

ACCA-KPMG SINGAPORE LAUNCH EVENT

19 NOVEMBER 2014 | SINGAPORE



BALANCING RULES AND FLEXIBILITY

A study of corporate governance
requirements across 25 markets



KPMG

ACCA

PRESENTATION

45 minutes

- About the Study
- How did Singapore perform?
- Overall Highlights
- Singapore Highlights
- Key Findings
- Conclusion

PANEL DISCUSSION

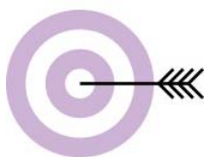
60 minutes

ABOUT THE STUDY

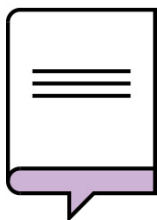




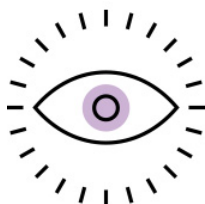
Examine CG requirements in terms of clarity and completeness of content, degree of enforceability and prevalence



Identify common/basic CG requirements and emerging trends



Inform industry research (e.g. OECD Principles Review)



Raise awareness of similarities and differences in CG requirements across markets, geographic regions, economic zones and pillars/themes of CG

Note: Focused on CG requirements only; **not CG outcomes** (i.e. the extent to which companies comply)

WHY AND WHAT DID WE REVIEW?



WHY?

- **Global focus** on enhancing governance requirements
- **Stakeholder** (regulators, directors, practitioners) interest in understanding similarities/differences in CG requirements

WHAT?

IN-SCOPE

- ✓ **Principle-based CG Codes (listed companies)**
- ✓ **Voluntary** Better practice guidelines (market level)
- ✓ **Mandatory** Key CG related legislation/regulations (e.g. Companies Act/Listing Rules)

OUT OF SCOPE

- ✗ Industry specific CG Codes
- ✗ Better practice guidelines (international level)
- ✗ All other legislation

SINGAPORE

Current CG Code: Code of Corporate Governance 2012

Style of CG Code: 'Comply or explain'

Style of governance: Unitary

Last revision: 2012

No. of sections: 4

No. of principles: 16

No. of guidelines: 82

Singapore has a strong corporate governance framework in place for listed companies consisting of:

- The Singapore Companies Act 1967 (under revision)
- The Securities and Futures Act
- Singapore Stock Exchange (SGX) Listing Rules
- Singapore Code of Corporate Governance 2012
- SGX Guide to Sustainability Reporting

Supplemented by:

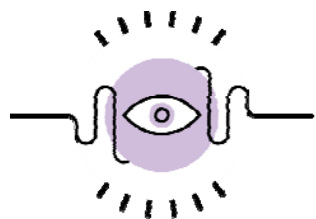
- Guidebook for Audit Committees in Singapore (Second Edition)
- Risk Governance Guidelines for Listed Boards

Under consideration:

- Singapore Stewardship Code

Corporate governance requirements are defined, monitored and enforced by key regulators (such as the Accounting and Corporate Regulatory Authority, the Monetary Authority of Singapore and SGX).

ACCA-KPMG RESEARCH FRAMEWORK



PILLAR 1: LEADERSHIP & CULTURE

Optimise board skill-sets and structure
Set ethical culture
Drive long term sustainability

- Role of the Board
- Nominating Committee
- Board composition
- Board diversity
- Director independence
- Director's time and resources

PILLAR 2: STRATEGY & PERFORMANCE

Encourage right behaviors to deliver outcomes

- Remuneration Committee
- Remuneration structures
- Performance evaluation

PILLAR 3: COMPLIANCE & OVERSIGHT

Establish adequate and effective risk management, internal controls and assurance systems

- Disclosures
- Audit Committee and financial integrity
- Risk governance
- Assurance

PILLAR 4: STAKEHOLDER ENGAGEMENT

Protect, communicate and engage with stakeholders

- Shareholder rights
- Stakeholder engagement and communication

GEOGRAPHIC COVERAGE

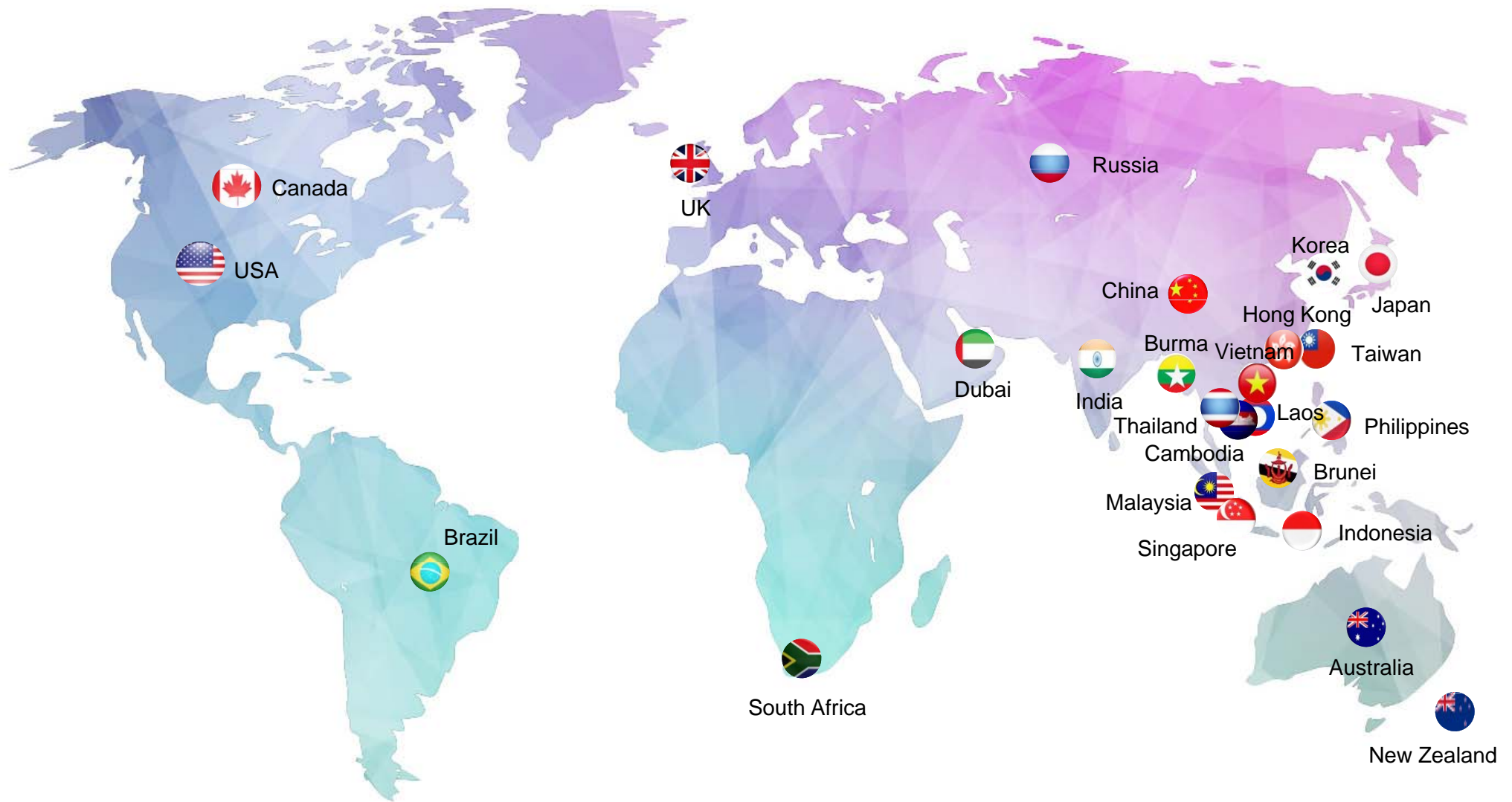


Figure 2: Geographic coverage of ACCA-KPMG CG study 2014

HOW DID WE ANALYSE IT?

