
CONSULTATION PAPER

Proposed Revisions to the Code of Corporate Governance

December 2004

RESPONDING TO THIS CONSULTATION PAPER

The Council on Corporate Disclosure and Governance (“CCDG”) invites comments on this consultation paper by 15 February 2005. You are invited to send comments, preferably by email to:

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This consultation paper is available for download from the CCDG website at www.ccdg.gov.sg

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PART 1: INTRODUCTION

INTRODUCTION

1 The Code of Corporate Governance (the “Code”) was first promulgated by the Corporate Governance Committee on 21 March 2001. The Government announced its acceptance of the Code on 4 April 2001. The Code came into effect in 2003. For annual general meetings held from 1 January 2003 onwards, listed companies are required under the Listing Rules of the Singapore Exchange to describe in their annual reports their corporate governance practices with specific reference to the principles of the Code, as well as disclose and explain any deviation from any Guidance Notes of the Code.

2 In the past two years, several countries have revised or issued some form of corporate governance rules and guidelines. The UK issued a revised Combined Code in July 2003 (“Combined Code (2003)”), while the Australian Stock Exchange promulgated its Principles of Good Corporate Governance and Best Practices Recommendations (“Australian Code”) in March 2003. The New York Stock Exchange’s Corporate Governance Listing Standards were approved by the US Securities and Exchange Commission in November 2003. Hong Kong published its Conclusion on Exposure of Draft Code on Corporate Governance Practices and Corporate Governance Report (Exposure Conclusions Report) in November 2004. The Organisation for Economic Co-operation and Development (“OECD”) also issued a revised version of the OECD Principles of Corporate Governance in April 2004.

3 There are also various studies on how listed companies in Singapore fare in corporate governance. An example is a joint study of corporate governance practices of companies on STI by Standard & Poor’s and National University of Singapore’s Corporate Governance and Financial Reporting Centre that was published in June 2004. One of the findings was that certain disclosure and governance practices generally fell short of global best practices.

4 The CCDG, whose term of reference includes reviewing and enhancing the framework of corporate governance, thinks it is timely to review and update the Code. The CCDG recognises that the fundamentals of the Code are sound. The review is aimed at introducing improvements to the Code. The Ministry of Finance has given its support for the CCDG to conduct the review. The CCDG has formed a Review Committee comprising members and non-members of the CCDG to study the matter in detail, seek views from the public, and submit a report to the CCDG. See [Annex 3](#) for members of the Review Committee.

5 This consultation paper sets out proposed revisions on the structure of the Code, board matters, remuneration matters, accountability and audit, as well as communication with shareholders. The key issues are highlighted in [Part 2](#) of

the consultation paper. Annex 1 shows the proposed revisions (in tracked changes) to the Code. Annex 2 covers the disclosure of corporate governance arrangements by listed companies. The purpose is to provide guidance to companies on the specific Guidance Notes in the Code that deal with disclosure. This will form part of the revised Code. Comments are sought for Part 2, Annex 1 and Annex 2 of the consultation paper.

PART 2: KEY PROPOSALS

SECTION 1: STRUCTURE OF THE CODE OF CORPORATE GOVERNANCE

PROPOSAL 1

The Code should be structured in the form of “Principles”, “Guidance Notes” and “Commentaries”. Listed companies will not be required to disclose and explain any deviation from the commentaries.

Rationale

1 Currently, the Code is structured in the form of “Principles” and “Guidance Notes”, which provide details on how each principle should be applied. Under the Singapore Exchange Listing Rule 710, listed companies are required to describe in their annual reports their corporate governance practices with specific reference to the principles of the Code, as well as disclose and explain any deviation from any Guidance Notes of the Code.

2 The structures of corporate governance codes and disclosure requirements in UK and Australia are highlighted below:

- (a) UK: The Combined Code (2003) contains “Main Principles”, “Supporting Principles” and “Code Provisions”. It also includes other guidance materials¹. The Financial Services Authority Listing Rule 12.43 requires listed companies to include in their annual reports:
- (i) a narrative statement on how it has applied the Main and Supporting principles set out in Section 1² of the Combined Code (2003), providing explanations which enable its shareholders to evaluate how the principles have been applied;
 - (ii) a statement as to whether or not it has complied with the provisions set out in Section 1 of the Combined Code (2003), and give reasons for any non-compliance.
- (b) Australia: The Australian Stock Exchange’s (“ASX”) Principles of Good Corporate Governance and Best Practice Recommendations (“Australian

1 The guidance materials include Schedule A (Provisions on the design of performance related remuneration), Schedule B (Guidance on liability of non-executive directors: care, skill and diligence), Schedule C (Disclosure of corporate governance arrangements), Guidance on internal control (Turnbull Guidance), Guidance on audit committees (Smith Guidance), and Suggestions for good practice from the Higgs Report.

2 Section 1 of the Code contains four topics which relate to companies, namely directors, remuneration, accountability and audit, and relations with shareholders. Section 2 of the Code relates to institutional shareholders.

Code”) is structured in the form of “Principle”, “Recommendation” and “Commentary and Guidance”. Under ASX listing rules, listed companies are required to include in their annual reports a statement disclosing the extent to which they have followed the best practice recommendations, identify those recommendations they have not followed and give reasons for not following them. The “Commentary and Guidance” that follow the recommendations is provided to assist companies to understand the recommendation and make suggestions as to how implementation might be achieved. Companies need not disclose or explain any deviations from the “Commentary and Guidance”.

3 The proposal is to introduce commentaries to elaborate on the principles and guidance notes, similar to the approach in Australia. The purpose of the commentaries is to provide more comprehensive guidance to listed companies on how to implement best practices and make the Code more user-friendly. It is proposed that listed companies need not disclose and explain any deviation from the commentaries.

Q1.1: Do you think it is useful to have a new sub-section on “Commentaries”?
Q1.2: Do you agree that listed companies need not disclose and explain deviations from the commentaries?

