

# GOVERNANCE EVALUATION FOR MID AND SMALL CAPS (GEMS)

GEMS LAUNCH EVENT

WEDNESDAY, 8 APRIL 2015

**SIAS**

Securities Investors Association (Singapore)



**HandSHakes**

# Background about GEMS

- ▶ Conceptualised more than two years ago based on recognition that existing governance rating methodologies do not focus sufficiently on factors most critical to governance of SMEs.
- ▶ GEMS was developed through a collaboration between the Securities Investors Association (Singapore) (SIAS), Singapore Association of the Institute of Chartered Secretaries and Administrators (SAICSA) and Prof Mak Yuen Teen (advisor), with Handshakes as a partner.
- ▶ Developed and tested over a period of about a year, followed by full assessment and review over another 8 months.
- ▶ The assessment process is overseen by a GEMS committee made up of representatives from the various parties in this initiative.
- ▶ An advisory panel consisting of investors and other stakeholders was formed to advise on the assessment and review of the methodology.

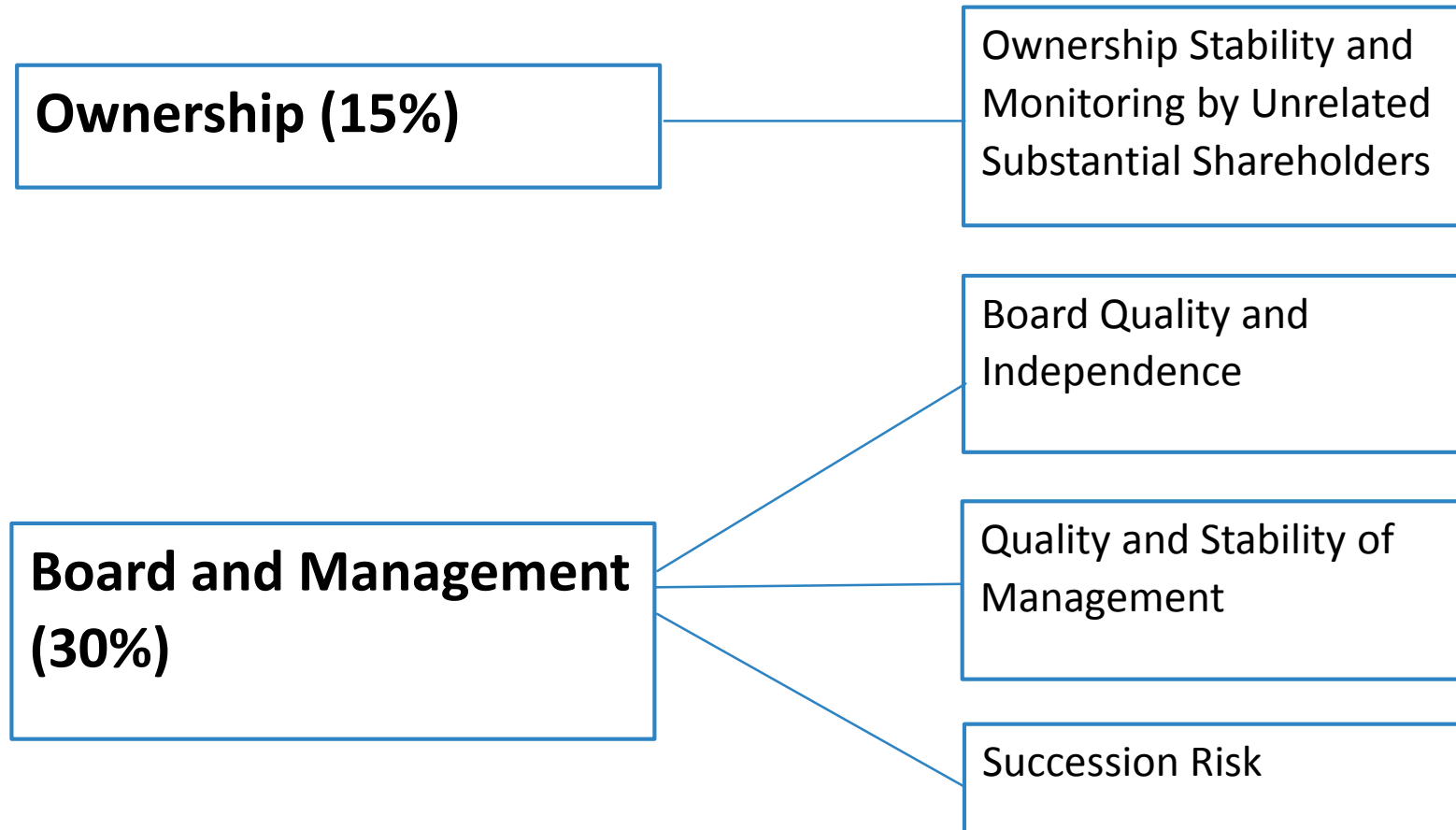
# Advisory Panel

- Mr Ang Hao Yao, Private Investor, Member of Corporate Governance Committee, Securities Investors Association (Singapore)
- Mr Vincent Chen, Private Investor and Company Director
- Ms Joyce Fong, Head of Corporate Governance and Company Secretary, The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch
- Mr Sim Guan Seng, Managing Partner, Baker Tilly TFW
- Mr R Sivanithy, Senior Correspondent, The Business Times

