



Corporate Governance

Singapore Governance and Transparency Index

August 2024

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Preface

Good governance keeps a company on the right track, providing guidance and a lodestar in stable and turbulent times. While corporate governance in Singapore has matured progressively, the journey continues in tandem with the demands of investors, shareholders, and regulators. Good governance may not grab headlines but any fallout due to poor governance is glaring and hard to miss.

With ongoing challenges posed by climate change and the urgent need for companies to incorporate sustainability practices in their vision, mission and operations, strong governance is even more important in steering companies.

The Singapore Governance and Transparency Forum 2024 brought together industry leaders and experts to engage in a dynamic discussion on the crucial role of good governance in driving companies' sustainability journeys. A collaborative effort between CPA Australia, the Centre for Governance and Sustainability (CGS) at the National University of Singapore Business School, and the Singapore Institute of Directors (SID), the Forum has become a cornerstone for discussing advancements in corporate governance and transparency among Singapore-listed companies.

The event attracted 170 participants, including representatives from listed companies, regulators, policymakers, consultants, and professionals. The forum was marked by robust participation, with attendees contributing insightful comments and thoughtful questions, underscoring the theme's relevance to Singapore's corporate landscape.

Professor Lawrence Loh: SGTI Findings for 2024

Director, Centre for Governance and Sustainability, NUS Business School

Background

- SGTI is a collaboration between CPA Australia, CGS and SID, with The Business Times as a media partner
- The five-member Advisory Panel for SGTI comprises:
 1. Ms Chen Huifen, Editor, The Business Times
 2. Ms Rachel Eng, Managing Director, Eng and Co. LLC
 3. Mr Loh Hoon Sun, Senior Advisor, Phillip Securities Pte Ltd
 4. Mr Max Loh Khum Whai, Former Managing Partner (Singapore & Brunei), EY
 5. Mr Low Weng Keong, Past Global President & Chairman of the Board, CPA Australia

Context of Singapore's Corporate Governance Landscape

- Global context: Sustainability being incorporated into corporate governance (sustainable corporate governance)
- Local context:
 - Maturing of market in corporate governance practices and processes
 - Efforts to professionalize directorship (SID Director Accreditation Programme)
- Revised SGTI is a dynamic index, with greater flexibility to align with changing regulatory requirements
 - Takes reference from the SID Director Competency Model

SGTI Framework – General Category

- The main changes to the BREAD framework are:
 - Re-naming of 'Engagement of Stakeholders' pillar to 'ESG and Stakeholders'
 - Addition of sustainability-related questions
 - Increased weightage of 'ESG and Stakeholders' to 20% (up from 10%) and corresponding decreased weightage of 'Rights of Stakeholders' to 10% (down from 20%)

B.R.E.A.D Base Score (100 points)

Board Responsibilities (35 points)

Rights of Shareholders (10 points)

ESG & Stakeholders (20 points)

Accountability & Audit (10 points)

Disclosure & Transparency (25 points)

+

Adjustments for Bonus & Penalty (43 points)

=

Overall SGTI Score (143 points)

SGTI Coverage

- SGTI 2024 assessed all SGX-listed companies based on their annual reports for Financial Year 2023 released by 31 May 2024.
- Other sources of information for assessment include sustainability reports, websites and announcements on the SGX website.

General Category (477)	REITs & Business Trusts (43)
Excluding 178 Companies: <ul style="list-style-type: none">• 6 newly listed• 28 secondary listings• 55 funds• 49 suspended from trading• 25 delisted• 15 others	Excluding 3 REITs & Business Trusts: <ul style="list-style-type: none">• 2 suspended from trading• 1 annual report not released for 2 years

General Category

General Performance

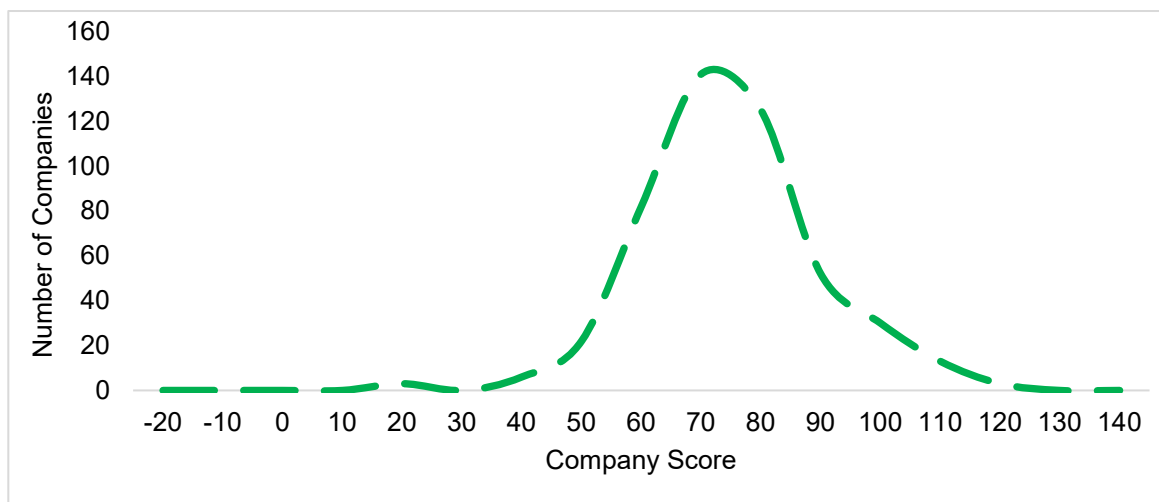
- The SGTI 2024 had a mean score of 69.3 points
- Changes in the framework are such that meaningful inter-year comparisons are not possible. However, the revision has resulted in a drop in overall mean score.
 - This is due to the removal of questions that had disclosure rates reaching, or close to, 100% because of mandatory compliance, and a stricter standard of assessment applied to remaining questions given the maturing of the market.