SECTION 2: BOARD MATTERS

PROPOSAL 2

The current requirement of independent directors making up at least one-third of the Board shall be retained.

Rationale

4 Currently, the Code recommends that independent directors make up at least one-third of the Board.

5 It is proposed that the current requirement of independent directors making up at least one-third of the Board be retained, although it is recommended in the UK and Australia that at least a majority of the Board be independent.

6 The proposal to retain the current requirement of independent directors making up at least one-third of the Board addresses concerns that companies may face practical difficulties in appointing independent directors if the proportion is increased to half.

Q2.1: Do you agree that the current requirement of independent directors making up at least one-third of the Board should be retained?

Q2.2: If not, what is the right proportion of board independence and why?

PROPOSAL 3

It is being considered if the following relationship should be included in the Code as an additional example of a case where a director will be deemed to be non-independent: -

Where a director is, or who is directly associated with, a substantial shareholder (with interest of 5% or more in the voting shares of the company).

It is also being considered whether, in the example under the existing Guidance Note 2.1(b) of the Code which would deem a director not to be independent, the term “immediate family member” should be replaced with “close family member”. The term “close family member” is defined in the Commentary to

include immediate family members³, as well as individuals whose relationships with the director extend beyond the immediate family, where such relationships could impair the director's independence.

Additionally, the relationships under the proposed Guidance Note 2.1(c) and (d) of the Code whereby a director will be deemed non-independent will be extended to capture business relationships with close family members of the director. The criteria for independence under Guidance Note 2.1(d) will also be further extended to include significant payments made to, or received from related companies.

The following threshold of S\$200,000 will remain status quo:

Where a director or a close family member of the director is a substantial shareholder of, a partner in, or a director or executive officer of, any for-profit business organisation that makes significant payments to, or receives significant payments from the company or any of its related companies, the director will be deemed non-independent. As a guide, payments⁴ aggregated over any financial year in excess of S\$200,000 should generally be deemed significant. The existing S\$200,000 threshold for significant payments will be retained.

Rationale

7 Currently, the Code provides examples of relationships that would impair the independence of a director. These include relationships where a director is being employed by the company, where a director has an immediate family member employed by the company as a senior executive officer, and where the director or business organisations which the director is connected with, have business relationships with the company.

Relationship with Substantial Shareholders

8 It is being considered if a director who is a substantial shareholder (with an interest of 5% or more in voting shares of the company) or who is directly associated with any such substantial shareholder should be deemed non-independent. This is in view that directors' independence may be compromised if they hold a substantial stake in the company or if they represent shareholders who do. Substantial shareholders who are in a position to influence the

³ As defined in the Listing Manual of the Singapore Exchange to mean the spouse, child, adopted child, step-child, brother, sister and parent.

⁴ Payments for transactions involving standard services with published rates or routine and retail transactions and relationships (for instance credit card or bank or brokerage or mortgage or insurance accounts or transactions) will not be taken into account, unless special or favourable treatment is accorded.

operating decisions of the company may act in their own interests at the expense of minority shareholders and other stakeholders (e.g. creditors). However, a possible counter-argument is that substantial shareholders, having invested more in the company, would be more likely to act in the interest of the company. There is a need to ensure that the Board, in making decisions, effectively considers the interest of all shareholders. At the same time, this has to be balanced with concerns that tightening the definition of independence to include independence from substantial shareholders may pose practical difficulties to companies in fielding directors and in certain circumstances (e.g. in limiting their participation in key committees such as Audit and Remuneration), unwittingly undermine or compromise the interests of substantial and other shareholders in the company.

9 The proposal, if accepted, will be consistent with the UK Combined Code (2003), which deems a director who “represents a significant shareholder” to be non-independent. The Australian Code provides that a director who “is a substantial shareholder (with shareholding of 5% or more) or an officer of, or otherwise associated directly with, a substantial shareholder of the company” would be deemed non-independent.

10 If the company wishes, in spite of any such relationship, to consider such a director as independent, it should disclose in full the nature of the director’s relationship and its reasons. In evaluating whether a person who is or who represents a substantial shareholder should nonetheless be considered independent, the Nominating Committee should consider whether the substantial shareholder is in a position to influence the operating decisions of the company. However, the fact that a director nominated by a substantial shareholder does not in itself mean that that a director represents the interest of the substantial shareholder.

Close Family Relationships

11 Close family ties between a director and the company’s senior employees can impair the independence of the director. Currently, a director who has an immediate family member employed by the company as a senior executive officer whose remuneration is determined by the remuneration committee is deemed non-independent. It is proposed that the term “immediate family member” be replaced with “close family member” so as to further capture individuals whose relationships with the director extend beyond the immediate family, where such relationships could impair the director’s independence. The term “close family member” will be clarified in the Commentary.

Business Relationships

12 Currently, the Code recommends that:-

- (a) where a director accepts any compensation from the company or any of its related companies other than compensation for board service, the director will be deemed non-independent; and
- (b) where significant payments have been made or received by companies related to the director in respect of the company where the director is a Board member, the director will be deemed non-independent. As a guide, payments aggregated over any financial year in excess of S\$200,000 should generally be considered significant.

13 There have been concerns expressed that the threshold of S\$200,000 may make it more difficult for lawyers or accountants to be appointed as independent directors. However, we propose that the S\$200,000 threshold be retained. This provides an objective test to listed companies. If the company considers a director to be independent in spite of such a relationship, the rationale should be disclosed to shareholders. This is consistent with a disclosure-based regime, whereby the market assesses the quality of the explanation.

14 In addition, it is proposed that the relationships in paragraph 12(a) and (b) above be extended to the directors' close family members; and paragraph 12(b) be extended to cover business relationships with any of the listed company's related companies. This proposal is intended to catch any situation where the listed company or any of its related companies has a business relationship with the director or his close family member; or with organisations (including professional advisory firms) connected to the director or his close family member. Such relationships would clearly impair the director's independence.

