CORPORATE GOVERNANCE FOR A SMART NATION

Project Background

Traditionally, the Centre for Governance and Sustainability (CGS) has expended substantial human resources and time costs in conducting its corporate governance (CG) assessment of public-listed companies. In line with the Singapore government's relentless drive to develop Singapore as a 'smart nation', CGS applied for funding under the Financial Sector Development Fund. Its application for the project *Corporate Governance for a Smart Nation* was subsequently approved by the Monetary Authority of Singapore.

With the approved funding, Tata Consulting Services (TCS) was engaged to explore automation of data capture for CG assessment and reporting with a technology-leveraged tool. The scope of services provided by TCS included developing an end-to-end solution with data extraction, data acquisition, analytics and dashboard capabilities through their solution accelerator customized to CGS requirements. The role of CGS was to provide detailed CG ranking logics, business rules and dashboard requirements relevant for the project. CGS also tapped on the expertise of colleagues from High Performance Computing of NUS Information Technology for advice on the infrastructure needed to deploy the solution for user acceptance testing, and eventual production.

January - March 2022 – Solution Development

- The project kick-off was on 7 February 2022
- Development of administrative functions:
  - Managing company lists and records
  - Managing of templates
- Development of function for crawling for company disclosures and other relevant documents, and bringing them into the solution
- Configuration of assessment framework for two sections: Rights and Treatment of Shareholders; Accountability and Audit.
- Development of assessment functions for these two sections - crawling of relevant documents and data extraction. Includes:
  - A feature for auto-suggesting the top ten most relevant disclosures for each question
  - A feature for manual entry of assessment
  - Automated score calculations based on assessment results

April - June 2022 – Solution Development

- Development of user administration features
- Development of features needed for remaining sections of assessment framework: Board Responsibilities; Engagement of Stakeholders; Disclosure; Bonuses; Penalties
  - Configuration of assessment framework
  - Development of assessment functions - crawling of relevant disclosures and data extraction. Includes features for auto-suggesting* most relevant disclosures, manual entry, and score calculation
- Development of dashboards and a feature for company ranking list
- Development of a function for tracking solution performance

*The auto-suggestion feature does not include the Penalties section, due to complexity of assessment requirements

July – September 2022 – Solution Development

- Development of auto-capture feature - populates assessment template with the answer to each question based on the most likely correct match
- Training of solution for auto-capture feature
- Deploy solution for user acceptance testing (UAT)
- User training session
- UAT conducted, based on previously-prepared test cases. Resolution of issues identified during UAT
- Setting up of production environment and deployment of solution to production environment

October – December 2022 – Solution Development

- Moved into post-production phase from 16 October 2022
- Making improvements and fine-tuning algorithms to enhance the system functionality and increase solution's assessment accuracy.
- Development of additional features needed for full functionality of solution. The features added flexibility to the solution needed for data cleaning, data revision and score calculation

January – March 2023 – Solution Development

- Completion of development of additional features and deployment to production environment
- Testing of additional features
- Continued training of solution to improve assessment accuracy
- Fixing of minor bugs

April – June 2023 – Solution Development

- Continued training of solution to improve assessment accuracy
- Addressing resource needs of solution: due to the number of documents needed to assess each company and the complexity of the assessment framework, solution usage is more resource-intensive than expected. Because of this, the solution would sometimes hang while carrying out certain functions, and is slow in crawling for documents and in processing reports.
  - Development and deployment of adjustments to help speed operation of solution. But a permanent solution will require greater computer resources
- Fixing of minor bugs

July – September 2023 – Corporate Governance Update Q3 2023

Although 2022 saw Singapore emerging from the Covid-19 pandemic, public-listed companies continue to face economic uncertainty in global and domestic markets. Amidst these challenges, the companies have continued to improve their corporate governance (CG) practices, spurred by investor expectations and regulatory requirements.

An assessment of the CG practices and disclosures of all SGX-listed companies was completed in this quarter. The assessment covered 474 companies which had released their annual reports by 31 May 2023. The results show a significant improvement in the Singapore Governance and Transparency Index (SGTI), with the Index rising from 70.6 in 2022 to 74.8 in 2023. This is the largest quantum of increase in the mean score since 2020, and is mainly due to a rise in the mean base score. Bonus points also increased, by around the same quantum as the previous year, while mean penalty points remain unchanged. As with the previous assessment round, board-related factors are among those that more commonly attracted penalties, such as having more than one independent director (ID) with tenure exceeding nine years, and having the same IDs sitting on the nominating, remuneration and audit committees. In addition, there was an increase in the share of companies committing a breach of listing rules.

