

Corporate Governance: What's happened, what's ahead

At the annual SID Corporate Governance Roundup held on 24 November 2016, SID governing council members provided a synopsis of the happenings in 2016 and a glimpse of what could be expected in 2017 in key corporate governance and directorship matters. In the next few pages, we summarise their takes and audience comments in these 10 areas:

- CG codes
- CG excellence
- Regulation
- Audit committees
- Directorship landscape
- NonProfit directorship
- Board diversity
- Professional development
- Digital and value creation
- Cyber security



Corporate Governance Codes



Irving Low

- At the international level, the OECD Principles of Corporate Governance has evolved to the G20/OECD Principles of Corporate Governance, with most significant changes emphasising the rights and equitable treatment of shareholders and key ownership functions, and the responsibilities of the board.
- In Singapore, significant activities (an SGX-KPMG study and several forums) were held on the Code of Corporate Governance and its disclosures. 2017 will most likely see a review of the Code (last revision in 2012).
- The Charity Code of Governance will also be revised in 2017 (last revision in 2011).
- The Singapore Stewardship Principles was launched in November 2016 after two years in the making (see page 66).
- In 2017, SID will roll out an eGuide to the Code of Corporate Governance, a corporate governance self-assessment for companies, and a Governance, Risk Management and Compliance certification course under licence from OCEG.

Corporate Governance Codes

Corporate Governance Excellence



Philip Forrest

- Singapore ranked top in the biennial CG Watch 2016 but this is unlikely to stay (see page 38). Global best practices are some way off, but there are several SID initiatives to help close the gap.
- The ASEAN Corporate Governance Scorecard of top 100 companies in six ASEAN countries is in its fourth year. There will be a gap year in 2017 as the methodology is reviewed. Rankings will resume in 2018.
- A new Singapore Governance and Transparency Index (SGTI) was launched in August 2016 by SID in partnership with CGIO of NUS Business School and CPA Australia. This will be the new benchmark for Singapore listcos.
- The Singapore Corporate Awards continued with its five main awards, and an inaugural Special Recognition Award given to CDL for its sustainability practices in 2016.
- The Corporate Governance Guides initiative will complete in March 2017. To date, four guides have been launched (see page 44), with two more (AC Guide and Resource Guide) and electronic versions of all the guidebooks in 2017.

Corporate Governance Excellence

Regulation



Tan Boon Gin

Regulation

- First half-yearly report on long suspended companies issued May 2016. Objective is to achieve share trading resumption or an exit offer for minority shareholders if delisting.
- Sustainability reporting on a “comply or explain” basis required for financial year on or after 31 December 2017, within five months of financial year end.
- Review of CG Code by KPMG: SGX is currently engaging companies on the findings, purpose behind relevant requirements, and improvements that can be made.
- Public consultation on minimum trading price (MTP): Issuer be placed on watch-list only if six-month VWAP is below \$0.20 and six-month average daily market capitalisation is below S\$40 million. Feedback being reviewed, implementation is expected by end-June 2017.
- What more to expect in 2017: dual class shares public consultation; quarterly reporting consultation; and review of the Code of Corporate Governance.

Audit Committees



Gerard Tan

Audit Committees

- ACRA released second report on its Financial Reporting Surveillance Programme (FRSP). SID hosted two roundtables with ACRA and AC chairmen on the FRSP. ACRA announced some changes to FRSP approach from 2017, including “restatement first” on non-compliances.
- The enhanced Audit Report is effective in 2017 (for financial years ending after 15 December 2016). However, 10 companies early adopted the new report in 2016.
- ACRA introduced eight Audit Quality Indicators (AQIs) in 2016. In 2017, ACRA will be introducing six targets for certain AQIs for the six Singapore audit firms that adopted the AQI disclosure framework.
- MAS policy of audit firm rotation every five years for locally incorporated banks was suspended in 2008. After its consultation in October 2016, MAS is expected to announce a new policy on auditor rotation and retendering for 2017.
- The Companies Act will be amended in 2017 to introduce beneficial ownership laws to combat money laundering and terrorism financing.
- SID will launch the revamped Audit Committee Guide and an Audit Committee Chapter in January 2017.

Directorship Landscape



Lee Kim Shin

- The Singapore Directorship Report 2016 was launched in October 2016 (see page 50). It shows that the state of directorship among entities listed on SGX, measured against the Singapore Code of Corporate Governance continues to improve.
- One notable improvement is a stronger element of independence on the board. Areas requiring attention include board diversity, precise disclosure of remuneration of directors and CEOs, and long-serving directors (including IDs).
- Singapore Post was in the news last year. Lessons learnt include:
 - o Managing conflicts of interest: Conflicts may arise from indirect interests, disclose when in doubt, and recuse from deliberations when conflicted.
 - o Evaluating and approving M&A transactions: Have prescribed policies and procedures, and SOP to check directors' interests against targets and advisors before seeking approval for due diligence and the transaction.
 - o Board renewal and tenures: succession planning, limits on tenures and board size and diversity.

