44

Time for a Stewardship Code for Singapore

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Deputy Prime Minister Tharman Shanmugaratnam recently spoke about Singapore's general regulatory environment, emphasising the need for balance between the three "pillars" of market governance – government regulation, market-based disclosure and discipline, and investor responsibility. In Singapore, this last pillar of "investor responsibility" has yet to be fully developed.

This gap is evident from the results of the *2013 Asean Corporate Governance Scorecard*. Led by the Asian Development Bank and the Asean Capital Markets Forum, the regional exercise compared the level of corporate governance of companies in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

It was telling that Singapore companies actually finished second

last (Vietnam was last) in the area of "role of stakeholders", and scored a paltry 58.3 per cent in the area of "rights of shareholders", as compared to 86.2 per cent for Thailand. These are not scores we can be proud of.

IMPORTANCE OF INSTITUTIONAL INVESTORS

However, Singapore is not without examples of proactive shareholders who take up the cudgel and seek to influence matters in an effort to increase shareholder value.

This can be done through open confrontation, such as when the hedge fund, Laxey Partners, requisitioned an extraordinary general meeting of the then SGX-listed United International Securities Ltd in 2010 to demand that its board take steps to reduce the discount to net asset value at which its shares were trading and to remove four directors from its board.

Alternatively, it can be done without too much fanfare such as when the long-serving chairman of Robinsons & Co was surprisingly booted out of office at the 2006 annual general meeting with the help of the votes of Aberdeen Asset Management.

Both examples demonstrate that it is the institutional investor that usually makes the difference. Unlike the typical retail investor, the institutional investor is sophisticated, has resources at its disposal, as well as the international experience and the investing clout to push for change and improve governance in their investee companies.

THE UK STEWARDSHIP CODE

For this reason, the UK Financial Reporting Council (FRC) developed the world's first Stewardship Code in 2010 to improve the quality of institutional investor engagement. Because it targets

institutional investors, the Stewardship Code differs from other corporate governance codes which are aimed at listed companies.

The UK Code is not prescriptive. Rather, it sets out broad principles and guidelines that encourage institutional investors to:

- actively monitor their investee companies;
- establish clear guidelines on when, and how, they will escalate their activities as a method of protecting and enhancing shareholder value;
- have a clear policy on voting and disclosure of voting activity;
- be willing to act collectively with other investors where appropriate; and
- report periodically on their stewardship and voting activities.

The Stewardship Code functions on a voluntary basis, with asset managers, insurance companies, pension funds and institutional investors registering with the FRC as signatories to the Code. While the decision on whether to apply the Code is voluntary, the UK securities regulator requires licensed funds and asset managers to state whether they apply the Code, and if they do not, to explain why they consider it inappropriate for their investment strategy.

This "comply or explain" approach is largely similar to that of Singapore's own Code of Corporate Governance for listed companies.

THERE IS A NEED IN SINGAPORE

One challenge to increasing the level of investor responsibility in Singapore is the structure of our legal system: our shareholders have no duties or obligations, only rights.

Under Singapore law, it is the board of directors that has the

burden of managing the company and the fiduciary duty to act in the best interest of the shareholders as a whole. Shareholders, on the other hand, are free to consider their own selfish interests, and to exercise their votes in whichever manner they choose, without being accountable to the company or other shareholders.

This dated view is changing in the developed world. It is now recognised that larger shareholders should play their part not just in supporting the performance of their investee companies, but also the broad markets in which they invest so as to help foster sustainable growth and job creation.

Ever since the UK blazed the way with its Stewardship Code, South Africa, Canada, the Netherlands, Switzerland and others across the European Union have followed suit. Asia is not far behind, with Japan issuing its version in February this year and Malaysia launching a consultation paper on its inaugural Code for Institutional Investors in January.

In Singapore, our 2012 Code of Corporate Governance introduced, largely as an after-thought, a one-page statement on "the role of shareholders in engaging with companies in which they invest". The problem was that the statement included an express qualifier that it did not form part of the Singapore Code proper, making it less effective than it could have been.

A stewardship code is a key missing piece of the governance jigsaw puzzle in Singapore. It is a useful instrument to help build a critical mass of engaged institutional shareholders as responsible members of the corporate governance ecosystem with a longer term mindset. It is time that Singapore stopped playing catch up and take the lead in this part of the world in this area of corporate governance. ■