- The inclusion of more sustainability questions also contributed to the drop

SGTI 2024			
Base SGTI 2024 Score	Bonus	Penalty	Overall SGTI 2024 Score
61.2	12.6	4.5	69.3

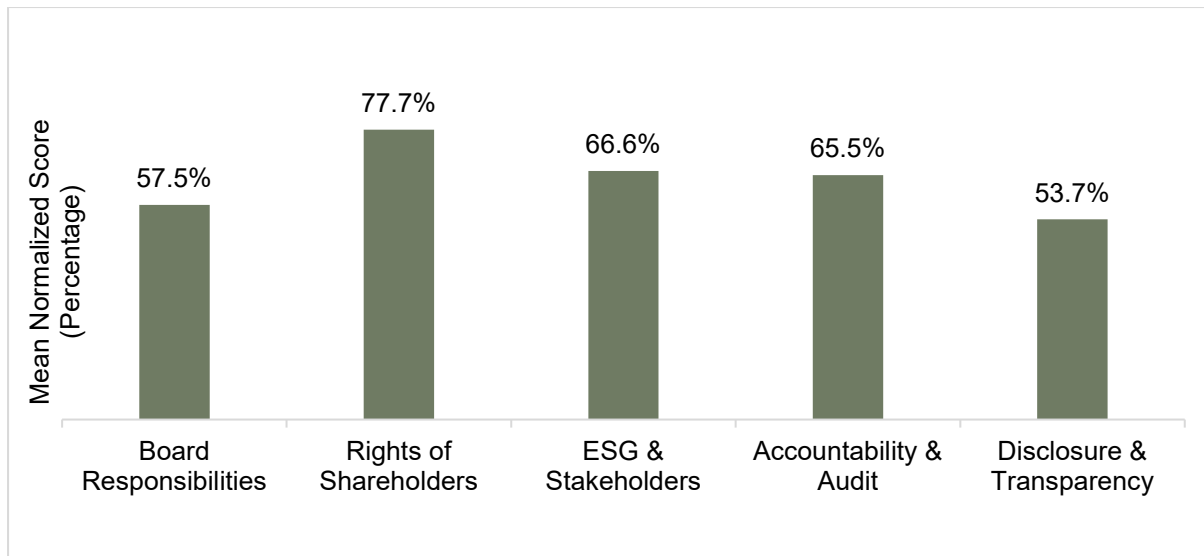
Score Distribution

- The distribution of scores is approximately symmetric. It is also relatively heavy-tailed, having more extreme outliers than a normal distribution.
- Nevertheless the majority of scores are relatively concentrated around the mean, with the scores at the first, second and third quartiles grouped fairly close together (60 points, 69 points and 77 points respectively).



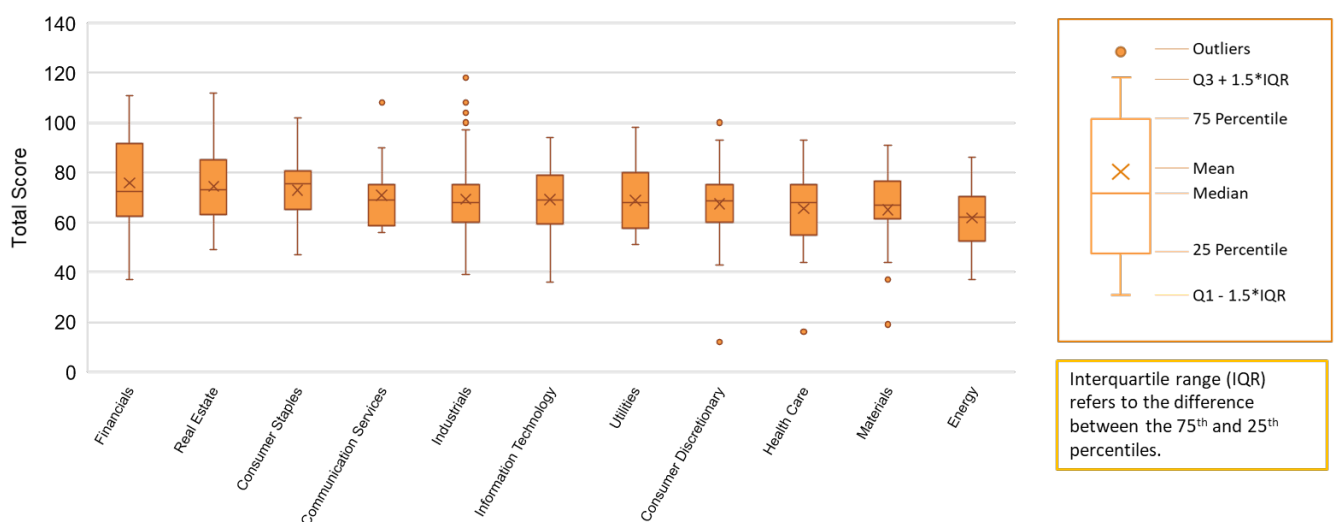
Sectional Scores

- Companies show the strongest performance in disclosures relating to shareholder rights, followed by sustainability-related matters and accountability and audit.



