Governance & Transparency Index: Findings

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Introduction

- Corporate Transparency Index (CTI)
  - Launched in 2000 by The Business Times
  - Objective: Assess the transparency of listed companies in Singapore
  - Published every quarter in the Business Times
- From 2009, is replaced by the Governance & Transparency Index (GTI)
  - Conducted jointly by the Corporate Governance & Financial Reporting Centre and The Business Times
  - Sponsored by CPA Australia and supported by the Investment Management Association of Singapore
  - Published twice a year
  - First issue covers companies that published their annual reports from 1/1/08 to 31/12/08; next issue will update companies which publish their annual reports from 1/1/09 to 30/6/09

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- The GTI is intended to recognise those companies which go beyond simply "ticking the boxes" – companies which comply with the bare minimum in the code will achieve around 30 points out of a maximum base score of 100

- A **"bonus and penalty" system** is used to further recognise companies which have introduced additional good practices, and also to downgrade companies which have less desirable corporate governance practices or which have negative corporate governance-related events

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- The **Overall GTI Score** comprises of the following:
  - **The base score** assesses companies on their corporate governance disclosure and practices, as well as their financial transparency and investor relations. The maximum base score is 100, divided into the following areas:
    - Board Matters (max = 35 points)
    - Remuneration Matters (max = 20 points)
    - Accountability and Audit (max = 20 points)
    - Transparency and Investor Relations (max = 25 points)
  - The **adjustment for bonuses/penalties** (positive or negative) will reflect the aggregate of the bonuses and penalties given to the company. This is added to the base score to arrive at the overall GTI score for the company.

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- A total of 677 companies that released their annual reports between 1 January 2008 – 31 December 2008 were covered

- Primary Sources of Information Used:

  - Annual report
  - Announcements made on the SGXNet between 1 July 2007 to 26 March 2009
  - Corporate Website

- Companies excluded are:

  - Companies with secondary listings
  - REITS, Trust and Funds
  - Companies that did not release their annual reports during the time period analysed

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- A GTI advisory panel was formed, comprising of:
  - Mr Andrew Kwek, Chief Executive Officer, Head, Institutional Sales SE Asia, Deutsche Asset Management (Asia) Limited
  - Mrs Lee Suet Fern, Senior Director, Stamford Law Corporation
  - Mr Loh Hoon Sun, Managing Director, Philip Securities Pte Ltd
  - Mr Chaly Mah, President, CPA Australia Singapore Division and CEO, Deloitte Asia Pacific
  - Mr Alvin Tay, Editor, The Business Times

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- The role of the advisory panel is to:

  - Advise the CGFRC on the index methodology
  - Review company GTI scores prior to publication and highlight cases which appear to be unusual and which may warrant reconsideration because of possible omissions or errors in computing scores
  - Provide guidance on whether bonus or penalty points should be applied in cases which are ambiguous

Findings from the first issue of the GTI

GTI Findings: Board Matters

- Approximately 20% of the companies have a majority of independent directors on the board while a similar proportion have independent directors comprising exactly half of the board.
- Around 40% of the companies have at least one independent director who has experience in the industry the company is in.
- Only a quarter of the companies disclose all the directorships and chairmanships in listed companies held by its directors, both current and those held over the preceding 3 years.

GTI Findings: Board Matters

- Only 11% of the companies have an independent board chairman while 22% have a non-executive chairman who is not related to the CEO.
- 18% of the companies have also appointed a lead independent director.
- The boards of 18% of the companies met 6 times or more during the year while 47% of the boards met 4 times or more.
- 4% of the companies have not disclosed individual director attendance at board meetings while 7% have not disclosed individual director attendance at committee meetings.

GTI Findings: Board Matters

- Only 20% of the companies have a fully-independent nominating committee while 65% have a majority-independent (including the chairman of the committee).

- 29% of the companies disclosed the process followed in selecting and appointing new directors while only 20% disclosed the qualities sought in new directors such as integrity, willingness to commit time to carry out the duties, etc

- 56% of the companies disclosed the criteria used in board appraisal while 41% disclosed the process followed. For individual director appraisal, the percentages are 36% and 24% respectively.

GTI Findings: Remuneration Matters

- 40% of the companies have a fully-independent remuneration committee while 45% have a majority-independent (including the chairman of the committee).
- 3% and 1% of the companies disclosed exact remuneration of their executive directors and top 5 executives respectively.
- 75% of the companies disclosed the remuneration of executive directors and top 5 executives in bands of $250k with an upper limit specified

GTI Findings: Remuneration Matters

- Only 6% of the companies disclosed the performance measures of their executive directors.
- Only 5% of the companies disclosed the exact remuneration paid to non-executive directors
- 6% of the companies disclosed the fee structure of non-executive directors such as fees for attending meetings, for being committee members and for being committee chair.

GTI Findings: Audit and Accountability Matters

- Half of the companies have audit committees comprising of all independent directors while 34% have audit committees comprising entirely of non-executive directors and an independent chairman.

- A majority of the audit committee members of 48% of the companies have an accounting or finance background. 41% of the companies have at least one member of the audit committee with accounting or finance background

- 64% of the companies disclosed that they have a whistleblowing policy in place but only a few disclosed details of the policy.

GTI Findings: Transparency and Investor Relations

- 20% of the companies released their full year results on the 60th day from their financial year end, which is the reporting deadline set by SGX. 55% released between 53 – 59 days. Only 2% disclosed their results within 30 days.

- Only 68% of the companies have a clearly dedicated investor relations link on their corporate website

- 37% provide the investor relations contact on the website and/or annual report

GTI Findings:
Transparency and Investor Relations

- We emailed companies for some IR-related questions on results briefings and the conduct of AGMs.

- Of the companies that responded, 45% held results briefings for media and analysts together while 33% held them separately

GTI Findings:
Transparency and Investor Relations

- Less than 5% of the companies have a time gap of 28 days or more between the date the Notice of AGM is sent to shareholders and the date of the AGM.

- Of the companies that responded to our queries, 31% said they conduct voting at AGMs by poll.

GTI Findings: Bonuses

- Only a few companies earned a significant number of bonus points
- Bonus points were given for:
  - Comprehensive description of how the companies assess the independence of their directors
  - Having a board-level risk committee
  - Having a positive statement at the beginning of the CG report confirming compliance with the CG Code
  - Having term limits for their directors
  - Having limits on the number of directorships that can be held
  - Reducing percentage of shares to be issued on a non-pro rata basis

GTI Findings: Penalties

- The most common penalties given were for:
  - Tenure of independent directors (two or more directors with more than 9 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 subject to re-election

GTI Findings: Penalties

- The most common penalties given were for:
  - Directors or senior management resigning and raising corporate governance related concerns
  - 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

GTI Findings: Penalties

- The most common penalties given were for:
  - Issue of share options to independent directors
  - Late announcement of stock option grants

Conclusion

- When compared to international good practices, there is significant room for improvement and transparency for many companies
- Resignations of independent directors citing reasons such as inability to perform their duties properly or due to corporate governance-related issues and auditors raising red flags or being unable to issue an opinion have become an increasing concern

Thank You…

Questions?