

David Gerald, Founder, President & CEO, Securities Investors Association (Singapore)

Dolly Mirchandani / 15:08 , Aug 23, 2012



David Gerald, Founder, President & CEO, Securities Investors Association (Singapore) has been at the helm of the organisation. He founded SIAS in 1999 to successfully contest the freezing of shares owned by 172,000 Singapore investors in Malaysian companies by the Malaysian government. The 'In the boardroom and not the courtroom' stances successfully adopted by Mr Gerald to resolve issues between shareholders and boards of listed companies has won SIAS an international recognition. In 2010, Monetary Authority of Singapore (MAS) appointed Mr Gerald to Singapore Corporate Governance Council tasked to review the corporate governance code and promote high standard of corporate governance in companies listed in Singapore. In March 2012, he was appointed by MAS to serve on the Financial Advisory Industry Review panel. Mr Gerald is regularly featured on local broadcast and print media on his views on corporate governance issues. Before establishing SIAS, Mr Gerald served as a magistrate, coroner and deputy public prosecutor and in private practice as an advocate & solicitor in a legal career spanning for about 30 years.

Securities Investors Association (Singapore) is a non-profit organisation committed to investor education, protecting investors' rights and actively promoting corporate governance and transparency. Founded in 1999, SIAS has about 70,000 investor members today. SIAS—the voice of retail investors in Singapore—actively promotes investor education at all levels in the community as well as investor rights programmes. SIAS tracks listed companies annually for their corporate governance practices and rewards the outstanding candidates with the Singapore Corporate Governance Award in collaboration with other professional bodies in the securities and finance industries. SIAS also tracks transparency in listed companies together with analysts, fund managers and also rewards financial journalists for impacting the retail community with their timely stories on companies.



In an exclusive interaction with **Dolly Mirchandani** of **IIFL**, **David Gerald** stresses, "Investor associations—like ours—play an important role in educating investors. But you cannot be



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the only organisation working for investor improvement; there has to be corporations, stock exchange and regulators who should also educate investors at a national level.”

Could you share some anecdotes where SIAS has created a significant impact on investors in Singapore?

The biggest experience which brought SIAS on the scene was when the Malaysian government seized the shares of 172,000 Singaporeans who had invested in 120 companies in Malaysia. This happened in September 1998 and was called the CLOB (Central Limit Order Book) saga. The Malaysian government seized the shares of Singaporeans because it alleged that Singapore investors were responsible for the collapse of the Malaysian stock market as they had dumped the shares. Malaysia was facing Asian economic crisis and currency crisis. And they wanted Singapore to pay 52 cents per Singapore dollar for the return of the share. It was almost like a daylight robbery. According to WTO (World Trade Organization), government of any country signatory to the WTO, should treat all investors equally, whether local or foreign. After nine months, the Malaysian Exchange, after entering into a settlement agreement with Singapore Stock Exchange, decided to disregard the agreement. It wanted to deal directly with investors to settle the issue who were not organised.

That event changed my life completely. I stopped being a lawyer and took up the struggle for small investors. I started the Securities Investors Association of Singapore (SIAS) to lead the struggle to free the frozen shares worth more than \$5 billion. Malaysia claimed that the CLOB counter through which Singaporeans invested in those Malaysian shares was illegal and offered to return the shares at a 52% discount. We took up the issue with various media including CNBC, BBC, Wall Street Journal, Dow Jones and all over the world. As a result, fund managers started withdrawing money from Malaysia and MSCI (Morgan Stanley Capital International) refused to put them on the index.

At our request, the Singaporean government announced that it will take the matter to WTO. SIAS also announced that it will go to the high court of Malaysia. The Malaysian Exchange then settled the matter on our terms—that is migrate the shares to individual accounts with Malaysian brokers over 12 months period at 1% commission or over 36 months at 1.5% commission. This event created a great impact on investors in Singapore and SIAS became a household name.

What are some of the biggest challenges investors associations face globally?