Q3.1: Do you agree that in the instance where a director is, or is associated with a substantial shareholder (with interest of 5% or more in voting shares of the company), he or she should not be deemed independent?

Q3.2: If you agree with Q3.1, do you further agree that 5% is an appropriate threshold to determining substantial interest in the company such as to render the director not independent or should the threshold be higher than 5%?

Q3.3: If you agree with Q3.1, do you further agree that if a company wishes to consider such a director independent, it should disclose in full the nature of the director's relationship with the shareholder and its reasons?

Q3.4: Do you agree that the term "immediate family member" in Guidance Note 2.1(b) of the Code be replaced with "close family member"?

Q3.5: Do you agree that a director should be deemed non-independent where the listed company or any of its related companies has a business relationship with the director or his close family member; or with organisations (including professional advisory firms) connected to the director or his close family member?

Q3.6: Do you agree that the current threshold of S\$200,000 is appropriate for business relationships with organisations connected to a director or his close family member?

PROPOSAL 4

The respective roles of the Board, the Chairman and non-executive directors in the Code will be expanded to provide greater guidance to listed companies.

Rationale

15 The proposed revisions to the Code expand on the role of the Board to provide greater clarity. It is proposed that the role of the Board is to provide entrepreneurial leadership and strategic guidance for the company, oversee management and set the company's values and standards.

16 The proposed guidance on the role of the Chairman places greater emphasis on the Chairman's responsibility for providing leadership for the Board and the company. The role of the Chairman have been re-defined to include leading the Board to ensure its effectiveness, ensuring good information flows and communication channels, building good relations between management and the Board and between non-executive directors and executive directors, facilitating contribution from non-executive directors and assisting in corporate governance compliance.

17 The role of the non-executive director should be called to attention as non-executive directors can bring fresh perspectives and contribute more objectively in supporting, as well as constructively challenging and monitoring, management. It is important that non-executive directors have a strong command of issues relevant to the business and seek to maintain confidence in the conduct of the company through engaging in strategy formulation and monitoring of management.

18 The proposed revisions to the Code provide that non-executive directors should constructively challenge and help develop proposals on strategy,

scrutinise management performance and meet without the Chairman present at least annually to appraise the Chairman's performance. Non-executive directors should be responsible for performance evaluation of the Chairman, taking into account the views of the executive directors.

19 The proposed guidance on the roles of the Board, the Chairman and non-executive directors have been incorporated taking reference from the UK Combined Code (2003).

Q4.1: Do you agree that the roles of the Board, the Chairman and non-executive directors should be expanded to provide greater guidance?

Q4.2: Do you agree with the elaboration set out in paragraphs 16, 17 and 18 above?

PROPOSAL 5

Companies should consider appointing an independent non-executive director to be the lead independent director, particularly where the Chairman and the CEO is the same person, or where the Chairman and the CEO are related by close family ties. The lead independent director (if appointed) should be available to shareholders if they have concerns which communication through the normal channels of the Chairman, CEO or Finance Director has failed to resolve or for which such contact is inappropriate.

Rationale

20 Currently, the Code recommends that the roles of chairman and chief executive officer ("CEO") should in principle be separate, to ensure an appropriate balance of power.

21 The appointment of a lead independent director will help strengthen independence on boards where the Chairman and CEO are the same person, or where they are related by close family ties. Shareholders can also communicate concerns through the lead independent director when the CEO and the Chairman is the same person, or when the Chairman or senior management is unavailable. Nonetheless, appointing a lead independent director will only be the second best solution. Ideally, the Chairman and the CEO should not be the same person.

22 The above recommendation for companies to appoint a lead independent director where the Chairman and CEO is the same person, or where they are related by close family ties will be included as a “Commentary”. If companies choose not to appoint a lead independent director, they need not provide an explanation.

Q5.1: Do you agree with the recommendation that companies appoint an independent non-executive director to be the lead independent director where the Chairman and the CEO is the same person, or where the Chairman and the CEO are related by close family ties?

Q5.2: Should this recommendation be optional?

PROPOSAL 6

Companies should provide shareholders with a description of the process for the selection and appointment of new directors to the board. This should include disclosure on whether the company conducted an independent search for directors as part of the nomination process.

Rationale

23 Currently, the Code states that there should be a formal and transparent process for the appointment of new directors to the Board. It recommends that key information and the names of the directors submitted for election or re-election be disclosed to enable shareholders to make informed decisions.

24 The proposal for disclosure of the process for the selection and appointment of new directors to the Board ensures greater transparency in the nomination process. Currently, shareholders are not provided any information on the process by which candidates are proposed. Disclosure on whether the company conducted an independent search for directors as part of the nomination process would also re-affirm the independence of the process for the selection and appointment of new directors to the board. The names of persons considered need not be disclosed to protect their privacy.

25 The proposal is in line with guidance in the UK Combined Code (2003) which recommends that the work of the Nominating Committee and the process used in relation to Board appointments be disclosed. The Australian Code

recommends that the procedure and policy for the appointment of directors be made publicly available.

Q6: Do you agree that there should be disclosure of the process for the selection and appointment of new directors to the Board?

PROPOSAL 7

Non-executive directors should be responsible for the performance evaluation of the Chairman, taking into account the views of the executive directors.

Rationale

26 Currently, the Code states that there should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

27 The proposal places the responsibility of evaluating the performance of the Chairman on the non-executive directors. This ensures that there will be a formal assessment of the performance of the Chairman. Non-executive directors will provide greater objectivity and value to the process, hence increasing effectiveness of the performance evaluation. Non-executive directors are to seek feedback from executive directors in evaluating the Chairman. The commentary will recommend that the lead independent director (if appointed) or the chairman of the Nominating Committee take lead in the exercise.

28 This proposal is in line with the UK Combined Code (2003) which provides that the non-executive directors should be responsible for performance evaluation of the Chairman, taking into account the views of the executive directors.

