PHILIPPINES-SINGAPORE BUSINESS COUNCIL

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Paving the way for ASEAN Corporate Governance: the Singapore Experience

Ambassador Kok Li Peng

Delivered by Her Excellency Kok Li Peng, Ambassador of Singapore to the Philippines
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'When consumers purchase a Toyota, they are not simply purchasing a car, truck or van. They are placing their trust in our company.'

Mr Akio Toyoda has neatly set out the rationale of corporate governance. A well-governed company in today's world inhabits three critical roles. (1) It appeals to its customers; (2) it holds value for its investors; and (3) it augments its community. Good corporate governance practices are essential in maintaining not only investor confidence in a company, but in burnishing the company's profile and its allure for new customers and investors.

Modern companies do not exist in a vacuum. They may have started that way in the seventeenth century, when company owners also managed their creations. But as companies grew in size and reach, the need for new capital in larger amounts led to the eventual separation of ownership and management. Today, companies coexist with governments and investors in a dynamic quest for profitability, sustainability and accountability.

In Singapore, we have seen an evolving balance between regulation and laws, market disclosure and discipline, and the responsibility of the investor to scrutinise information carefully before making decisions. From a system of merit-based regulation in the 1990s, where regulators sought to pre-judge risks of investments, we have moved to regulation requiring greater and better disclosure to investors, thus enabling investors to make decisions.

At all times, Singapore believes that we have to keep a balance between the three pillars of government regulation, market-based disclosure and discipline, and the responsibility of the investor. Just like a three-legged stool, each pillar is important and so is the balance to be struck between them. As observed by Deputy Prime Minister for Finance Tharman Shanmugaratnam:

> *"Moving too far in the direction of one against the others tends to weaken the system over time. For example, relying primarily on government regulation tends to introduce moral hazard, and weakens the incentive for investors to exercise care and do their due diligence. But neither can we rely exclusively on market discipline or leave investors to figure out what is real or false. Government has to regulate where it matters. We have to constantly review the balance between the three pillars as the environment evolves, and as new business models or investment instruments gain sway."*

The Singapore regulatory framework for publicly listed companies comprises four primary sources, namely, (a) Companies Act; (b) Securities and Futures Act; (c) Singapore Exchange (SGX) Listing Manual; and (d) Singapore Code of Corporate Governance. The main regulatory bodies are the Accounting and Corporate Regulatory Authority (ACRA), the Monetary Authority of Singapore (MAS) and the Singapore Exchange (SGX). The respective bodies have clear enforcement mandates, which are implemented robustly in order to foster high standards of professional conduct and maintain a fair, orderly and transparent market.

Our regulators monitor developments—local and international—to ensure that the regulatory framework remains relevant. They are always open to receiving constructive feedback and suggestions to strengthen and improve our system. The last revision of the Code of Corporate Governance, in 2012, was also undertaken following the recommendations of a council made up of representatives from public listed companies, practitioners, and industry and investor associations. Key changes included the strengthening of Board independence, enhancing remuneration practices and disclosures, clarifying the Board's responsibility in risk governance, and providing further guidance on companies' engagement with shareholders.

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PSBC SECRETARIAT
2/F, AIM Conference Center
Benavidez Street cor. Trasierra Street
Legaspi Village, 1229, Makati City
Philippines
Tel (+63 2) 751-1143
Fax (+63 2) 751-1160

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The Code of Corporate Governance sets out principles and guidelines for good corporate governance for public listed companies in Singapore. By adopting a Code rather than enact new regulations, we have taken the approach of strengthening market-based regulation. Our Code operates on a 'comply or explain' basis. This means that companies must decide the governance practices that are relevant to its own business and operating environment and make clear disclosures in their annual reports to facilitate investor decision-making; the market will assess the disclosures accordingly. The regulators have also taken additional steps to encourage compliance with the Code, focusing on changing behaviour and developing capacity through (1) strengthening market discipline; (2) building board competencies; and (3) instilling the right values.

Strengthening market discipline is a process by which stakeholders apply effective scrutiny on a company. A key enabler for market discipline is meaningful disclosure by listed companies. Under the SGX listing rules, companies are required to comply with the Code or clearly explain any deviations in their annual reports. Unfortunately, many disclosures by the listed companies have been pedestrian. Investors and the market are either not given reasons for deviations from the Code or the explanations are inadequate and not meaningful. Therefore, investors are not able to make informed decisions.

To spur improvements in disclosures, the SGX issued a Disclosure Guide in January 2015 requiring listed companies to disclose their compliance with key principles of the Code in a standard format. Thus the market can easily identify the unsatisfactory disclosures and compare corporate governance practices across listed companies. Just a few days ago, SGX announced that it is undertaking an exercise to review the compliance of listed companies with the Code.

Shareholders also play an important role in enhancing corporate governance by scrutinising companies' financial statements, attending general meetings, and voting on key issues.