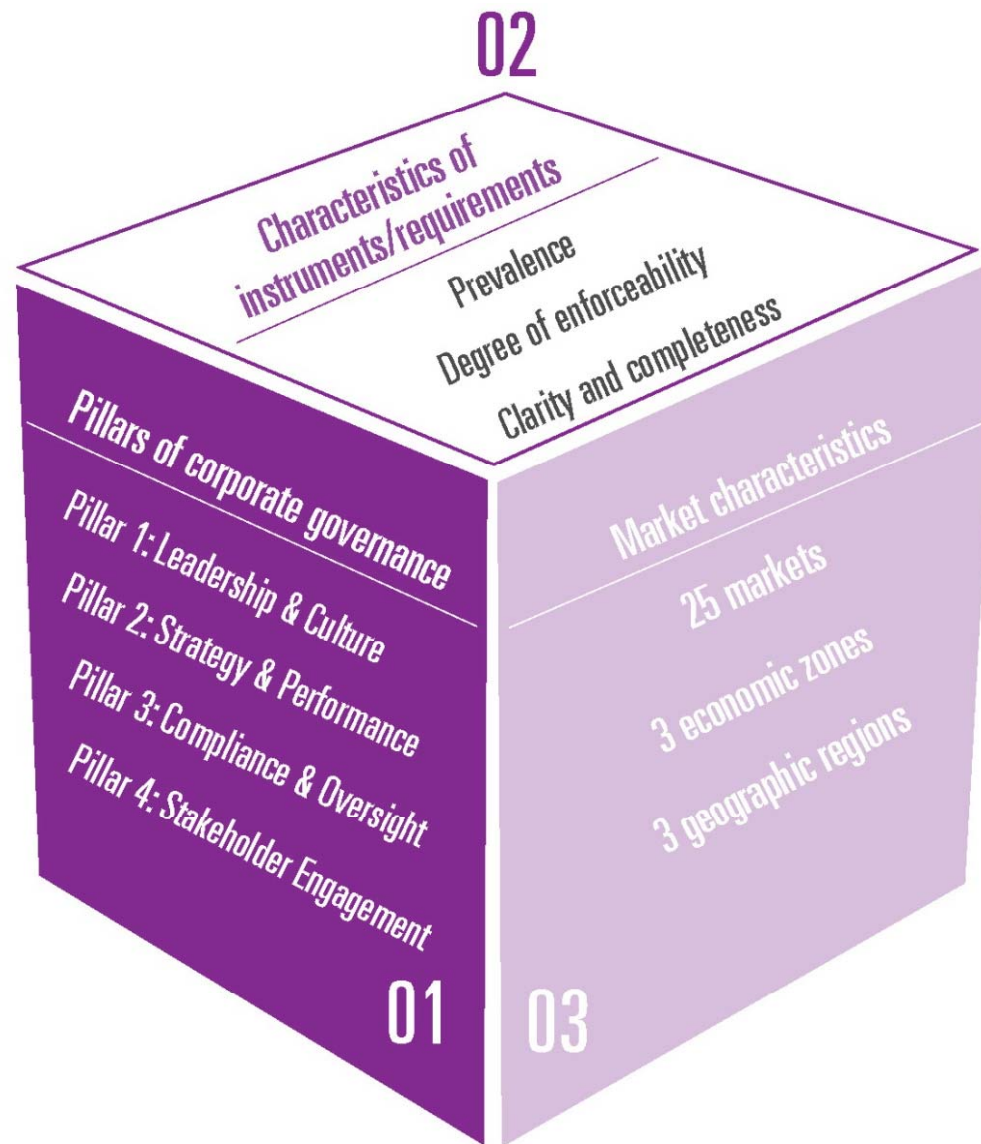


Figure 1: ACCA-KPMG CG study analysis approach 2014

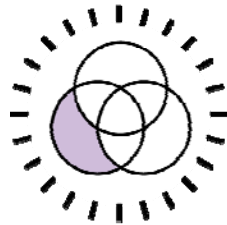


LIMITATIONS

COMPLETENESS OF
INFORMATION

ACCURACY OF
INFORMATION

SUBJECTIVITY/
INTERPRETATION



EXCLUSIONS

LEVEL OF
COMPLIANCE

REVISIONS OF
REQUIREMENTS



ASSUMPTIONS

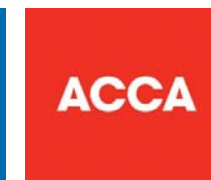
VALIDITY OF
INFORMATION –
30 SEPTEMBER 2014

ACCA-KPMG
RESEARCH
FRAMEWORK

HOW DID SINGAPORE PERFORM?



OVERALL RANKING



HIGHEST

above developed markets
average score of 106 out of 211

1. UK
2. US
3. Singapore
4. Australia (equal 4th)
5. India (equal 4th)
6. Malaysia (equal 4th)
7. Hong Kong (equal 7th)
8. Russia (equal 7th)
9. Brazil
10. Taiwan

MID-RANGE

11. South Africa (equal 11th)
12. Thailand (equal 11th)
13. Korea
14. UAE
15. New Zealand

LOWEST

below developing markets
average score of 74 out of 211

16. Philippines
17. Indonesia
18. Canada
19. China
20. Cambodia
21. Japan
22. Vietnam
23. Myanmar
24. Brunei (equal 24th)
25. Laos (equal 24th)

■ Developed markets
■ Developing markets

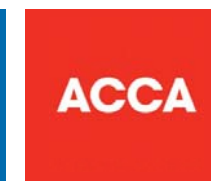
DEVELOPED

- | | |
|----------------|---------------|
| 1. UK | (1 out of 25) |
| 2. US | (2) |
| 3. Singapore | (3) |
| 4. Australia | (equal 4) |
| 5. Hong Kong | (equal 7) |
| 6. Taiwan | (10) |
| 7. Korea | (13) |
| 8. New Zealand | (15) |
| 9. Canada | (18) |
| 10. Japan | (21) |

DEVELOPING

- | | |
|-----------------|------------|
| 1. India | (equal 4) |
| 2. Malaysia | (equal 4) |
| 3. Russia | (equal 7) |
| 4. Brazil | (9) |
| 5. South Africa | (equal 11) |
| 6. Thailand | (equal 11) |
| 7. UAE | (14) |
| 8. Philippines | (16) |
| 9. Indonesia | (17) |
| 10. China | (19) |
| 11. Cambodia | (20) |
| 12. Vietnam | (22) |
| 13. Myanmar | (23) |
| 14. Brunei | (equal 24) |
| 15. Laos | (equal 24) |

GEOGRAPHIC REGION RANKING



EMA

- 1. UK** (1 out of 25)
- 2. India** (equal 4)
- 3. Russia** (equal 7)
- 4. South Africa** (equal 11)
- 5. UAE** (14)

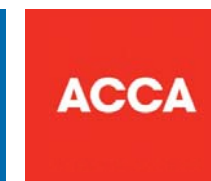
AMERICAS

- 1. US** (2)
- 2. Brazil** (9)
- 3. Canada** (18)

ASPAC

- 1. Singapore** (3)
- 2. Australia** (equal 4)
- 3. Malaysia** (equal 4)
- 4. Hong Kong** (equal 7)
- 5. Taiwan** (10)
- 6. Thailand** (equal 11)
- 7. Korea** (13)
- 8. New Zealand** (15)
- 9. Philippines** (16)
- 10. Indonesia** (17)
- 11. China** (19)
- 12. Cambodia** (20)
- 13. Japan** (21)
- 14. Vietnam** (22)
- 15. Myanmar** (23)
- 16. Brunei** (equal 24)
- 17. Laos** (equal 24)

ECONOMIC ZONE RANKINGS



REST OF WORLD

1. UK	(1 out of 25)
2. US	(2)
3. Australia	(equal 4)
4. Hong Kong	(equal 7)
5. Taiwan	(10)
6. Korea	(13)
7. UAE	(14)
8. New Zealand	(15)
9. Canada	(18)
10. Japan	(21)

BRICS

1. India	(equal 4)
2. Russia	(equal 7)
3. Brazil	(9)
4. South Africa	(equal 11)
5. China	(19)

ASEAN

1. Singapore	(3)
2. Malaysia	(equal 4)
3. Thailand	(equal 11)
4. Philippines	(16)
5. Indonesia	(17)
6. Cambodia	(20)
7. Vietnam	(22)
8. Myanmar	(23)
9. Brunei	(equal 24)
10. Laos	(equal 24)

OVERALL		SINGAPORE	
Themes		Themes	
Remuneration Committee	15	Assurance	15
Audit Committee and financial integrity	14	Audit Committee and financial integrity	14
Director independence	13	Disclosures	13
Role of the Board	12	Risk governance	12
Nominating Committee	11	Remuneration structures	11
Remuneration structures	10	Director independence	10
Board composition	9	Director's time and resources	9
Shareholder rights	8	Remuneration Committee	8
Disclosures	7	Nominating Committee	7
Assurance	6	Shareholder rights	6
Director's time and resources	5	Role of the Board	5
Performance evaluation	4	Board composition	4
Risk governance	3	Stakeholder engagement	3
Stakeholder engagement	2	Performance evaluation	2
Board diversity	1	Board diversity	1

HIGHLIGHTS



THE CG LANDSCAPE IS LARGE!



25 Number
of **markets**
in scope

72 Average number of
CG requirements
per market

1 09 Number
of CG
instruments

1 809 Number
of CG
requirements

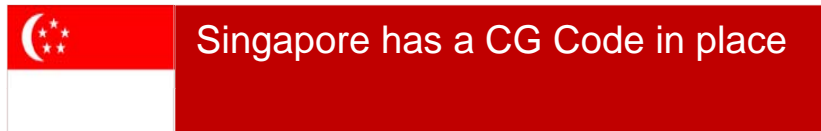
4.4 Average
instruments
per market

PROFILE OF CG INSTRUMENTS 1/2



88%

(22 out of 25 markets) have a **CG Code** in place (Myanmar, Brunei and Laos do not)



The CG landscape is broad. On average,

4 CG instruments

 are used.

Clear references and linkages not always present

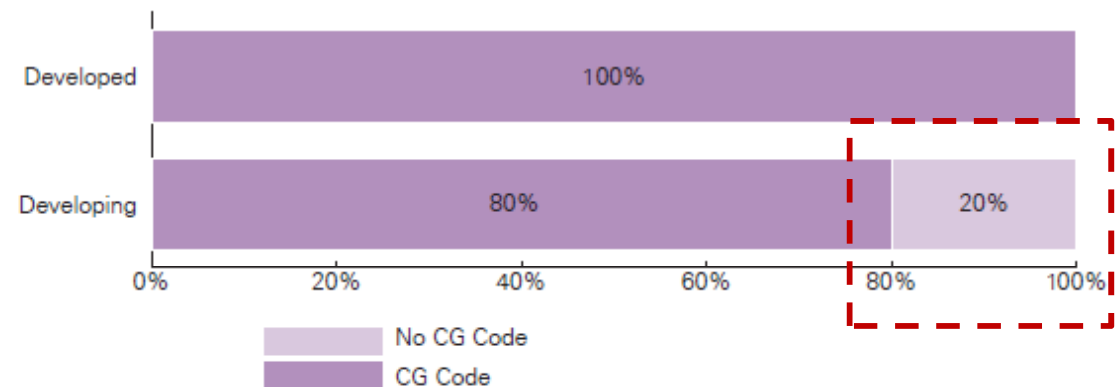
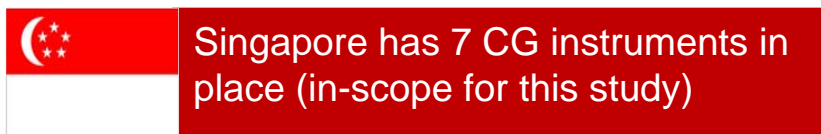


