Corporate Governance:

Can Singapore get better?

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Agenda

1. Corporate governance in Singapore: How does it rate in new CLSA/ACGA survey?
2. Is there anything Singapore can learn from its neighbours?
3. Implications for Singapore companies.
4. Conclusion

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“CG Watch” 2004

- ACGA collaborated with CLSA Asia-Pacific Markets on its annual “CG Watch” report again this year.
  - A survey of 10 major markets in Asia and 450 large listed companies (up from 380 in 2003).
  - ACGA contributed mainly to the country analysis.

- Country analysis significantly more rigorous this year:
  - ACGA developed a template of 63 questions in five areas: rules and regulations; enforcement; political and regulatory environment; IGAAP (accounting and auditing standards); and CG culture.

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CLSA / ACGA scores

- Rules and regulations: 7.9 / 10 No. 1 in Asia
- Enforcement: 6.5 / 10 No. 1 in Asia
- Political/regulatory: 8.1 / 10 No. 1 in Asia
- IGAAP: 9.5 / 10 No. 1 in Asia
- CG culture: 5.8 / 10 No. 1 in Asia

- TOTAL WEIGHTED SCORE: 7.5 / 10

- Can it get any better?!

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Strengths and weaknesses

- **Rules and regulations (7.9):**
  - Financial reporting standards strong, but weakness noted in INED definition, rules on board committees and nomination of independent directors by minority shareholders; and weaker still in class-action lawsuits and mandatory poll voting.

- **Enforcement (6.5):**
  - Strong in fair treatment of companies, regulatory powers and anti-corruption work; but some weaknesses perceived in enforcement consistency, and clearer weaknesses in the "private enforcement" of rules and shareholder rights by institutional and retail investors, and the treatment of minority shareholders.

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Strengths and weaknesses

- **Political and regulatory environment (8.1):**
  - A clear and consistent government policy supporting corporate governance; ongoing improvements to laws and regulations; a competent judiciary; and a relatively free media. However, some lingering perceptions of conflict of interest and lack of independence within the regulatory structure.

- **CG Culture (5.8):**
  - Increasing effort on the part of listed companies to follow best practices and provide more substantive disclosure. Efforts also being made by retail investors, professional associations and academics to raise governance standards. But “form over substance” remains an issue; question marks over role of investment banks; and relatively weak involvement of institutional investors.

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Example: AGM attendance

- **Singapore Code of Corporate Governance:**

  "Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company." (Principle 15)

- **CPF Board:**
  - Now forcing all listed companies to allow CPF members who are shareholders of these companies to attend AGMs as observers.

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AGM attendance

- Yet institutional investors (ie, fund managers) are still effectively barred from attending meetings, since they are not on the shareholder register. This is because they are not the “legal owner” of the shares in their portfolios—custodian banks are. A result of the separation of investment management from the safe custody of client assets. A solution needs to be found.
  - ACGA is working on one!

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2. Learning from neighbours

- While Singapore may have more to teach than to learn, some developments in other countries are worth noting and watching:

- **China:**
  - Code of Corporate Governance (2002) and various reports from the Shanghai Stock Exchange (eg, “China Corporate Governance Report 2003”) openly discuss the country’s CG problems and issues. A sense of context is given.
  - What are the issues in Singapore?

- **Hong Kong:**
  - More flexible rules on “legal owners” of shares (ie, custodian banks) appointing one or more representatives to attend AGMs.

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Some further ideas

- **Korea:**
  - New law allowing class-action lawsuits from January 2005 for large companies. Smaller companies from 2007. The scope of these suits will be limited, but the government is at least giving minority shareholders fairer access to the legal system.
  - Original research: Centre for Good Corporate Governance (CGCG), a brainchild of the PSPD investor activist group.

- **Taiwan:**
  - New Securities and Futures Investors Protection Center (*www.sfipc.org.tw*). Assists retail investors in launching law suits against listed companies.

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3. Implications for companies

- **GLCs:** Standards of reporting already high and getting better. Where is there room for improvement? One general area may be in accountability structures:
  - Independence of independent directors.
  - Commitment and focus of all directors.
  - Functioning of board and board committees.
  - Internal controls.
- This is not to imply that GLCs are necessarily weak in these areas. But this is where governance is often weakest in companies around Asia. A valid question to ask.

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Small- and mid-cap stocks

- This is where the biggest dividend from improved governance is likely to come. Investors already expect most GLCs to have reasonably good governance. But small- and medium-sized companies could enjoy a significant market re-rating through better governance.
- Evidence from around Asia suggests that the penny has dropped for many of the larger mid-caps:
  - Noble Group, Singapore-listed (HQ in Hong Kong)
  - TPV Technology, Hong Kong-listed (From Taiwan)
  - ASM Pacific, Hong Kong-listed

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Structure of Singapore market

The penny stock population

	Sept 1, 2004			Dec 31, 2003		
	# of stocks	% total market cap	% total # of stocks	# of stocks	% total market cap	% total # of stocks
Below 50c	403	9.2	70.0	344	9.2	64.4
50-99c	70	6.8	12.2	92	10.9	17.2
$1 – $4.99	79	41.8	13.7	74	39.1	13.9
$5 - $9.99	10	9.4	1.7	8	7.6	1.5
$10 - above	14	32.8	2.4	16	33.2	3.0

Source: Business Times, Sept 2, 2004

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Conclusion

- Singapore rates well against corporate governance best practices. Still room for improvement!
- Some Asian markets implementing ideas that Singapore could learn from.
- Small- and mid-cap stocks likely to gain the biggest boost from governance improvements.

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