One of the challenges is to get investors to appreciate the importance of supporting investor associations. We have to convince investors that such an association exists for their interest. An association also must provide a platform to investors to voice their views through relevant parties like regulators and listed corporation board. Funding is the most important thing for an association to survive. Investors must be prepared to pay for membership. These associations don't survive for a long period because investors don't want to pay for membership. This has been the biggest challenge for most associations.

Members must realise the importance of such associations and the benefits they can bring for the advancement of the investors cause. Associations provide primarily investor protection, investor education & awareness and support investor issues. So for an association to run successfully and support investor cause, investors must provide support

to the association through funding and by participating actively in activities of the association.

The main activity is education. Investor associations must be prepared to educate lay investors on how to invest wisely because many investors today are investing without knowledge. Thus, they are losing a lot of money. Investor associations—like ours—play an important role in educating investors today. While organising a programme, we have to pay for the lecturer, venue, hand out materials and snacks. This costs money and investors very often are reluctant to pay for these programmes. So we have to find alternate methods of raising funds for these programmes.

We have, therefore, joined hands with corporations, who from the CSR (corporate social responsibility) point of view have come forward, to support investor education programmes as a community project and to educate their own shareholders. Starting from Singapore Exchange (SGX) right down to Singapore Airlines, we have got corporations who feel that it is their responsibility to educate shareholders. This has created a new avenue of funding. In a capital market, you cannot be the only organisation working for investor improvement; there has to be corporations, stock exchange and regulators who should also educate investors at a national level. This will in turn benefit their own companies as well as the capital market.

You have often advocated working with companies “in the boardroom and not in the courtroom”. How different is it to work with companies in Singapore compared to other countries?

Right! If you see in Korea, Japan and some western countries investor associations are seen mostly as untouchables. When you tell them that you are an investor body or its official; they don't open doors. They believe in kicking doors and banging tables. They remain contentious and do not believe in resolving issues in a conciliatory manner. They believe in expensive litigation to resolve the issues.

We believe in opening doors through a conciliatory approach. We have been very successful in meeting the chairman, the chief executive officer, independent directors and other senior officers of the company in the boardroom on any issue affecting shareholders. The moment SIAS contacts a listed company in Singapore, it gets immediate response. We are able to sit down, discuss and settle the issue on a win-win basis. According to the Asian culture, we ensure that the face of the chairman, CEO or the director is not affected. We don't name and shame any person, if we can avoid it. Our first approach is to shake hands and over a cup of tea resolve issues in the boardroom. We have always done this and it has been documented very well in Singapore. We have achieved a win-win solution for both shareholders and the board.

In other countries, when shareholders are unhappy with the company, they campaign against the company, burn tyres, get lawyers to write legal letters or sue the company in court or organise protest marches carrying placards. This doesn't bring any solution. In fact it closes doors forever. In the Asian context, this doesn't work. Litigation is time consuming and expensive. Small investors can't afford litigation fees these days. Therefore, we have found a way of resolving issues in the boardroom thereby overcoming the tyranny of the majority at general meetings. We don't usually go to AGMs (annual general meetings) and



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make noise or shout. We quietly invite the company board members to sit with us and discuss issues troubling shareholders. We then have a press conference together and announce to the shareholders through the press what we have achieved.

Many corporate leaders are skeptical about corporate governance—they don't see it adding any real value. What are your views?

Yes, some corporate leaders are skeptical about corporate governance because their preoccupation is with the bottom line. It is correct that companies are formed to make profit for themselves and their shareholders but what they forget is that investors need to feel safe in parking their money with the company. Investors will only feel safe if the company is known for its good and transparent management.

In view of the corporate scandals, investors want to know who is running the business, who is on the board, is there independence on the board and what the internal controls are. Once investors are assured that the company is a good company with a clean background, they will gladly invest in the company. Investors now in the Asia are looking for companies with good corporate governance. Two prominent reports—one by PWC (PricewaterhouseCoopers) in 2000 and another by McKinsey in 2002—found that HNIs (high networth individuals) and fund managers are moving their money to companies that have the reputation for governing well and they indicated that they would be willing to pay as much as 30% more for shares in companies that demonstrate good corporate governance practices. It is now a well established perception that good corporate governance leads to good corporate results. Thus, where corporate governance is identified as outstanding, investors feel comfortable investing there.