Chart 1: Analysis of markets with and without CG Codes in place

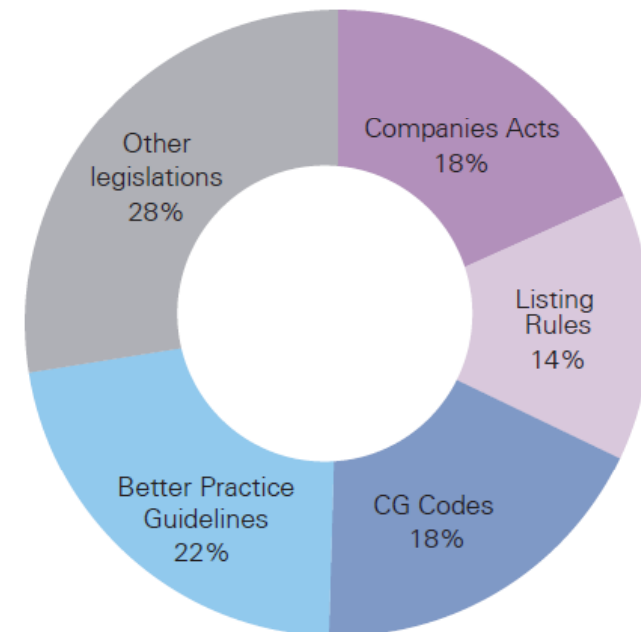


Chart 3: Breakdown of total CG instruments by type

109 CG instruments were reviewed. **Number of** CG instruments **ranged from 1-12** (market with highest score = Taiwan). **Inconsistencies** in requirements can arise

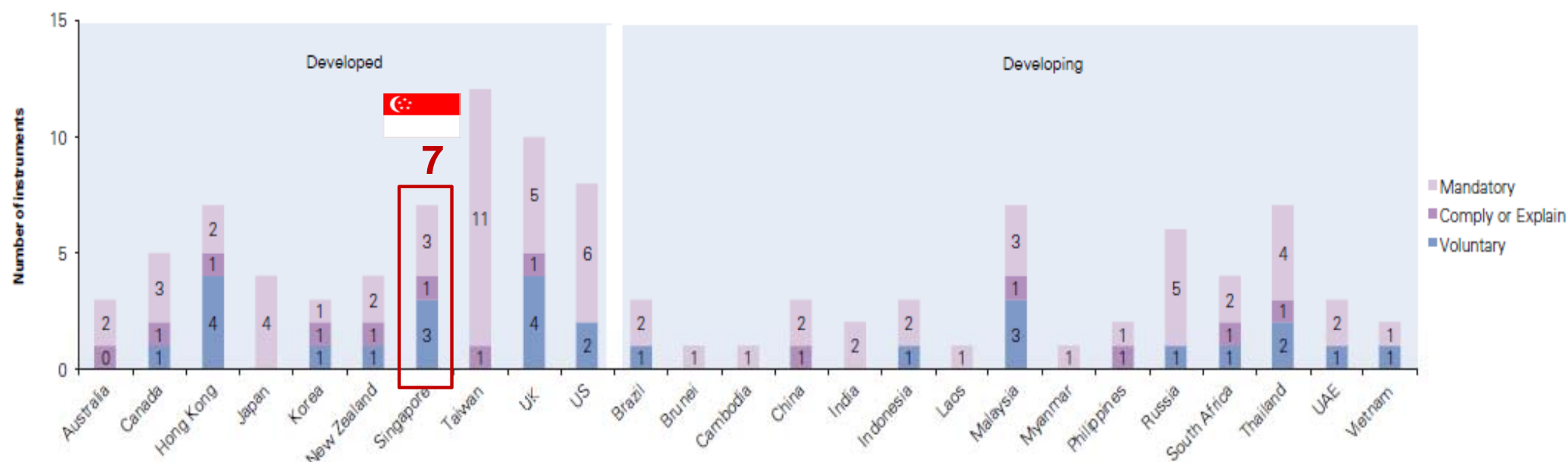


Chart 4: Total number of CG instruments reviewed by market, showing degree of enforceability

EVOLUTION OF CG CODES (1/2)



Highest scoring markets revise their CG Codes, on average, **3.4 times** compared to the **lowest scoring markets** that review their CG Codes only **1.8 times**

Whilst **76%** of markets revised their CG Codes post the Global Financial Crisis 2008, **3 markets did not** – Indonesia (2006), Korea (2003) and China (2001)

EVOLUTION OF CG CODES (2/2)

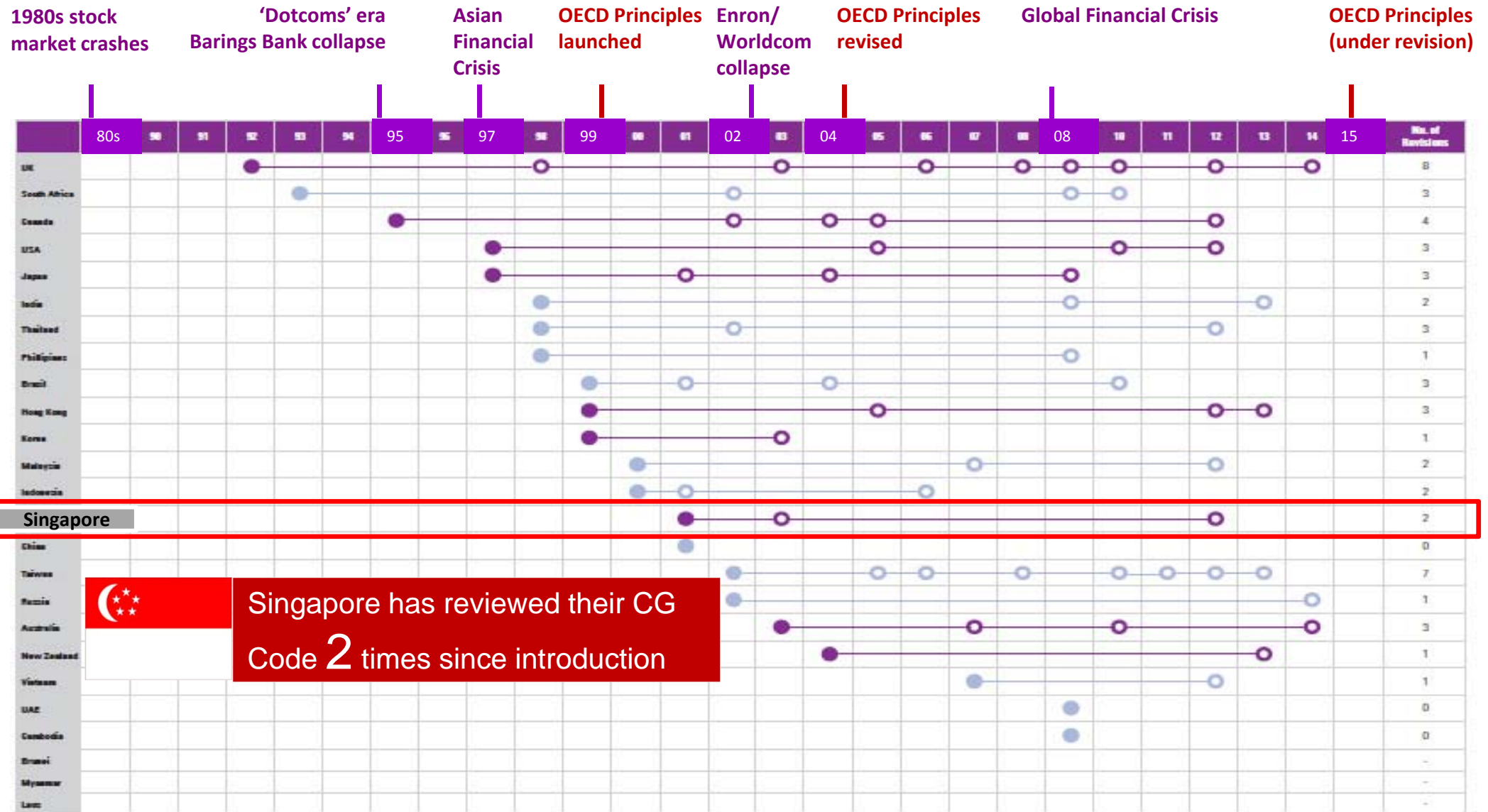
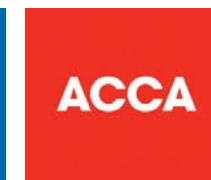


Figure 4: Timeline of CG Codes development

STATE OF ADOPTION OF OECD PRINCIPLES 1/5



Six out of the top ten **highest** scoring market's were classified as **developed**. However, **two developed** markets featured in the **lowest** ten scoring markets

Equally, **four** out of the top ten **highest** scoring markets were classified as **developing**.

■ Developed markets
■ Developing markets

Highest scoring markets (above the average score for developed markets)

1. UK
2. US
3. Singapore
4. Australia (equal 4th)
5. India (equal 4th)
6. Malaysia (equal 4th)
7. Hong Kong (equal 7th)
8. Russia (equal 7th)
9. Brazil
10. Taiwan

Mid-range scoring markets

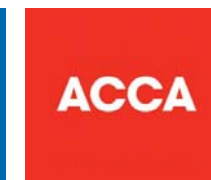
11. South Africa (equal 11th)
12. Thailand (equal 11th)
13. Korea
14. UAE
15. New Zealand

Lowest scoring markets (below the average score for developing markets)

16. Philippines
17. Indonesia
18. Canada
19. China
20. Cambodia
21. Japan
22. Vietnam
23. Myanmar
24. Brunei (equal 24th)
25. Laos (equal 24th)

Table 3: Overall market rankings

STATE OF ADOPTION OF OECD PRINCIPLES 2/5



Reasonably **strong alignment** with OECD Principles. On average, **developed markets** have clearer/better defined CG requirements than **developing markets** (average score of 106 v 74)

56% of the 1,809 requirements reviewed were **principles based** (i.e. 34% 'comply or explain' and 22% voluntary) with the remaining 44% of requirements mandatory

23 out of 27 markets of the **top one third of frequently** mentioned requirements aligned with **OECD Principles**

An additional **32 areas of better practices** were identified – not in OECD (e.g. risk governance, board diversity, certain areas of disclosure, certain accountabilities at board/board committee level)