NonProfit Directorship



Wilson Chew

- Key developments in the nonprofit space in 2016 include:
 - o A social service strategy being developed by National Council for Social Service.
 - o The establishment of the Singapore Centre for Social Enterprises (raiSE).
 - o Anti-money laundering and countering terrorism financing guidelines from the Commissioner of Charities (CoC).
- Governance emphasis in nonprofit sector manifested in:
 - o The ongoing City Harvest case which is expected to conclude in 2017.
 - o A governance review by the CoC of 41 charities and IPCs in 2016, with several recommendations which form part of the refinements to the Code of Charity Governance expected to be implemented in 2017.
 - o A new Charity Transparency Awards in 2016 by the Charity Council.
- SID introduced a new track on nonprofit directorship in its professional development with two new courses (see page 78), and covered the subject of nonprofits in its publications. It also introduced NonProfit Organisation memberships, and including nonprofit directorships in its Board Appointment Services.

Board Diversity



Junie Foo

Board Diversity

- Board diversity has many dimensions, but gender diversity is way below par. Singapore at 9.7 per cent of women's representation on boards is lagging behind most countries.
- SGX Diversity Action Committee (DAC) chaired by Mr Magnus Böcker, former CEO of SGX, has been active in last two years: collaboration with search firms, roundtables, forums, and nudging boards. A report, was issued in October 2016 with five major recommendations (see page 64).
- SID Council and its Diversity SubCommittee have also been active: Board Diversity Pledge (over 200 companies signed); involvement in DAC, BoardAgender, WCD, etc; walking the talk (25 per cent female council members, women on its panels and forums); driving female membership (now at 18 per cent) and board appointments; research and publications.
- What more to expect in 2017: follow up to DAC recommendations; DAC refreshed with Mr Loh Boon Chye at the helm; SID board appointment service for women directors; publication on women company directors; diversity criteria and special award in the Singapore Corporate Awards.

Professional Development



Poh Mui Hoon

Professional Development

- Directors need to keep abreast of developments. SID is helping with continual revisions to its professional development framework (see page 76).
- In 2016, SID conducted more than 100 professional development sessions for more than 6,000 participants. New professional development sessions include:
 - o New forums and seminars such as a Chinese seminar, state of corporate governance disclosure forum, the Noble saga, forum on Enron and financial engineering, and forum on cyber security.
 - o New courses including GRC, governance and value creation for growth companies, three Masterclasses.
 - o New track on nonprofits with two courses (see page 78).
- In 2017, expect four new Masterclasses; a new Business Future Series with three modules; a new course on governance for family businesses; a new social enterprise track; and a new nonprofits seminar.

Digital and Value Creation

- Moore's Law, which suggests that computing will increase in capability and decrease in relative cost at an exponential rate, continues to be relevant. This has created a resurgence in exponential technologies from artificial intelligence, big data analysis, cloud computing to virtual and augmented reality.
- New business models leveraging on this have emerged. They are characterised by personalisation, peer to peer transacting, and crowd sourcing. The shared economy is not hype.
- Businesses need to respond. Boards should address this by putting digital issues on the board agenda, and getting digital capability into its structure.
- SID responded by having digital disruption as the theme of the 2016 SID Directors' Conference, and covering the subject in its Board Guide, and other publications.
- In 2017, expect the report from the Committee on the Future Economy, and further coverage of the subject in SID's professional development courses (Business Future Series, Masterclasses, and Value Creation in Family Businesses), and publications.



Robert Chew

Digital and Value Creation

Cyber Security

- No industry or company is immune to cyber attacks. 2016 saw a rise in ransomware, bots, mobile malware and hacktivism.
- At the national level, Singapore created the Cyber Security Agency in 2015 and rolled out a national cyber strategy in 2016. Expect a Cyber Security Act in 2017.
- Boards need to respond by starting at the top and understanding the trade-offs between convenience, costs and security. It should ensure that management develop cyber hygiene practices, invest in resilient technology, and look into cyber security insurance.
- In 2016, SID covered the subject in its annual conference and several forums, its Board Guide, Board Risk Committee Guide and other publications.
- In 2017, SID introduces a new course on cyber security for directors.
- Also expect more relentless cyber attacks, more companies setting up Security Operations Centres, and more solutions, seminars and consultancy services being offered on cyber security.



Tan Yen Yen

Cyber Security

Overheard at the Roundup

“Cyber security measures in SMEs is a must-have. Such initiatives should be part of a company’s core strategy and investment, and should not be regarded as just IT problems.”

Ms Stefanie Yuen Thio

Joint Managing Partner, TSMP Law Corporation

“Independence of directors in boards is a subjective matter. Therefore, there are regulations created to help boards determine this independence. At the same time, market forces such as shareholder scrutiny may help determine the independence of directors.”

Ms Veronica McCann

Non-Executive Director, Manulife US Real Estate Management

“There is empirical evidence that boards with women directors perform better than those without them. However, accomplished women like to be invited on the boards because of their potential to contribute rather than simply because of the gender issue. In practice, the experience in India is that two women directors on a board are much more effective than only one.”

Professor Mahendra Chouhan

Vice Chairman, Global Advisory Board, Asian Centre for Corporate Governance

“When a situation such as a crisis occurs, the board chairman together with his board must act quickly and rationally to address this challenge. In this way, the board demonstrates its transparency and assurance to the shareholders and the public that it adopts the best corporate governance practices.”

Mr Wang XinBin

Executive Director, Everbright Business Consultancy