St George's University in the US has done research and found that investors are prepared to pay premium for shares of the company that have strong corporate governance and transparency. Sim Kee Boon Institute (SKBI) of Singapore Management University has also come out with the report about two years back which highlights that companies well governed tend to have a higher value.

What are the early signs of mis-direction by a company?

In Singapore we have quarterly reporting of companies so when a company reports in negative in the first quarter and in the consecutive quarter as well, we tell our members to question the company.

Shareholders need to keep a keen eye on the company. They need to attend the meetings of the company. Shareholders can get together and ask the company for a meeting. If they face any difficulty in getting a meeting, they can come to SIAS. We assist shareholders and companies to resolve issues. When there is interference with shareholders' investments in the company, SIAS will intervene.

Recently, China Sky Chemical Fibre Ltd—a Chinese company listed on Singapore Exchange (SGX)—refused to follow the requirement by the stock exchange to do a special audit which is typically called by SGX, when the regulator wants certain transaction to be more thoroughly investigated. The company is now suspended. Over 9,000 shareholders are in limbo. SIAS has intervened and we are discussing actively with the company directors and major shareholders to try and bring back the company to do what SGX is asking them to do. We also want to ensure that the company goes back to trading because if they don't then

the shareholders will not get value for their shares.

I am happy to say that the discussion with the company is progressing well. All misunderstandings including cultural miscommunications among shareholders, investors, directors and stock exchange are cleared. Thus, we come forward as the middle man to help companies, investors and stock exchange to try and resolve issues affecting the company and its investors.

How do you assist companies in improving their corporate governance and enhance transparency?

Together with a local university business school we analyse each and every annual report of companies listed on SGX. We then come up with a quantitative score card which is based on every recommendation made in the Corporate Governance Code.

If a company complies with the requirements of Corporate Governance Code, then it will be given a good score. But if the company goes beyond the requirement and does more, then it gets additional marks. For example: the Governance Code says, there must be at least three independent directors on the board and if we find there are five independent directors, then the company gets double marks. We also look at the top 20 companies and see how well they have performed in terms of the spirit of the Code. For instance: If they are doing things beyond the expectations of the Code, then they get additional marks.

Are foreign companies listed on the SGX complying with the required norms?

All companies, no matter where they come from—India, China or Japan—as long as they are listed on the Singapore Stock Exchange, they have to follow the Singapore laws. There is no exception. These companies should know what our requirements are under the Listing Rules, Singapore Companies Act, and Securities and Futures Act. There are no norms which they need not follow. They need to follow every rule and they are following it.

What are the challenges faced while advocating financial literacy to investors in Singapore?

The biggest challenge is to convince citizens that to invest money in the stock market, they must have knowledge. Very often, the man on the street is moved by emotion based on greed. Herd mentality is very much common amongst investors. This is one of the reasons why investors lose money in the stock market.

People think coming to a classroom, attending a session on a Saturday morning or afternoon and learning the ABC of investing is bothersome and a waste of time. They ask their neighbours, friends or relatives about financial products and invest. Little do they realise that there are many factors that affect investments. The market situation varies rapidly and practical decisions are required.

Large investors like HNIs and fund managers know in and out of a company. The company's performance may be affected by a corporate incident or action that may take place unexpectedly. This affects the value of the share. So lay investors buy the share at a higher price and suddenly the price falls. During such times, investors are left clueless. Thus, most investors buy high and sell low. For this reason, investors need to learn at least the basics of investing. They need to know how to analyse the company financials, how to keep a



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constant watch on their investments and know the risks involved. The main difficulty is getting investors to understand why they should have knowledge before investing.

What are the initiatives taken by SIAS to help retail investors to be market savvy and make better informed decisions?

Since 2000, we have organised 600 investor education programmes all over in Singapore. Some programmes are held in big auditorium, while some in constituency clubs. We go to heartlands taking our investor education programmes to where ordinary people live. We also engage the constituency clubs to conduct programmes on financial planning, investing in stock market and on various instruments like REITs (real estate investment trusts), ETFs (exchange traded funds), etc.