Q7.1: Do you agree that non-executive directors should be responsible for performance evaluation of the Chairman, taking into account the views of the executive directors?

Q7.2: Do you agree that the lead independent director (if appointed) or the chairman of the Nominating Committee should take the lead for the performance evaluation of the Chairman?

SECTION 3: REMUNERATION MATTERS

PROPOSAL 8

It is being considered that the Board should set up a Remuneration Committee comprising entirely of non-executive directors, the majority of whom, including the chairman, should be independent. If the definition of independence proposed earlier is adopted, then independence here means independence from management and substantial shareholders, and free from any business relationships with the company. For companies with a single controlling shareholder, it may be appropriate to have a Remuneration Committee Chairman who is independent of management and free from any business relationships with the company only.

Rationale

29 Currently, the Code recommends that a Remuneration Committee (“RC”) comprise a majority of non-executive directors who are independent of management and free from any business or other relationships, which may materially interfere with the exercise of their independent judgement. The RC should also be chaired by an independent non-executive director, and have at least one member who is knowledgeable in the field of executive compensation, failing which the committee should have access to expert advice inside and/ or outside the company.

30 The UK Combined Code (2003) recommends that all members of a RC should comprise independent non-executive directors. The Combined Code (2003) defines independence to include independence from substantial shareholders. In Australia, a RC should consist of a minimum three members – a majority of whom are independent, and be chaired by an independent director. Australia defines independence to include independence from substantial shareholders. The draft Hong Kong Code recommends that a majority of RC members should be independent. The Hong Kong listing rules define independence to include independence from substantial shareholders.

31 The following options are considered:

- (a) Option 1: To retain the existing Guidance Notes – The RC should comprise a majority of independent directors. The RC should be chaired by an independent director. Independence here means independence from management and free from any business relationships with the company only.

- (b) Option 2: The RC should comprise entirely of non-executive directors. A majority of these directors, including the Chairman, should be independent. Independence here means independence from management and free from any business relationships with the company only.
- (c) Option 3: The RC should comprise entirely of non-executive directors. A majority of these directors should be independent. Here, independence means independence of management and free from any business relationships with the company only. The RC should be chaired by a director who is independent of management and substantial shareholders, and free from any business relationships with the company. For companies with a single controlling shareholder, it may be appropriate to have an RC Chairman who is independent of management and free from any business relationships with the company only.
- (d) Option 4: The RC should comprise entirely of non-executive directors. A majority of these directors, including the Chairman, should be independent. Independence here means independence from management and substantial shareholders, and free from any business relationships with the company. For companies with a single controlling shareholder, it may be appropriate to have an RC Chairman who is independent of management and free from any business relationships with the company only.

32 The first issue is whether the RC should include executive directors. As the RC is responsible for reviewing the remuneration of senior management, the proposal is to for the RC to comprise entirely of non-executive directors. The second issue is whether an RC Chairman should be independent from management and substantial shareholders, and free from any business relationships with the company. There are views that an RC Chairman need not be independent from substantial shareholders since the interests of a substantial shareholder are likely to be aligned with the company's and minority shareholders' interests in the area of remuneration, especially when the substantial shareholder is also the controlling shareholder. On the other hand, there are views that for companies with more than one substantial shareholder, it will be more equitable if the RC Chairman is independent of all substantial shareholders.

33 It is noted that the UK and Australia set out the minimum number of RC members – UK requires at least two members for smaller companies and at least three members for bigger companies, and Australia requires a minimum number of three members. There is no plan to introduce a minimum number of RC

members in the Code. This is to allow companies, especially smaller companies, the flexibility to form RC with the appropriate number of directors.

34 The existing provision for a RC member who is knowledgeable in the field of executive compensation will also be excluded. It is noted that the UK Combined Code (2003) similarly does not prescribe such requirement. The existing provision on giving RC access to expert advice inside and/ or outside the company will be reflected as a commentary instead.

Q8.1: Is there a need to tighten the composition of a RC?

Q8.2: Which of the four options should be adopted, and why?

Q8.3: Should the Code recommend a minimum number of RC members?

Q8.4: Do you agree that there is no need to require a RC member to be knowledgeable in the field of executive compensation?

PROPOSAL 9

The RC will continue to play an advisory role. The RC will recommend to the Board a framework of remuneration and specific remuneration packages for each director and CEO (if the CEO is not a director). The RC will review the remuneration of senior management.

Rationale

35 Currently, the Code recommends that the RC recommend to the Board a framework of remuneration for the Board and key executives, and to determine specific remuneration packages for each executive director and the CEO (or executive of equivalent rank) if the CEO is not a director. The RC's recommendation should be made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board.

36 In the UK, the RC has delegated responsibilities for setting remuneration for all executive directors and the chairman. The RC also recommends and monitors the level and structure of remuneration for senior management. On the other hand, the RC in Australia plays an advisory role. Its responsibilities include a review of and recommendation to the Board on remuneration packages for senior management and remuneration framework for directors.

37 The proposal clarifies that the RC will continue to play an advisory role. Its role will also be extended to cover specific remuneration packages for each non-executive director. The proposal has removed an existing recommendation for the RC to consult the Chairman of the Board before submitting its recommendations to the Board. The Chairman of the Board should not be involved in RC's deliberations. He can give his views when the RC submits its recommendations to the Board.

38 The proposal also acknowledges that the Board should be allowed to delegate the responsibility of setting remuneration of senior management to the RC as the task (especially for bigger companies) will involve significant amount of work and time. The Board, after delegating its function to the RC, should be conscious of and be responsible for the RC's decision. Thus, the proposal is for the RC to be involved in the deliberations on remuneration for senior management. However, its duties need not extend to the fine details of determining the actual amounts of remuneration. The task of working out the specific remuneration can be left to the management.

Q9.1: Do you agree that the RC should continue to play an advisory role?

Q9.2: Do you agree with the scope of duties of the RC?