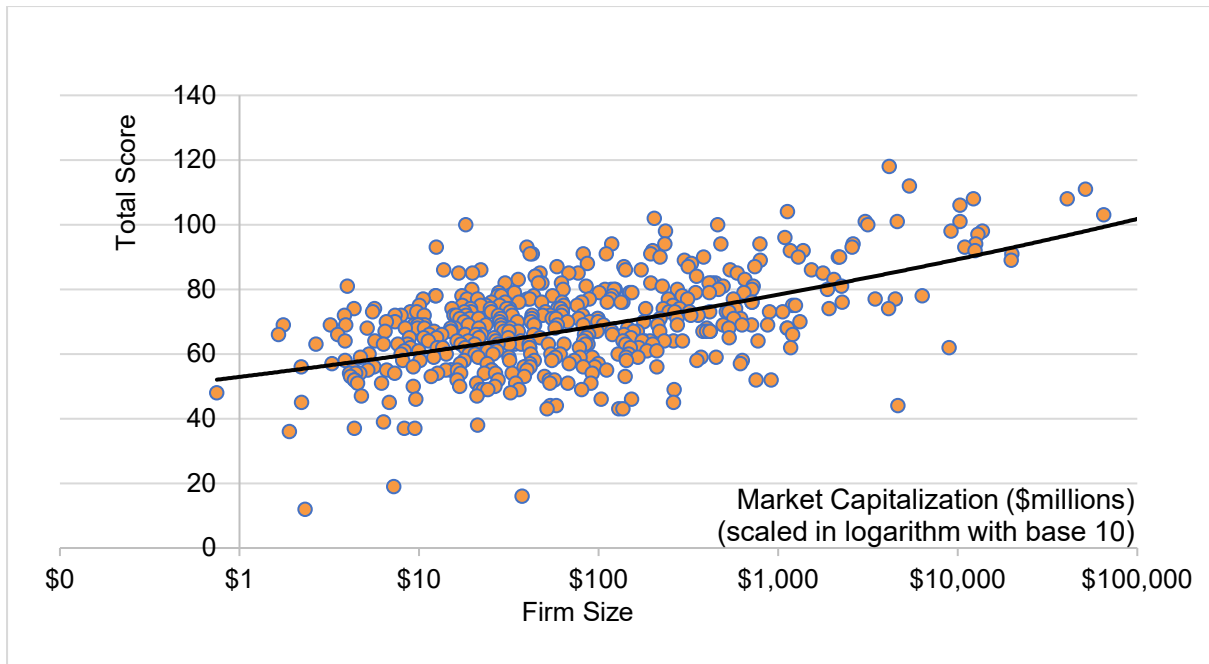
Industry Effect

- The Financials industry had the highest mean score, followed by Real Estate and Consumer Staples.
- The Financials industry also had the highest variation in scores. This is to be expected given the wide variety of companies in this industry, from large local banks to small investment companies



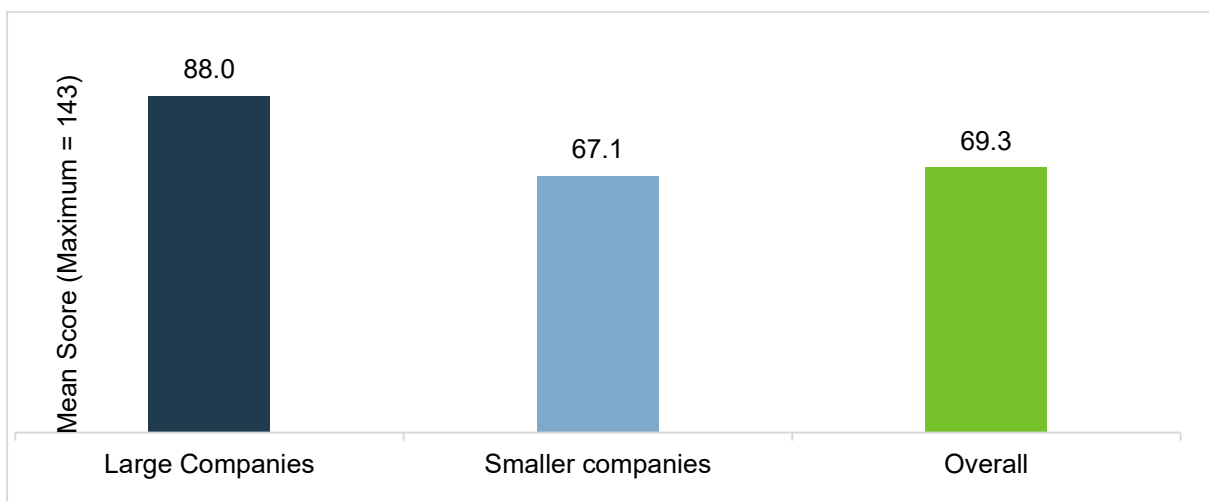
Size Effect: Overall

- There is a significant relationship between firm size and performance
 - The correlation coefficient between market capitalization and overall score, is moderately positive and statistically significant at the 1% level.



