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Tougher on independence, other issues

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How independent are directors from major shareholders?

(SINGAPORE) The scrutiny of Singapore-listed companies is set to grow, as the scoring criteria in the Governance and Transparency Index (GTI), conducted by the Corporate Governance and Financial Reporting Centre (CGFRC) and The Business Times, gets tougher.

In the latest round, which assessed companies that released their annual reports between Jan 1 and June 30 this year, new measurements of good corporate governance and transparency were added to the scoring matrix.

Companies in the GTI are now assessed on whether their directors are independent to the extent that they are independent from major shareholders. Companies are also given penalty points if they have breached listing rules beyond those specifically listed under the GTI.

'We want to encourage companies to go beyond the definition of independence in the corporate governance code and the broader definition is consistent with international best practices,' explained Mak Yuen Teen, co-director of the CGFRC.

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

'On the penalty for breach of listing rules, we want to ensure that companies which breached listing rules in areas not explicitly covered in the list of penalty items are also penalised,' added associate professor Mak.

Looking ahead, the scoring process is going to become even more stringent. Companies that do not clearly disclose key information on their directors and their internal controls and risk management procedures will be penalised.

Bonus points will be given to companies which require directors to seek board approval before trading in the company's shares and disclosing this policy in the annual report. 'We are doing so because 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,' Prof Mak said.

For this round, Singapore Telecommunications continues to lead the GTI rankings, having earned bonus points for going well beyond the practices covered in the GTI scorecard. SMRT, Keppel Corporation and the Singapore Exchange are next in line. Sembcorp Industries is in fifth place, having 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.

Leadership renewal and the independence of independent directors were key areas of concern for the CGFRC, which scored the companies. Bonus points were awarded when companies gave a comprehensive description of how they assess the independence of their directors, and penalties were given when companies had two or more independent directors who had served for more than nine years.

In that spirit, Prof Mak recently stepped down as the chairman of the Singapore Corporate Governance Awards, organised annually by the Securities Investors Association (Singapore), or SIAS, after having served for seven years. 'I strongly believe that one should practise what one preaches, and as I am pushing for renewal on boards, I feel that it would be right of me to ensure that I too am subject to renewal.'

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The latest GTI rankings showed that 19 per cent of the companies scored had independent directors comprising one-third or less of the board, while 22 per cent had more than half of the board comprising independent directors.

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, and 6 per cent disclosed the exact remuneration of their non-executive directors. Most companies continued to disclose the remuneration of directors only in bands of $250,000 with a specified upper limit.

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