THE BUSINESS TIMES BTINVEST

Published on Monday, 12 February 2018

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**Unboxing Corporate Governance: Three Fabled Tests for a Better Code**
***By Lawrence Loh***

In a packed ballroom at Marina Mandarin Hotel on 16 January 2018, the event looked like a grand gathering of the who's who in Singapore's corporate governance community. The participants, mostly board directors, listened intently as the results of the corporate governance review were rolled out.

It is apt that the conveners of the event are key pillars of good governance in the business community – the Accounting and Corporate Regulatory Authority, Singapore Exchange, and Singapore Institute of Directors.

The reforms presented by the Corporate Governance Council, set up by the Monetary Authority of Singapore in February 2017, are refreshing, if not bold. At the heart of the recommendations is a whole configuration of regulations and guidance that seek to enhance the comply-or-explain regime, to move away from box-ticking, and to nurture a supportive ecosystem.

What is immediately noticeable is the purposeful grand design of the proposed changes. There is now a holistic look at the bigger picture. The revised methodology, besides just addressing the Code of Corporate Governance, is a great sorting order, almost like a well-planned division of labour amongst the various instruments of governance, including the Exchange's listing rules.

Girded by a compelling big picture, the new spectrum of rules, principles, provisions and practice guidance does not shy away from delving into the details. These pertain to various aspects – particularly board composition, director independence, remuneration disclosure and stakeholder engagement.

The Code now undergoes a consultation period for two months. Even as we wade through the multifarious minutiae of the recommendations, we should take one step back and examine how the proposed revisions can collectively lead to a better Code.

In my mind, a good Code must tell a good story. This can perhaps be framed in terms of three of Aesop's famous fables.

## Performance: The Goose That Laid the Golden Eggs

It is only right that the heart of any Code is the company itself which exists to serve the interests of stakeholders. An enlightened Code is one that ensures that the company, like the fabled goose, will be governed solely to provide the requisite (financial and non-financial) returns, represented by the goose's golden eggs.

In the consultation period, we should rigorously ask whether the Code as a whole, and each of its recommendations, passes the "goose test": Will companies be able to continue laying golden eggs, and perform for each of the company's material stakeholders, not just their shareholders?

In a broad sweep, it is comforting to note that the revised Code is a significantly concise version with a net reduction of three principles and 30 guidelines (or provisions, as in the revised Code). This seems like a good start, moving from conformance to performance. At the same time, part of the reduction was achieved by moving 12 guidelines to the Listing Rules. Does that make it more prescriptive?

The good news is that the inclusion of a section on stakeholder engagement recognises the importance of the new era of sustainability and corporate obligations extending beyond shareholders.

## Priority: The Dog and Its Reflection

Another fable worth considering is the story of the dog with a bone in its mouth. It sees its reflection in a stream with a seemingly better bone. In desiring the new bone, the dog barks and loses what it already has.

The revised Code must pass the "dog test" in that it must continue to prioritise what it already holds dear.

The reduction of the Code is also largely achieved by removing 15 of the existing Code guidelines and moving 24 of them into non-binding voluntary practice guidance. The question is whether in achieving the reflected bone of a concise Code, we have dropped any critical guidelines which deserve to be highlighted and retained as provisions.

**Pace: The Tortoise and the Hare**

The pacing of change is critical. The well-known story of a tortoise which, in a slow and steady manner, wins the race over a complacent hare, is pertinent here. In this competitive world, Singapore has not succeeded by running at tortoise speed. We want to move at a steady pace, although not necessarily slow.

The question is whether there are any recommendations that have been too hastily implemented in order to catch up with other jurisdictions, and, conversely, are there any that are taking too long to be implemented?

It would seem that the Council has been conservative, veering on the side of giving more time for companies to adapt.

For example, the level of shareholding that triggers the question of director independence was finally moved to five per cent from 10 per cent, a move recommended earlier for the 2012 Code but not implemented. In addition, the Council is recommending a further transition period of three years, effectively making it a nine-year transition from when the notion was first mooted.

So, we need to pace the Code's revision with an enlightened "tortoise-and-hare test" – neither too slow and nor too complacent but reaching the end-point in good time.

In the overall scheme of things, the corporate governance review should advance the right performance, accord the right priorities, and adopt the right pace. Corporate governance is too important a matter to be left to a Council – all of us have a stake in the debate and the outcome.

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