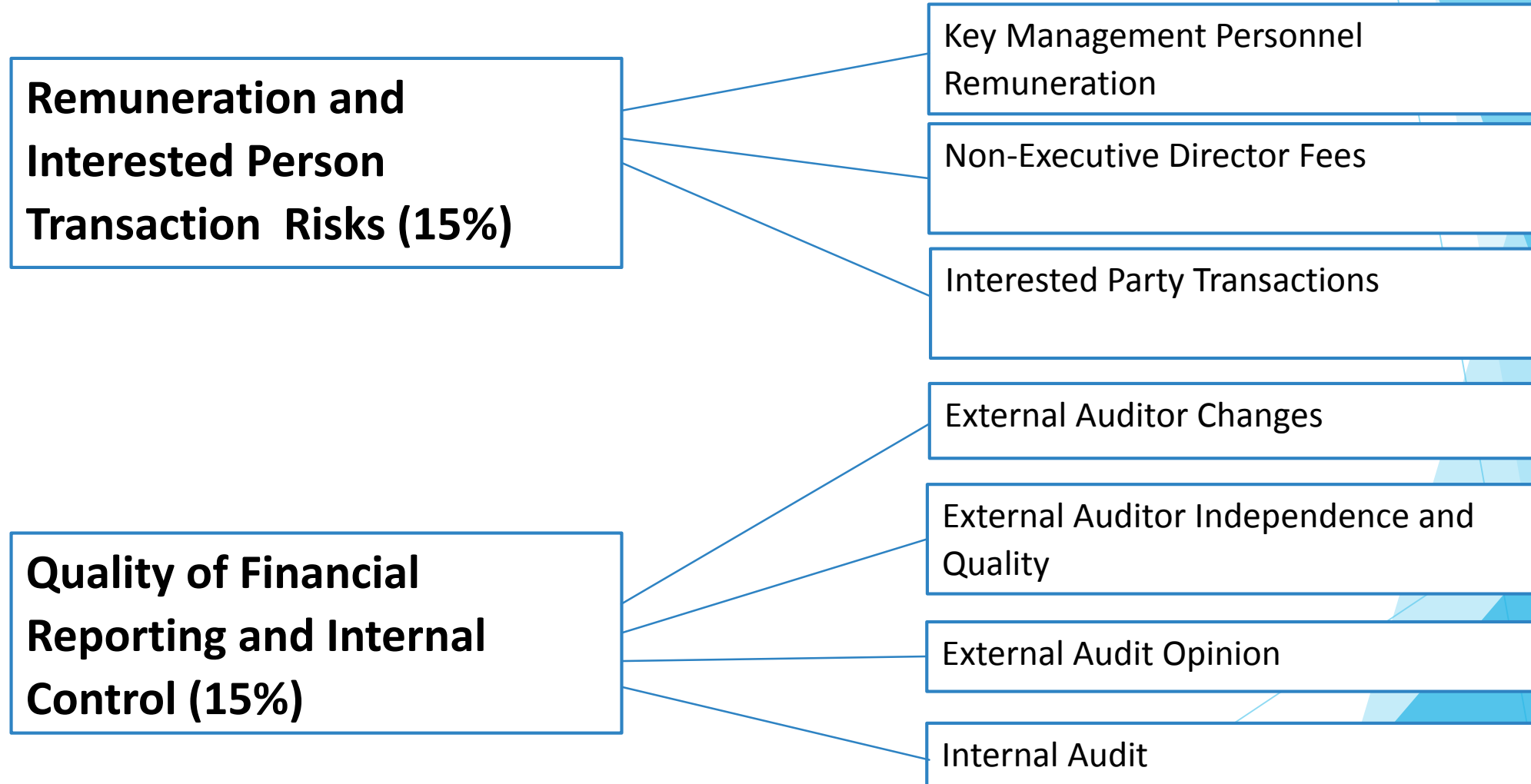
# Distinctiveness of GEMS

- ▶ Evaluates corporate governance practices over three years rather than on an annual basis.
- ▶ Include governance indicators not incorporated in other governance ratings, including those particularly important to SMEs and focuses more on measures and indicators that reflect actual behaviour and actions, rather than disclosures, e.g.:
  - ▶ Whether the largest substantial shareholder has over the last 3 years sold down more than 20 percent of his or her stake
  - ▶ Whether major shareholders/key officers engage in frequent trading of shares
  - ▶ Experience of CEO in the industry and whether there is another member in the senior management team with sufficient experience in the company to step up
  - ▶ Regulatory risk, which affects protection of minority shareholders
  - ▶ Whether changes in key management personnel remuneration are linked to changes in return on equity (ROE) and total shareholders' return (TSR)
  - ▶ Dividend payments and policy
- ▶ Not a lower benchmark, but different benchmark that is more relevant to SMEs.