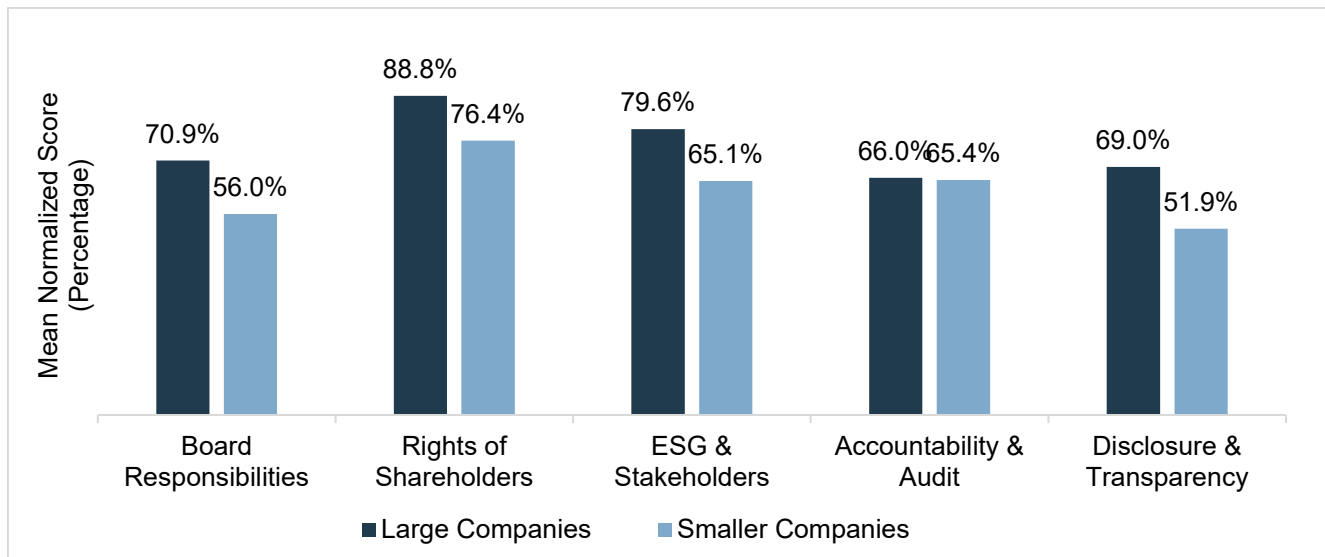
SGTI Score by Company Size

- A clear size effect can be seen between large companies and smaller companies.
 - The mean overall score for small companies is 20 points less than that for large companies.
 - Large companies are defined as having market capitalization of over \$1 billion; smaller companies are defined as having market capitalization of up to \$1 billion



BREAD Scores by Company Size

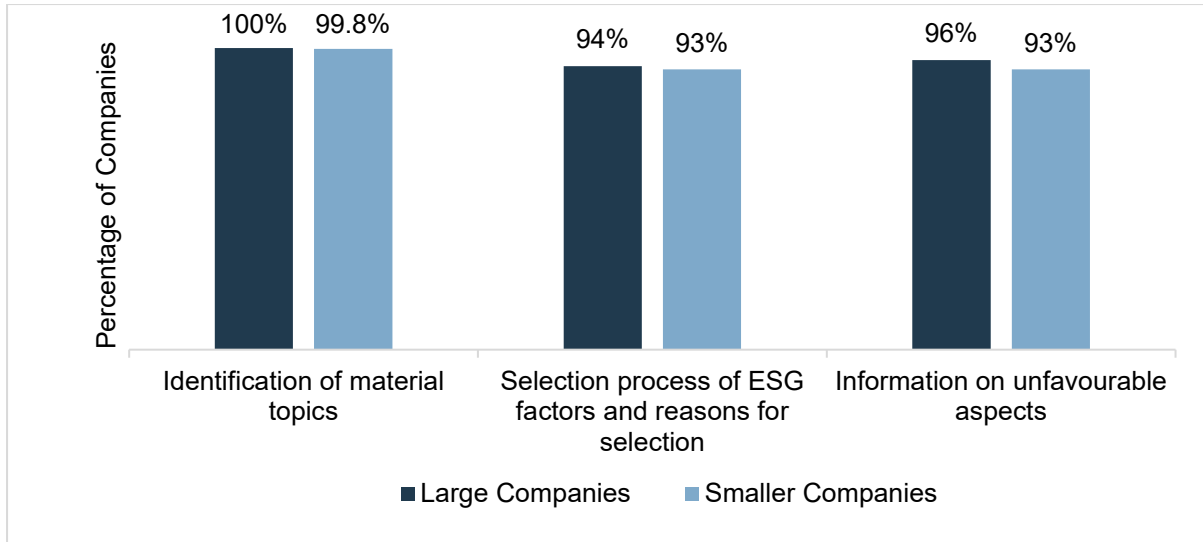
- The size effect is also seen in the various dimensions of corporate governance.
 - Largest difference is in scores for Disclosure & Transparency, followed by Board Responsibilities and sustainability
 - The only dimension where a size effect is not seen is in Accountability & Audit (mean score of around 65% for both large and smaller companies)



Size Effect: Sustainability

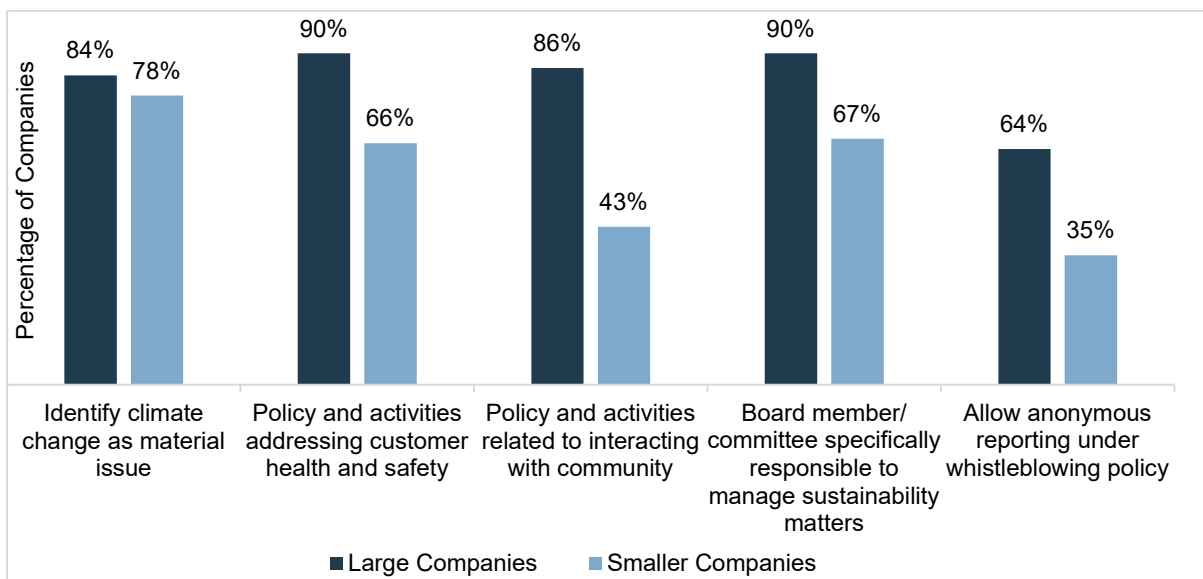
Sustainability Reporting Processes by Company Size

