# PRACTICE GUIDANCE

## 14 DECEMBER 2023

## Practice Guidance 1: Board Roles and Director Duties

### Board's Role

The Board's role is to:

(a) provide entrepreneurial leadership, and set strategic objectives, which should include appropriate focus on value creation, innovation and sustainability;
(b) ensure that the necessary resources are in place for the company to meet its strategic objectives;
(c) establish and maintain a sound risk management framework to effectively monitor and manage risks, and to achieve an appropriate balance between risks and company performance;
(d) constructively challenge Management and review its performance;
(e) instil an ethical corporate culture and ensure that the company's values, standards, policies and practices are consistent with the culture; and
(f) ensure transparency and accountability to key stakeholder groups.

### Scope of Director Duties

Directors should be aware of their duties at law, which includes acting in good faith and the best interests of the company; exercising due care, skills and diligence; and avoiding conflicts of interest. Directors should also put in place policies, structures and mechanisms to ensure compliance with legislative and regulatory requirements, establish appropriate tone-at-the-top, desired organisational culture and standards of ethical behaviour.

While the duties imposed by law are the same for all directors, a listed Board will generally have different classes of directors (executive, non-executive and independent directors) with different roles:

- **Executive Directors (EDs)** are usually members of senior management, and involved in the day-to-day running of the business. Executive directors are expected to:
  (a) provide insights on the company's day-to-day operations, as appropriate;
  (b) provide Management's views without undermining management accountability to the Board; and
  (c) collaborate closely with non-executive directors for the long term success of the company.

- **Non-Executive Directors (NEDs)** are not part of Management. They are not employees of the company and do not participate in the company's day-to-day management. NEDs are expected to:
  (a) be familiar with the business and stay informed of the activities of the company;
  (b) constructively challenge Management and help develop proposals on

strategy;

(c) review the performance of Management in meeting agreed goals and objectives; and

(d) participate in decisions on the appointment, assessment and remuneration of the executive directors and key management personnel generally.

- **Independent Directors (IDs)** are NEDs who are deemed independent by the Board (see Provision 2.1 and Practice Guidance 2 on criteria for director independence). IDs have the duties of the NEDs, and additionally provide an independent and objective check on Management. In certain cases, the SGX Listing Rules require IDs to make certain decisions and determinations. However, IDs should avoid focusing solely on the duties relating to compliance with rules. As with all directors, they are to act in the best interests of the company as a whole and not of any particular group of shareholders or stakeholders.

**Conflicts of Interest**

The Board should have clear policies and procedures for dealing with conflicts of interest. Where the director faces a conflict of interest, he or she should disclose this and recuse himself or herself from meetings and decisions involving the issue. For instance, if the Chairman of the Board (Chairman) is a member of the Nominating Committee (NC), he or she may face a conflict of interest on discussions relating to the succession of the Chairman and should thus recuse himself or herself from such discussions after providing his or her input to the NC on other matters.

**Director Competencies**

There should be formal communication from the company to each of the directors on their appointment and their roles, duties, obligations and responsibilities, and the expectations of the company. This includes each director developing his or her competencies to effectively discharge his or her duties.

To ensure that directors have the opportunities to develop their skills and knowledge, the Board should develop a policy and criteria for directors' development. The Chairman and the NC Chairman should jointly and regularly review and agree with each director his or her training and professional development needs.

**Board Organisation and Support**

The Board may form board committees, and decide the scope and the matters delegated to the board committees. Generally, all important decisions should be made at the Board level.

If the Board chooses to form an executive committee (EXCO) and delegate certain matters for the EXCO to decide, it is responsible for understanding the EXCO's discussions and endorsing the EXCO's decisions.

Management provides the Board with information for its meetings and decision making, including board papers and supporting information. In respect of budgets, any material variance between the projections and actual results should also be disclosed and explained.

Relying purely on what is volunteered by Management is unlikely to be enough in all circumstances and further enquiries may be required if the director is to fulfil his or her duties properly. Directors are entitled to request from Management and should be provided with such additional information as needed to make informed decisions. Management should provide the information in a timely manner.

The Board should be supported by the company secretary, whose role should be clearly defined. The company secretary's responsibilities include advising the Board on corporate and administrative matters, as well as facilitating orientation and assisting with professional development as required. The company secretary should attend all board meetings.

## Practice Guidance 2: Board Composition and Guidance

### Director Independence

There should be a strong and independent element on the Board.

An independent director (ID) should have no relationship (whether familial, business, financial, employment, or otherwise) with the company, its related corporations, substantial shareholders[1] or officers, which could interfere or be perceived to interfere with the director's independent judgment.