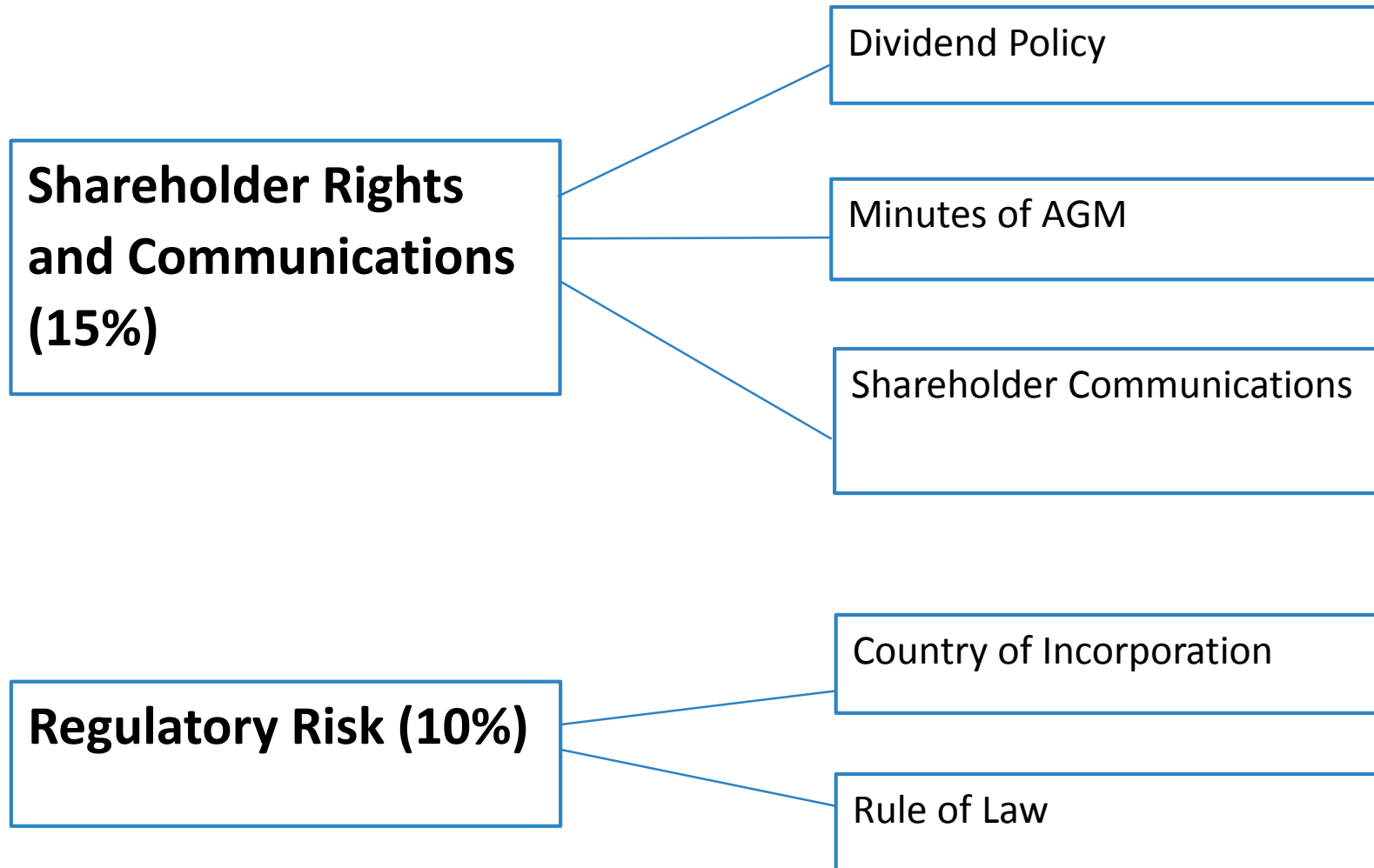
# Methodology



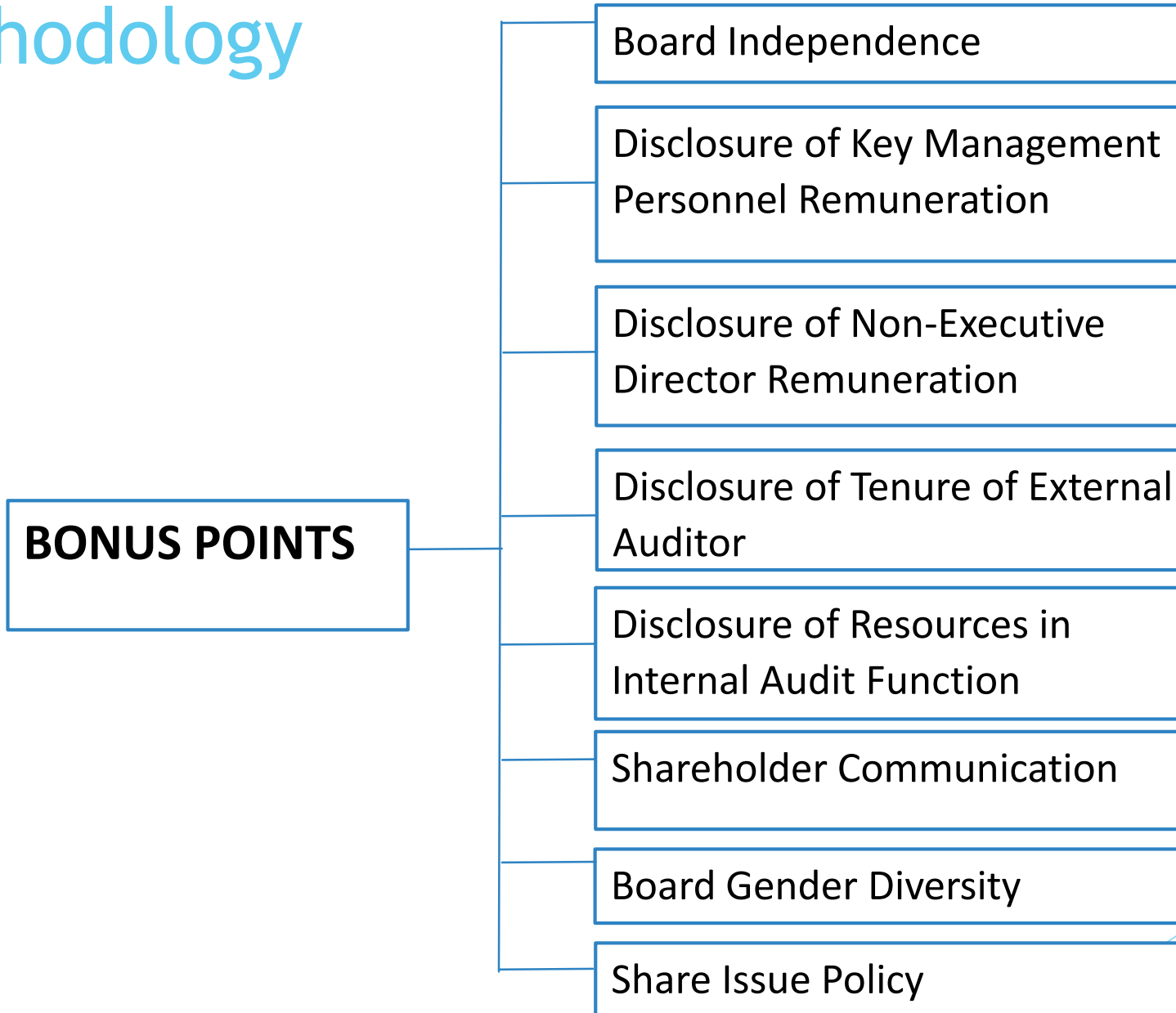
# Methodology



# Methodology



# Methodology





# Methodology

## **PENALTY POINTS**

Board Quality and Management

Disproportionate Control of Voting Rights

Poor Tone at the Top

Poor Disclosure on Board Meetings and Attendance

Poor Disclosure of Remuneration of Key Management Personnel

Use of Options for Independent Directors

Non-Disclosure of Share Pledges

Modified External Audit Opinion and Restatements

Unusual Trading and Queries

Regulatory Actions by SGX and/or Other Authorities

Poor Shareholder Communications

# Coverage

## Companies to be assessed:

- 428 companies with market capitalisation of S\$500 million or less as of 30 April 2014.
- 3 year assessment period, where the 3<sup>rd</sup> year of assessment is based on the most updated annual report as of 1 July 2014.

## Exclusions:

- Change in nature of the business (e.g. reverse take-over).
- On SGX watch-list.
- Ongoing regulatory investigation or media attention with no conclusive results to date.
- All secondary listings, real estate investment trusts and business trusts.
- Negative developments after the assessment period which are highlighted in the media.