In building board competencies, we urge our Boards to be forward-looking and strategic. Boards should set the tone from the top, instilling a culture that places ethical values above profits, instead of viewing corporate governance as a compliance tool or box ticking exercise. In other words, Boards can spread the word that it is important to do the right thing all the time; corporate governance is not 'for the other guy' but for 'the savvy guy'. This demonstrates that Singapore companies are not uncaring behemoths, but an essential part of our economic security because our companies provide good jobs and opportunities for our citizens, as part of our continuous nation-building efforts.

To develop Board competencies, the Singapore Institute of Directors (SID) has a wide array of training programmes for directors. SID is also developing a compendium of guidebooks to assist directors in discharging their fiduciary duties. The guidebook for Nominating Committee was recently launched in August this year, adding to the existing guidance for Audit Committees and Risk Governance, with guidebooks for other committees targeted to be released over the course of next year.

Looking ahead, the demand for strategic and experienced Directors and senior management is growing, along with the need to provide for diversity within the board so as to harness the collective strengths that each individual brings to the discussion. Innovative solutions are needed to ensure a constant supply of good Directors and more effort will be needed to build up this pipeline of Directors.

Instilling the right values may be the hardest part of strengthening corporate governance, to effect mindset change. Publicly listed companies risk being slaves to the pressures of quarterly earnings, but short-term thinking promotes excessive risk-taking practices, exploitative sales and even fraudulent transactions that erode investor trust. Boards and senior management play a critical role in promoting a culture rooted in ethical frameworks and setting the rules of behaviour—what's acceptable and what's not. They have to show that serving the customer's interest, dealing with fairly with suppliers, adhering to the laws of the land and not placing the larger community at risk are essential for maximising long-term shareholder value.

Besides strengthening and robustly enforcing our regulations, beyond building the capacities of companies to comply with our rules and the Code, other stakeholders have stepped forward to promote the benefits of strong corporate governance. Civil society and media play an increasingly significant role. For example, the NUS Business School's Centre for Governance, Institutions and Organizations (CGIO) developed the **Governance and Transparency Index (GTI™)**, which assesses all Singapore-listed companies based on their disclosures in their annual reports. CGIO, working with The Business Times, has rated all listed companies according to this index for 7 years since the GTI was developed. Smaller companies are also given more focus in a new CG scorecard, the Governance Evaluation Mid and Small Caps (GEMs) launched in April 2015 to assess companies with smaller market capitalization, for which certain feature of corporate governance may be more pertinent. Such initiatives help investors identify SMEs with good corporate governance practices and encourage smaller companies to raise their corporate governance standards.

This journey remains a work in progress, one that we need to keep working at and to keep expanding. Several initiatives on capital market integration now underway under the aegis of the ASEAN Capital Markets Forum (ACMF). In 2009, ASEAN Finance Ministers endorsed the ACMF Implementation Plan for the development of an integrated capital market, in support of the establishment of an ASEAN Economic Community this December. An integrated ASEAN capital market aims to raise overall corporate governance standards, give greater visibility to well-governed ASEAN PLCs and showcase them as investable companies, and improve the visibility, integrity and branding of ASEAN as an asset class.

As part of the ACMF's work, ASEAN partnered with ADB to develop the **ASEAN Corporate Governance Scorecard**, which debuted in 2011. Six ASEAN Member States (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) participate in the annual exercise. We are heartened to see improvements in the mean scores of participating Singapore companies from year to year. This suggests that, to some degree, our companies recognise that such indices pique interest from potential new investors while persuading existing investors to stay and possibly double down on their stake.

This year, ASEAN will try something new. The plan is to publish a list of the top 50 listed companies in ASEAN, the first time a combined list ranking the best listed companies of participating ASEAN Member States. National results for the 2014 assessment were announced in the first half this year, and the results from the 2015 assessment will be announced soon. I look forward to the results, and I am confident that more ASEAN listed companies will be spurred to develop strong corporate governance practices as the benefits of being associated with such practices become evident to more businesses.

Singapore is going beyond rule reforms to create the conditions for corporate governance to flourish—a conducive ecosystem, developing Board competencies, and nurturing savvy businesses that do the right thing as a matter of course. Investor confidence will reinforce a positive business climate in Singapore and beyond, in ASEAN as a whole. Confucius has noted that you know you're governing effectively when: "those near at hand are pleased, and those at a distance are drawn to you."

Join the Philippines-Singapore Business Council!

The PSBC was established in 1994 to promote trade and investments between the Philippines and Singapore. The council is composed of top business executives who seek to explore business opportunities between the two countries and to promote the exchange of views on policies of mutual concern. The Makati Business Club serves as the secretariat of the PSBC.

For membership inquiries, contact Victoria Sibal, PSBC Coordinator at (+63 2) 751-1143, or send an email to victoria.sibal@mbc.com.ph or mbc.businesscouncils@gmail.com