Rule 210(5)(d) of the SGX Listing Rules (Mainboard) / Rule 406(3)(d) of the SGX Listing Rules (Catalist) sets out the following specific circumstances in which a director should be deemed to be non-independent:

(a) a director who is or has been employed by the company or any of its related corporations for the current or any of the past three financial years;
(b) a director who has an immediate family member who is, or has been in any of the past three financial years, employed by the company or any of its related corporations and whose remuneration is determined by the Remuneration Committee (RC); and
(c) a director who has been a director of the company for an aggregate period of more than nine years (whether before or after listing). Such director may continue to be considered independent until the conclusion of the next annual general meeting of the company.[2]

In addition to these, the Nominating Committee (NC) and Board should consider the following circumstances in which a director should also be deemed to be non-independent:

(a) a director, or a director whose immediate family member, in the current or immediate past financial year, provided to or received from the company or any of its subsidiaries any significant payments or material services (which may include auditing, banking, consulting and legal services), other than compensation for board service. The amount and nature of the service, and whether it is provided on a one-off or recurring basis, are relevant in determining whether the service provided is material. As a guide, payments aggregated over any financial year in excess of S$50,000 should generally be deemed significant;
(b) a director, or a director whose immediate family member, in the current or immediate past financial year, is or was, a substantial shareholder or a partner in

[1] A "substantial shareholder" is a shareholder who has an interest or interests in one or more voting shares (excluding treasury shares) in the company and the total votes attached to that share, or those shares, is not less than 5% of the total votes attached to all voting shares (excluding treasury shares) in the company, in line with the definition set out in section 2 of the Securities and Futures Act (Chapter 289) of Singapore.

[2] Rule 210(5)(d)(iv) of the SGX Listing Rules (Mainboard) / Rule 406(3)(d)(iv) of the SGX Listing Rules (Catalist) takes effect at an issuer's annual general meeting held for the financial year ending on or after 31 December 2023. For further details on transitional arrangements, please refer to Transitional Practice Note 4 of the SGX Listing Rules (Mainboard) and Transitional Practice Note 3 of the SGX Listing Rules (Catalist).

(with 5% or more stake), or an executive officer of, or a director of, any organisation which provided to or received from the company or any of its subsidiaries any significant payments or material services (which may include auditing, banking, consulting and legal services). The amount and nature of the service, and whether it is provided on a one-off or recurring basis, are relevant in determining whether the service provided is material. As a guide, payments[3] aggregated over any financial year in excess of S$200,000 should generally be deemed significant irrespective of whether they constitute a significant portion of the revenue of the organisation in question; or

(c) a director who is or has been directly associated[4] with a substantial shareholder of the company, in the current or immediate past financial year.

The above examples are not exhaustive and the NC and Board should determine whether there is any circumstance or relationship which might impact a director's independence, or the perception of his or her independence. Other than the circumstances set out in the SGX Listing Rules, these examples are meant to illustrate situations of likely non-independence and the NC and Board can still consider a director to be independent notwithstanding the existence of any of the above-mentioned situations. However, if the Board, having taking into account the view of the NC, does so, it has to fully disclose the nature of the director's relationship, and why the Board has determined the director to be independent.

**Proportion of Non-Executive Directors**

A key duty of the Board is to set objectives and goals for Management, monitor the results, and assess and remunerate Management on its performance. Executive directors who are part of Management may face conflicts of interest in these areas. To avoid undue influence of Management over the Board and ensure that appropriate checks and balances are in place, non-executive directors should comprise at least a majority of the Board.

**Role of the Lead Independent Director**

The lead independent director (Lead ID) plays an additional facilitative role within the Board, and where necessary, he or she may also facilitate communication between the Board and shareholders or other stakeholders of the company. The company should clearly communicate to shareholders and other stakeholders on how the Lead ID can be contacted.

The role of the Lead ID may include chairing Board meetings in the absence of the Chairman, working with the Chairman in leading the Board, and providing a channel to

[3] Payments for transactions involving standard services with published rates or routine and retail transactions and relationships (for instance credit card or bank or brokerage or mortgage or insurance accounts or transactions) will not be taken into account, unless special or favourable treatment is accorded.

[4] A director is considered "directly associated" with a substantial shareholder when he is accustomed or under the obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the substantial shareholder in relation to the corporate affairs of the company. A director will not be considered "directly associated" with a substantial shareholder by reason only of his or her appointment having been proposed by that substantial shareholder.

non-executive directors for confidential discussions on any concerns and to resolve conflicts of interest as and when necessary. In addition, the Lead ID may also help the NC conduct annual performance evaluation and develop succession plans for the Chairman and CEO and help the RC design and assess the Chairman's remuneration.

