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Striving for full disclosure

Despite an increasing focus on corporate governance in recent years, many listed companies here still fall short of best practices. **FRANCIS KAN** reports

MORE than two years after a beefed-up set of corporate governance standards for Singapore-listed companies was unveiled, a number of corporate boards here have yet to adopt many of the recommendations. Indeed, many entities here complain about governance fatigue in the face of what appears to be increasingly onerous compliance requirements.

As a result, the average governance and transparency ratings of companies listed on the Singapore Exchange (SGX) is still a far cry from the top 20 most well-governed and transparent firms, according to the 2013 edition of the Governance and Transparency Index released by CPA Australia and NUS Business School.

The Code of Corporate Governance was first issued in 2001 and, after several revisions, the Monetary Authority of Singapore released the latest version of the Code in May 2012. Notably, the new Code introduced changes concerning director independence, board composition, multiple directorships, alternate directors, remuneration practices and disclosures, and risk management as well as shareholder rights and roles.

"There has been more attention to compliance but there still seems to be in some quarters a feeling that compliance with the letter, rather than the spirit of governance, is sufficient," said Chris Bennett, director, BPA Australasia, an organisation that aims to improve corporate governance in South-east Asia through delivering professional education, research, and advocacy.

While adopting the Code is not mandatory, listed companies are required by the SGX to disclose their corporate governance practices and give explanations for deviations from the Code in their annual reports.

"There has been renewed attention on corporate governance and organisations have made positive steps in enhancing their corporate governance, albeit to varying extents," said Neo Sing Hwee, advisory partner, EY in Singapore. "Having said that, there could be further improvements in the areas of disclosure relating to remuneration of CEO and individual directors, independence of director as well as adequacy of internal controls and risk management systems."

For instance, in the area of disclosure on remuneration, the 2013 Singapore Board of Directors survey indicated that 68 per cent of listed companies do not have the intention to disclose executive remuneration on a named basis to the nearest thousand dollars, as prescribed by the code, Mr Neo revealed.

Companies are reluctant to do this in order to maintain confidentiality, as well as to prevent poaching and upward pressure on remuneration due to market comparison.

Similarly, only slightly more than 2 per cent of listed companies met the Code's requirement to disclose the name and remuneration of the top five key management personnel, according to the Centre for Governance, Institutions and Organisations of the NUS Business School.

Some industry experts argued that the slow adoption rate was to be expected, as time was needed to make the transition to comply with the more stringent requirements.

"Matters covered in the Code are hard to change on a moment's notice; there is much to be done in terms of having the right people on the board," said Themin Suwardy, associate professor of accounting (practice), SMU School of Accountancy.

For instance, Assoc Prof Suwardy, who is also Singapore divisional president, CPA Australia, noted that additional requirements related to directors' independence for companies where the chairman and the CEO is the same person will require boards to identify new potential directors or replace existing ones.

Beyond usual suspects

Currently, less than 15 per cent of the listed companies have boards that are led by an independent chairman, while only 18 per cent of listed companies have a lead independent director and have more than half of their board members being independent, as recommended by the Code.

To meet these requirements, corporate boards will need to widen their traditional pool of candidates, and go beyond the usual suspects of what has sometimes been negatively referred to as the "old boys network".

However, the small size of the Singapore market means there isn't a sizeable pool of qualified people who can effectively play the role of an independent director, argued Mr Neo.

Mr Bennett: *'There has been more attention to compliance but there still seems to be in some quarters a feeling that compliance with the letter, rather than the spirit of governance, is sufficient'*

"This also partly explains why some listed companies, including some of the largest listed companies in Singapore, have disclosed that despite some directors having been on the board for more than nine years, they are still assessed as independent," he explained.

Compliance fatigue

Companies here may feel overwhelmed by the more stringent governance proposals, but this may be temporary as organisations play catch-up to improve their existing practices to comply with the required standards. "Therefore, I believe this is a 'transition' phase which will pass once the existing practices are strengthened to be in line with the standards," said Mr Neo.