Q9.3: Do you agree that the RC need not consult the Chairman of the Board before it submits its recommendations to the Board?

PROPOSAL 10

The company should disclose the exact remuneration of each director. For top five key executives (who are not directors), as well as employees who are immediate family members of a director or the CEO, and whose remuneration exceed S\$150,000 during the year, the disclosure will continue to be in bands of S\$250,000.

Rationale

39 Currently, the Code recommends that the Board disclose the remuneration of directors, at least the top five key executives (who are not also directors), as well as employees who are immediate family members of a director or CEO and whose remuneration exceed S\$150,000 during the year. The disclosure of remuneration is in bands of S\$250,000. The Code also encourages companies to fully disclose the remuneration of each individual director as a best practice.

40 There have been many calls for greater transparency on directors' remuneration. Supporters cite that full disclosure will provide greater transparency and more meaningful disclosure to shareholders. Moreover, remuneration is an issue that investors are concerned with and that will be raised at annual general meetings. Thus, companies should be open about how much they are paying the directors. More importantly, the international trend is towards full disclosure of directors' remuneration. US, UK and Australia have mandated disclosure of remuneration of each director. Hong Kong listing rules also require listed companies to disclose in their financial statements details of present and past directors' emoluments on a named basis. The European Commission also recommended the disclosure of the total remuneration and benefits granted to individual directors.

41 At the same time, there are arguments against full disclosure. One of the arguments is that the current disclosure requirement in bands of S\$250,000 is sufficient and there is no need to dwell into the exact amount of each director's pay. There are views that disclosure requirements in other countries may not be suitable for Singapore as it will intensify competition for talent among companies and lead to upward ratcheting of remuneration. There are also concerns that full disclosure may cause embarrassment to individuals.

42 Separately, there are other ideas on how the existing disclosure requirement can be improved. For example, the existing S\$250,000 bands can be narrowed. Another suggestion is to limit full disclosure to remuneration of non-executive directors. The rationale is that unlike non-executive directors who are voted by shareholders, executive directors are employees of the company and their remuneration is determined by the Board. Thus, there is less reason to disclose exact remuneration for executive directors as compared to non-executive directors.

43 On balance, the proposal is for companies to disclose the exact remuneration of each director. Unlike other countries that have mandated the disclosure requirement, there is no plan to mandate the requirement in Singapore. Nevertheless, companies that do not disclose fully the remuneration of each director will be required to disclose and explain the non-compliance. Separately, it is noted that some listed companies have voluntarily disclosed the exact remuneration of their directors, and there is no adverse repercussion arising from the full disclosure. For key management and certain employees, the proposal is to retain the existing disclosure requirement.

Q10.1: Do you agree that companies should disclose the exact remuneration of each director? Please provide reasons for agreeing or disagreeing with the proposal.

Q10.2: Is there a need to change the disclosure requirement for top five key executives (who are not directors), as well as employees who are immediate family members of a director or the CEO, and whose remuneration exceed S\$150,000 during the year?

Q10.3: Do you have any other suggestions to improve the disclosure requirement?

SECTION 4: ACCOUNTABILITY AND AUDIT

PROPOSAL 11

The current requirement that the Audit Committee should comprise at least three directors, all non-executive, the majority of whom, including the chairman, should be independent, should be retained.

Rationale

44 Currently, the Code recommends that the Audit Committee should comprise at least three directors, all non-executive, the majority of whom, including the chairman, should be independent.

45 It is proposed that this requirement be retained. While it is recommended in the UK that the Audit Committee should comprise all independent non-executive directors, the recommended composition of the Audit Committee in the Australian Code is consistent with our existing requirement.

46 In proposing that Singapore retains the current requirement for the Audit Committee to comprise only a majority of independent directors, it was felt that the existing requirements in the Code on AC composition and financial expertise were adequate to meet local requirements.

Q11: Do you agree that the current requirement that the Audit Committee should comprise at least three directors, all non-executive, the majority of whom, including the chairman, should be independent, should be retained? If not, how should it be amended and why?

PROPOSAL 12

The AC should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Rationale

47 The proposal is for the AC to review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The objective of the AC should be to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow up action. This recommendation serves to ensure that adequate channels are established within the company for employees to report any possible corporate improprieties. The proposal is in line with the UK Combined Code (2003).

Q12.1: Do you agree that the role of the Audit Committee should be expanded, as proposed?

Q12.2: Do you think that the Audit Committee should have further responsibilities beyond what is proposed in the revised Code, and why?

SECTION 5: COMMUNICATION WITH SHAREHOLDERS

PROPOSAL 13

Companies are encouraged to amend their Articles of Association to avoid imposing a limit on the number of proxies for nominee companies so that shareholders who hold shares through nominees can attend AGMs as proxies.

Rationale

48 Currently, investors who hold shares through nominee companies are often not able to attend AGMs as they are not the legal owners. Similarly, institutional investors are often not able to be represented at AGMs of companies whose shares they own, as the fund managers who represent them are unable to participate at AGMs. The issue is partly due to restrictions on the number of proxies that nominee companies may appoint. The restrictions are imposed by listed companies via their articles of association.

49 The proposal is intended to encourage listed companies to lift such restrictions, in order to facilitate investor participation – in particular, participation by institutional investors – at AGMs.

Q13.1: Do you agree that companies should avoid imposing limits on the number of proxies that nominee companies can appoint?

Q13.2: What else can be done to facilitate investor participation – particularly institutional investor participation – at AGMs?

PROPOSAL 14

Resolutions on substantially separate issues should be kept separate. Companies should avoid “bundling” resolutions unless resolutions are interdependent and linked so as to form one significant proposal. Where such resolutions are “bundled”, companies should explain the reasons and the material implications.