STATE OF ADOPTION OF OECD PRINCIPLES 3/5

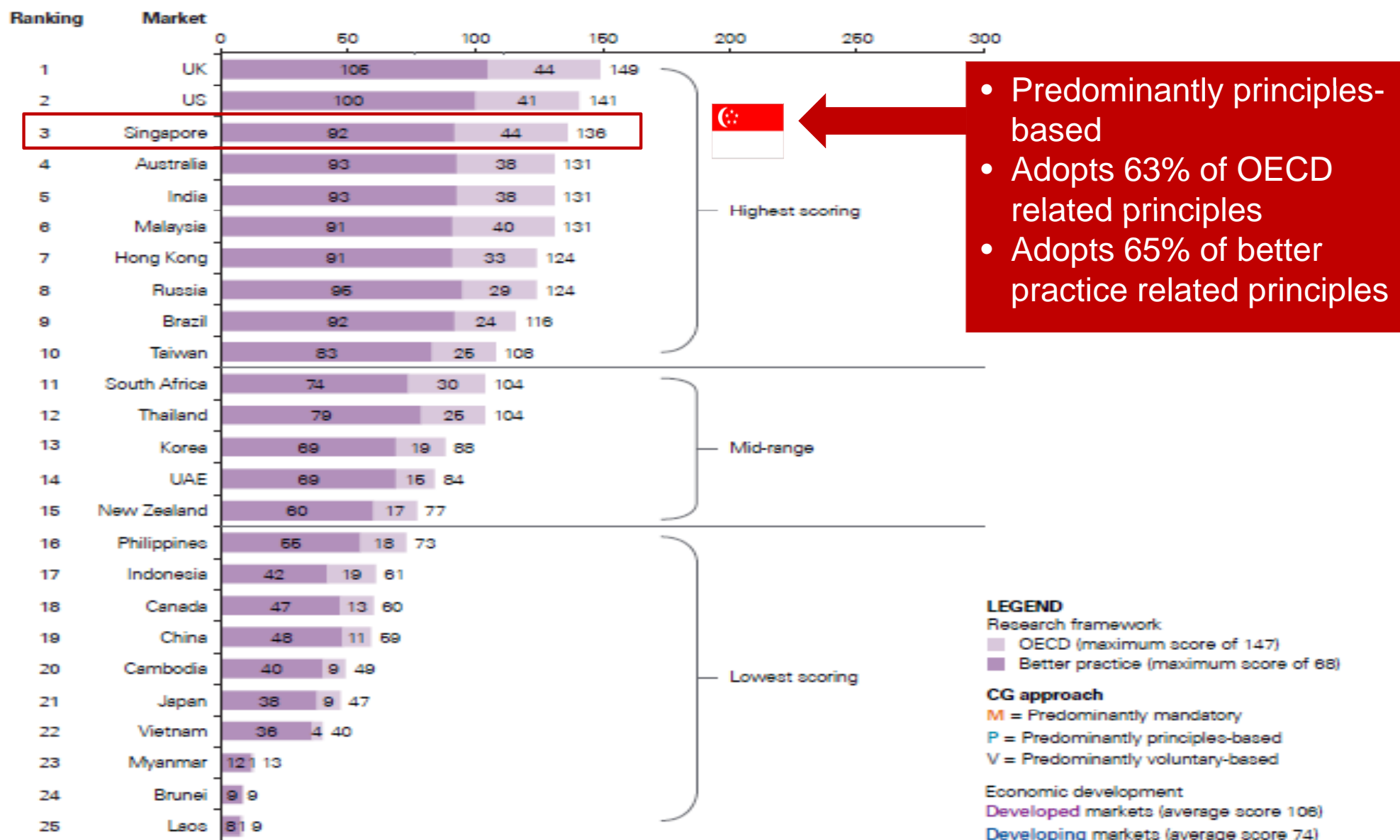


Chart 5: Overall market rankings (based on highest attributed scores for requirements relating to the OECD Principles and better practices)

STATE OF ADOPTION OF OECD PRINCIPLES 4/5

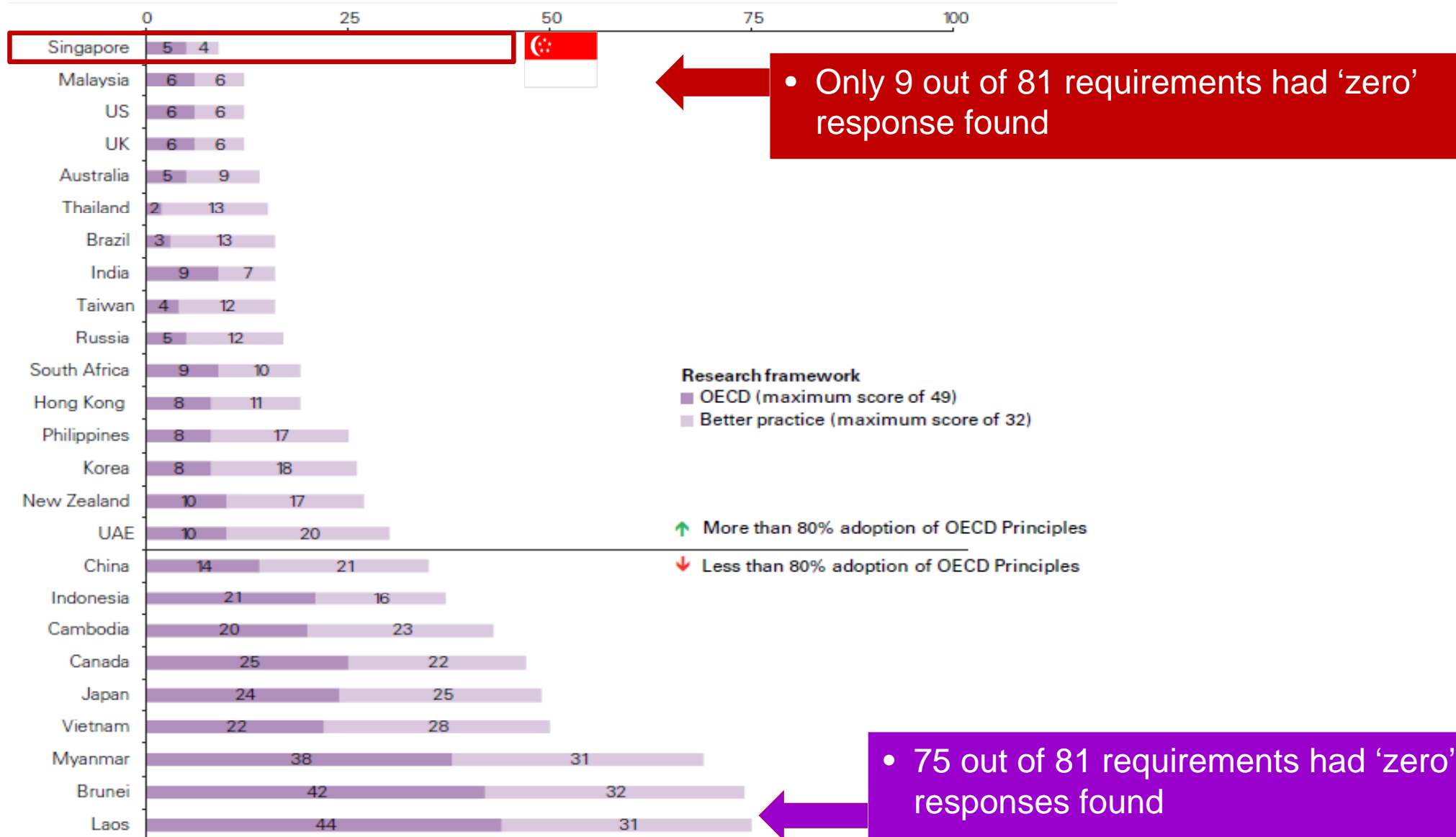
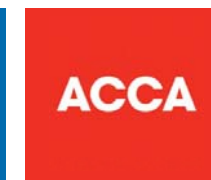
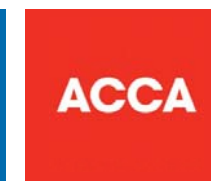


Chart 7: Number of OECD Principles and better practices where markets did not have a requirement in place

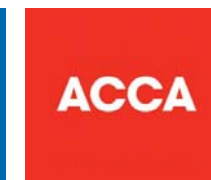
STATE OF ADOPTION OF OECD PRINCIPLES 5/5



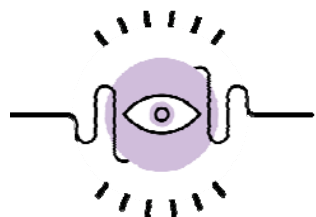
No requirements were found (readily available) in relation to the following:

No.	OECD related principles	No.	Better practice related principles
1	Disclose key risks in annual report	1	Skills competency matrix
2	Institutional investors arrangements	2	Review of governance disclosures
3	Shareholders ability to consult each other	3	Separate governance committee
4	Employee participation schemes	4	Group and subsidiary governance framework
5	Ability for stakeholders to seek redress for violation of rights		

CLARITY AND COMPLETENESS OF CG REQUIREMENTS



Pillars of CG were **ranked** according to **highest average scores** per pillar as follows:



PILLAR 1:
**LEADERSHIP &
CULTURE**

PILLAR 2:
**STRATEGY &
PERFORMANCE**

PILLAR 3:
**COMPLIANCE &
OVERSIGHT**

PILLAR 4:
**STAKEHOLDER
ENGAGEMENT**

Rank	Strongest themes (most well-defined)	Rank	Mid-range themes	Rank	Weakest themes (least well-defined)
1	Remuneration Committee	6	Remuneration structures	11	Director's time and resources
2	Audit Committee and financial integrity	7	Board composition	12	Performance evaluation
3	Director independence	8	Disclosures	13	Risk governance
4	Role of the Board	9	Shareholder rights	14	Stakeholder engagement and communication
5	Nominating Committee	10	Assurance	15	Board diversity

Structural

Behavioural/emerging

Table 9: Summary of strongest and weakest themes (ranked)