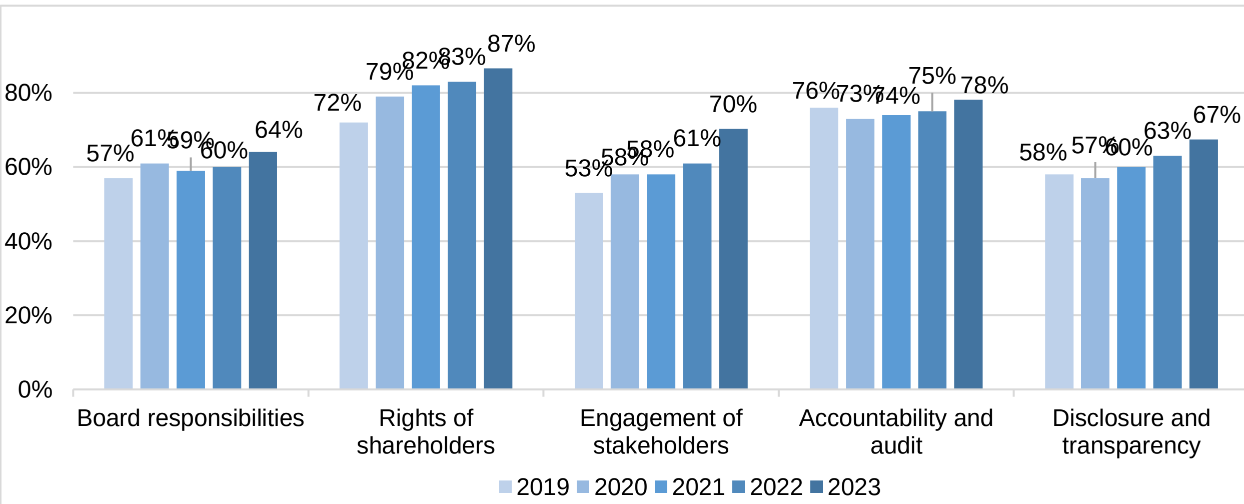
Improvement in overall SGTI scores can be seen in the rightward shift of the score distribution as mean scores have increased, and in the narrowing of the distribution as variation in company performance has fallen. This narrowing can also be seen when looking at the mean scores at the

25th, 50th and 75th percentiles over 2016-2023. The scores for each of the quartiles have increased steadily while the interquartile range has fallen; improvement in CG performance scores is especially pronounced in companies at the lower end of the spectrum.

Dimensions of Corporate Governance Assessed

The five main dimensions of CG assessed are: board responsibilities; rights of shareholders; engagement of stakeholders; accountability and audit; and disclosure and transparency. Mean scores across all five dimensions increased in 2023. The proportion of companies disclosing stakeholder engagement practices again saw the largest increase, with mean scores rising nine percentage points to reach 70%. The remaining dimensions each had mean scores increasing by four percentage points, except for accountability and audit, which had a slightly smaller rise of three percentage points.

Scores of CG Dimensions Assessed (2019-2023)



The assessment revealed an increase in disclosure rates for various board-related indicators covering a range of board characteristics and practices such as independence, competence, and selection of directors. These, and other improvements are helping Singapore-listed companies establish a solid governance foundation. This will in turn support their sustainability efforts as they leverage their CG frameworks to integrate ESG (environmental, social and governance) factors into corporate strategy. That this process is underway is reflected by the fact that ESG-related disclosures show the highest rise in mean score for 2023, and that engagement of stakeholders has moved from the lowest-scoring dimension, to the third-highest.

Other areas of disclosure that showed higher increase include those related to risks, rights and treatment of shareholders, and IPTs:

- Risks: Identification of risks (beyond financial risks), and their assessment and management; process and framework used to assess adequacy of internal control systems and risk management.

- Rights and treatment of shareholders: Opportunities for shareholders (evidenced by an agenda item) to approve remuneration or increases in remuneration for non-executive directors. Also, steps taken to solicit and understand the views of shareholders, and allowing shareholders who hold shares through nominees to attend annual general meetings (AGMs) as observers without being constrained by the two-proxy rule.

