under headings such as “News” or “Announcements”</p> <p>If the latest financial results are available on the company website</p> <p>If the latest annual report is available on the company website</p> <p>If the investor relations contact is given on the company website or annual report</p> | <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> | |
| 3 | <p><i>Responsiveness to calls or emails requesting information</i></p> | 2 | |
| 4 | <p><i>Results briefings to announce full-year results</i></p> <p><i>Briefing for the media and analysts</i></p> <p>If the briefing is held for media and analysts together</p> <p>If the briefing is held for media and analysts separately</p> <p>If key management are present at the results briefing</p> <p>If the presentation materials or a webcast of the briefing are available on the SGX or company website</p> | <p>3</p> <p>1</p> <p>2</p> <p>1</p> | |
| 5 | <p><i>Shareholder participation</i></p> <p>If the company allows shareholders who hold shares through nominees to attend the annual general meetings (AGM) as observers without being constrained by the two-proxy rule</p> | 2 | |

| | | | |
|--|--|---|--|
| | If the length of time between the Notice of AGM sent to shareholders and the date of the AGM is equal to or greater than 28 days | 1 | |
| | If the company provides full information on each item in the agenda for the AGM in the Notice | 1 | |
| | If the company conducts voting on all resolutions by poll at the AGM | 2 | |
| | If the company publishes the detailed results of voting from the AGM | 1 | |

BONUSES

The following are some of the practices which will enable a company to receive bonus points. This list is not exhaustive and will also be reviewed periodically.

| S/N | DESCRIPTION | POINTS | REMARKS |
|-----|--|--------|--|
| 1 | Having a positive confirmation statement at the start of the corporate governance report that they have adhered to the principles and guidelines of the Code, and if there is any deviation from the Code, specify each area of non-compliance | +3 | |
| 2 | Having term limits for the directors If the company has set a term limit of up to 6 years for their independent directors | +3 | |
| 3 | Having limits on the number of directorships that can be held concurrently | +3 | Note: The limits should be no more than 4 directorships for a director with full-time employment and 6 directorships for a director with no full-time employment |
| 4 | Definition of independence of directors includes independence from shareholders | +3 | |
| 5 | Disclosing information on the succession planning for the board and senior management | +3 | |
| 6 | Having a separate board-level risk committee | +3 | |
| 7 | CEO/CFO certification of financial statements | +3 | |
| 8 | Providing a comprehensive description of how the company assesses the independence of its directors | +3 | |
| 9 | Having a policy which encourages non-executive directors to purchase shares in the company and hold them till they leave the board | +3 | |

| | | | |
|----|---|--------------|---|
| 10 | Disclosing information on director training (e.g., type of courses, directors who attended the training, number of hours attended, etc) | +5 | Partial points might be awarded for partial disclosure but this does not include statements such as “All our directors are encouraged to attend training courses” or “The company has a training budget which can be used by directors to attend courses they are interested in”. No points will be awarded if the company discloses that none of its directors attended any training |
| 11 | Disclosing the company’s code of conduct or ethics | +3 | Note: The company need not disclose this in the annual report. If the information is available on the company website, the points will still be awarded |
| 12 | If a company voluntarily limits the percentage of share capital to be offered other than on a pro-rata basis in one year to: Less than 10 percent Between 10-15 percent | +5 +3 | |
| 13 | Having a policy which requires directors to seek board approval before trading in the company’s shares and disclosing this policy in the annual report | +3 | |

PENALTIES

The following are some of the practices which will enable a company to receive penalty points. This list is not exhaustive and will also be reviewed periodically.

| S/N | DESCRIPTION | POINTS | REMARKS |
|-----|---|---------------------|--|
| 1 | <p>Tenure of independent directors:</p> <p>If there is one director with tenure of more than 9 years</p> <p>For each additional long tenure director</p> | <p>0</p> <p>- 3</p> | |
| 2 | <p>Number of directorships concurrently held by independent directors</p> <p>If there is one director who does not meet the limits specified in the “remarks” column (“busy director”)</p> <p>For each additional busy director</p> | <p>0</p> <p>-3</p> | <p>If the director holds a full-time position, the limit is 4 directorships in listed companies</p> <p>If the director does not hold a full-time position, the limit is 6 directorships in listed companies</p> <p>Note: Being the chairman of a company is considered as holding 2 directorships while being the chairman of the audit committee is considered as holding 1.5 directorships</p> |
| 3 | <p>Number of external directorships in other listed companies (outside group) concurrently held by CEO or executive directors is more than 2</p> | -3 | |