GEOGRAPHIC/ECONOMIC ZONE ANALYSIS

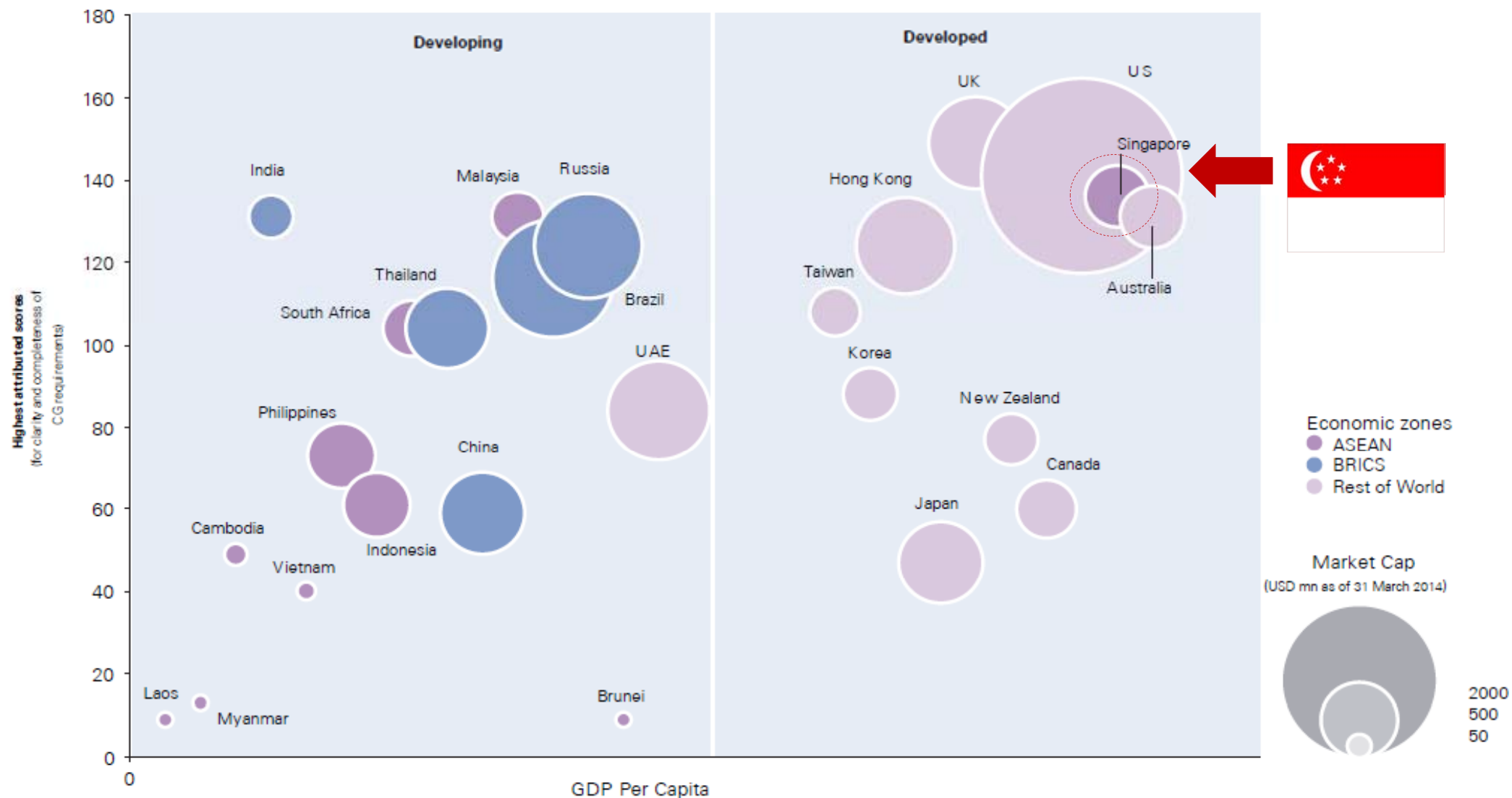
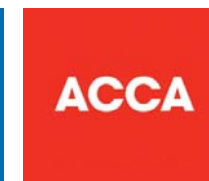


Chart 19: Comparison of overall maturity of CG requirements and economic strength (as measured by GDP per capita and size of average market capitalisation of the stock exchange)

MARKET ANALYSIS

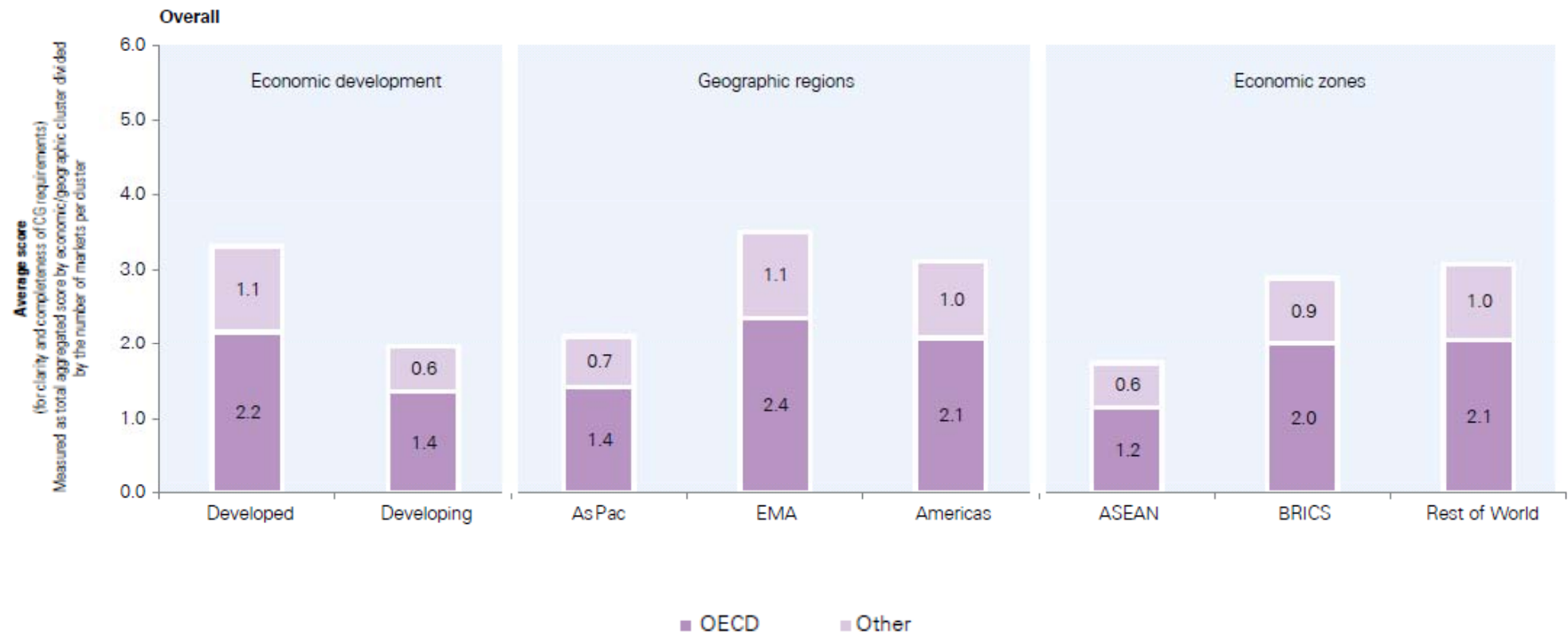


Chart 20: Comparison of overall average clarity and completeness of CG requirements by economic development, geographic region and economic zones



SINGAPORE HIGHLIGHTS

Singapore strengths:

- ✓ Listed companies should have IA
- ✓ AC to review adequacy and effectiveness of IA
- ✓ IA to perform to standards (national/international)
- ✓ Whistle-blowing (employees and others) policies/procedures
- ✓ Disclose CEO/CFO assurance of RM and IC
- ✓ Disclose approach to gain assurance

Singapore additional considerations:

None noted.

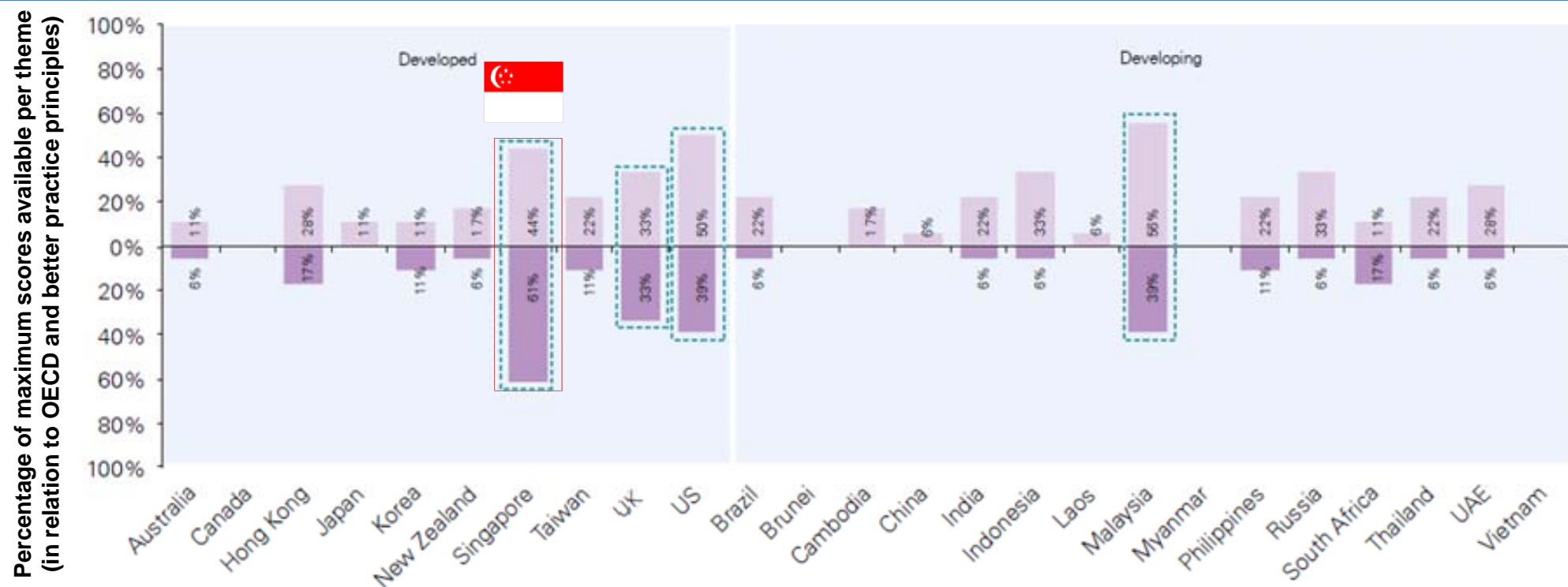


Chart 18: Clarity of requirements for Assurance theme (by market)