## Board Diversity Policy

Principle 2 requires a board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

Provision 2.4 expands on the concepts of independence and diversity in Principle 2 by stating that the Board and board committees should be of an appropriate size, and comprise directors who as a group provide the appropriate balance and mix of skills, knowledge, experience, and other aspects of diversity such as gender and age, so as to avoid groupthink and foster constructive debate.

With effect from 1 January 2022, Rule 710A(1) of the SGX Listing Rules (Mainboard) / Rule 710A(1) of the SGX Listing Rules (Catalist) requires issuers to maintain a board diversity policy. The rules take reference from the elements of Provision 2.4, and state that a board diversity policy must address gender, skills and experience, and any other relevant aspects of diversity.

It is recognised that diversity is multi-dimensional in nature, encompassing various aspects. Certain aspects of diversity are widely tracked by investors and other stakeholders globally. The SGX Listing Rules ask that issuers maintain a board diversity policy that minimally addresses gender, skills and experience. Boards may incorporate other aspects of diversity as are relevant for the company.

To provide investors and other stakeholders with relevant information, Rule 710A(2) of the SGX Listing Rules (Mainboard) / Rule 710A(2) of the SGX Listing Rules (Catalist) also requires an issuer to include in the disclosure of its board diversity policy, the following:

(a) the issuer's targets to achieve diversity on its Board;
(b) the issuer's accompanying plans and timelines for achieving the targets;
(c) the issuer's progress towards achieving the targets within the timelines; and
(d) a description of how the combination of skills, talents, experience and diversity of its directors serves the needs and plans of the issuer.

The NC is responsible for setting the board diversity policy, including the targets, plans and timelines, for the Board's approval. The NC should review the progress towards meeting the policy targets and keep the Board updated.

The board diversity policy should have measurable targets that are numerical or quantitative, to be achieved within an appropriate timeline (for example, achieving specific numerical targets for female representation on its board within a specified time period). The accompanying plans for achieving the targets should describe the concrete steps that the company will undertake. Aspirational or qualitative targets (for example, 'creating an inclusive culture') may also be included, but these should also be accompanied with a description of the initiatives to be undertaken to translate the aspiration into results.

Companies should provide updates on their progress toward their targets by stating what they achieved within the year under report and what is to be achieved beyond the year under report. If companies face challenges in meeting their stated targets within the relevant timelines, they should provide an explanation and describe their plans to overcome these challenges. Companies should strive to build on their achievements each year, and may consider disclosing how their performance relative to their targets has changed over the years.

The description of how the Board's combination of skills, talents, experience and diversity serves the needs and plans of the company should be made in the context of the company's current plans and future strategy.

## Practice Guidance 3: Chairman and CEO

The separation of the role of the Chairman of the Board (Chairman) from that of the Chief Executive Officer (CEO) avoids concentration of power in one individual, and ensures a degree of checks and balances. Where the Nominating Committee determines that the Chairman and CEO share close family ties, the Chairman is not independent. Such ties include familial relationships beyond immediate family members that could influence the impartiality of the Chairman. Examples of these relationships include those of in-laws, cousins, aunts, uncles and grandparents.

The overall role of the Chairman is to lead and ensure the effectiveness of the Board. This includes:

(a) promoting a culture of openness and debate at the Board;
(b) facilitating the effective contribution of all directors; and
(c) promoting high standards of corporate governance.

Externally, the Chairman is the face of the Board, and should ensure effective communication with shareholders and other stakeholders.

Within the company, the Chairman should ensure appropriate relations within the Board, and between the Board and Management, in particular, between the Board and the CEO.

In the boardroom, the Chairman's responsibilities range from setting the Board agenda and conducting effective Board meetings, to ensuring that the culture in the boardroom promotes open interaction and contributions by all.

## Practice Guidance 4: Board Membership

### Selection, Appointment and Re-appointment Process

The process for the selection, appointment and re-appointment of directors should take into consideration the composition and progressive renewal of the Board, as well as each director's competencies, commitment, contribution and performance (e.g. attendance, preparedness, participation and candour) including, if applicable, his or her performance as an independent director (ID).

The NC, which is responsible for making recommendations to the Board in relation to the appointment and / or re-appointment of directors, should go beyond the Board's immediate circle of contacts and use a variety of channels including third party search firms, director associations or advertisements to identify a broader range of suitable candidates.

