Enhancing Shareholder Value

SINGAPORE EXCHANGE REGULATION

Uncertainty over geopolitics, interest rates and economic factors have made many of us less sanguine than before. While the US markets roar ahead, or perhaps because the US markets roar ahead, most other markets have witnessed fewer initial public offerings and more delistings, lower valuations and less liquidity. Singapore is no different and directors have to adapt to the evolving landscape.

Rather than debate where the Singapore market is, I will discuss what we can do, have done and will do to improve our market in our role as regulators. Because our efforts are centred around enhancing shareholder value, we at the Singapore Exchange Regulation (SGX RegCo) call this the “value focus” approach.

The prize for compliance

Our value focus approach has three prongs. The first is market discipline. We must nurture, encourage and enable market discipline, in order to drive shareholder value creation. At the heart of effective market discipline is the active investor – a shareholder who is prepared to ask the difficult questions, requisition meetings to compel change, and vote with both hands and wallet to hold companies and boards accountable.

We believe more active investors and effective market discipline will encourage our companies to improve their operational performance and returns to shareholders. This is why we proposed in April to make it easier for shareholders to call for general meetings to bring about the changes they feel are important. We are heartened by the feedback we have received. People generally agree that shareholders should be able to put important issues such as a change of directors to a vote, and we are working through the details of the new requisitioning process.

We also intend to work with our industry partners on other ways to empower shareholders and give them a louder voice. The Securities Investors Association (Singapore) has recently indicated they are studying the possibility of posing additional questions to boards of undervalued companies on their plans to improve their valuations.

We support this initiative and encourage companies to respond meaningfully and comprehensively to such questions. There is room for companies to devote more resources towards establishing and implementing an investor relations policy to facilitate effective communication with shareholders, in accordance with the Code of Corporate Governance.

There are any number of ways for our companies to unlock value: mergers and acquisitions, divestments or asset recycling, committing to a dividend policy.
These are just some of the steps our companies have taken. We have received feedback that enhancing investor confidence in the valuations of the businesses to be acquired or disposed could help to facilitate these transactions, which typically need to be voted on by shareholders. We are therefore looking at how we can enhance the robustness of valuations, again in consultation with our industry partners.

This enhanced scrutiny must however also be married to positive action by active investors, for market discipline to work. Investors must play their part to acknowledge and send positive price signals to reward companies and boards that have listened to the market and acted to improve shareholder value. In other words, this can only work if it is a two-way street. As a community, we need to work together to change the mindset from one focused on the price of compliance to one that is instead focused on the prize for compliance.

Smoothing the way

The second prong of the “value focus” approach is to reduce market friction. Some market participants have told us that our trading queries may affect the ability of companies to conduct “value focus” activities such as share buybacks. We have thus launched a review of the queries posed to listed companies, looking at both when, and how, we query companies.

We are seeking a more judicious balance between our role in ensuring the disclosure of material information, and the role of the market itself in price discovery through trading. This is in addition to the steps we have already taken to fine-tune our queries regarding unusual trading activity to make them more targeted. This has led to a decrease in such queries issued in the last half-year.

I understand that companies are often reluctant to engage with analysts, reporters and investors because they want to avoid accusations of selective disclosure or drawing unwelcome queries from SGX RegCo if any forward-looking statement is published. We believe that any doubt about selective disclosure is easily solved by putting any material that you share at an analyst or media briefing or investor roadshow on SGXNet at the same time so there is a level playing field.

We have also received requests to make clear safe harbour guidelines for companies making forward looking statements. While guidance on how companies can do so is already available, we are open to feedback on how we can refresh, or add to, such guidance to help issuers feel more confident in making decision-useful disclosures. By making this explicit, I hope to see more companies step up their investor relations activities. For too long, we have been told Singapore companies are unexciting when really, they are perhaps simply just too shy for their own good.

Fresh blood, fresh ideas

The third and final prong of the "value focus" approach is ensuring that our companies have high-quality boards. Shareholder value creation starts with the board, and we believe that an influx of new directors can make a difference.
Our theory is that new directors, and independent directors, will bring fresh ideas to the table. Such renewed boards will be less wedded to legacy businesses. A more diverse boardroom means more varied views and better decision making. Such boards are also likely to be more open to opportunities in new areas such as sustainability.

We are so convinced by this that we made two big policy changes to encourage board renewal and inject new blood. We recently mandated a nine-year limit on the tenure of independent directors and introduced a rule requiring companies to disclose a board diversity policy including targets.

Consequently, two-thirds of the directors appointed by top 100 companies in 2023 were first timers, up from 47 per cent in 2022. In other words, many of you reading this are the product of a combination of these two policies. No pressure, but it is in your hands to prove that we made the right policy call.

To be or not to be Japan

This January, I attended a Coldplay concert in Singapore. Fans were given LED wristbands which lit up during the concert and encouraged to return these for recycling at the end of the concert. There was a leaderboard showing the percentage of LED bands returned in each city Coldplay had toured. When I saw Singapore with 92 per cent of LED bands returned, I thought we must be top. Then I saw Japan at 97 per cent.

I mention this is because I am often asked how our "value focus" approach compares to the "value-up" approach of the Japanese securities regulators. The Japanese have taken a much more prescriptive approach and are putting a lot more direct pressure on boards. For example, they are requiring their companies to publicly disclose plans to improve capital efficiency, return on equity and price-to-book ratios. Those that fail to do so are effectively "named and shamed".

The stock market is undoubtedly "Big in Japan". But as I illustrated earlier, the Japanese are no ordinary culture, and the revival of the country's market has been a long time coming. Many of the reforms were introduced years ago and have received much more attention in recent months due to tailwinds including a weak yen, relatively low interest rates and the so-called Warren Buffett effect, with the market following the legendary investor's lead.

So, should we apply the same pressure and prescriptive approach taken by Japan?

To their credit, companies like Keppel, Singtel and SingPost have conducted strategic reviews and taken steps to generate greater shareholder value. Others such as CapitaLand Investment, OCBC and Sembcorp Industries are also delivering returns through share buybacks, in addition to the plethora of companies paying out dividends. Promisingly, our market has shown that it does reward companies seeking to increase shareholder value.

To our board directors, I issue this challenge. Don't wait for us to be as prescriptive as Japan before you act. Prove that boards with fresh blood tempered by experience can transform our companies to meet the emerging challenges.

This article is adapted from a version first published in The Business Times on 31 July 2024.

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