Rationale

50 Currently, the Code states that “there should be separate resolutions at general meetings on each distinct issue. The fundamental position – that

unnecessary bundling of resolutions is not a good corporate governance practice – still holds true. The proposal – which will be an amendment to the existing Guidance Note 15.2 of the Code – is intended to provide greater clarity to this position, and to emphasise that there are only certain circumstances – that is, where resolutions are interdependent and closely linked – that resolutions could be bundled. In such situations, disclosure of the reasons for the bundling and the implications of such bundling must be made clear to shareholders.

51 Guidance was obtained from the UK and Australia in relation to this matter. The UK Combined Code (2003) recommends that “*the company should propose a separate resolution at the AGM on each substantially separate issue*”. The Australian Code recommends that “*companies should combine or ‘bundle’ resolutions only in limited circumstances and in accordance with*” specified guidelines. These guidelines include the following:

- (a) Companies should avoid “bundling” resolutions unless the resolutions are interdependent and linked so as to form one significant proposal. An example of an appropriately bundled resolution is one that incorporates a number of uncontroversial changes to a company’s constitution.
- (b) Where resolutions are “bundled”, the company should ensure the notice clearly explains the primary purpose of the bundled resolution and the material implications of each of its components.

Q14: Do you agree with the proposed amendment to Guidance Note 15.2 to elaborate and provide clarity on the bundling of resolutions?

PROPOSAL 15

The external auditors should be present to address shareholders’ queries about the conduct of the audit and the preparation and contents of the auditors’ report.

Rationale

52 Currently, Guidance Note 15.3 of the Code states that “The external auditors should also be present to assist the directors in addressing any relevant queries by shareholders.”

53 The proposal is intended to clarify the role of the external auditor at a company's AGM. The external auditor should be present at AGMs to answer only questions that relate to its work in conducting the audit and preparing the auditors' report. It should not have an obligation to assist directors in answering any queries from shareholders.

54 We have taken guidance from Australia in drafting this proposal. The Australian Code recommends that companies "*request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditors' report*".

Q15: Do you agree with the proposed amendment to Guidance Note 15.3, to provide greater clarity on the role of auditors at AGMs?

SECTION 6: OTHER MATTERS

PROPOSAL 16

There is no need to include a separate section on the roles of institutional investors in the Code.

Rationale

55 The UK Combined Code (2003) contains a separate section on the roles of institutional investors in the following areas: dialogues with companies, evaluation of governance disclosures and shareholders voting. The proposal is not to include a section on institutional investors in the Code for the following reasons:

- (a) The Code is meant for listed companies and is not intended to address the behaviour of institutional investors;
- (b) The Code already contains a section on “Communication with Shareholders”; and
- (c) The Investment Management Association of Singapore has already developed a voluntary Code of Best Practices for investment managers in their capacities as shareholders.

Q16: Do you agree with the proposal not to have a separate section on the roles of institutional investors in the Code? If not, please explain why and provide your views on what the section should cover and who should monitor compliance with provisions.

PROPOSAL 17

There is no need for the Code of Corporate Governance to recommend that companies prepare minutes or notes of meeting, which include substantive comments or queries from shareholders and responses from the board and management, and make these minutes or notes available to shareholders. The proposal is to leave the matter to companies to decide whether they want to provide such minutes to their shareholders.

Rationale

56 Currently, Section 188(1) of the Companies Act provides that minutes of all general meetings must be entered in books kept for that purpose within one month of the date of meeting date. Minutes of meetings are essentially evidence of the proceedings to which they relate. The minutes are prima facie evidence that the meeting has been duly held and convened, that all appointments were valid and that the proceedings were duly conducted. Shareholders are entitled to access and inspect the minutes without charge.

57 There are calls for listed companies to include substantive comments or queries from shareholders and responses from the board and management in their minutes of meeting, instead of only recording decisions in the minutes. There are also suggestions for companies, which prefer to record substantial comments in notes, to make these notes available to shareholders upon request.

58 It is noted that Australia, Canada, France, UK and US do not have any legal requirements or prescribed best practices for companies to provide detailed minutes. However, there is such a requirement in South Korea and Malaysia. In South Korea, the non-mandatory Code of Best Practices recommends that a listed company keep detailed minutes of the proceedings or make audio recordings of the entire meeting. The details to be included in the minutes include important comments and resolutions proposed by each speaker. In Malaysia, the non-mandatory Code on Corporate Governance recommends, as a best practice, that a listed company should prepare a “resume of discussion” which includes substantive comments and questions from the attendees. The resume, which will be sent to shareholders upon their request, is a separate document from the minutes of meeting.

59 Currently, there is nothing to prevent a company from preparing a separate set of notes to record the details of the discussions during general meetings. Companies that want to be seen as more responsive to their shareholders may voluntarily agree to include more details in their minutes or prepare a separate note containing details of the discussions. In fact, some companies have taken initiatives to post detailed written records of its annual general meetings on their websites.

60 The proposal is to leave the matter to companies to decide whether they want to provide minutes to their shareholders. The Code need not include a recommendation on the matter. Preparing a separate set of minutes or notes that can be circulated to shareholders will create administrative burden for companies, notwithstanding that companies generally prepare detailed minutes or notes for internal uses. It also raises questions on the appropriate level of

details for the minutes or notes. There are also concerns that detailed minutes or notes may attract shareholders' scrutiny and unnecessary disagreements over the minutes at the next general meeting. Also, the leading jurisdictions do not impose such requirement on companies.

Q17: Should the Code encourage companies to prepare minutes or notes of meeting, which include substantive comments or queries from shareholders and responses from the board and management, and make these minutes or notes available to shareholders? Please provide reasons for agreeing or disagreeing with the proposal.

SECTION 7: LIST OF QUESTIONS

Section 1 Structure of the Code of Corporate Governance

- Q1.1 Do you think it is useful to have a new sub-section on “Commentaries”?
- Q1.2 Do you agree that listed companies need not disclose and explain deviations from the commentaries?

