



Corporate
Governance
& Financial
Reporting
Centre

Governance and Transparency Index 2010

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Introduction

- Conducted jointly by the Corporate Governance & Financial Reporting Centre and The Business Times
- Sponsored by CPA Australia and supported by the Investment Management Association of Singapore
- First full year issue was published in April 2009 covering companies that released their annual reports between 1 January – 31 December 2008. Update issue was published November 2009 for companies that released their annual reports between 1 January – 30 June 2009.

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- The **Overall GTI Score** comprises the following:
 - **The base score** assesses companies on their corporate governance disclosure and practices, as well as their financial transparency and investor relations. The maximum base score is 100, divided into the following areas:
 - Board Matters (max = 35 points)
 - Remuneration Matters (max = 20 points)
 - Accountability and Audit (max = 20 points)
 - Transparency and Investor Relations (max = 25 points)
 - The **adjustment for bonuses/penalties** (positive or negative) will reflect the aggregate of the bonuses and penalties given to the company. This is added to the base score to arrive at the overall GTI score for the company.

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Changes to the scorecard since Issue 1

The following changes were made to certain penalty items (some to give companies more time to make changes):

- Tenure of independent directors: If the company has one ID with tenure more than 9 years, no penalty points are deducted. For every additional long tenure ID, 3 points are deducted. No reclassification of directors is made.
- Busy directors: Similar to tenure, if the company has only one busy director, no points are deducted. For each additional busy director, 3 points are deducted.

Note: For directorships held by executive directors/CEO outside the group, 3 points are deducted for each director who hold more than 2 of such directorships.

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Changes to the scorecard since Issue 1

- Late announcement of stock option grants: If one late announcement is made, 3 points are deducted. If there's more than one, the points deduction is capped at 5 points
- Multiple resignations of directors citing corporate governance-related concerns: Previously, 10 points were deducted for each director who resigned citing such concerns. This was revised to:
 - If one director resigns, 10 points are deducted.
 - If 2 or more directors resign during the same time period and cite similar reasons, 15 points are deducted.

However, if a company has one slate of IDs resigning and then another slate, then we treat each group of resignations separately.

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Changes to the scorecard since Issue 1

The following items have been added to the bonus and penalty section:

- Bonus: +3 points awarded if independent directors are independent from major shareholders. The annual report should clearly state this for points to be awarded
- Penalty: -3 points for breach of listing rules

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- 680 companies that released their annual reports between 1 January 2009 – 31 December 2009 have been included in the index
- 7 companies that did not release any annual report in 2009 but have faced issues such as regulatory action or red flags raised by auditors have been updated using their latest announcements
- Companies excluded are:
 - Companies with secondary listings
 - Newly-listed companies
 - REITS, Trust and Funds
 - Companies that did not release their annual reports during the time period analysed

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- Primary Sources of Information Used:
 - Annual report: If two annual reports were released during the year, the latest has been used
 - Company announcements made on the SGXNet:
 - For companies updated in Issue 2, announcements from 1 January 2008 to 30 September 2009 have been used
 - For companies updated in Issue 3, announcements from 1 July 2008 to 28 February 2010 have been used
 - However, announcements made after the above-mentioned cut-offs have been used to update the company's score if they were publicly announced in the media
 - Corporate Website
- The average score of companies scored in this round is 33.



Findings from the second full year issue of the GTI

GTI Findings: Board Matters

- 23% of the companies have a majority of independent directors on the board while a similar proportion have independent directors comprising exactly half of the board. 16% of the companies have one-third of the board comprising of independent directors.
- 51% of the companies have at least one independent director who has experience in the industry the company is in.
- Only a fifth of the companies disclose all the directorships and chairmanships in listed companies held by its directors, both current and those held over the preceding 3 years.

GTI Findings: Board Matters

- 13% of the companies have an independent board chairman.
- 22% of the companies have also appointed a lead independent director.
- On average, the boards met 4 times during the year. 19% of the companies met 6 time or more.
- 2% of the companies have not disclosed individual director attendance at board meetings while 5% have not disclosed individual director attendance at committee meetings.

GTI Findings: Board Matters

- Of the companies with nominating committees (NC), only 23% of the companies have a fully-independent NC while 73% have a majority-independent (including the chairman of the committee).
- On average, the NCs met once a year
- 16% of the companies disclosed the process followed in selecting and appointing new directors while only 10% disclosed the qualities sought in new directors.
- 58% of the companies disclosed the criteria used in board appraisal while 17% disclosed the process followed. For individual director appraisal, the percentages are 33% and 7% respectively.



GTI Findings: Remuneration Matters

- Half of the companies have a fully-independent remuneration committee (RC) while a similar proportion have a majority-independent committee (including the chairman of the committee).
- On average, the RCs met twice a year.
- 3% and 1% of the companies disclosed exact remuneration of their executive directors and top 5 executives respectively.
- 72% and 78% of the companies disclosed the remuneration of executive directors and top 5 executives respectively in bands of \$250k with an upper limit specified

GTI Findings: Remuneration Matters

- Only 9% of the companies disclosed the performance measures of their executive directors.
- Only 6% of the companies disclosed the exact remuneration paid to non-executive directors; 85% disclosed in bands of \$250k with an upper limit specified
- 4% of the companies disclosed the fee structure of non-executive directors such as fees for attending meetings, for being committee members and for being committee chair.

