

# The State of Corporate Governance Disclosures Forum

In July 2016, SGX released a report on the *Review Of Mainboard Companies' Code Of Corporate Governance Disclosures* that was conducted by KPMG. On 16 August 2016, SID organised a forum with SGX and KPMG to discuss the findings of the report.

**S**ome 160 directors and senior corporate executives turned up at the Marina Mandarin Singapore for the State of Corporate Governance Disclosures Forum.

In his opening remarks, SID Chairman Willie Cheng said all the players in the corporate ecosystem including the board, regulators, investors and industry associations have a role to play in ensuring compliance with the Code.

In his keynote address, Mr Tan Boon Gin, Chief Regulatory Officer of SGX, remarked that though the results of the review were generally good, there were areas for improvement. He added that, good scores notwithstanding, there must be an urgency in the pursuit of better standards and compliance because of recent developments. He pointed out that it is not just about

making disclosures but also ensuring material information is announced via SGX Net in a timely and clear manner, as completely as possible.

As regards determinant of materiality of whether the information will be useful to investors, he reminded the audience of the cardinal rule: "when in doubt, disclose". He further pointed out that, an issuer must announce any information which is necessary to avoid the establishment of a false market in its securities or would likely materially affect the price or value of its securities.

Mr Irving Low, KPMG Head of Risk Consulting then presented the results of the review, followed by a panel discussion on various aspects of corporate governance and the "comply or explain" regime in particular.



## Insights from the Study

Summarised below are the key observations made by Mr Irving Low, KPMG Head of Risk Consulting on the study.



### Methodology

- Reviewed 545 SGX Mainboard companies, excluding Catalist-listed companies, Funds, secondary listings, and those with no annual report, suspended or change in financial years.
- Focused on compliance with Code of Corporate Governance 2012, SGX Disclosure guidance Document 2015, and SGX Listing Rule 1207 (10).
- Review of 16 principles and 85 guidelines, on the following basis:
  - Presence: extent of positive or negative statement in place
  - Quality: extent of forthcoming and meaningful information

### Performance

- The state of disclosures is good with room for improvement.
- Large Cap companies outperformed Small Cap and Mid Cap companies, and Government-linked corporations (GLCs) outperformed other companies.
- Scores by focus areas:



- Strongest performing guidelines:
  - Audit, Nominating and Remuneration Committees
  - Board's opinion on internal controls
  - Appointment of proxies
  - Board meetings
  - Director's key information
  - One-third independence
- Weakest performing guidelines:
  - Director, CEO and KMP full disclosure of remuneration
  - Long-term incentive schemes and reclaiming incentives
  - Executive performance criteria and conditions
  - Sustainability
  - Board diversity
- Poor disclosures happened when companies lacked awareness, frequently used boilerplate statements, have inherent process gaps, as well as when there were new requirements to track.

### Tips to improve disclosures

- Corporate Governance disclosure review. Conduct a detailed gap analysis of corporate governance disclosures to ensure presence and quality. At a minimum, address the missing guidelines. Consider benchmarking based on company size and sector.
- Board practices review. Conduct a gap analysis of underlying board and corporate governance practices to substantiate the adequacy and effectiveness of such processes. Develop or enhance practices as required and reflect updates in the disclosures.
- Sustainability reporting. Review and develop processes to prepare for the effective start date of the new SGX Sustainability Reporting Guidelines.
- Corporate Governance training. Develop awareness and capabilities relating to corporate governance requirements, practices and disclosures. Attend upcoming training sessions.

## Panel Discussion on Corporate Governance Disclosures

The panel at the Forum discussed a wide range of issues related to corporate governance compliance and disclosures.

Moderator Mr Daniel Ee, independent director of Keppel Infrastructure Trust, started by seeking clarification from SGX on the extent of the “comply” needed in the “Comply or Explain” regime as there was still some lack of understanding of it.

Ms June Sim, SGX Head of Listing Compliance said that the regulator had taken a progressive approach with the introduction of the 2012 Code and has decided not to take a prescriptive stance.

Following the clarification, panellists were asked if there were any results in the study that surprised them. Ms Veronica Eng, independent director of Keppel Corporation shared that “although most large private companies have no compliance regime to follow, they voluntarily set up strict framework for disclosures as it adds value to the companies”. She also observed that key investors gave more merit to companies that are transparent, and for large companies with a diverse spread of investors, this is usually demanded.

Mr John Lim, Chairman of Boustead Projects Ltd emphasised that a lot of companies still do not believe in the value of good governance. He said that “boards are too focused on shareholders who ask mostly about company performance”. Mr Lim, advised that even though shareholders may not focus on compliance with the Code, the board should still play a part in ensuring that it is closely adhered to.

Ms June Sim commented that the lowest ranked score was on remuneration, which although not surprising, was disappointing. She highlighted that in the US, companies are required to disclose

the package paid to the CEO, CFO and the top three executives. It was similarly so in Hong Kong and the UK. Ms Sim said that it is important to recognise that capital funds flow to companies and Singapore at large if investors are convinced that there is a culture of good governance and transparency. Mr Irving Low agreed that corporate governance is a journey which all companies must embark on.

During the Q&A from the floor, Mr Paul Ma, Chairman of Mapletree Greater China Commercial Trust highlighted that 99 per cent of companies in the review have said that they have adequate internal control.



He asked if this is correct and if the controls are really effective. Mr Low said that it could be an issue of understanding the definition of “effective”. Ms Eng added that it is unlikely for a company to declare that their internal controls are “ineffective” and she also questioned if all companies fully understood what “effective controls” meant.

Mr Ma also sought clarification on the need and basis for SGX requiring the Board Undertaking to be signed annually. It was clarified that only new directors appointed mid-way need to sign the individual Board Undertaking. The Undertaking is to ensure directors understand their obligations to comply with the listing rules.

Ms Yvonne Goh, SID member, highlighted that the Corporate Governance Disclosure Report is a massive one and asked who should take responsibility to draw it up and if boards





Left to right: Mr Irving Low, Mr John Lim, Ms June Sim, Ms Veronica Eng, Mr Daniel Ee.

do really review it. Ms Sim replied that some companies delegate this to a Corporate Governance Committee, but emphasised that the board is ultimately responsible for disclosures and the information should be reflective of actual company practices. Ms Sim suggested that smaller companies who are unfamiliar with CG disclosures, could approach SID for relevant training courses.

Mr John Lim added that “having processes is what results in good corporate governance. For some areas, there is no cost impact”. Ms Veronica Eng said “it is a cost only when it is deemed of no benefit. Companies who comply with corporate governance can attract and enhance company value which in turn attract investors”. Ms Sim recommended that “there is a need to ensure that the board has diversity of experience so

that they can advise the Board and hence reduce compliance-related costs”.

Mr Andy Tan, SID Council member, enquired if Singapore regulators are adopting all the regulations implemented in other countries lock, stock and barrel. Ms Sim clarified that the focus for SGX is to work with companies with the lowest scores in the review. These companies need to engage using a bottom-up approach to identify areas where they can improve and address these issues in a progressive manner.

In ending the session, Ms Sim reiterated that SGX will not be prescriptive as the US and other jurisdictions but will work and engage with companies to improve the overall level of corporate governance disclosures. ■