To facilitate investors' understanding of its nomination process, the Board should disclose the following in the corporate governance section of the company's annual report:

(a) the channels used in the search and nomination process for identifying appropriate candidates, and the channel via which the eventual appointee was found; and
(b) the criteria used to identify and evaluate potential new directors, including the relevant experience and skillsets to the company's business which are considered, and whether broader search criteria such as diversity and technological expertise are also included.

The company should disclose how the Board, with its collection of skills, experience and diversity, meets the needs of the company.

### Appointment of Alternate Directors

A director should take on a directorship appointment only if he or she is able to commit the time to discharge the duties of a director, one of which includes attending all Board meetings. Alternate directors[5] should only be appointed in exceptional circumstances. In particular, companies should not appoint alternate directors for IDs.

Alternate directors bear all the duties and responsibilities of a director. All rules and procedures that apply to directors similarly apply to alternate directors.

### Multiple Directorships

The responsibilities of a director of a listed company are complex and demanding. Directors need to make the substantial time commitment required to fulfill their responsibilities and duties to the company and its shareholders. A director with other

[5] An alternate director is generally a person who is appointed to attend Board meetings on behalf of a director when the latter (usually referred to as the principal director) is unable to attend. Section 4(1) of the Companies Act defines a "director" to include alternate directors.

major commitments can be, or be perceived to be, ineffective because he or she is unable to allocate sufficient time to properly discharge his or her duties on the Board.

The Board and Nominating Committee (NC) should therefore take into account the number of directorships and principal commitments of each director in assessing whether he is able to or has been adequately carrying out his or her duties. The Board and NC should establish guidelines on what a reasonable and maximum number of such directorships and principal commitments for each director (or type of director) should be. For instance, directors who are full-time executives could have less capacity to take on listed company directorships, as compared to retirees who may be able to focus entirely on directorships. In addition, an appointment as a non-executive chairman of a listed company would likely require more time and commitment as compared to other non-executive directorships.

The Board and NC should take into consideration whether a director had previously served on the board of a company with an adverse track record or with a history of irregularities or is or was under investigation by regulators, and seek clarity on the director's involvement therein. The Board and NC should also assess whether a director's resignation from the board of any such company casts any doubt on the director's qualification and ability to act as a director of the Company.

The Board and NC should also consider other factors in determining the practicality of multiple directorships and principal commitments. For example, scheduling board and committee meetings may be challenging for a director sitting on four boards with similar financial year ends and/or reporting timelines.

**Succession Planning**

Provision 4.1(a) states that the NC should make recommendations to the Board on the review of succession planning for directors, in particular the Chairman and the CEO, as well as key management personnel (KMP).

It may be the practice in some companies for the CEO to take charge of the succession planning for KMP while the NC takes charge of succession planning for directors, the Chairman and the CEO. In such circumstances, the NC should still review the plans that the CEO has made for KMP succession.

Also, it may be the practice in some companies for a board committee other than the NC to review succession planning for KMP. The Board, having regard to the particular circumstances of the company, has the prerogative to determine that any other board committee should review the plans made for KMP succession.

In reviewing succession plans, it is necessary to have in mind the company's strategic priorities and the factors affecting the long-term success of the company.

In relation to directors, the NC should aim to maintain an optimal Board composition by considering the trends affecting the company, reviewing the skills needed, and identifying gaps (which includes considering whether there is an appropriate level of diversity of thought). The NC may use these considerations to set appointment criteria for successors.

In relation to KMP succession, the NC, or such other committee determined by the Board, should take an active interest in how key talent is managed within the organization. The committee can consider reviewing the mechanisms for identifying strong candidates and developing them to take on senior positions in the future.

Different time horizons should be considered for succession planning as follows: (1) long-term planning, to identify competencies needed for the company's strategy and objectives, (2) medium-term planning, for the orderly replacement of Board members and KMP, and (3) contingency planning, for preparedness against sudden and unforeseen changes.

## Practice Guidance 5: Board Performance

The Nominating Committee (NC) should decide how the Board's performance may be evaluated and propose objective performance criteria.

The evaluation should consider the Board’s composition (balance of skills, experience, independence, knowledge of the company, and diversity), Board practices and conduct, and how the Board as a whole adds value to the company. The performance criteria should be approved by the Board. The Board should consider the use of peer comparisons and other objective third party benchmarks. These performance criteria should not be changed from year to year, and where circumstances deem it necessary for any of the criteria to be changed, the onus should be on the Board to justify this decision.