To help recharge the governance landscape, Mr Bennett urged companies here to take on a more proactive, or "self-regulatory", approach that will ultimately lead to less regulation. "Boards and directors sometimes grumble about excessive regulation. But this sometimes arises because companies often take a minimal compliance approach to governance, so every time a new problem is encountered the regulators are urged to regulate," said Mr Bennett.

Regulatory fatigue can also come about because boards do not fully understand the level of compliance needed and what actions to take in order to comply with the Code. For instance, some may not be aware of the maximum number of board appointments a director can hold before he or she is deemed as holding an excessive appointment.

"More specific guidance from the Code on these areas can be helpful in assisting companies to adopt the Code without giving too much discretion or uncertainty to companies in fulfilling the requirements of the Code," said Mr Neo.

However, there is no silver bullet to solve Singapore's governance issues, the experts noted. Indeed, the corporate governance journey is an ongoing one that will change as the broader business landscape evolves.

"One should not see corporate governance with a fixed destination, or with a check-list mentality. Corporate governance is a process of ensuring a business continues to operate successfully in a sustainable way for the long term while balancing the roles and responsibilities of all shareholders, the board and management," added Assoc Prof Suwardy.

This is the first in a four-part thought leadership series brought to you by CPA Australia, in conjunction with this year's CPA Forum on governance and transparency that will be held on July 24, 2014

The state of governance

Name and remuneration of key executives

- Around 68 per cent of listed companies do not have the intention to disclose executive remuneration on a named basis.
- Slightly more than 2 per cent of listed companies made the exact disclosure of name and remuneration of the top five key management personnel.

Independence of directors

- Only 33 per cent of Singapore's listed companies comply with the Code in the area of independence of directors.
- Less than 15 per cent of the listed companies have boards that are led by an independent chairman.
- Only 18 per cent of listed companies have a lead independent director and have more than 50 per cent of the board members being independent.

Sources: The 2013 Singapore Board of Directors survey, The Centre for Governance, Institutions and Organisations of the NUS Business School

Mr Neo: *'There has been renewed attention on corporate governance and organisations have made positive steps in enhancing their corporate governance, albeit to varying extents'*

Assoc Prof Suwardy: *'Matters covered in the Code are hard to change on a moment's notice; there is much to be done in terms of having the right people on the board'*

Key priorities for boards

NEO Sing Hwee, advisory partner at EY in Singapore, believes that it is important for boards and companies to focus on the following areas and understand how the existing governance, control and risk management process and structure have incorporated these key areas:

◆ Integrating risk management into operations by setting risk appetite, risk tolerance as well as key risk indicators (KRIs), and linking and leveraging these when assessing major and key decisions such as investment, acquisitions and capital expenditure.

This would enable a more effective identification and assessment of risks when making key decisions and appreciating the level of risks that is tolerable as well as the types and extent of further actions that are needed to mitigate or manage the risks.

Using KRIs is also useful in helping the board and key management to analyse and review trends and patterns so as to prevent risks from materialising, or reduce the impact by being able to react to the event in a more timely fashion and with the right measures.

◆ Using appropriate data analytics as part of the governance and assurance system to provide useful information on trends and patterns, thereby allowing a higher chance of being able to identify risks before they happen. On a similar note, operations can also benefit from business analytics with useful information to assist in better and more accurate identification of problems and allocation of resources, resulting in better management of risks and increasing the chance of success.

◆ Incorporating an assurance mechanism for tax compliance and IT and system integrity and safeguards. These are two emerging areas of importance that will have major impact on controls and governance. To that end, it is important for boards to know how existing processes ensure that the company is familiar with tax regulations, comply with these rules consistently and do not partake in tax avoidance practices. Similarly, the governance framework should also provide for safeguards to protect operations against IT and system attacks that not only severely impact operation performance and customers but also reputation.

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