Section 2 Board Matters

- Q2.1 Do you agree that the current requirement of independent directors making up at least one-third of the Board should be retained?
- Q2.2 If not, what is the right proportion of board independence and why?
- Q3.1 Do you agree that in the instance where a director is, or is associated with a substantial shareholder (with interest of 5% or more in voting shares of the company), he or she should not be deemed independent?
- Q3.2 If you agree with Q3.1, do you further agree that 5% is an appropriate threshold to determining substantial interest in the company such as to render the director not independent or should the threshold be higher than 5%?
- Q3.3 If you agree with Q3.1, do you further agree that if a company wishes to consider such a director independent, it should disclose in full the nature of the director’s relationship with the shareholder and its reasons?
- Q3.4 Do you agree that the term “immediate family member” in Guidance Note 2.1(b) of the Code be replaced with “close family member”?
- Q3.5 Do you agree that a director should be deemed non-independent where the listed company or any of its related companies has a business relationship with the director or his close family member; or with organisations (including professional advisory firms) connected to the director or his close family member?

- Q3.6 Do you agree that the current threshold of S\$200,000 is appropriate for business relationships with organisations connected to a director or his close family member?
- Q4.1 Do you agree that the roles of the Board, the Chairman and non-executive directors should be expanded to provide greater guidance?
- Q4.2 Do you agree with the elaboration set out in paragraphs 16, 17 and 18 above?
- Q5.1 Do you agree with the recommendation that companies appoint an independent non-executive director to be the lead independent director where the Chairman and the CEO is the same person, or where the Chairman and the CEO are related by close family ties?
- Q5.2 Should this recommendation be optional?
- Q6 Do you agree that there should be disclosure of the process for the selection and appointment of new directors to the Board?
- Q7.1 Do you agree that non-executive directors should be responsible for performance evaluation of the Chairman, taking into account the views of the executive directors?
- Q7.2 Do you agree that the lead independent director (if appointed) or the chairman of the Nominating Committee should take the lead for the performance evaluation of the Chairman?

Section 3 Remuneration Matters

- Q8.1 Is there a need to tighten the composition of a RC?
- Q8.2 Which of the four options should be adopted, and why?
- Q8.3 Should the Code recommend a minimum number of RC members?
- Q8.4 Do you agree that there is no need to require a RC member to be knowledgeable in the field of executive compensation?
- Q9.1 Do you agree that the RC should continue to play an advisory role?

- Q9.2 Do you agree with the scope of duties of the RC?
- Q9.3 Do you agree that the RC need not consult the Chairman of the Board before it submits its recommendations to the Board?
- Q10.1 Do you agree that companies should disclose the exact remuneration of each director? Please provide reasons for agreeing or disagreeing with the proposal.
- Q10.2 Is there a need to change the disclosure requirement for top five key executives (who are not directors), as well as employees who are immediate family members of a director or the CEO, and whose remuneration exceed S\$150,000 during the year?
- Q10.3 Do you have any other suggestions to improve the disclosure requirement?

Section 4 Accountability and Audit

- Q11 Do you agree that the current requirement that the Audit Committee should comprise at least three directors, all non-executive, the majority of whom, including the chairman, should be independent, should be retained? If not, how should it be amended and why?
- Q12.1 Do you agree that the role of the Audit Committee should be expanded, as proposed?
- Q12.2 Do you think that the Audit Committee should have further responsibilities beyond what is proposed in the revised Code, and why?

Section 5 Communication with Shareholders

- Q13.1 Do you agree that companies should avoid imposing limits on the number of proxies that nominee companies can appoint?
- Q13.2 What else can be done to facilitate investor participation – particularly institutional investor participation – at AGMs?
- Q14 Do you agree with the proposed amendment to Guidance Note 15.2 to elaborate and provide clarity on the bundling of resolutions?

- Q15 Do you agree with the proposed amendment to Guidance Note 15.3, to provide greater clarity on the role of auditors at AGMs?

Section 6 Other matters

- Q16 Do you agree with the proposal not to have a separate section on the roles of institutional investors in the Code? If not, please explain why and provide your views on what the section should cover and who should monitor compliance with provisions.
- Q17 Should the Code encourage companies to prepare minutes or notes of meeting, which include substantive comments or queries from shareholders and responses from the board and management, and make these minutes or notes available to shareholders? Please provide reasons for agreeing or disagreeing with the proposal.