We teach investors the features and risk of financial products. An investor needs to question himself: Who am I?, What are my needs?, Can I take risk?, Do I know the risks in the product I am investing?, and then decide whether to invest or not. We teach investors about the strategies they should employ while investing. We also teach them how to interpret an annual report of a company, to understand financial statements and why they should attend AGMs. We have given them a hand book—which is a kind of guide book—to understand how to prepare for meetings, what questions they should ask and how they should conduct themselves. We have also given guidelines to chairman of meetings. Often some chairmen are intolerant and don't entertain too many questions.

We have also played an active role in revising the Corporate Governance Code by participating in the Corporate Governance Council appointed by government. We have now added a new chapter in corporate governance, which talks about investors' rights and responsibilities. We encourage companies to allow active participation by investors at meetings. They should be allowed to ask questions, responses should be recorded and the meeting minutes should be reproduced. We also try to improve the response from company to our call. Companies should collaborate with shareholders. We can now see more and more investors attending AGMs and asking intelligent questions.

How do you ensure that the minority interest issues of the shareholders are protected?

When we are told by shareholders or journalists that there is a minority issue in a company, we call up the company and arrange a meeting. We have a dialogue session with shareholders of the company. We along with financial experts, we listen to their complaints and discuss and educate the minority. If we find that the company is doing something wrong, then we intervene.

For example, there was a company bought over by TATA in Singapore. It was called Natsteel. It was the very first company listed on SGX and was government owned. Later the company went into the hands of private investors. There was an ownership issue between two tycoons for that company. Let's say tycoon A and tycoon B. Tycoon A wanted it badly and managed to take control of the company and then he decided to amend the M&A of the company by asking the shareholders to vote on a resolution that in future the dividends will be paid in scrips and not dollars. There was another resolution to pay dividends but subject to the amendment of M&A resolution being passed. This move tantamounted to diluting the shares of tycoon B—who became a minority shareholder. Now if you deny retirees and other

small investors who are dependent on dividends as a source of income, then their purpose of holding shares fails. We saw this as a major problem. The company had put a condition for payment of dividends, which is not right and would create a bad precedent. Payment of dividend is distribution of profits, which should be unconditional. We received complaints and we took up the issue. We wanted to speak to the Company directors, CEO and chairman. After receiving no response from the company, we took the campaign public and then we asked the minority shareholders to oppose the resolution. At the Extraordinary General Meeting, the linked resolution was defeated. Subsequently, the company delinked the resolutions and they were passed at a subsequent meeting.

How you cater to customers who are not tech savvy, especially senior citizens?

Senior citizens get help from their respective constituency clubs that have simple computer programmes. Brokers also provide basic computer educational programmes for senior citizens.

What initiatives are you taking to train your employees to ensure that they provide get real-time assistance and personalised advice to investors/complainants?

The moment there is a complaint against a company or a broker, we have a process in place. When an investor comes to us with a complaint, we make sure that the complaint is taken down in writing. We have no verbal complaints. Investors also give their membership number and sign the complaint letter. If it is a simple complaint, the membership department will attend to it.

But if it is a complicated one, the complaint goes to our general manager, who is quite knowledgeable in market and company issues. He will attend to the complaint and do his best to resolve it. If the complaint requires legal advice, we will seek the help of our legal experts who provide free oral advice to our members.

However, if the complaint requires us to contact the company then my staff will coordinate with senior management of the company and arrange a meeting. The company chairman, CEO, or one of the independent directors will meet me and we try to resolve the issue. We always do.

Is the process of resolving investor's complaint against broking firms/companies through dispute resolution committee (DRC) time consuming?

Some complaints take time but they are not chargeable. The service provided by DRC to our members is free. First, we need to look at the complaint, discuss and then meet the complainant to explain whether the complaint has any merits. If the complaint has merits then we try to resolve it amicably with the broking house. Usually one of our staff members accompanies the complainant. If it is a major complaint, then I will go. But if it is a simple complaint, my general manager or assistant general manager will assist the complainant. We speak to the compliance department of the broking house against whom we have received the complaint. We sit down and discuss and try to resolve the complaint.