- Smaller companies have made progress in fundamentals of sustainability reporting such as materiality.
 - Almost all listed companies, regardless of size, identify their material topics, along with their selection process and the reasons for selection
 - There is little size differential in disclosure of sustainability-related information which is unfavorable to the company.



ESG Issues by Company Size

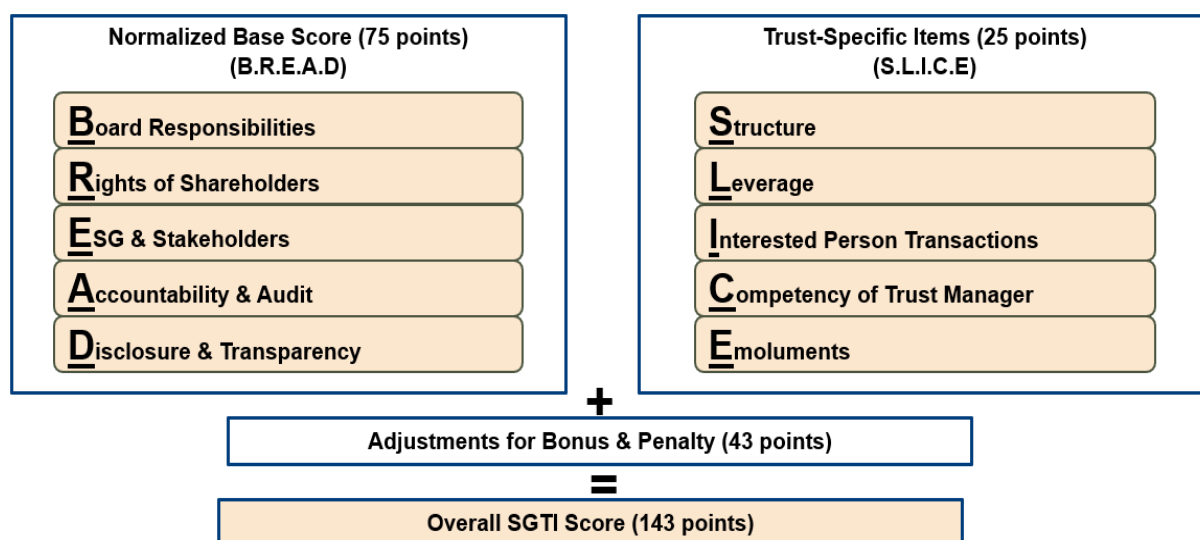
- In areas such as sustainability governance and assurance however, large companies have a clear advantage.
 - 90% of large companies have a board member or a board committee specifically responsible for managing sustainability matters, versus only two-thirds of smaller companies.
- A size differential can also be seen in specific ESG topics.
 - Disclosure rates of companies' policies and activities regarding their efforts to address customer health and safety are 24 percentage points lower for smaller companies than for large companies.
 - Similarly, disclosure of provision of anonymous reporting for whistleblowers is 29 percentage points lower for smaller companies.



REIT & Business Trust Performance

SGTI Framework – REITs & Business Trusts

- The unique business model of REITs and business trusts requires them to be subject to additional guidelines, such as the Code on Collective Investment Schemes.
 - Adherence to these guidelines is assessed in the five components of the SLICE framework



Key Highlights

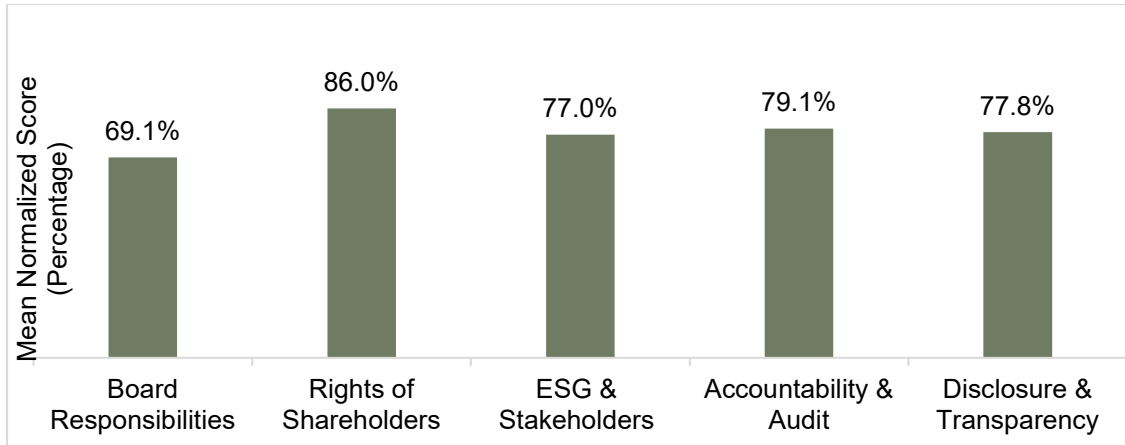
Breakdown of Score - REITs & Business Trusts

- As expected, REITs and business trusts perform better than companies in the General Category