The evaluation of individual director’s performance should aim to assess whether each director is willing and able to constructively challenge and contribute effectively to the Board, and demonstrate commitment to his or her roles on the Board (including the roles of Chairman of the Board (Chairman) and chairman of a board committee). The Chairman should act on the results of the performance evaluation, and, in consultation with the NC, propose, where appropriate, new members to be appointed to the Board, or seek the resignation of directors.

To provide a greater level of objectivity in the evaluation process, the Board may consider the use of external facilitators in the performance assessment. Such facilitators should be independent of the company and its directors.

## Practice Guidance 6: Procedures for Developing Remuneration Policies

There should be written terms of reference which clearly spell out authority and duties of the Remuneration Committee (RC). The Board should disclose in the company's annual report the names of the members of the RC and the key terms of reference of the RC, explaining its role and the authority delegated to it by the Board. While remuneration matters are deliberated in detail by the RC, its remit is only to make recommendations to the Board in relation to the framework of remuneration for the Board and key management personnel (KMP) and specific remuneration packages for each director and KMP.

The Board is ultimately accountable for all remuneration decisions. The RC considers all aspects of remuneration (including director's fees, salaries, allowances, bonuses, options, share-based incentives and awards, benefits in kind and termination payments) and should aim to be fair and avoid rewarding poor performance. The RC also reviews the company’s obligations arising in the event of termination of the executive directors’ and KMP’s contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.

The RC should comprise all non-executive directors, with the majority being independent directors to minimise conflicts of interest. If necessary, the RC should seek expert advice inside and/or outside the company on remuneration. A key aspect of remuneration is benchmarking with comparable organisations. Such data is often not available in-house. Where such advice is obtained, the company should disclose the name and firm of the remuneration consultant, if any, including whether the remuneration consultant has any relationship with the company that could affect his or her independence and objectivity.

## Practice Guidance 7: Level and Mix of Remuneration

A company's remuneration framework should be tailored to the specific role and circumstances of each director and key management personnel (KMP). This ensures an appropriate remuneration level and mix that recognises the performance, potential and responsibilities of these individuals.

Performance-related remuneration schemes should take account of the risk policies of the company, be symmetric with risk outcomes and be sensitive to the time horizon of risks. There should be appropriate and meaningful measures for the purpose of assessing executive directors' and KMP's performance.

Performance should be measurable, appropriate and meaningful so that they incentivise the right behaviour and values that the company supports. For individuals in control functions (e.g. chief financial officer, chief risk officer, head of the internal audit function), performance measures should be principally based on the achievement of the objectives of their functions. While long-term incentive schemes are generally encouraged for executive directors and KMP, the costs and benefits of such schemes should be carefully evaluated. In normal circumstances, offers of shares or grants of options or other forms of deferred remuneration should vest over a period of time. The use of vesting schedules, whereby only a portion of the benefits can be exercised each year, is strongly encouraged. Executive directors and KMP should be encouraged to hold their shares beyond the vesting period, subject to the need to finance any cost of acquiring the shares and associated tax liability.

The Remuneration Committee should also consider implementing schemes to encourage non-executive directors (NEDs) to hold shares in the company so as to better align the interests of such NEDs with the interests of shareholders. However, NEDs should not be over-compensated to the extent that their independence may be compromised.

Companies should consider the use of contractual provisions to allow them to reclaim incentive components of remuneration from executive directors and KMP in exceptional circumstances, including for example, misstatement of financial results or misconduct resulting in financial loss to the company.

## Practice Guidance 8: Disclosure on Remuneration

A company's annual remuneration report should form part of, or be annexed to, the company's annual report. It should be the main means through which the company reports to shareholders on all forms of remuneration and other payments and benefits, for directors and key management personnel (KMP), from itself and its subsidiaries, in respect of the financial year reported on. Companies should make the disclosure regardless of whether shareholder approval has been obtained.

Remuneration disclosures for individual directors and the Chief Executive Officer (CEO) should specify the names, amounts and breakdown of remuneration[6].

Remuneration disclosures for at least the top five KMP (who are not directors or the CEO) should specify the names, amounts and breakdown of remuneration in bands no wider than S$250,000 (refer to illustrative examples below).

A breakdown (in percentage terms) of the remuneration earned by each director, the CEO and each of at least the top five KMP (who are not directors or the CEO) should include base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives. The disclosures on employee share schemes should cover the important terms such as the potential size of grants, methodology of valuing stock options, exercise price of options that were granted as well as outstanding, whether the exercise price was at the market or otherwise on the date of grant, market price on the date of exercise, the vesting schedule, and the justifications for the terms adopted.