■ OECD ■ OTHER

Singapore strengths:

- ✓ CEO/CFO declaration – financial statements
- ✓ Independent and objective annual external audit
- ✓ Audit partner rotation (5 years)
- ✓ AC established
- ✓ AC roles and responsibilities
- ✓ AC independence (majority + AC Chair)
- ✓ AC recent and relevant financial expertise

Singapore additional considerations:

- **Mandatory CEO/CFO certification?** (e.g. US SOX, KSOX, CSOX)
- **Audit firm tender (every ten years) for larger companies?** (e.g. UK)
- **AC independence (All)?** (e.g. UK, US, South Africa)

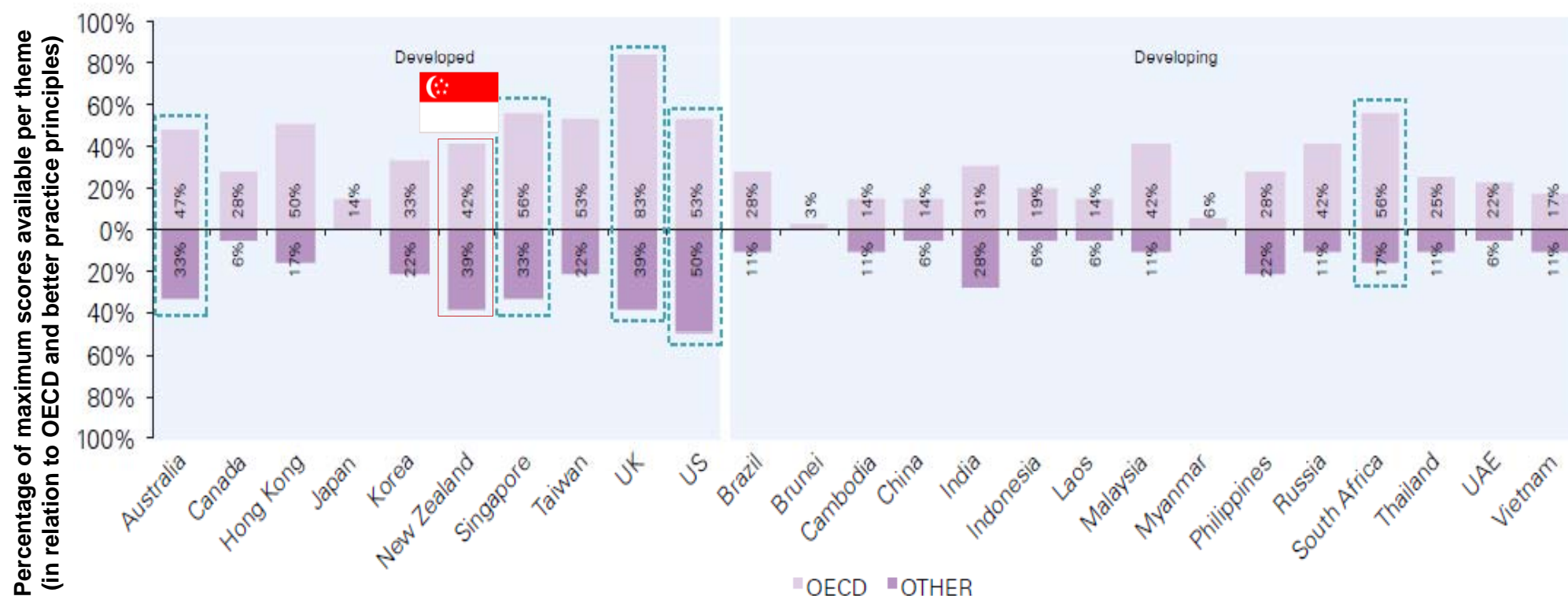


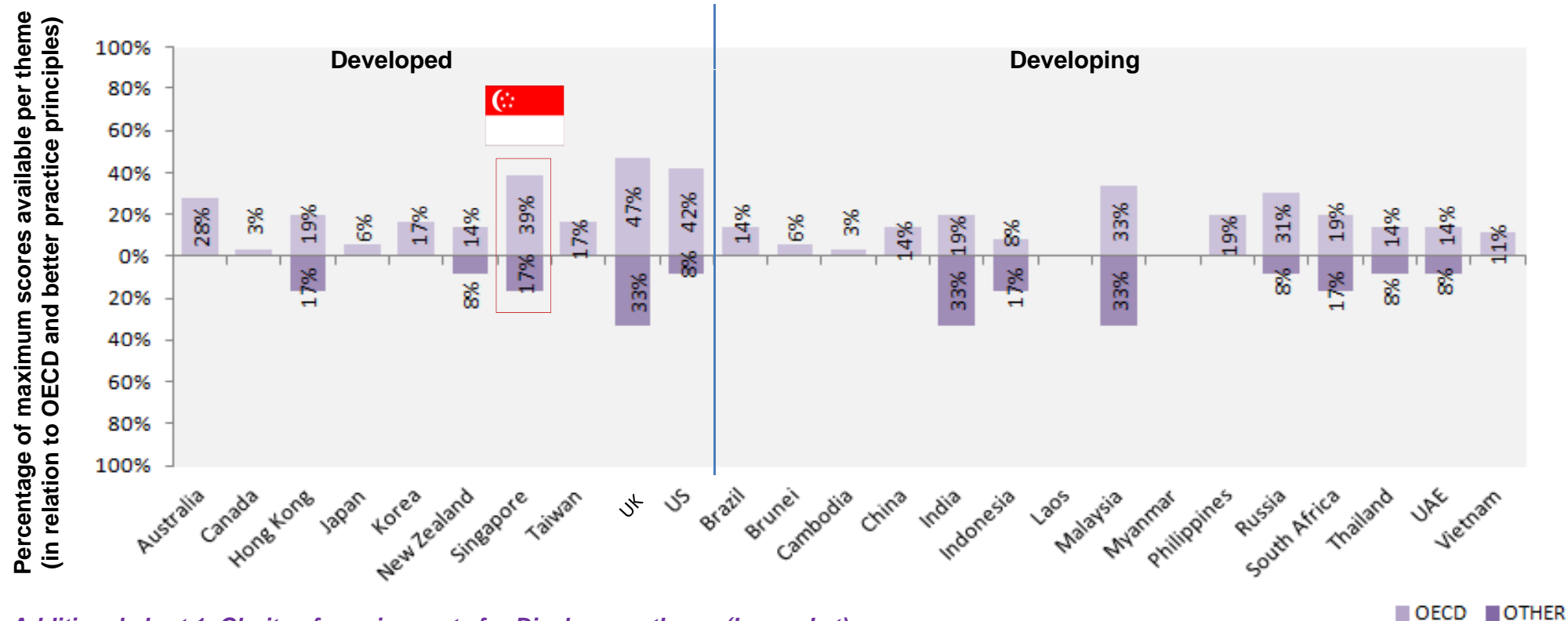
Chart A: Clarity of requirements for Audit Committee and financial integrity theme (by market)

Singapore strengths:

- ✓ IPT/RPT disclosures
- ✓ Comply or explain disclosures
- ✓ Basic disclosure of salient company information
- ✓ Accessibility of salient company information
- ✓ CEO/CFO declaration – resignation

Singapore additional considerations:

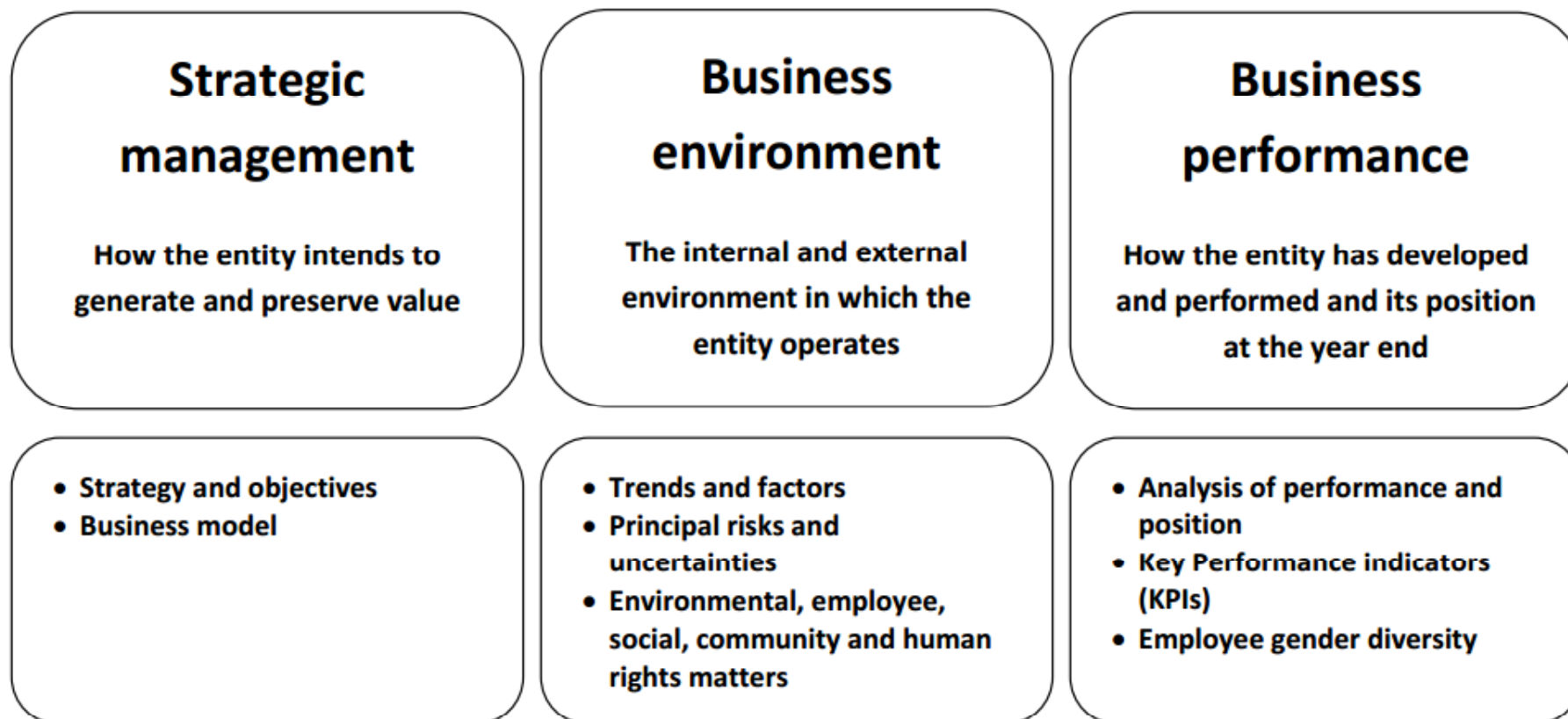
- **Disclosure of more salient information?** (e.g. UK Strategic Report)?
- **Review of governance disclosures?** (For example:
 - Hong Kong Governance Committee to review disclosures
 - UK - need to specify what disclosures have been subject to audit/review)