GTI Findings: Audit and Accountability Matters

- Nearly 60% of the companies have audit committees comprising of all independent directors while 37% have audit committees comprising entirely of non-executive directors and an independent chairman.
- There are a few companies with executive directors on the audit committee
- A majority of the audit committee members of 43% of the companies have an accounting or finance background. 44% of the companies have at least one member of the audit committee with accounting or finance background

GTI Findings: Audit and Accountability Matters

- On average, the ACs met 4 times a year
- Almost all the companies disclose the financial risks their companies are facing but only a few disclose other risks, such as operational risks.
- Similarly, only a few disclose the framework used in assessing the adequacy of internal controls and risk management systems
- 70% of the companies disclosed that they have a whistleblowing policy in place but only a few disclosed details of the policy.



GTI Findings: Transparency and Investor Relations

- 5% of the companies released their full year results on the 60th day from their financial year end, which is the reporting deadline set by SGX. 68% released between 53 – 59 days. Only 2% disclosed their results within 30 days.
- 88% of the companies indicate their website link in the annual report and/or SGX website.
- Only 69% of the companies have a clearly dedicated investor relations link on their corporate website



GTI Findings: Transparency and Investor Relations

- 44% provide the investor relations contact on the website and/or annual report
- 66% of the companies have their latest annual report available on the website while 59% have their latest financial results on the website
- We tested the IR function of companies using the contact details provided in the annual reports and websites. 32% of the companies responded to our queries within a week.



GTI Findings: Transparency and Investor Relations

- On average, the time gap between the date the Notice of AGM is sent to shareholders and the date of the AGM is 18 days. Only 4% of the companies have a time gap of 28 days or more.
- Only a few companies publish the detailed information of their vote results

GTI Findings: Bonuses

- Similar to the previous year, only a few companies earned a significant number of bonus points
- Bonus points were given for:
 - Having a positive statement at the beginning of the CG report confirming compliance with the CG Code
Some companies state they have “generally adhered” to the Code. The company should clearly state that they have complied with the Code for the bonus points to be awarded.
 - Comprehensive description of how the companies assess the independence of their directors



GTI Findings: Bonuses

Bonus points were given for:

- Definition of independence includes independence from major shareholders (new bonus item)
- Having a board-level risk committee
- Having term limits for their directors
- Having limits on the number of directorships that can be held

If the limits set are higher than the limits for busy directors stated in the GTI scorecard, no points are awarded

GTI Findings: Bonuses

- Bonus points were given for:
 - Reducing percentage of shares to be issued on a non-pro rata basis: More companies are doing this with some reducing to 0%
 - CEO/CFO certification of financial statements: Some companies disclose that their interim financial statements are certified. Full points awarded for only those that include certification of full year results.

GTI Findings: Penalties

- The most common penalties given were for:
 - Tenure of independent directors (two or more directors with more than 9 years)
 - Number of directorships held by directors
 - Same independent directors sitting on nominating, remuneration and audit committees
 - Resignation of independent directors without disclosure of reasons or citing “personal reasons”
 - CEO/MD/ED not subject to re-election

GTI Findings: Penalties

- The most common penalties given were for:
 - Directors or senior management resigning and raising corporate governance related concerns
 - External auditors unable to issue opinion or raises red flag and allegations of fraud reported
 - Frequent turnover of senior management



GTI Findings: Penalties

- The most common penalties given were for:
 - Retention or appointment of directors or senior management who have been subjected to regulatory action
 - Issue of share options to independent directors
 - Late announcement of stock option grants

Other Issues

- Appointment of alternate directors for independent/busy directors
- Appointment of related “independent” directors
- Lack of transparency: E.g, some companies disclose their new directors were subject to lawsuits but vague disclosure is made with regards to what the lawsuits were about or when they were made
- Appointment of directors without subjecting them to election by shareholders, even when the company had the opportunity to do so

Future Changes

- Disclosure of share trading policy which requires directors to seek board approval to trade in the company's shares
- We intend to become stricter regarding the following, going forward:
 - Tenure of independent directors
 - Busy directors
 - Disclosure of director information (e.g., appointment date, directorships held)
 - Disclosure that CEO/MD/ED is subject to re-election
 - Chairman/CEO separation: Clear disclosure of the relationship or a statement indicating they are not related, if that is the case
 - Disclosure of risks (non-financial)



Conclusion

- Some companies have taken steps to improve their disclosure practices during the year. These include disclosing the exact remuneration of their directors, disclosing the names of their top 5 executives, disclosing the nomination and selection process and providing additional details on their whistleblowing policies.
- However, on closer scrutiny, there are a few among these where the governance standards have actually worsened over the year.
- While a company's ranking is based on the total GTI score and the company may show an improvement in scores, the bonus/penalty score should also be assessed to gain a better idea of the company's standard of corporate governance.

Thank You...

Questions?