- IPTs: Policies covering the review and approval of material/significant IPTs.

Past Performance and Scores

The improvement in performance is not only across all assessed CG dimensions, but also across all levels of performance. The lowest-ranked companies in 2022 showed the greatest improvement on average, with a 10.7 point increase in mean score. Those ranking slightly higher - between the top 300-400 in 2022 – had a smaller, but still notable rise of 5.5 points on average. Companies that were ranked within the top 100 in 2022 experienced a 1.2 point increase in mean score. Despite being a small increment, this is a positive contrast to the previous assessment, where the top-ranking companies saw a fall in their mean overall score.

Size and Industry Effects

There remains a moderate positive correlation between market capitalization and overall score. This points to a size effect in CG, with larger companies tending to have higher scores. Smaller listed companies may benefit from policy attention helping them to overcome resource constraints in adopting CG best practices.

The Financials and Communication Services industries continue to have the highest mean scores, followed by Real Estate and Consumer Staples. The Financials industry also had the highest variation in scores.

October – December 2023 – Corporate Governance Update Q4 2023

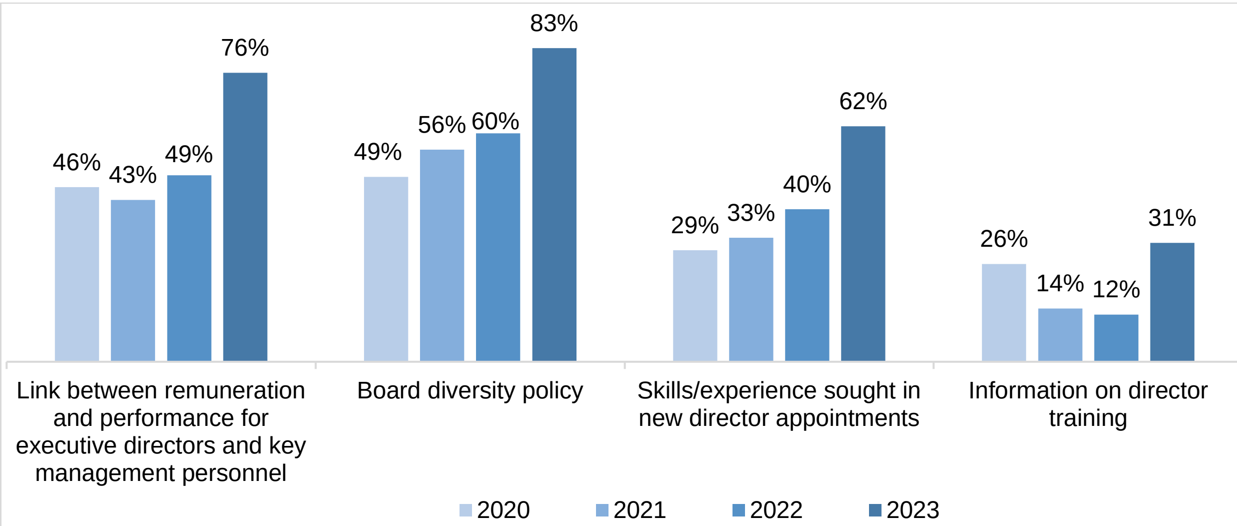
The update this quarter will focus on two aspects of corporate governance – board practices and environmental, social and governance (ESG) practices. The results here are more in-depth findings from the SGTI 2023 assessment presented in the last quarter.

Board Practices

There was a significant increase in disclosure rates for various indicators related to board responsibilities. These cover a range of board characteristics and practices such as selection, independence and competence of directors.

Disclosures of the link between remuneration and performance for executive directors and key management saw a rise of almost 30 percentage points, with three-quarters of assessed companies now making this disclosure. The share of companies disclosing their board diversity policy, and those disclosing skills and experience sought in new director appointments, both increased by over 20 percentage points, to 83% and 62% of assessed companies respectively.