# Ownership

Ownership Stability and Monitoring by  
Unrelated Substantial Shareholders

Section	Description	Points Given	Points Not Given
1.1	The largest substantial shareholder has been a substantial shareholder of the company for at least 3 years and has not sold off shares amounting to 20% or more of his stake over the last 3 years. (5 points)	87.4%	12.6%
1.2	None of the directors, CEO or substantial shareholders buys and sells shares more than 4 times within a 12 month period over the 3 years. (5 points)	72.7%	27.3%
1.3	There are one or more unrelated substantial shareholders. (5 points)	34.8%	65.2%

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# Board and Management

## Board Quality and Independence

Section	Description	Points Given	Points Not Given
2.1	At least one of the independent directors has industry experience. (3 points)	22.0%	78.0%
2.2	No more than one independent director has a tenure of more than 9 years over the 3 years of assessment. (3 points)	59.6%	40.4%
2.3	No more than one independent director has resigned or retired without seeking re-election after serving 3 years or less, over the 3 years of assessment. (3 points)	96.3%	3.7%

Section	Description	Points Given	Points Not Given
2.4	No more than one of the directors is a busy director over the 3 years of assessment. (3 points)	74.1%	25.9%
2.5	Independent directors do not have any relationship with the company, its directors, key officers and substantial shareholders except for the board seat. (3 points)	89.0%	11.0%
2.6	Director(s) of the company have not resigned without valid reasons over the 3 years of assessment. (3 points)	78.5%	21.5%

# Board and Management

## Quality and Stability of Management

Section	Description	Points Given	Points Not Given
3.1	The CEO has at least 10 years of experience in the industry. (4 points)	85.7%	14.3%
3.2	There has been no more than 2 changes for each key officer position within the 3 years of assessment. (3 points)	97.9%	2.1%



# Board and Management Succession Risk

Section	Description	Points Given	Points Not Given
4.1	At least one of the key officers other than the executive chairman or Chairman and CEO has been with the company for more than 5 years. (5 points)	94.9%	5.1%

# Remuneration and Interested Person Transaction Risks

**Key Management Personnel Remuneration**

Section	Description	Points Given	Points Not Given
5.1	<p>Key management personnel remuneration</p> <ul style="list-style-type: none"> <li>i. Increased and both ROE and TSR increased (3 points); or</li> <li>ii. Decreased or remained constant and both ROE and TSR increased (3 points); or</li> <li>iii. Decreased or remained constant and either ROE or TSR increased (2 points); or</li> <li>iv. Increased, and either ROE or TSR increased (1 point)</li> </ul> <p>over the 3 years of assessment.</p>	<p>19.9% (1 point)  8.9% (2 points)  3.0% (3 points)</p>	68.2%

Section	Description	Points Given	Points Not Given
5.2	<p>Executive directors and key management personnel are paid both fixed and variable remuneration, where</p> <ul style="list-style-type: none"> <li>i. Not more than one executive director or key management personnel is paid less than 20% of variable remuneration each year (3 points); or</li> <li>ii. Not more than two executive directors or key management personnel is paid less than 20% of variable remuneration each year (2 points); or</li> <li>iii. Not more than three executive directors or key management personnel is paid less than 20% of variable remuneration each year (1 point) over the 3 years of assessment.</li> </ul>	<p>1.4% (1 point)  2.1% (2 points)  2.3% (3 points)</p>	94.2%



# Remuneration and Interested Person Transaction Risks

## Non-Executive Director Remuneration

# Remuneration and Interested Person Transaction Risks

## Non-Executive Director Remuneration

Section	Description	Points Given	Points Not Given
6.1	<p>Directors' fees are constant or declined over the 3 years of assessment; or                      Increased as any two of the following increased over the 3 years of assessment:</p> <ul style="list-style-type: none"> <li>i. number of board and board committee meetings</li> <li>ii. number of independent directors</li> <li>iii. total shareholder return</li> </ul> <p>(3 points)</p>	36.4%	63.6%

# Remuneration and Interested Person Transaction Risks

## Interested Party Transactions

Section	Description	Points Given	Points Not Given
7.1	The company does not engage in recurring transactions with its directors, CEO, substantial shareholders and their associates. (3 points)	90.9%	9.1%
7.2	The company does not engage in significant transactions with its directors, CEO, substantial shareholders and their associates. (3 points)	93.5%	6.5%



