

**OPENING ADDRESS BY MS INDRANEE RAJAH,
SENIOR MINISTER OF STATE FOR LAW AND FINANCE,
AT THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)'S
LAUNCH OF THE 6TH SINGAPORE CORPORATE GOVERNANCE WEEK
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RAFFLES CITY CONVENTION CENTRE**

Mr David Gerald, Founder, President & CEO, SIAS

Distinguished Guests

Ladies and Gentlemen

Good corporate governance enables firms to deliver sustainable value to stakeholders, and is a differentiating factor for investment especially in times of economic uncertainty

Introduction

1. Good morning. Thank you for inviting me to join you at the Global Corporate Governance Conference.

2. Since its formation, the Securities Investors Association (Singapore) (SIAS) has been active in promoting good corporate governance practices and investor education. This is the sixth year of SIAS' Corporate Governance Week, and SIAS has lined up a useful series of activities to create greater awareness of current and emerging corporate governance issues. Let me congratulate SIAS and partners for organising this event. Your contribution to improve Singapore's corporate governance is commendable. Your initiatives complement the Government's efforts to maintain a robust and transparent corporate regulatory environment – one that's essential for our capital markets.

3. Singapore regularly reviews its laws to ensure that its regulatory regime remains robust, and is internationally competitive and relevant to the business

environment. For example, the Companies Act, listing rules and the Code of Corporate Governance promote high standards of corporate governance. It is therefore good to note that Singapore ranked first in Asia for its corporate governance requirements in an ACCA-KPMG study in 2014¹. **There is increased uncertainty in the global economic situation, and having good corporate governance will be a differentiating factor for investments.**

Improving transparency

4. Transparency forms a cornerstone of corporate governance. **With growing shareholder activism, shareholders and investors are increasingly demanding greater transparency from boards. Shareholders are now asking more pointed questions on board decisions at annual general meetings.** Investors also expect companies to provide more meaningful disclosures, instead of boiler-plate statements.

5. On the other hand, boards face the constant challenge of deciding how much to disclose and when to disclose. The conference theme this year, “Boards and Shareholders – Partners or Adversaries?”, is an interesting one. As many of you in the audience are both directors and shareholders, what are your perspectives? As a director, what is your strategy in engaging shareholders and investors? As a shareholder, how do you wish your boards should engage you?

Adoption of Enhanced Auditor Reporting Standards of Singapore

6. Before the various subject experts start the discussion, allow me to share some recent initiatives on improving transparency and corporate governance. First, following the adoption of the enhanced auditor reporting standards in Singapore from 2017, auditor’s reports of listed entities will become more transparent with the inclusion of Key Audit Matters. This goes beyond the traditional “Pass/Fail” audit opinion. Key Audit Matters include: first, significant risk areas of the financial statements most susceptible to misstatements; second, major transactions that

¹ ACCA (Association of Chartered Certified Accountants) – KPMG 2014 study: “*Balancing Rules and Flexibility*”

require extensive auditing efforts; and third, areas involving key management judgements and estimates. Currently, Key Audit Matters are communicated by the auditors to the Audit Committees and kept largely out of the public domain.

7. The move to share Key Audit Matters publicly via auditors' report will enable shareholders and investors to gain insights on the significant audit risks identified and the audit procedures taken to address those risks. In addition, auditors will need to ensure that the company directors and management have made adequate disclosures in the financial statements regarding their judgements. This will compel company directors and management to be more upfront and transparent in their engagements with shareholders, and I believe it will provide more meaningful responses in their communications. I trust that the Key Audit Matters disclosed will enable shareholders and investors to have more focused and meaningful discussions with the Board on issues that matter.

ACRA's Financial Reporting Surveillance Programme (FRSP)

8. Another initiative to improve transparency and corporate governance is the Accounting and Corporate Regulatory Authority's (ACRA) Financial Reporting Surveillance Programme (FRSP). This reviews selected financial statements of listed companies. Modern accounting standards are complex and in some areas, subjective. Companies therefore require strong oversight to ensure that financial statements present a true and fair account of their performance and comply with Accounting Standards. ACRA recently issued its inaugural report on its review of 2013 financial statements. The good news is that ACRA concluded that the state of financial reporting in Singapore is generally healthy. But there were a few instances of non-compliance which had an impact on revenue, profits and operating cash flows.

9. Nonetheless, it was encouraging that companies responded positively and made improvements. Those companies that were informed by ACRA of the findings before their 2014 financial statements were finalised took quick action, and they made the necessary corrections. For the remaining companies, ACRA has directed them to do so in their 2015 financial statements.

Supporting Listed Small and Medium-sized Enterprises to improve corporate governance

10. Another initiative relates to our listed small and medium-sized enterprises (SMEs), which represent about 80% of the companies listed on the SGX. Challenges and concerns faced by SGX-listed SMEs may differ from the big caps or blue chips. What is important to the governance and long-term success of SMEs may also be different from the larger companies.

Governance Evaluation for Mid and Small Caps (GEMS)

11. I am pleased to know that SIAS, together with the Singapore Association of the Institute of Chartered Secretaries and Administrators (SAICSA), have developed new criteria to help listed SMEs improve their corporate governance practices. The new criteria called the Governance Evaluation for Mid and Small caps, or GEMS for short, aims to provide a more practical and relevant governance methodology to reflect listed SMEs' practices more accurately on several aspects. GEMS takes a longer time horizon, focuses on empirical metrics and key factors for companies, and takes into account regulatory risk.

12. The GEMS research found that the top 150 companies in the 2014 GEMS ranking continued to fare well in the 2015 rankings. 36% of the assessed companies have either an in-house internal audit (IA) function or the internal audit function is outsourced to a Big Four or mid-tier accounting firm. About 91.9% of the assessed companies had at least one senior management executive who had been with the company for more than five years.

13. The findings also highlighted that only 2.7% of the assessed companies provided shareholders with minutes or notes of substantive points discussed in their annual general meeting. Other areas for improvement include having sufficient independent directors with relevant industry experience on board and committed shareholders investing in the companies. I hope that listed SMEs take guidance from the GEMS findings and continue to strive towards higher corporate governance standards.

Conclusion

14. Ladies and gentlemen, good corporate governance is not an end in itself. **The corporate governance journey requires all stakeholders – boards, shareholders, investors, analysts, employees, auditors, company secretaries, and government – to do their part.** And working together, that's how progress can be achieved. Once again, I commend SIAS for organising this annual event where various stakeholders gather to exchange ideas on promoting and adopting good corporate governance practices.

15. I wish you all an enjoyable conference.

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