Additional chart 1: Clarity of requirements for Disclosures theme (by market)



The annual report as a whole should be fair, balanced and understandable and should provide the information necessary for shareholders to assess the entity's performance, business model and strategy.



- The UK Companies Act s414C
- The UK CG Code, Provision C.1.2
- The UK Disclosure and Transparency Rules 4.116

Singapore strengths:

- ✓ Board responsibility for risk governance
- ✓ Board Risk Committee
- ✓ Adequacy and effectiveness of risk management and internal controls
- ✓ Requirement to consider risk tolerances
- ✓ Requirement for board to opine on risk management and internal controls

Singapore additional considerations:

- **Disclosure of key risks?** (present in a number of markets)
- **Linking risk to longer term viability statements?** (e.g. UK)
- **Formalise group governance framework?** (e.g. UK, South Africa, India)

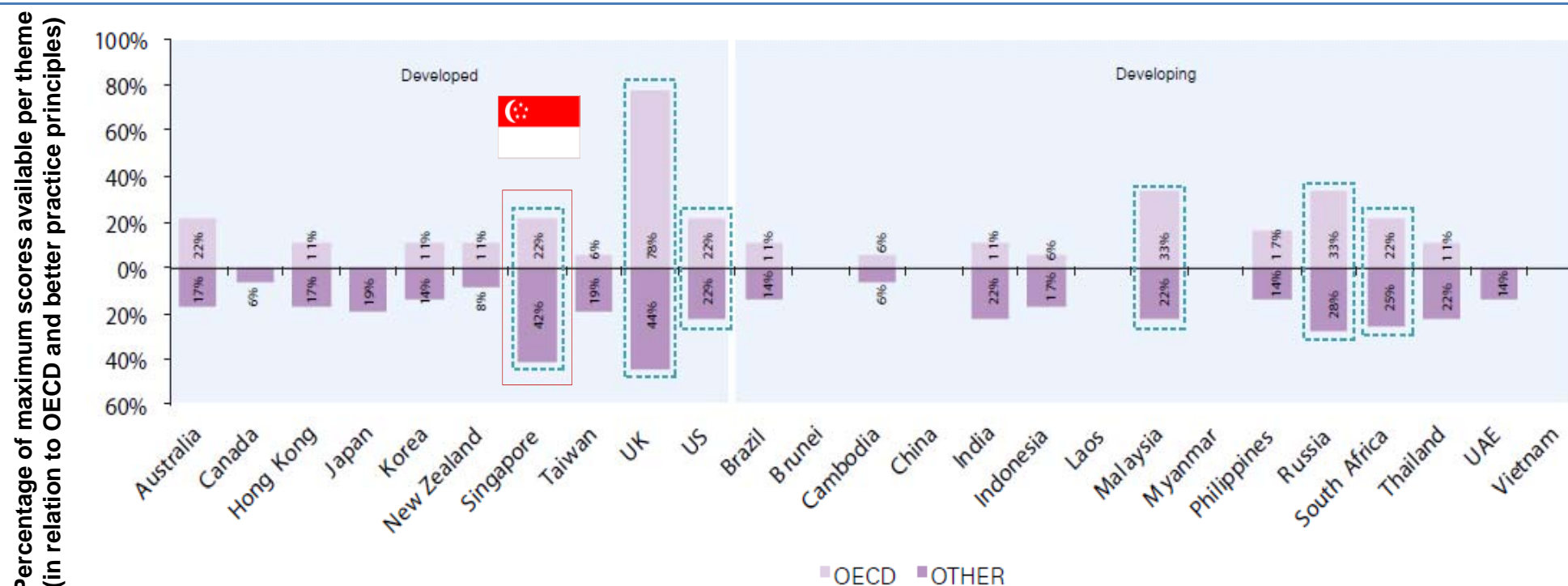


Chart 16: Clarity of requirements for Risk governance theme (by market)



UK FRC Guidance

Longer term viability statements

- **Directors should explain** – taking account of the company's current position and principal risks – how they have assessed the prospects of the company, over what period and why.
- Need to state they have a **reasonable expectation** that **the company will be able to continue** in operation and meet its liabilities as they fall due.
- Intended to **express the directors' view** about the **longer term viability of the company** over an appropriate period of time selected by them.



UK CG Code

For **groups of companies**,

- All reporting to be from the perspective of the **group as a whole**.
- **Explanation** to be given of how the board assesses and manages the **risks** faced in relation to investments in **material joint ventures and associates**.
- **Disclosure** to be made where the board **does not** have access to, and **oversight of**, detailed **information** concerning those entities' business planning, risk management and internal controls.



South African King Code

A **governance framework** should be agreed between **the group and its subsidiary boards**.

- Listed subsidiaries must comply with the rules of the relevant stock exchange in respect of insider trading
- The holding company must **respect the fiduciary duties** of the director serving in a representative capacity on the board of the subsidiary
- The **implementation and adoption of policies, processes or procedures** of the **holding** company should be considered and approved by the **subsidiary company**

Singapore strengths:

- ✓ Broad mention of diversity (e.g. skills, experience, gender, knowledge)

Singapore additional considerations:

- Provide **broader definitions** of **diversity**? (e.g. UK, Malaysia)
- Establish and disclose **diversity (including gender) policy**? (e.g. Australia, HK, Malaysia)
- Consider female candidates as part of recruitment? (e.g. India)
- Establish **measurable objectives** for diversity? (e.g. Australia, UK)
- Perform annual assessments against diversity objectives? (e.g. Australia, UK)

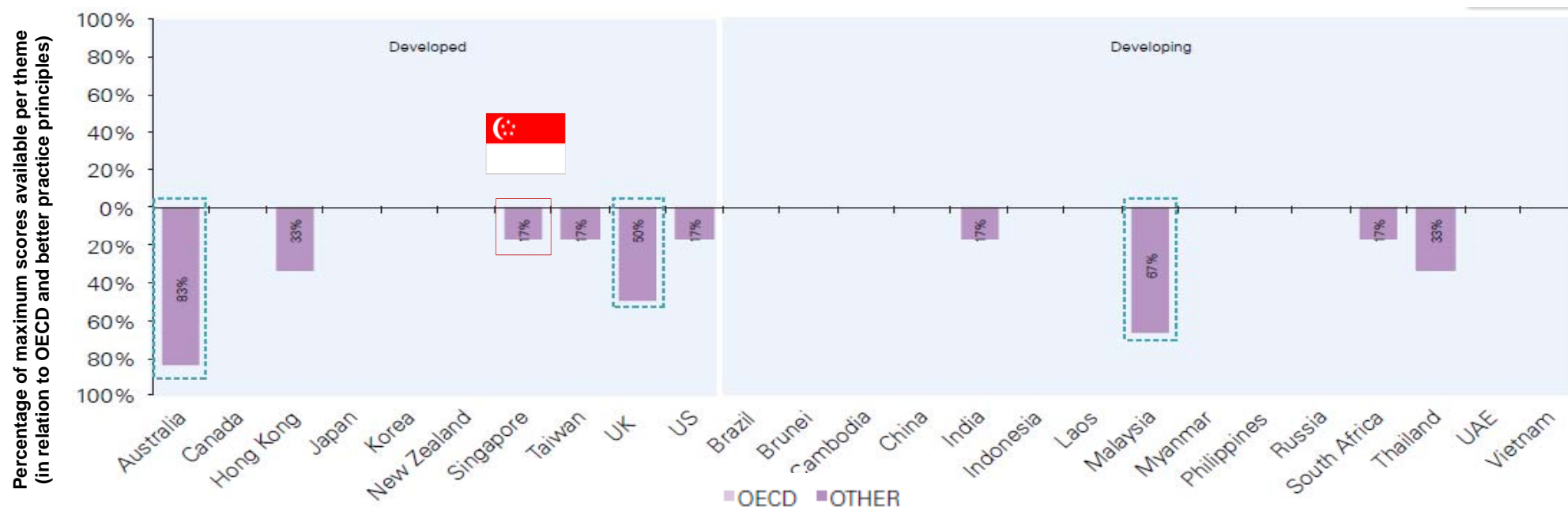


Chart 14: Clarity of requirements for Board diversity theme (by market)

X BOARD DIVERSITY – AUSTRALIA EXAMPLE



ASX CG Code

A listed entity should:

- Have a **diversity policy** (including **gender** diversity and need to assess annually)
- **Disclose** that policy or a summary of it
- Disclose **measurable gender objectives** to be reported
- Include **respective proportions of men and women on the board**, in **senior executive positions** and **across the whole organisation**