SGTI 2024			
Base SGTI 2024 Score	Bonus	Penalty	Overall SGTI 2024 Score
71.8	16.6	1.8	86.6

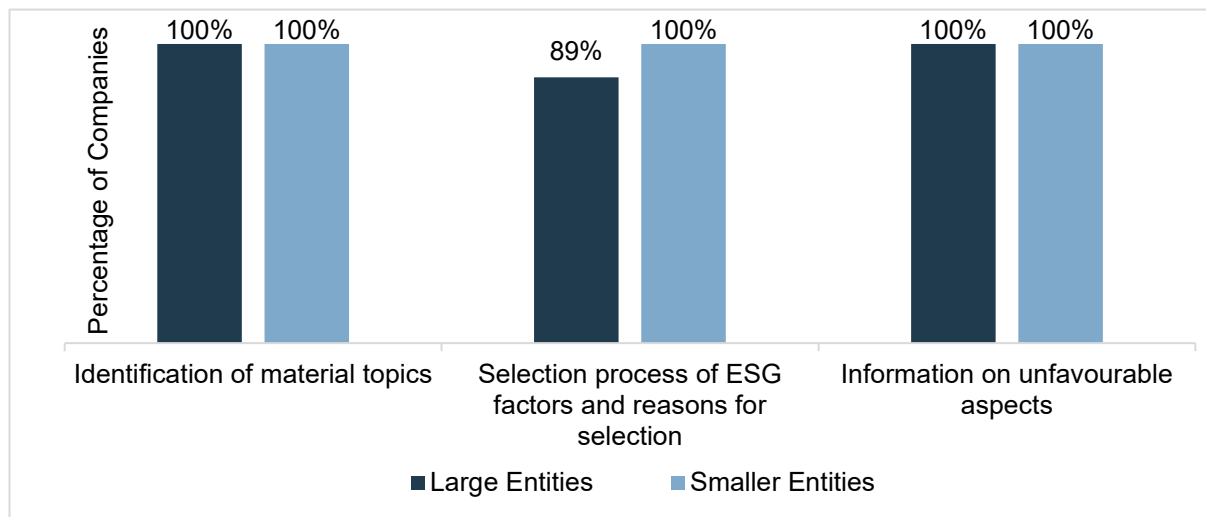
BREAD Scores: REITs & Business Trusts

- REITs and business trusts performed best in Rights of Shareholders followed by Accountability & Audit
- Board Responsibilities shows the most room for improvement



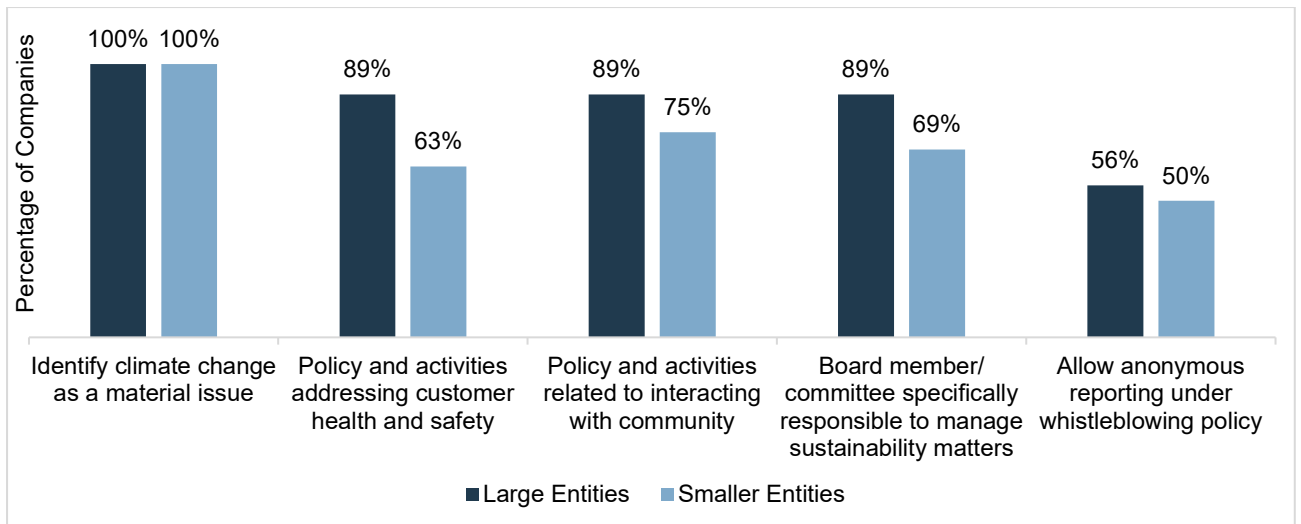
Sustainability Reporting Processes: REITs & Business Trusts

- The assessed entities generally have high rates of disclosure for basic elements of sustainability reporting, regardless of size class



ESG Issues: REITs & Business Trusts

- A size effect however is seen in ESG governance and topics
 - The disclosure rate of smaller entities which have a board committee/member responsible for sustainability is 20 percentage points lower than for large entities
 - Although all entities identify climate change as an issue, there is a clear differential in disclosures regarding customer health and safety, and community interaction



Summary

1. A new dynamic SGTI was introduced this year, with greater focus on sustainability
2. The overall mean score was 69.3 for General Category and 86.6 for REIT & Business Trust Category.
 - Companies show the strongest performance in shareholder rights, sustainability, and accountability and audit
3. There is a clear size effect: mean overall score of smaller companies is 20 points less than that of large companies
 - The largest size effect is seen in *Disclosure & Transparency*, *Board Responsibilities* and *ESG & Stakeholders*
4. Smaller companies have made progress in fundamentals of sustainability reporting such as materiality (identification of material topics, selection process used). Almost all companies disclose these, regardless of size
5. However, large companies have a clear advantage in areas such as sustainability governance.
 - Disclosure rate for having a board member or board committee responsible for managing sustainability is 23 percentage points lower for smaller companies
6. Support should be given to smaller companies to raise the standard of sustainable corporate governance disclosures across the market, targeting areas in which they lag behind large companies. Good governance and sustainability should not be the sole domain of large companies