In the past, there has been a number of unauthorised trading cases but for last three years I have not seen even one. Also the number of errors in the account or billing has been resolved amicably. Where there is a misconduct committed by a trading representative of a broking house, then the matter goes to the stock exchange.

What happens when an investor's complaint is not resolved through DRC?

There is a body run by central bank called FIDREC (Financial Industry Disputes Resolution Centre Ltd). It is a tribunal and is chaired by a retired high court judge and administration officers. In a very informal way, they will resolve the complaint. The investor doesn't pay any money. Bank and the broker have to pay for the amount which the tribunal decides. If they don't pay, investors can appeal to the high court. Also, if the investor is not happy with the tribunal decision, he is at liberty to file a case in the high court.

SIAS is a not-for profit organisation. How do you manage your manpower and operational costs?

We do receive some funding from corporates to sponsor our investor education programmes. We have activities like Investment Week from 25th to 31st August and Corporate Governance Week from 1st to 5th October this year. During the event, we organise a two-day Asian investors' corporate governance conference as well. Besides, we organise six workshops and have the Corporate Governance Awards Presentation Ceremony together with four other Awards called the *Investors Choice Awards*. We award companies who have achieved excellence in transparency and corporate governance. We also give financial journalist award, best broker award and internal audit excellence award among others. This is a big event. We also have investor forums, where investors get together and discuss issues affecting them.

During the Singapore *Investment Week*, we educate investors on various financial products. Investment experts come from brokers, fund managers and the academia. There is also education on our website at www.sias.org.sg. We get funds from financial institutions and investment houses. So from conferences, workshops and dinner we raise funds. Some revenue also comes from subscription.

Do you receive any support from the Singapore government?

There is some support from the government's financial services development fund for community education programmes which are approved by it. If we organise an investor education programme approved by the government authority called the MoneySENSE, then it will pay for venue, lecturer and F&B—which is 50% of the total cost.

What additional steps do investors need to take while investing in the market?

We are now operating in a caveat emptor—buyer beware—market, which means investors are on their own. There is minimum protection provided in the Singapore Laws. I personally feel that investors should not depend on laws but on knowledge and must be self confident to invest. Only when there is unlawful interference with their investments, the law should step in.

Investors should become responsible and take ownership of their decisions. They must not point fingers at the third party unnecessarily. If investors have made a sound decision and there is a serious problem within the company, then we come in. But we cannot come into the picture where investors made investments without any knowledge and incurred losses. The more we tell investors we are going to protect them and hold their hands, they will never mature. Capital market will never be a matured capital market. Then, it always have to be a regulated market. Investors need to understand the financial products, the level of risk they



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can take and only then invest.

SIAS is the largest organised investor lobby group in Asia. Do you plan to expand your services in countries other than Asia?

The good news is that the Philippines has just modelled an investor body after SIAS. I was the guest of honour last month inaugurating SharePHIL which is going work like SIAS in Philippines. We are encouraging neighbouring countries to form a similar organisation that will help retail investors.

We can't form SIAS type of organisations in other countries because of political reasons. Many countries don't like lobby groups. However, we are a responsible lobby group accepted by the Singapore government, Singapore Exchange and OECD (Organisation for Economic Co-operation and Development) is our partner in corporate governance conferences yearly. We have been visited by representatives of 10 Member countries of the European Parliament recently. They came to see us and how SIAS works and why it is a unique body. We just don't do lobbying; we do investor education, dispute resolution, corporate governance and investor rights. We also engage regulators, media and settle issues with the board calmly.

The Department of US Treasury Officials from Washington DC also came to see me a month ago and in June this year, I was flown to San Francisco by PCAOB (Public Company Accounting Oversight Board) in Washington DC to receive my views on independence of auditors audit quality and mandatory rotation of auditors in public companies in USA. We have got international recognition now because we have been very sincere and focused on our objectives and gained our recognition by producing results. I surely believe that India can also have a group like SIAS but politicians should not be involved in this group. It should be managed by professionals, who are investors, sincerely working for shareholders and not for their own political gains.