UK CG Code and FRC guidance

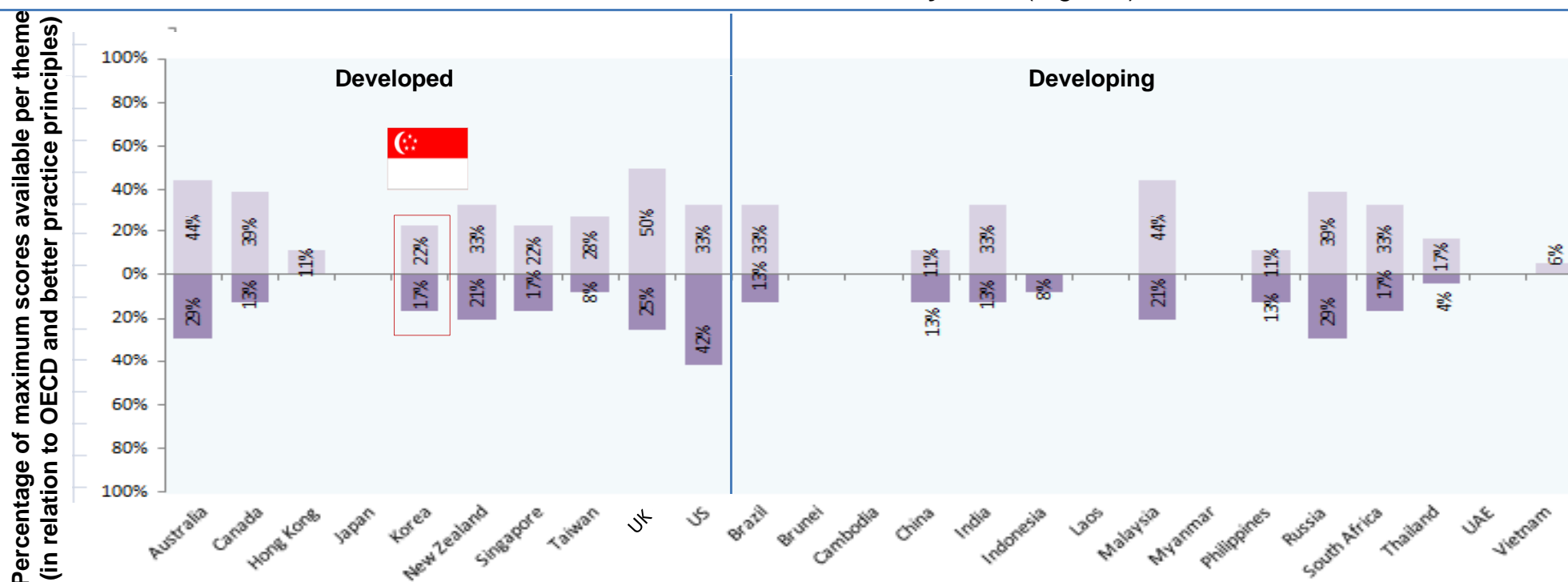
- **Diversity policy**, including **gender**, any **measurable objectives** that it has set for implementing the policy, and **progress** on achieving the objectives.
- Diversity of **psychological type**, background and gender is important to ensure that a board is not composed solely of like-minded individuals
- **Broader definition** of diversity – **personal attributes**:
 - Intellect
 - Critical assessment and judgement
 - Courage
 - Openness, honesty and tact; and
 - The ability to listen, forge relationships and develop trust.

Singapore strengths:

- ✓ Board, board committees and director performance evaluation to be performed

Singapore additional considerations:

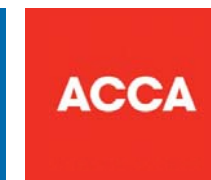
- Include more detail on the role of the Chairman, Senior lead independent director, board committee chairs regarding the process? (e.g. UK)
- Provide more information on feeding back the results to the full board/providing a **review loop mechanism**? (e.g. UK)
- **Establish external review (for larger companies) – every three years?** (e.g. UK)



Additional chart 2: Clarity of requirements for Performance evaluation theme (by market)

■ OECD ■ OTHER

X STAKEHOLDER ENGAGEMENT AND COMMUNICATION



Singapore strengths:

- ✓ Broad mention of identifying and engaging stakeholders
- ✓ Investor relations policy
- ✓ CSR considerations to be incorporated into strategy
- ✓ Sustainability reporting encouraged (voluntary)

Singapore additional considerations:

- **Increase disclosures to stakeholders?** (e.g. Malaysia, South Africa, Brazil)
- Encourage employee participation? (e.g. OECD)
- Establish ability for stakeholders to seek redress for violation of rights? (OECD)
- **Mandate CSR reporting?** (e.g. UK Strategic Report, Australia/Malaysia)
- **Encourage more integrated reporting?** (e.g. South Africa)

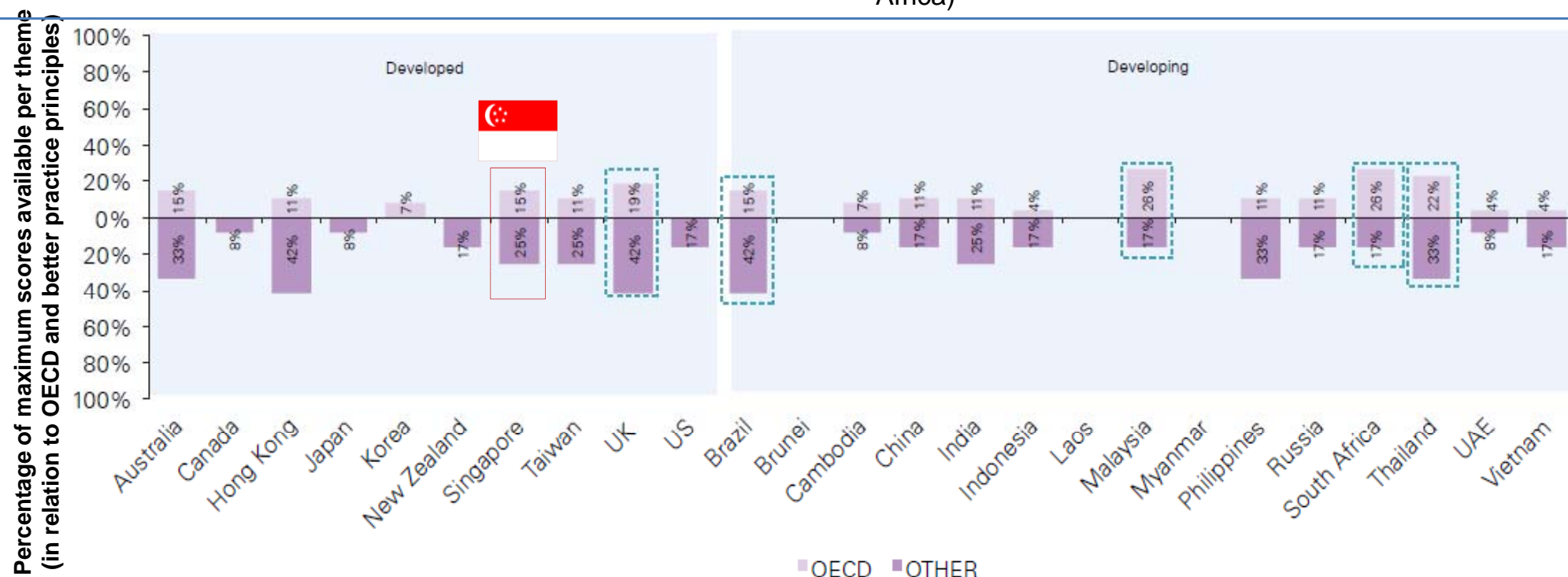


Chart 15: Clarity of requirements for Stakeholder engagement and communication theme (by market)

KEY FINDINGS

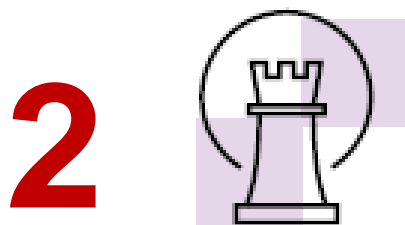




Profile of Corporate Governance Instruments

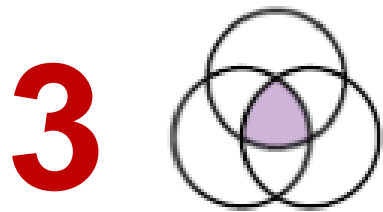
CG Codes provide clarity but not a 'one-stop-shop' for CG requirements

Multiple instruments can lead to inconsistencies and misalignment between requirements



Evolution of Corporate Governance Codes

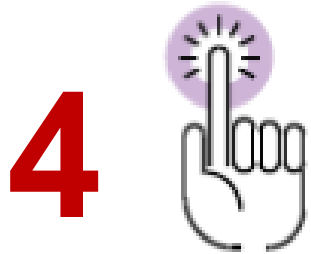
Some markets have not kept pace with significant developments in CG requirements



State of adoption of OECD Principles

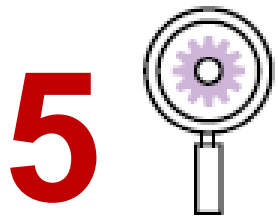
Well defined CG requirements (on paper) may lack enforceability in practice

A number of markets have exceeded the OECD Principles
Well defined CG requirements a critical factor in building confidence in capital markets



4 Clarity and completeness of Corporate Governance Requirements

‘Structural’ CG requirements are better defined than ‘behavioural’ aspects

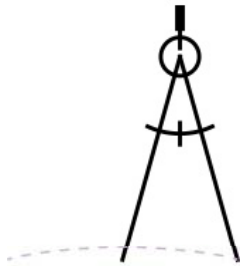


5 Other factors influencing Corporate Governance

More support is required for developing markets and emerging economies, in particular ASEAN (given the formation of the ASEAN economic community in 2015)

CONCLUSION





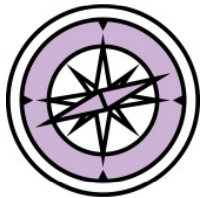
ALIGNMENT

Identify opportunities for regulators to align/simplify CG requirements within and between markets



ENGAGEMENT

Engage with local/regional/international policy makers to drive enhanced awareness and understanding



ENFORCEMENT

Continue to monitor levels of compliance/adoption of CG requirements to identify when/if enhancements required

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