# Quality of Financial Reporting and Internal Control

## External Auditor Changes

Section	Description	Points Given	Points Not Given
8.1	<p>The company has not changed its auditor in all 3 years of assessment; or</p> <p>The company has changed its auditor once within the 3 years of assessment and has given appropriate reasons for the change.</p> <p>(3 points)</p>	93.2%	6.8%

# Quality of Financial Reporting and Internal Control

External Auditor Independence and Quality

Section	Description	Points Given	Points Not Given
9.1	The auditor is a certified public accountant in Singapore. (2 points)	94.4%	5.6%
9.2	The auditor is a i. Big Four audit firm; or ii. Mid-tier audit firm. (2 points)	97.0%	3.0%
9.3	The auditor i. does not receive non-audit fees totalling more than 25% of audit fees on a recurring basis (2 points); or ii. received non-audit fees totalling more than 25% of audit fees but on a one-off basis (1 point).	19.9% (1 point) 58.4% (2 points)	21.7%

# Quality of Financial Reporting and Internal Control

## External Audit Opinion

Section	Description	Points Given	Points Not Given
10.1	The company has an unqualified audit opinion for all 3 years of assessment. (4 points)	83.4%	16.6%

# Quality of Financial Reporting and Internal Control

## Internal Control

Section	Description	Points Given	Points Not Given
11.1	The company has an in-house internal audit (IA) function; or The internal audit function is outsourced to a Big Four or mid-tier accounting firm. (2 points)	23.6%	76.4%

# Shareholder Rights and Communications

## Dividend Policy

Section	Description	Points Given	Points Not Given
12.1	The company i. Increased or maintained dividends (6 points); or ii. Paid dividends with decreases (4 points); or iii. Paid dividends for 2 years (3 points); or iv. Paid dividends for 1 year (2 points) in all 3 years of assessment.	10.5% (2 points) 9.6% (3 points) 14.0% (4 points) 32.9% (6 points)	32.9%

# Shareholder Rights and Communications

## Minutes of AGM

Section	Description	Points Given	Points Not Given
13.1	The company provides shareholders with minutes/notes covering the substantive points discussed in the annual general meeting. (3 points)	0.5%	99.5%

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# Shareholder Rights and Communications

## Shareholder Communications



Section	Description	Points Given	Points Not Given
14.1	The company has i. a corporate website in English; and ii. an investor relations section on its website. (2 points)	74.1%	25.9%
14.2	The company provides investor relations contact information on its annual report or website. (1 point)	39.3%	60.7%
14.3	The company is responsive to calls or emails requesting information. (3 points)	50%	50%

# Regulatory Risk

## Country of Incorporation

Section	Description	Points Given	Points Not Given
15.1	The company is incorporated in the country of operation or the country of listing. (5 points)	89.3%	10.7%

# Regulatory Risk

## Rule of Law

Section	Description	Points Given	Points Not Given
16.1	Based on World Bank's Worldwide Governance Indicators, the company operates within the top 25% of countries with strongest rule of law. (5 points)	85.7%	14.3%

**Bonus**

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Section	Description	Points Given	Points Not Given
1B	The board is at least half independent when the Chairman is not independent; or The board is at least a third independent when the Chairman is independent. (3 points)	46.5%	53.5%
2B	The company fully discloses the remuneration and names of the top 5 key officers. (3 points)	0.7%	99.3%
3B	There is full disclosure, i.e. not in bands, with breakdown of the remuneration of each individual director. (2 points)	3.3%	96.7%

Section	Description	Points Given	Points Not Given
4B	The tenure of the auditor is disclosed. (2 points)	0%	100%
5B	The company: i. Discloses the number of persons in the in-house internal audit function; or ii. Discloses the amount it spends on internal audit if it is outsourced. (2 points)	2.6%	97.4%
6B	The date of the AGM is not in the last week of April or the 4 month period from the end of the financial year, for all 3 years of assessment. (2 points)	33.6%	66.4%