Insights from Mr. Greg Unsworth FCPA (Aust.)¹
Divisional Deputy President – Singapore CPA Australia

Navigating Sustainable Governance

- Sustainable governance is more than just a buzzword or a compliance issue:
 - It is the fundamental driver of long-term success and sustainability
 - It is also one of the cornerstones of any forward-looking business.
- In an increasingly uncertain, complex and inter-connected world, the need for strong governance frameworks and transparent practices has never been more pressing
- Quality governance and sustainability are about fostering a culture of accountability, integrity and ethical behavior throughout the organization
 - This culture will remain the bedrock of long-term sustainable business performance.
- Navigating sustainable governance is not without its challenges. Companies must stay abreast of evolving regulations and stakeholder expectations
 - However, these present opportunities for innovation and growth. Successful companies are often rewarded with increased investor confidence, enhanced corporate reputation and long-term viability of the business.

Singapore Governance & Transparency Index (SGTI)

- The Singapore Governance & Transparency Index (SGTI) is part of a national effort to improve the overall corporate governance among our Singapore-listed companies.
 - The SGTI is a collaboration between CPA Australia, the Centre for Governance and Sustainability (CGS) at NUS Business School, and the Singapore Institute of Directors (SID).
 - This powerful tripartite alliance of finance professionals, directors and an independent academic institution ensures that the SGTI continues to be the pre-eminent Singapore national benchmark for good corporate governance among Singapore-listed companies.
- Corporate governance is not a destination. It is an ongoing journey wherein all stakeholders have a part to play.
- This year, a revised framework was introduced for the SGTI, placing greater emphasis on sustainability disclosures and practices.
 - The revisions accounted for the substantial changes in Singapore's corporate governance landscape.

¹ Full text of speech available at
<https://www.sid.org.sg/common/Uploaded%20files/Resources/Presentations/SGTI/2024/OpeningAddressbyGreg.pdf>

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- The study showed that Singapore-listed companies and trusts have demonstrated strong performance in shareholder rights, as well as environmental, social and governance issues. This is a testament to the unwavering commitment by companies towards greater transparency and accountability.
 - The winners of SGTI 2024 are urged to continue to be shining role models for stronger governance amidst the ever disruptive and challenging business environment. With strong governance and commitment to ESG, we can all play our part to build a better future.

Insights from Mr. Lim Tuang Lee²

Assistant Managing Director, Capital Markets Group, Monetary Authority of Singapore

- The theme for the Forum, *Navigating Sustainable Governance*, is very apt, given that the topic of sustainability is an important global priority
- Today, sustainability is not only a topic on governments' agendas or multilateral treaties. It is now a part of boardroom discussions and frequently on the minds of investors and individuals.
- Investors have become more conscious of the ethos of the companies they invest in. They no longer look only at traditional indicators like a company's profitability or their return on capital. Investors also observe how companies are focusing on sustainability, business ethics and integrity.
 - PwC's Global Investor Survey 2023 found that 75% of respondents would, when making their investment decisions, factor in how companies are managing and pursuing sustainability-related risks and opportunities. That is, investors are demanding for more information on a company's impact on the environment and society.

Three Ps in Navigating Sustainable Governance

1. Profit: Balancing economic success and impact

- Financial economics tells us that commercial entities exist primarily to make a profit.
 - Milton Friedman: "There is one and only one social responsibility of business... to increase its profits so long as it stays within the rules of the game".
 - To many, a firm's bottom line is its sole aim. This is also a foundational element of business analysis.
- However businesses can go beyond simply financial profit.
 - While it is not wrong for businesses to focus on the bottom line, they can do so with a strong sense of purpose, which can add to its longer-term viability and sustainability.
- To do so, companies will need to pay heed to their ecosystems, namely their customers, employees, communities, as well as the operating environment.
 - Taking an ecosystem view can drive business growth by building brand preference and loyalty with customers, motivating employees who can help drive innovation and optimize costs.
- Ultimately, companies that are driven by a sense of purpose that transcend beyond simple financial profits are more likely to sustain in the longer term.

² Full text of speech available at:

<https://www.mas.gov.sg/news/speeches/2024/remarks-by-mr-lim-tuang-lee-at-the-singapore-governance-and-transparency-forum-on-1-august-2024>

2. People: Fostering a flourishing culture

- This aspect looks at a company's impact on its employees, customers and the community.
- It is important to nurture a positive people-centric culture to help cultivate a sense of belonging and purpose among stakeholders. This can in turn give rise to more engaged employees and more reliable suppliers.
 - A study released last year found that companies that provide their employees with positive experiences that reflect their company culture, are more likely to have positive business outcomes in terms of customer service and financial performance.
 - It is the responsibility of a company's leadership to set the tone, shape its values, and percolate them across the organization to form its operating culture.
 - Steps taken by top leadership can have a rippling effect that cascades outward to eventually reshape business ecosystems and rewrite the rules of the road altogether.
- It is therefore heartening that the “Engagement of stakeholders” pillar of the SGTI framework covers people-related topics such as customer health and safety, employee training and development, and that the scores have increased over the years.
 - While this pillar has now been expanded to contain more wide-ranging sustainability-related questions, the results indicate how companies have prioritized the people aspect of governance.

