Final tweaks to make corporate code workable

Revisions would make S’pore guidelines among Asia’s most progressive

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A SWEEPING revamp of the Code of Corporate Governance to make listed companies more accountable is well on its way.

The latest move came yesterday with the release of a final list of proposed code revisions that will make the local guidelines among the most progressive in Asia.

The recommendations cover many areas, such as pay and risk management and the independence of directors.

A proposed list of code revisions was released in June after a review of the code by the Corporate Governance Council. These final recommendations include some modifications, following feedback.

Council chairman Alan Chan, who is also chief executive of Singapore Press Holdings, said: “We believe that the final set of recommendations, incorporating industry feedback, achieves the council’s objective of presenting a balanced package that not only serves to enhance Singapore’s corporate governance standards, but is also pragmatic and workable in practice.”

Industry players welcomed the recommendations.

“The new code and the changes unveiled send a clear message to corporates that building investor confidence is key, and shareholders’ and stakeholders’ interests alike must be carefully considered by those at the helm,” said Ms Stephanie Magnus, associate principal at Baker McKenzie-Wong & Leow.

Most of the proposed recommendations unveiled in June remained unchanged in the final recommendations submitted to the Monetary Authority of Singapore (MAS) yesterday.

One modification involved a proposal that directors who have been sitting on a board for more than nine years should not serve as independent directors.

The final recommendation says that the independence of any director who has served on a board beyond nine years should be subject to “particularly rigorous review”. The board should explain why the director should still be considered independent.

Council member David Conner, who is also OCBC Bank’s chief executive, said the modification was made because some respondents had pointed out that the original recommendation might worsen the shortage of independent directors in Singapore.

The feedback was that there would be quite a high number of directors who have already served nine years and suddenly would be pushed into non-independence if this were strictly applied.”

Dr Ernest Kan, president of the Institute of Certified Public Accountants of Singapore, said the modified version of the proposal was “a good approach. It’s better to avoid fixing it as a rule”.

Another recommendation is that half of a company’s board must consist of independent directors, up from a third now, in certain situations. This could be if the chairman and chief executive are the same person.

The final recommendations also include one aimed at boosting disclosure practices and shareholder rights. It states that if a company does not pay dividends, it should say why.

“Shareholders usually invest in companies for two reasons: capital growth and dividends. If dividends are not given, it would be good policy for the company to share its reasons with shareholders,” said council member David Gerald, who is also president of the Securities Investors Association of Singapore.

The Code of Corporate Governance applies to listed companies, but is not mandatory. It provides principles and guidelines on how a company is directed and controlled.

Companies have to explain non-compliance in their annual reports.

Although the code is not legally binding, studies have shown that most Singapore-listed firms do comply with its basic requirements as they believe it boosts their reputation.

A study done earlier this year by the Centre for Governance, Institutions and Organisations of the National University of Singapore Business School found that most Singapore-listed firms adhere to the minimum requirements of the code.

The MAS will evaluate the final recommendations and respond.

MAS’ assistant managing director of capital markets, Mr Leo Mun Wai, said that it will work “to promote a high standard of corporate governance for companies listed in Singapore, so as to maintain investors’ confidence and enhance Singapore’s reputation as a leading and trusted international financial centre”.