Board Practices



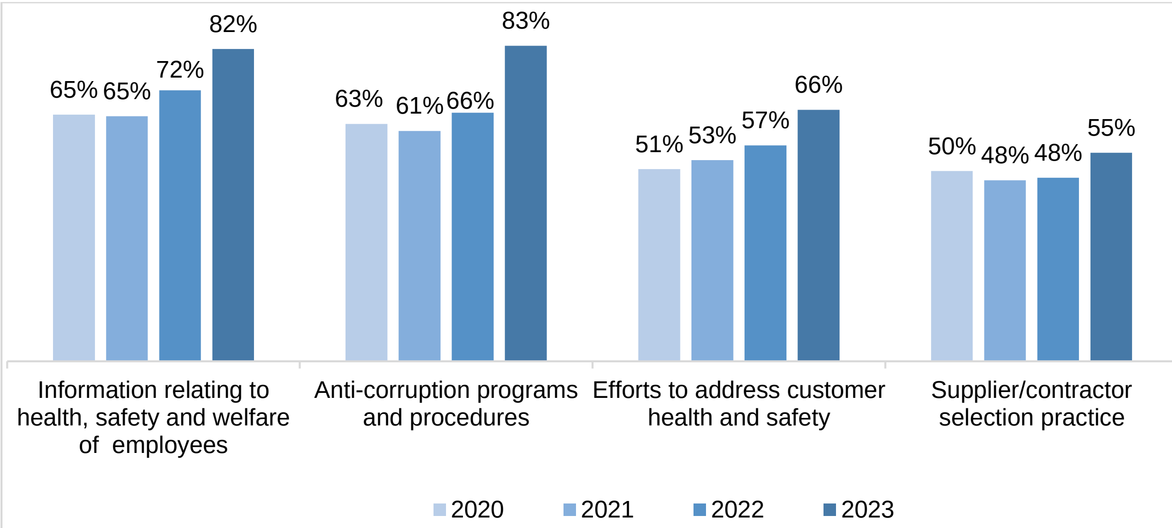
Despite these gains, room for improvement remains. One concern is the fall in the share of companies for which all directors attended the annual general meeting (down four percentage points to 68%). In addition, although there has been a rise in disclosures regarding director training, less than one-third of companies report this information. It is likely that this will increase over time as more attention is given to raising the standards and competencies of directors.

Environmental, Social and Governance Practices

ESG-related disclosures are largely assessed in the engagement of stakeholders dimension of the framework. Most of the indicators in this dimension have disclosure rates rising by at least eight to ten percentage points compared to 2022.

This can be seen in disclosures of internal ESG issues such as the health and safety of employees, and employee training and development programs (increased from 72% to 82% and 64% to 75% respectively). Disclosures of anti-corruption programs and procedures rose by an even higher 17 percentage points to 83% of companies.

ESG Practices



Similar increases can be seen in disclosure rates of external ESG issues. Indicators on topics such as customer health and safety, supplier/contractor selection practice, interaction with the community, and sustainability of the value chain had disclosure rates rising by almost ten percentage points.

Further improvement could be gained from greater transparency regarding external ESG issues. In addition, although all assessed companies have whistleblowing policies, only around two-thirds disclose that they allow anonymous reporting. Wider adoption of anonymous reporting would help to build trust, and provide greater protection to whistleblowers.

Regulation Momentum

Much of the improvement in company disclosures may be a response to regulatory requirements and support. Recent listing rules regarding issues such as the nine-year term limit for independent directors, board diversity, whistleblowing and director sustainability training, would have provided impetus for companies to make the relevant disclosures. The provision of guidelines and other resources such Singapore Exchange's (SGX) list of Core ESG Metrics for sustainability reporting may also have contributed to the improvement.

This bolstering of CG through regulation is important for corporate sustainability because the board, together with management, is at the forefront of the organization's ESG efforts. A well-functioning board is better placed to incorporate sustainability issues into its oversight responsibilities. Companies are now poised for the next phase as ESG concerns are increasingly merged with CG and attention turns to sustainable corporate governance.

Moving forward, this is likely to be seen in greater emphases on: board diversity; corporate culture and integrating climate change strategies with overall CG and risk management strategies. It is likely that, in these areas too, the authorities will help to advance market standards. If the recommendations of the Sustainability Reporting Advisory Committee are adopted, climate-related disclosures aligned with the International Sustainability Standards Board standards will be mandatory for all listed companies by FY2025, and large non-listed companies by FY2027. Meanwhile, the Monetary Authority of Singapore is in discussions with SGX and the Corporate Governance Advisory Committee regarding the need for a provision on corporate culture in the Code of Corporate Governance. A positive decision on this would require companies to disclose their adherence to this provision on a ‘comply or explain’ basis.

December 2023