In addition to the disclosure in aggregate of the total remuneration paid to at least the top five KMP (who are not directors or the CEO), the aggregate amount of any termination, retirement and post-employment benefits that may be granted to directors, the CEO and at least the top five KMP (who are not directors or the CEO) should be separately disclosed. In the case of a company with less than five KMP (who are not directors or the CEO), it is acceptable for the company to make the disclosure in respect of all KMP, with the appropriate explanation.

For administrative convenience, the company may round off the disclosed figures to the nearest thousand dollars. The disclosure of remuneration may be in bands no wider than S$250,000 for at least top five KMPs; and no wider than S$100,000 for employees who are substantial shareholders, or are immediate family members of a director, the CEO or a substantial shareholder.

[6] For the financial years ending on or after 31 December 2024, Rule 1207(10D) of the SGX Listing Rules (Mainboard) / Rule 1204(10D) of the SGX Listing Rules (Catalist) requires issuers to disclose in their annual reports, the names, exact amounts and breakdown of remuneration paid to each individual director and the CEO by the issuer and its subsidiaries. Such breakdown must include (in percentage terms) base or fixed salary, variable or performance-related income or bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives.

**Illustrative Examples of Banding:**

A company has five KMP: V, W, X, Y and Z. The KMPs' remuneration are as follows: V is paid S$300,000; W is paid SS300,000; X is paid S$540,000; Y is paid S$650,000; and Z is paid S$1,005,000.

| Applicable bands | Top 5 KMP |
|---|---|
| ≥S$1,000,001 – S$1,250,000 | Z |
| ≥S$500,001 – S$750,000 | X, Y |
| ≥S$250,000 – S$500,000 | V, W |

**Disclosure of Relationships between Remuneration, Performance and Value Creation**

To facilitate better understanding of the relationships between remuneration, performance and value creation, companies should adopt and disclose the following information:

- the company's definition of value creation for its stakeholders (including shareholders and other material stakeholders) and how it is measured;
- the process for formulating the remuneration policies, including the governance of the process;
- the way that remuneration is designed to drive corporate performance, including a description of why the indicators chosen are relevant to the company in the context of their strategy, or their desire to create value and generate shareholder returns;
- the way that remuneration is used to manage risk (e.g. remuneration that does not generate excessive risk taking and envisages reductions to remuneration for exceeding agreed risk limits);
- the way that performance is measured, including the types of financial and non-financial metrics adopted (e.g. Earnings Per Share (EPS), Total Shareholder Returns (TSR), Return On Equity (ROE), customer metrics, operational metrics, safety metrics);
- the way that personal performance is assessed and taken into account (e.g. the way that the officers create an appropriate work culture in the company, and the contributions of such officers to succession planning, and engagement with the regulatory authorities in the relevant industries in which the company operates in);
- the breakdown of those metrics as part of variable remuneration (e.g. 80% financial metrics split across 33% EPS, 33% TSR and 33% ROE; 20% non-financial metrics split across 40% Customer Satisfaction, 40% Safety Performance and 20% Employee Engagement);

- the metrics used, and why the metrics are appropriate (e.g. EPS growth of 6% compound, TSR of top quartile, ROE of 8%, zero Lost Time Injuries, 90% On Time Performance), including whether relative performance is measured against peers;
- the periods over which performance is assessed (e.g. three year performance period), including justification for why a shorter-term performance period is used for a long-term incentive plan, in instances where this is the case;
- payouts that can be achieved for hitting or exceeding these targets (e.g. 100% payout for median performance, 150% payout for top quartile, 50% payout for 90-percentile performance);
- the form of the payout, (e.g. whether in the form of shares or cash), along with holding periods, if any, for shares;
- the breakdown in company and individual performance outcomes and actual remuneration paid, including explanations where company and/or individual performance outcomes were not achieved yet remuneration was not adjusted in line with the remuneration policy;
- where discretion can be exercised by the Board and/or Remuneration Committee in determining the relationship between remuneration, performance and value creation;
- the existence of any gateways (or negative indicators) to pay-outs (e.g. whether, if the company received a highly critical regulatory report, long term incentives would nevertheless be fully payable because of achievement of profitability metrics); and
- the existence and structure of any clawbacks for malfeasance.

## Practice Guidance 9: Risk Management and Internal Controls

The Board is responsible for the governance of risk, including determining the nature and extent of the significant risks which the company is willing to take.

The Board oversees the company's risk management framework and policies, and ensures that Management maintains a sound system of risk management and internal controls.

