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SINGAPORE COMPANIES Stricter scoring in the next round

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The independence of independent directors and leadership renewal are key areas of concern in this study

IN this second round of the Governance and Transparency Index (GTI) study, conducted by The Business Times and the Corporate Governance and Financial Reporting Centre, 494 companies that released their annual reports between Jan 1, 2009 and June 30, 2009 were scored. Of these, 468 companies have had their scores updated from the previous round while 26 are additions to the index. Company announcements made on the Singapore Exchange (SGX) between Jan, 1 2008 and Sept 30, 2009 were reviewed for the bonus and penalty section.

Any events occurring after Sept 30, 2009 were also taken into account if they were publicly announced in the media. In addition, companies were contacted to obtain some of the information that is not publicly available.

Companies which have a secondary listing on SGX, real estate investment trusts, business trusts and exchange traded funds are excluded as they are subject to different regulatory and reporting requirements and have different governance structures. Companies that have delisted since the previous round of scoring have also been removed from the list.

The GTI is sponsored by CPA Australia and supported by the Investment Management Association of Singapore (IMAS).

The GTI score comprises two components: The base score and the adjustment for bonuses and penalties. There is a maximum of 100 points for the base score. The aggregate of the bonuses and penalties (positive or negative) is added to the base score to arrive at the company's overall GTI score. In this round, the following new items were added to the bonus and penalty section:

Definition of independence includes independence from major shareholders (Bonus): + 3 points

Breach of listing rules (Penalty): - 3 points. The points will not be deducted if the company has already been penalised under a different penalty item (for example, late announcement of stock option grants).

Key findings

SingTel continues to lead the index after the latest round of scoring, with a total score of 103 points. It achieved a base score of 83 but earned 20 bonus points for going well beyond the practices covered in the base scorecard.

SMRT is in second place with a total score of 99 points while Keppel Corporation is third with 85 points.

Singapore Exchange remains in fourth place with a total score of 77 points while Sembcorp Industries rounds up the top 5 with a total score of 75 points. Sembcorp Industries has made several improvements in its corporate governance practices since the previous round of scoring, such as disclosing the exact remuneration of its top five executives and reducing the percentage for their share issue mandate.

The average total score of companies updated in this round is 33 - a small decrease by 1 point. Five per cent of the companies scored in this round achieved 50 points or more. The relatively low average scores in general reflect the fact that the GTI uses international best practices as benchmarks.

Nineteen per cent of the companies scored in the latest round have independent directors comprising one-third or less of the board; 22 per cent have more than half of the board comprising independent directors; 13 per cent have an independent chairman while 19 per cent have a non-executive chairman

who is not related to the CEO.

Only 4 per cent of the companies disclosed the exact remuneration of executive directors while 2 per cent disclosed the exact remuneration of their top five executives. Six per cent disclosed the exact remuneration of their non-executive directors.

Most companies continue to disclose only the remuneration in bands of \$250,000 with an upper limit specified. The percentages which disclosed in such bands are 72 per cent, 78 per cent and 85 per cent for executive directors, top five executives and non-executive directors respectively. Only 4 per cent of the companies have disclosed that stock options granted vest over a period of three years or more.

A total of 95 per cent of the companies had a gap of less than 28 days between the date the Notice of Annual General Meeting (AGM) is sent to shareholders and the date of the AGM. Twenty-two per cent of the companies had a time gap of 15 days or less.

The responsiveness of the investor relations function of companies was also tested during this round of scoring. Thirty-nine per cent of the companies responded to our queries within a time period of two weeks.

In terms of bonuses, similar to the previous round, only a few companies managed to earn a significant number of bonus points. Bonus points were awarded for:

Comprehensive description of how the companies assess the independence of their directors;

Definition of independence including independence from major shareholders;

Having a separate board-level risk committee;

Having term limits for their directors;

Reducing share issue mandate.

In terms of penalties, the most common ones were for:

Tenure of independent directors (two or more directors with more than nine years);

Number of directorships held by directors;

Same independent directors sitting on nominating, remuneration and audit committees;

Resignation of independent directors without disclosure of reasons or citing 'personal reasons';

CEO/MD/ED not being subject to re-election;

External auditors unable to issue opinion or raises red flag and allegations of fraud reported;

Retention or appointment of directors or senior management who have been subjected to regulatory action;

Issue of share options to independent directors;

Late announcement of stock option grants.

Companies have not been penalised for issues relating to financial difficulties or issues relating to the going concern assumption as the focus of the GTI is on assessing governance and transparency, not performance.

Penalty points have been given for issues such as auditors not being able to obtain confirmation of accounting figures, non-compliance with accounting standards, insufficient internal controls (including inadequate or lack of documentation), corporate governance issues and fraud.

At present, we have been lenient with the scoring for certain issues in order to allow companies more time to enhance their governance and disclosures in those areas. Some of these issues are:

Disclosure of director information: The Singapore Code of Corporate Governance requires the disclosure of key information regarding directors, such as academic and professional qualifications, date of first appointment as a director, date of last re-election as a director and directorships or chairmanships both present and those held over the preceding three years in other listed companies and major appointments, to be disclosed in the annual report.

Directorships or chairmanships both present and those held over the preceding three years in other listed companies and major appointments are the most common items which were not disclosed by companies. If no other directorships are being held by a particular director, it would be useful to indicate this in the annual report, which is a practice being followed by some of the companies.

CEO/managing director/executive directors subject to re-election: While most companies disclosed that all their directors, including the MD, are subject to re-election at least once every three years, there were some companies that did not clearly state this in the annual report.

Chairman/CEO separation: In companies where the chairman and CEO are separate persons, most disclosed if they are related or not. However, there were still a few companies whose annual reports do not clearly state this.

Internal controls and risk management: At present, many companies disclose only the financial risks they are facing and steps taken to manage these risks. Only a few companies disclosed other risks, such as operational risks and the framework used to assess the adequacy of their internal controls and risk management systems.

One such company is SingTel which discloses their key risks and the framework used, that is, Committee of Sponsoring Organisations of the Treadway Commission (COSO) Model and the Australia/New Zealand Risk Management Standard (AS/NZ 4360).

Going forward, we intend to become stricter with the scoring for the above issues. Companies that do not clearly disclose the above information may see a fall in their scores due to the scoring process becoming more stringent.

For the next round of scoring, we intend to give three bonus points for companies with a policy which requires directors to seek board approval before trading in the company's shares and disclosing this policy in the annual report. We believe that while directors should be encouraged to hold some shares to align their interests with shareholders, there should be adequate safeguards in place to ensure that directors do not trade those shares using material non-public information.

The next round of the GTI survey will cover companies that release their annual reports between July 1, 2009 and Dec 31, 2009. The results are expected to be published during the first quarter of 2010.

The GTI methodology and scorecard are available on the following websites: The Business Times: <http://www.businesstimes.com.sg/> CGFRC: www.cgfrc.nus.edu.sg CPA Australia: http://www.cpaaustralia.com.au/1017_31688

The websites also contain a checklist that companies can use to self-assess their company score. We welcome companies sending us their self-assessment and are happy to provide feedback to companies on areas they can improve.

However, due to the large number of companies included in the GTI, we are unable to meet companies on a one-to-one basis. To maintain the independence of the GTI, we do not sell individual GTI reports to companies or provide paid advice on how companies can improve their scores.

Queries about the GTI can be sent to Ms Lalanika, manager of the CGFRC, at bizkklv@nus.edu.sg.

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