| | | | |
|----|--|---|--|
| 4 | <p>Board interlocks</p> <p>If the executive directors or the chief financial officer and the independent directors sit together on boards of listed companies outside the group</p> <p>If 2 or more directors (the same persons) sit together on 3 or more boards</p> | <p>-5 for each company</p> <p>-5 for each company</p> | |
| 5 | <p>If the same independent directors sit on all the nominating, remuneration and audit committees in the company</p> | <p>-2</p> | |
| 6 | <p>If the chief executive officer and/or executive directors are not subject to re-election at least once every three years</p> | <p>-3</p> | |
| 7 | <p>If the company issues a profit warning within 30 days after the IPO or after a results announcement</p> | <p>-5</p> | |
| 8 | <p>Earnings restatements:</p> <p>If the earnings for one year are to be restated</p> <p>If earnings of more than one year are to be restated</p> | <p>-5</p> <p>-8</p> | |
| 9 | <p>Frequent turnover of senior management (CEO, executive directors and CFO)</p> <p>If more than one change for any one of these positions occurs within a financial year</p> <p>For each position (other than the one indicated above) which has more than one change during the year</p> | <p>-3</p> <p>-3</p> | <p>For example, if there is a change in the CEO twice during the year, 3 points will be deducted. In addition, if there are changes in the CFO more than once during the year, 3 more points will be deducted.</p> |
| 10 | <p>Resignation of senior management (CEO, executive directors and CFO) without adequate disclosure of information regarding the circumstances, search for replacement and expected time frame for appointing a new person</p> | <p>-3 for each person</p> | |

| | | | |
|----|---|-------------------------|--|
| 11 | Other directors resigning without disclosure of reasons | -3 for each person | |
| 12 | Appointments of independent directors who are closely linked to controlling shareholders | -3 for each appointment | Note: No point deductions if company has been performing poorly |
| 13 | <p>Directors or senior management resigning and raising corporate governance-related concerns</p> <p>If one director resigns citing such concerns</p> <p>If two or more directors during the same time period and cite similar reasons</p> <p>Note: If a company has one slate of independent directors resigning and then another slate, then each group of resignations is treated separately</p> | <p>-10</p> <p>-15</p> | An example of corporate governance-related concerns is if an independent director resigns and indicates that the resignation was due to not receiving the necessary information required to discharge his/her duties as a director in the company. |
| 14 | External auditors unable to issue an opinion or raises red flag, allegations of fraud reported, unauthorized trading, etc., | - 10 to -15 | <p>15 points if allegation involves directors/senior management/controlling shareholders</p> <p>Deduction will be for one year only if issue is promptly investigated and addressed</p> |
| 15 | Breach of listing rules | -3 | |

| | | | |
|-----------|---|--|--|
| <p>16</p> | <p>Retention or appointment of directors or senior management who have been subjected to regulatory actions</p> <p>If the director is being investigated</p> <p>If the director is charged</p> <p>If the director is convicted and continues to stay on the board</p> <p>After 3 years, if the director still sits on the board</p> <p>From the 6th year onwards, no points will be deducted if there is no other major controversy or scandal surrounding the</p> | <p>-3</p> <p>-5</p> <p>-10 each year for a minimum of 3 years</p> <p>-5 for each year for a further 3 years for each company</p> | <p>Points deducted for the company in which the alleged offence is committed and on whose board the director serves</p> <p>Points deducted for the company in which the alleged offence is committed and on whose board the director serves</p> <p>Note: 10 points are to be deducted from all the companies which continue to have the director on their board or who appoints the director within 3 years of conviction; the deduction also applies if the director is acquitted on technical grounds, e.g., jurisdiction issues</p> |
|-----------|---|--|--|

| | | | |
|----|--|------------------------|---|
| | director or a company he/she is associated with | | |
| 17 | Issue of share options to independent directors | -3 | |
| 18 | Late announcement of stock option grants If one late announcement is made If two or more late announcements are made | -3 -5 | |
| 19 | Issue of share options to directors and senior executives when the share price is at or near one year lows | -5 | Note: In determining if penalty points are to be deducted, the timing of the stock option grants would be taken into account, i.e., whether they are part of a regular option grant schedule at around the same time each year, or whether they are more ad hoc |
| 20 | Significant interested party transactions (excluding transactions involving standard services with published rates or routine and retail transactions) involving major shareholders, directors or senior management or evidence of serious conflict of interests More than 10 percent of net tangible assets (NTA) in one year More than 5 percent but less than or equal to 10 percent of NTA For every 5 percent increase beyond 10 percent | -6 -3 -3 | |
| 21 | Non-disclosure of director information on: <ul style="list-style-type: none"> • Academic and professional qualifications • Date of first appointment as a director • Date of last re-election as a director | -2 | The points are deducted if information is not disclosed for a majority of the directors for any of the items indicated. |

| | | | |
|----|--|---------------------|---|
| 22 | <p>Attendance of Board Chairman and/or independent directors at board and committee meetings</p> <p>If one director has low attendance</p> <p>If two or more directors have low attendance</p> | <p>-3</p> <p>-5</p> | |
| 23 | Investor relations issues | -3 | <p>Points are deducted for issues such as errors in the annual report, errors in announcements that are not rectified immediately and shareholder approval not being obtained for certain resolutions at the annual general meeting</p> |