Section	Description	Points Given	Points Not Given
7B	There is at least one independent director of each gender on the board. (2 points)	9.6%	90.4%
8B	The company limits the percentage of shares to be offered other than on a pro-rata basis under a general mandate in all 3 years of assessment to i. Less than 10% (4 points); or ii. Between 10% to 15% (2 points); or iii. No general mandate is given (4 points).	3.0% (2 points) 1.2% (4 points)	95.8%

# Selected Penalty Sections



Section	Description	Penalty Points Given	Penalty Points Not Given
1P	The board size is smaller than 6 or greater than 9. (-2 points)	41.4%	58.6%
2P	There are 50% or more executive directors on the board. (-3 points)	41.1%	58.9%
4P	The audit committee and the remuneration committee do not consist of all non-executive and/or independent directors. (-2 points)	11.2%	88.8%

Section	Description	Penalty Points Given	Penalty Points Not Given
9P	The number of meetings of the board and board committees held is not disclosed. (-2 points)	1.2%	98.8%
10P	The attendance of every board member at the board meetings is not disclosed. (-2 points)	1.6%	98.4%
11P	The company discloses remuneration of any of its key management personnel with an unlimited top band. (-2 points)	3.5%	96.5%

Section	Description	Penalty Points Given	Penalty Points Not Given
12P	Share options were issued to independent directors within the past 3 years. (-3 points)	8.6%	91.4%
14P	External auditor issues a i. adverse (-10 points); or ii. disclaimer of (-10 points); or iii. qualified (-5 points) opinion.	4.7% (-5 points) 2.3% (-10 points)	93.0%
15P	The company restated financial statements of i. 2 to 3 years (-5 points); or ii. 1 year (-3 points) over the 3 years of assessment.	4.9% (-3 points) 0.5% (-5 points)	94.6%

Section	Description	Penalty Points Given	Penalty Points Not Given
19P	Annual results are not released within 60 days after the fiscal year end or interim results are not released within 45 days of end of interim period, or the company has a late AGM. (-5 points)	4.0%	96.0%

# 2014 Rankings

Top 10% of Assessed Companies

800 SUPER HOLDINGS LTD	COSMOSTEEL HOLDINGS LTD
BAN LEONG TECHNOLOGIES LTD	DYNAMIC COLOURS LTD
BANYAN TREE HOLDINGS LTD	ELLIPSIZ LTD
BOARDROOM LTD	ENGRO CORPORATION LTD
BREADTALK GROUP LTD	FABCHEM CHINA LTD
CEI CONTRACT MANUFACTURING LTD	FISCHER TECH LTD
CH OFFSHORE LTD	FJ BENJAMIN HOLDINGS LTD
CHEW'S GROUP LTD	GLOBAL PALM RESOURCES HOLDINGS LTD
CHUAN HUP HOLDINGS LTD	HAFARY HOLDINGS LTD
CORTINA HOLDINGS LTD	HI-P INTERNATIONAL LTD

HIAP SENG ENGINEERING LTD	PENGUIN INTERNATIONAL LTD
HOTEL ROYAL LTD	QIAN HU CORPORATION LTD
HUPSTEEL LTD	REGAL INTERNATIONAL GROUP LIMITED
ISETAN (SINGAPORE) LTD	ROTARY ENGINEERING LTD
JAPAN FOODS HOLDINGS LTD	SBS TRANSIT LTD
K1 VENTURES LTD	SINGAP REINSURANCE CORPORATION LTD
KSH HOLDINGS LTD	SINGAPURA FINANCE LTD
MICRO-MECHANICS (HOLDINGS) LTD	T T J HOLDINGS LTD
MIRACH ENERGY LTD	TEHO INTERNATIONAL INC LTD
OLD CHANG KEE LTD	TUAN SING HOLDINGS LTD
	UE E&C LTD

Questions?