The Board may delegate responsibility for risk governance to a board committee, such as the Audit Committee or a separate Board Risk Committee.

The Board, with the assistance of a board committee (where established), should review, at least annually, the adequacy and effectiveness of the company's risk management and internal control systems and comment[7] on the same in the company's annual report. Such a review can be carried out internally or with the assistance of any competent third parties.

The Board's commentary in the company's annual report should include:

(a) information needed by stakeholders to make an informed assessment of the company's risk management and internal control systems;
(b) a description of the principal risks (including financial, operational, compliance and information technology risk categories) facing the company and how they are being managed or mitigated;
(c) an explanation of the company's approach towards identifying, measuring and monitoring its key and emerging risks, and an elaboration of its approach towards the governance and management of these risks; and
(d) an explanation of how the Board has assessed the prospects of the company, over what period it has done so, and why the Board considers it to be appropriate to use that period.

[7] Refer to Rules 610(5) and 1207(10) of the SGX Listing Rules (Mainboard) / Rules 407(4)(b) and 1204(10) of the SGX Listing Rules (Catalist); Main Board Practice Note 12.2/ Catalist Practice Note 21B – Internal Controls and Risk Management Systems.

## Practice Guidance 10: Audit Committees

There should be written terms of reference which clearly spell out the authority and duties of the Audit Committee. The Board should disclose in the company's annual report the names of the members of the AC and the key terms of reference of the AC, explaining its role and the authority delegated to it by the Board.

The AC should have explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management, full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions.

In respect of appointments and re-appointments of external auditors, the AC should evaluate the performance of the external auditor, taking into consideration the Audit Quality Indicators Disclosure Framework published by the Accounting and Corporate Regulatory Authority (ACRA).

The AC should make recommendations to the Board on establishing an adequate, effective and independent internal audit function. For the avoidance of doubt, the internal audit function can be in-house, outsourced to a reputable accounting/auditing firm or corporation, or performed by a major shareholder, holding company or controlling enterprise with an internal audit staff.

The AC should ensure that the internal audit function is adequately resourced and staffed with persons with the relevant qualifications and experience. The AC should also ensure that the internal auditors comply with the standards set by nationally or internationally recognised professional bodies.

The AC should report to the Board how it has discharged its responsibilities and whether it was able to discharge its duties independently. The activities the ACs should report to the Board include:

(a) the significant issues and judgements that the AC considered in relation to the financial statements, and how these issues were addressed. Where the external auditors, in their review or audit of the company's year-end financial statements, raise any significant issues (e.g. significant adjustments) which have a material impact on the interim financial statements or financial updates previously announced by the company, the AC should bring this to the Board’s attention immediately[8]. The AC should also advise the Board if changes are needed to improve the quality of future interim financial statements or financial updates[9];

(b) the AC’s assessment of the adequacy and effectiveness of internal controls and risk management systems;

[8] The Board should then consider whether an immediate announcement is required under Rule 703 of the SGX Listing Rules (Mainboard) / Rule 703 of the SGX Listing Rules (Catalist).

[9] Such changes (if any) should be disclosed in the company's annual report.

(c) the AC's assessment of the adequacy, effectiveness and independence of the internal audit function;

(d) the AC’s assessment of the independence and objectivity of the external auditors, taking into consideration the requirements under the Accountants Act (Chapter 2) of Singapore, including but not limited to, the aggregate and respective fees paid for audit and non-audit services and the cooperation extended by Management to allow an effective audit;

(e) the AC’s assessment of the quality of the work carried out by the external auditors, and the basis of such assessment, such as the use of ACRA’s Audit Quality Indicators Disclosure Framework;

(f) the significant matters raised through the whistle-blowing channel.

## Practice Guidance 11: Shareholder Rights and Conduct of General Meetings

### Dividend policy

The purpose of having and disclosing a dividend policy is to provide an account of how the board stewards the company's income to create value for shareholders. A dividend policy explains how the cash generated by the company is allocated, the objectives, risks and constraints considered, and why the allocation is appropriate.

It is good for a company to announce its dividend policy as this is a factor that investors may generally consider when assessing the company's expectations of future cash flows and the extent to which those cash flows can be used for reinvestment, may be available for dividends, or can be used for other purposes. This information is a relevant input into investors' pricing of the company's shares and can also attract potential investors that are looking for a particular type of company.

