Centre for Governance and Sustainability
NUS Business School

Corporate Governance

Singapore Governance and Transparency Index

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CORPORATE GOVERNANCE FOR A SMART NATION

October – December 2023 – Corporate Governance Update Q4 2023

(Based on data made available by 31 May 2023)

Contents

Introduction

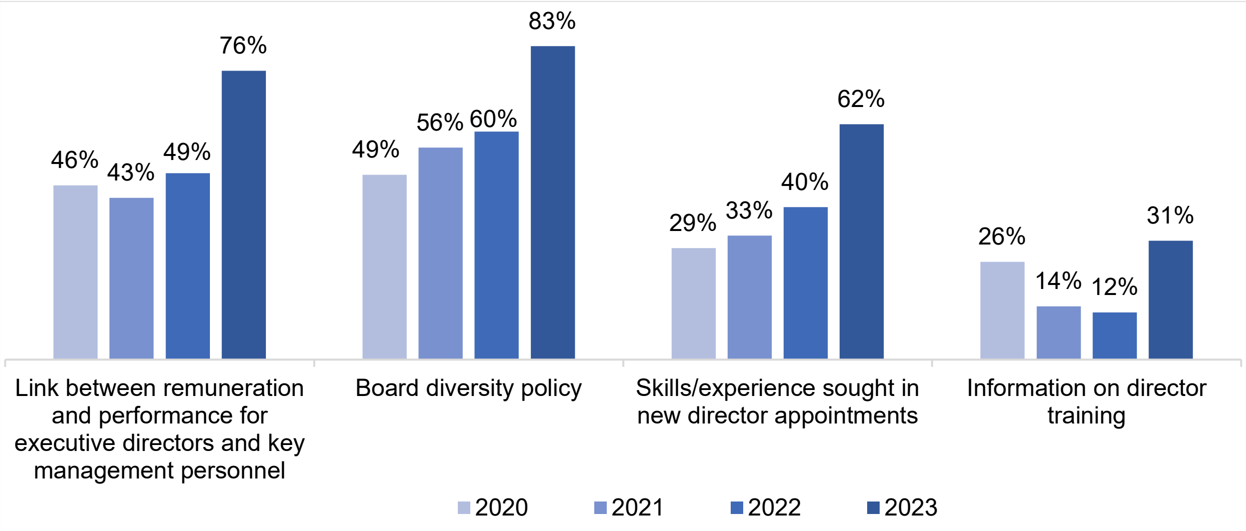
The update this quarter will focus on two aspects of corporate governance – board practices and environmental, social and governance (ESG) practices. The results here are more in-depth findings from the SGTI 2023 assessment presented in the last quarter.

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



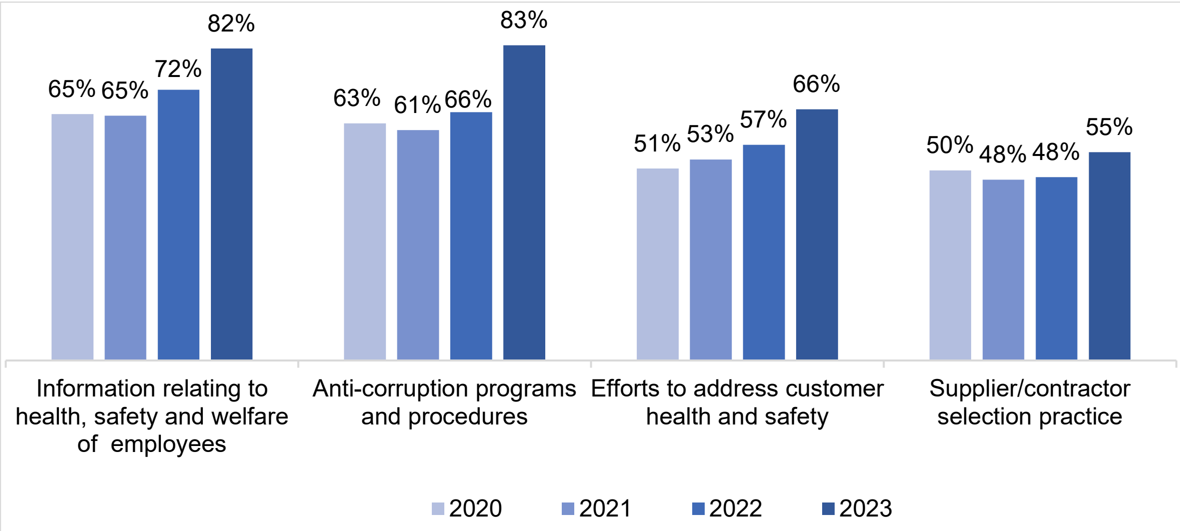
Despite these gains, room for improvement remains. One concern is the fall in the share of companies for which all directors attended the annual general meeting (down four percentage points to 68%). In addition, although there has been a rise in disclosures regarding director training, less than one-third 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.