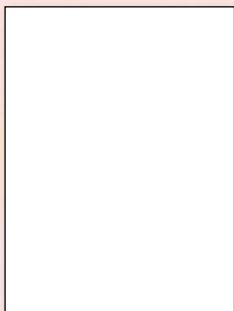
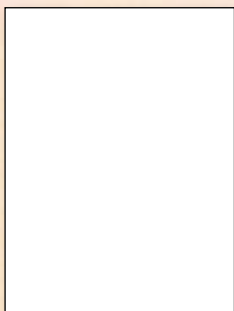




Disclosure of Non-Executive Director and CEO Remuneration in Singapore



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The Singapore Code of Corporate Governance (Code) was updated in 2005 and became effective on 1 January 2007. With respect to remuneration matters, the Code recommends that there should be a Remuneration Committee (RC) comprising entirely of non-executive directors, the majority of whom, including the Chairman, should be independent. Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration. The Code goes on to say that the board should include within, or annexed to its financial statements, a report on the remuneration of directors and at least the top five key non-director executives. As a minimum, the report should disclose the names of the relevant individuals whose remuneration falls within bands of \$250,000. This is an improvement to the SGX Listing Manual Chapter 12 that only requires disclosure of the number of directors whose remuneration falls within the following bands: \$500,000 and above, \$250,000 to \$499,999 and below \$250,000.

Notably, the Code does not specify an upper limit to the bands. This implies, for example, that if the highest remunerated director received \$825,000, then the upper band to be disclosed would be \$750,000 to \$999,999. The Code further states that within each band, there needs to be a breakdown (in percentage terms) of each director's remuneration earned through base or fixed salary, variable or performance-related income or bonuses, benefits-in-kind, and long-term incentives. The Code further recommends that, as best practice, companies should fully disclose the remuneration of each individual director.

In this article, we report the results of a survey of disclosures related to remuneration matters. Data on remuneration disclosure practices were collected from the latest available annual reports of 684 companies listed in Singapore from May to July 2007. The sample included 521 Mainboard companies and 163 Sesdaq (now Catalyst) companies but

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excluded trusts, funds and REITS. These companies had board sizes ranging from 3 to 16 directors, with an average size of 7.

1. Composition of Remuneration Committee

95% of companies disclosed that they have a RC and the same percentage disclosed the full name list of the RC members. 56% have a majority of independent directors on the RC while 34% have all independent directors. 89% said that the RC is chaired by an independent non-executive director. 86% of the companies disclosed the attendance of RC members at committee meetings.

2. Non-Executive Director Remuneration

Guideline 8.2 of the Code recommends that "theremunerationofnon-executive directors should be appropriate to the level of contribution, taking into account factors such as effort and time spent, and responsibilities of the directors". The survey found that 11% of companies said that their NEDs were paid additional fees for being committee chairs and 22% said that their NEDs were paid additional fees for being committee members. 10% paid attendance fees to NEDs for attending board, committee or annual general meetings and 2% paid additional fees to NEDs for other reasons.

2.1 Disclosure of remuneration amounts for NEDs

45 companies, comprising 42 Mainboard and 3 Sesdaq companies, disclosed exact remuneration for each NED by name. One of the Mainboard companies disclosed the exact remuneration of its directors by name but did not disclose which ones were non-executive. Therefore, only 7% of companies followed the Code's encouragement for companies, as best practice, to fully disclose exact remuneration of each director. The table below shows the distribution of the companies by their market capitalisation.

542 companies comprising 395 Mainboard and 147 Sesdaq companies disclosed NED remuneration in bands. For both Mainboard and Sesdaq

companies that had disclosed NED remuneration in bands, the most commonly used band is "0 - 250,000" (Singapore dollars). However, there were 18 other bands found for the Mainboard companies, and six other bands found for the Sesdaq companies, such as "0-100,000" and "0-150,000".

Notably, all the Mainboard and Sesdaq companies had disclosed NED remuneration using a band with a ceiling, with "<S\$250,000" being the limit in majority of the cases.

2.2 Non-executive director remuneration mix

Out of the 46 companies that made exact NED disclosure, twenty-three companies granted share options to NEDs. The number of options granted to each NED ranged from 5000 to 6 million. Four companies disclosed that their non-executive directors are eligible to participate in the company's share options scheme but no options have been granted to the NEDs yet.

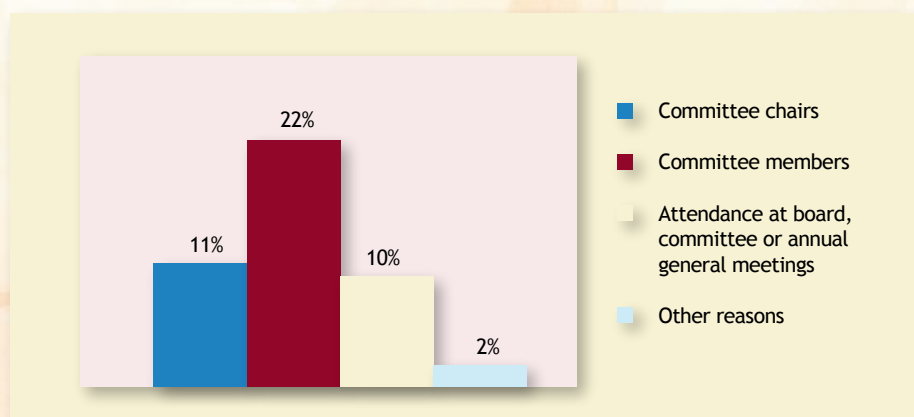
One company included other share-based compensation in its NED remuneration. Four companies made contributions to directors' retirement schemes. Five companies included benefits in its NED remuneration.