A company would normally consider various factors including its cash and reserves position, business prospects, capital commitments, and projected financial position in deciding whether to declare any dividend and, if so, the level of dividend to be declared. It is helpful to investors when companies that do not intend to distribute dividends nevertheless communicate their considerations for not doing so under their dividend policy disclosure and identify the circumstances that would allow them to do so in the future.

A dividend policy also provides useful information to assist investors in assessing the company's expectations of cash flows, its ability and propensity to use that cash flows to pay dividends to investors and thus the suitability of the company's shares as an investment to the investor. A disclosed dividend policy may encourage the company to exercise greater discipline and consistency in the distribution of dividends to shareholders.

It is appropriate to review the dividend policy regularly in light of the changing business environment. Factors to consider include capital expenditure needs, growth opportunities, business risk assessments, economic cycles, and changes in regulation or taxation.

### Facilitating shareholder participation at general meetings

While companies are required to meet the minimum notice period for general meetings, companies should consider providing longer notice for meetings, especially when dealing with complex transactions, or where the company has numerous overseas shareholders.

Management is encouraged to make a presentation to shareholders to update them on the company's performance, position and prospects at general meetings. Presentation materials should be made available on SGXNET and the company's website for the benefit of shareholders.

In order to enhance shareholder participation in general meetings, companies should use their best endeavours to avoid scheduling meetings during peak periods when the meetings may coincide with those of other companies, especially if they have a large shareholder base. Companies should consider other avenues of engaging shareholders, such as through townhall meetings, briefings and roadshows, or webcasting meetings and allowing electronic online voting of shares.

**Resolutions**

In general, resolutions should not be bundled or made inter-conditional on each other. This is to ensure that shareholders are given the right to express their views and exercise their voting rights on each resolution separately. However, in situations where resolutions have to be inter-conditional (such as in meetings to approve a reverse takeover), the company should provide clear explanations.

Companies should provide the necessary information on each resolution to enable shareholders to exercise their vote on an informed basis. For resolutions on the election or re-election of directors, companies should provide sufficient information on the background of directors, their contributions to the company, and the board and committee positions they are expected to hold upon election.

**Director involvement during general meetings**

Directors should be present for the entire duration of general meetings. The Chairman of the meeting should facilitate constructive dialogue between shareholders and the Board, Management, external auditors and other relevant professionals. The Chairman should allow specific directors, such as board committee chairs or the lead independent director, to answer queries on matters related to their roles.

Directors should take the opportunity to interact with shareholders before and/or after general meetings.

## Practice Guidance 12: Engagement with Shareholders

### Communication between the Board and shareholders

Beneficial communications between the Board and shareholders would include interim updates that are in addition to the mandatory financial statements. Updates that shareholders would find useful include: a discussion of the significant factors that affected the company's interim performance, relevant market trends, and the foreseeable risks and opportunities that may have a material impact on the company's prospects. Such information provides shareholders a better understanding of the company's performance in the context of the current business environment.

### Investor relations policy

Maintaining and disclosing an investor relations policy serves to facilitate effective two-way communication between the company and its shareholders. An investor relations policy informs shareholders on how the company will engage them (e.g. interim updates, as described above, or scheduled shareholder engagement events), and how they can communicate with the company (refer to "Mechanisms for contacting the company", below). Implementing and publicizing these engagement channels on the company's website enhances accessibility to shareholders.

A stated investor relations policy also helps to align the stakeholders within the company (e.g. the board, management and the personnel in charge of investor relations) with a coordinated approach to investor engagement.

### Mechanisms for contacting the company

Companies should have a dedicated investor relations contact, via an online submission form, email address or contact number, through which shareholders are able to ask questions and receive responses in a timely manner. As shareholder concerns are different from business or customer issues, it is appropriate to have separate and dedicated investor relations contact points. It is also appropriate for these contact points to be operated by the company's investor relations department or company secretary, as they are acquainted with the matters that investors would be concerned with. The board should have the investor relations function provide regular updates on the feedback received from investors.

Where the company has a lead independent director (Lead ID), the company should provide information as to how shareholders can contact the Lead ID directly, rather than having to go through the company.

## Practice Guidance 13: Managing Stakeholder Relationships

In the execution of its duties, the Board should not only consider the company's obligations to its shareholders but also the interests of its material stakeholders. The relationships with material stakeholders may have an impact on the company's long term sustainability.

Stakeholders are parties who may be affected by the company's activities, or whose actions can affect the ability of the company to conduct its activities. The Board should determine the relevant stakeholders, and set policies in relation to material stakeholders identified.

It is accepted practice for sustainability reports to be used to engage stakeholders. The results of such engagements could also inform the contents of these reports.