3. Planet: Caring for the environment

- This aspect looks at a company's environmental impact. Companies today can no longer ignore how their operations add to carbon emissions, which in turn, affect the environment.
- A business that takes active steps to protect the natural ecosystems in which it operates can reduce potential financial liability, manage its reputation risk and positively influence the company's longer-term footprint and legacy.
- Companies therefore need to keep an eye on sustainability goals and enhance their risk governance processes.
 - They should look at the entire life cycle of their actions to determine the costs or potential impact to the environment and make the necessary adjustments to business operations and strategies.

How it all adds up

- It is all a balancing act: making profit, looking after people and taking care of the planet are interwoven together.

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- Pursuing sustainable business practices while seeking the good of ecosystem stakeholders makes good business sense.
 - 1. Businesses that stand the test of time are those that can articulate their value proposition and strategic direction clearly and execute them effectively.
 - They are the ones that not just focus on the here and now, but think long, think big, and think beyond – beyond the company's immediate financial gains, towards a greater vision of what value they can create and bring to the broader ecosystem.
 - Many global companies that have thrived across generations are driven by compelling and purposeful visions and missions.
 - 1. For instance, Unilever's purpose is to make sustainable living commonplace, and this is embodied in the Unilever Sustainable Living Plan.
 - This framework not only yielded significant environmental and social benefits, but drove business growth and profitability.
 - It led to the development of new products and processes that are environmental-friendly and cost-effective, which in turn helped to optimize the supply chain by minimizing waste and transport costs.
 - Such concrete actions across the entire value chain have translated to higher profitability and market share.
 - Unilever's commitment to sustainability has also resonated with consumers and built brand loyalty.
 - All these factors, along with other performance measures, culminate in what a company would convey in its regular reports to stakeholders.
 - 1. Robust disclosures, including climate-related ones, are what investors and customers are looking out for.
 - Nearly all Singapore-listed companies have responded to this call and have commenced climate-related reporting efforts. As of end 2023, the number of firms has increased to 96%, up from 65% in the previous year
 - SGTI results in recent years have also found that there is increased disclosure of sustainability-related information.
 - 2. Listed companies are using international standards such as those by the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD).
 - More recently, the Singapore Exchange has consulted on adopting standards issued by the International Sustainability Standards Board (ISSB) into its reporting rules for climate-related disclosures, demonstrating its commitment to facilitate consistent and comparable sustainability-related information.

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- The SGTI reveals both our progress and potential.
 - SGTI results have shown good progress, especially in sustainability-related topics. This shows that we are right on track.
 - It is also important to recognize that each company has a unique business model, structure and culture. No two companies' pathways are alike.
 - It is therefore important for companies to chart their own course as they commit to a better future; a new normal where businesses align purpose with profit, embrace innovation, and engage in responsible practices to create positive impact on the environment and society.

Insights from Mr. Yeoh Oon Jin³
Chair, Singapore Institute of Directors

- In a time of change and disruption, corporate governance stands as a cornerstone of sustainable business success.
- It is often said that change is the only constant. With this in mind, a revised framework was introduced for the Singapore Governance and Transparency Index (SGTI) this year, placing greater emphasis on sustainability disclosures and practices.
 - These changes incorporate the evolving regulatory requirements and ESG reporting standards.

Navigating a complex landscape

- Indeed, board directors today have more to contend with than their counterparts in the past.
 - Today, board directors operate in a “BANI” world – where systems are brittle, people are anxious, cause-and-effect non-linear and what used to be understood is now incomprehensible.
 - Directors have a lot more to consider when making decisions regarding risks and opportunities, and with a lot less time to do so.
- Singapore Institute of Directors (SID) has initiated many efforts over the years to support directors in this ever-evolving business landscape.
 - This year, they launched the Director Accreditation program to help raise professional standards of company directors in Singapore.
 - Studies such as the SGTI provide useful industry benchmarks and data points for boards and directors to make informed decisions.
 - And events such as the awards presentation today put a spotlight on exemplary corporate governance practices with an aim to inspire boards and directors to pursue excellence.

Professional development

- Director training is part of SID’s effort to support board directors adapt to change and grow their skillsets and competencies.
- SID has announced the Advanced Programme on Sustainability for Listed Entity Directors.

³ Full text of speech available at
<https://www.sid.org.sg/common/Uploaded%20files/Resources/Presentations/SGTI/2024/SGTIYeohOonJin-closingremarks.pdf>

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- Supported by the Singapore Exchange Regulation and developed in collaboration with KPMG in Singapore, this is the “next level” training on SID’s ESG Essentials course.
 - The aim is to expand directors’ knowledge and prepare their companies for the next stage of their ESG journey.
 - There is a growing range of professional development options for directors.
 - SID offers the Board Readiness program for aspiring directors to formal certification courses offered by institutes of higher learning.

Raising the bar

- The SID director accreditation program comprises formal director training, an exam and continuous professional development requirements.
- To retain their credentials, directors have to adhere to a code of conduct and commit to continuous professional development requirements.
- With accreditation, public expectations of directors to fulfil their fiduciary duties and responsibilities will up the pressure on directors to perform in their roles as stewards of corporate governance.
- In this way, accreditation has the potential for raising the bar for directors and for focus on professionalism and integrity.

Award Winners for the SGTI 2024

The Singapore Governance and Transparency Forum 2024 recognized outstanding achievements in corporate governance and transparency across various categories. The recognition of these companies serves as a testament to their leadership in promoting sustainable business practices and fostering trust among stakeholders.

Winner: SATS

2nd place: City Developments Limited

3rd place: United Overseas Bank

Joint 4th place: Keppel and Singtel

Special Commendation (Mid-Cap): Hong Leong Asia

Special Commendation (Small-Cap): Del Monte Pacific

Winner – REITs and Business Trusts Category: Capitaland Ascott Trust

