



Corporate Governance

Singapore Governance and Transparency Index

July 2023

CORPORATE GOVERNANCE FOR A SMART NATION

July – September 2023 – Corporate Governance Update Q3 2023

(Based on data made available by 31 May 2023)

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Introduction

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.

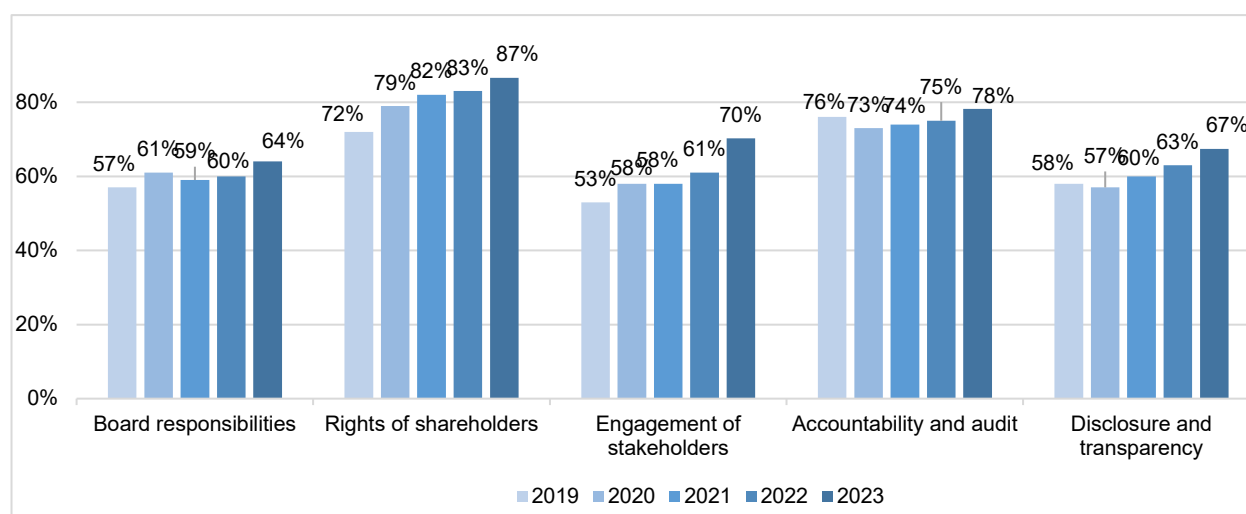
An assessment of the CG practices and disclosures of all SGX-listed companies was completed in this quarter. The assessment covered 474 companies which had released their annual reports by 31 May 2023. The results show a significant improvement in the Singapore Governance and Transparency Index (SGTI), 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.