An increasingly popular practice for NEDs in developed markets such as U.S., U.K. and Australia, also adopted

Table 1: Number of Companies Disclosing Exact NED Remuneration by Market Capitalisation

Market Capitalisation (SGD)	Number of companies
> 1 billion	21
> 500 million	3
< 500 million	19
Sesdaq	3
Total	46

Figure 1: Payment of additional fees to non-executive directors





in Singapore by SingTel, is for the board to adopt a policy encouraging its NEDs to own shares in the company up to, say, the equivalent of one year of NED fees and to hold those shares until they leave the board. This is to better align the directors' interests with the interests of long-term shareholders.

3. CEO Remuneration

Principle 8 states that the "a significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and

individual performance". Guideline 8.1 recommends that "the performance-related elements of remuneration should be designed to align interests of executive directors with those of shareholders and link rewards to corporate and individual performance" and that "there should be appropriate and meaningful measures for the purpose of assessing executive directors' performance".

The remuneration mix for CEOs typically consists of the following components:

- base salary (including CPF contributions);
- short-term incentives (STIs) typically in the form of bonuses;
- long-term incentives (LTIs) typically in the form of share options; and/or
- benefits.

Given the focus of corporate governance on the creation of long-term shareholder value, long-term incentives have grown in importance internationally as a component of the remuneration of CEOs and other senior executives. Similarly, we expect long-term incentives for CEOs and senior executives to become more important in Singapore.

3.1 Disclosure of remuneration amounts for CEOs

Compared to disclosure of exact remuneration of NEDs, an even smaller number of companies (approximately 5%) made exact disclosure of CEO remuneration. The majority of companies disclosed in bands, with 'competitive reasons' being the most commonly cited reason for not disclosing exact CEO remuneration.

There were 36 companies (including four Sesdaq companies) that made exact CEO remuneration disclosure. The market capitalisation of the companies are shown in the table below.

Table 2: Number of Companies Disclosing Exact CEO Remuneration by Market Capitalisation

Market Capitalisation (SGD)	Number of companies
> 1 billion	16
> 500 million	2
< 500 million	14
Sesdaq	4
Total	36

536 companies (comprising of 390 Mainboard and 146 Sesdaq companies) disclosed the remuneration of their CEOs in bands. Similar to NED remuneration, the most commonly used band by both Mainboard and Sesdaq companies was “0 - S\$250,000”. The second most commonly used band by companies was “S\$250,000 - S\$500,000”. There were 42 other bands found for Mainboard companies and 11 other bands found for Sesdaq companies.

Of the companies which disclosed CEO remuneration in bands, 19% of the Mainboard companies and 12% of the Sesdaq companies did not specify an upper limit, with the most commonly used uncapped amount being “>S\$500,000”.

3.2 CEO remuneration mix

Of the 36 companies which disclosed exact CEO remuneration, 28 paid their CEOs bonuses ranging from \$6,000 to just over \$4 million. The percentage of the CEO’s bonus relative to the base salary for these CEOs ranged from 7% to 1857%, with a median of 74 %.

Nine companies separately disclosed the amount paid to pension schemes or CPF for their CEOs, while most companies disclosed that the salary and bonus amounts included CPF contributions and other allowances.

Thirteen companies disclosed benefits for their CEOs ranging from \$3,800 to nearly \$360,000. Benefits disclosed include: medical and dental benefits, car allowance, club memberships, group insurance, housing allowance, other allowances and benefits-in-kind.

Twenty-three companies granted share options to their CEOs, ranging from 100,000 to 1 million options. The vesting schedules ranged from three to ten years.

4. Disclosure of remuneration amounts of top executives

Only 1% of the companies (comprising entirely of Mainboard companies)



disclosed the exact remuneration of their senior management, excluding the executive directors. 80% of the companies, comprising of 399 Mainboard and 145 Sesdaq companies disclosed the remuneration of their key executives in bands. The main reason given for disclosing in bands or non-disclosure was due to competitive reasons.

Most of the companies disclosed the remuneration in bands of \$250,000 (e.g. S\$250,000 - S\$500,000; S\$500,000 - S\$750,000), with “<S\$250,000” being the most commonly used band. 19 companies did not specify an upper limit for the remuneration of some of their executives, with the uncapped amounts ranging from “>S\$150,000” to “>S\$1,750,000”.

5. Conclusion

In this article, we reported on the results of survey of disclosures related to remuneration matters in annual reports of SGX-listed companies. Only about 7% disclosed the exact remuneration of each individual NED, 5% disclosed exact CEO remuneration, and 1% disclosed exact remuneration of their senior management other than the executive directors. Although disclosure of remuneration of directors and senior executives generally remains poor in Asia, Hong Kong now requires the disclosure of exact remuneration of each individual director in its listing rules. This has brought Hong Kong closer to the

standards of developed markets such as U.S., U.K. and Australia. Beyond the poor disclosures of remuneration amounts and mix, Singapore companies also typically do not disclose performance metrics for the executive directors. While principle 9 of the Code recommends that companies “should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance”, most companies do not currently do so.

Given the number of companies which are controlled by families or management, and the ability of family and management shareholders to control the appointment of independent directors, including those serving on remuneration committees, the poor disclosures of remuneration amounts, mix and policies create a real risk that directors and key executives are able to extract excessive remuneration which hurt minority shareholders. We believe the Singapore should consider moving our disclosure standards relating to remuneration matters closer to practices in the more developed markets. The developed markets operating on a disclosure-based regime considers high standards of remuneration disclosures as one of the key elements of such a regime, and not something which should be left to the discretion of companies or to market forces. ■