PART 3: ANNEX

Annex 1

PROPOSED REVISIONS TO THE CODE

BOARD MATTERS

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
THE BOARD’S CONDUCT OF AFFAIRS	
<p><u>Principle:</u></p> <p>1 Every company should be headed by an effective Board to lead and control the company. <u>The Board is collectively responsible for the success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board.</u></p>	<p>Recommends expanding principle to elaborate on the relationship between the Board and Management.</p>
<p><u>Guidance Notes:</u></p> <p><u>1.1 The Board’s role is to:</u></p> <p><u>(a) provide entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed;</u></p> <p><u>(b) set strategic aims and, ensure that the necessary financial and human resources are in place for the company to meet its objectives;</u></p> <p><u>(c) review management performance;</u></p>	<p>See Section 2 Proposal 4.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p><u>(d) set the company's values and standards and ensure that obligations to shareholders and others are understood and met.</u></p>	
<p><u>1.2 All directors must objectively take decisions in the interests of the company.</u></p>	<p>See Section 2 Proposal 4.</p>
<p><u>1.3 If authority to make decisions on certain board matters is delegated by the Board to any Board Committee, such delegation should be disclosed.</u></p>	<p>Recommends clarifying that the role of Board Committees is primarily to make recommendations to the Board, which bears ultimate responsibility for its board functions. While certain functions may be delegated by the Board to any Board Committee, it is important that such delegation be disclosed.</p>
<p>1.41 The Board should meet regularly and as warranted by particular circumstances, as deemed appropriate by the board members. Companies are encouraged to amend their Articles of Association to provide for telephonic and videoconference meetings. The number of board meetings held in the year, as well as the attendance of every board member at those meetings and meetings of specialised committees established by the Board, should be disclosed in the company's annual report.</p>	<p>Recommends status quo.</p>
<p>1.52 Companies should adopt internal guidelines setting forth matters that require board approval, and specify in their corporate governance disclosures the type of material transactions that require board approval under such guidelines.</p>	<p>Recommends status quo.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>1.63 Every director should receive appropriate training (including his or her duties as a director and how to discharge those duties) when he is first appointed to the Board. This should include an orientation-training program to ensure that incoming directors are familiar with the company's business and governance practices. It is equally important that directors should receive further relevant training, particularly on relevant new laws, regulations and changing commercial risks, from time to time.</p>	<p>Recommends drafting refinements.</p>
<p><u>1.7 Upon appointment of each director, companies should provide a formal letter to the director, setting out the director's duties and obligations.</u></p>	<p>The letter serves to ensure that the director understands the scope of his or her duties and obligations. This is consistent with recommended practices in the UK Combined Code (2003) and the Australian Code.</p>
<p><u>Commentary:</u></p> <p><u>The company is encouraged to provide training for first-time directors in areas such as accounting, legal and industry-specific knowledge.</u></p>	<p>Recommends including examples of training which companies should provide for first-time directors.</p>
BOARD COMPOSITION AND GUIDANCE	
<p><u>Principle:</u></p> <p>2 There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.</p>	<p>Recommends status quo.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p><u>Guidance Notes:</u></p> <p>2.1 There should be a strong and independent element on the Board, with independent directors making up at least one-third of the Board. An “independent” director is one who has no relationship with the company, its related companies⁵ or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the company. Examples of such relationships, which would deem a director not to be independent, include:</p> <p>(a) a director being employed by the company or any of its related companies for the current or any of the past three financial years;</p> <p>(b) a director who has an immediate a close family member⁶ who is, or has been in any of the past three financial years, employed by the company or any of its related companies as a senior executive officer whose remuneration is determined by the remuneration committee;</p>	

⁵ A related company in relation to a company includes its subsidiary, fellow subsidiary, or parent company.

⁶ ~~As defined in the Listing Manual of the Singapore Exchange to mean the spouse, child, adopted child, step child, brother, sister and parent.~~

⁷ Payments for transactions involving standard services with published rates or routine and retail transactions and relationships (for instance credit card or bank or brokerage or mortgage or insurance accounts or transactions) will not be taken into account, unless special or favourable treatment is accorded.

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>(c) a director, <u>or a close family member</u>, accepting any compensation from the company or any of its related companies other than compensation for board service for the current or immediate past financial year; or</p> <p>(d) a director, <u>or a close family member</u>, being a substantial shareholder of or a partner in (with 5% or more stake), or an executive officer of, <u>or a director of</u> any for-profit business organisation to which the company <u>or any of its related companies</u> made, or from which the company <u>or any of its related companies</u> received, significant payments in the current or immediate past financial year. As a guide, payments⁷ aggregated over any financial year in excess of S\$200,000 should generally be deemed significant.</p> <p>(e) <u>a director is, or who is directly associated with, a substantial shareholder (with interest of 5% or more in the voting shares of the company).</u></p>	<p>See Section 2 Proposal 3.</p>
<p>2.2 The four relationships set out above are not intended to be exhaustive, and are examples of situations which would deem a director to be not independent. If the company wishes, in spite of the existence of one or more of these relationships, to consider the director as independent, it should disclose in full the nature of the director's</p>	<p>Recommends drafting refinements.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
relationship and bear responsibility for explaining why he should be considered independent.	
2.3 The Board should examine its size and, with a view to determining the impact of the number upon effectiveness, decide on what it considers an appropriate size for the Board, which facilitates effective decision making. The Board should take into account the scope and nature of the operations of the company.	Recommends status quo.
2.4 The Board should comprise directors who as a group provide core competencies such as accounting or finance, business or management experience, industry knowledge, strategic planning experience and customer-based experience or knowledge.	Recommends status quo.
<p><u>2.5 Non-executive directors should:</u></p> <p><u>(a) constructively challenge and help develop proposals on strategy;</u></p> <p><u>(b) review the performance of management in meeting agreed goals and objectives and monitor the reporting of performance;</u></p> <p><u>(c) meet without the Chairman present at least annually to appraise the Chairman's performance</u></p>	See Section 2 Proposal 4.

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p><u>Commentary:</u></p> <p><u>1 The term “close family members” should include immediate family members⁸, as well as individuals whose relationships with the director extend beyond the immediate family, where such relationships could impair the director’s independence.</u></p> <p><u>2 For the purposes of Guidance Note 2.1(e), in evaluating whether a director who is, or who is directly associated with, a substantial shareholder (with interest of 5% or more in the voting shares of the company) should nonetheless be considered independent, one of the factors the Nominating Committee should consider is whether the substantial shareholder is in a position to influence the operating decisions of the company. However, the fact that a director is nominated by a substantial shareholder does not in itself mean that that director has direct associations with the substantial shareholder.</u></p>	<p>See Section 2 Proposal 3.</p>
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	
<p><u>Principle:</u></p> <p>3 There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which</p>	<p>Recommends status quo.</p>

⁸ As defined in the Listing Manual of the Singapore Exchange to mean the spouse, child, adopted child, step-child, brother, sister and parent.

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.</p>	
<p><u>Guidance Notes:</u></p> <p>3.1 The roles of eChairman and chief executive officer (“CEO”) should in principle be separate <u>persons</u>, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. <u>The division of responsibilities between the Chairman and CEO should be clearly established, set out in writing and agreed by the Board.</u> In addition, companies should disclose the relationship between the <u>C</u>hairman and CEO where they are related to each other (i.e. be of the same immediate family, as defined in footnote 2).</p>	<p>The proposed amendment is adopted from the UK Combined Code (2003) and the Australian Code. The intention is to clarify that the Chairman and CEO should not be the same individual. There is also a need to emphasise the importance of a clear division of responsibility between the Chairman and CEO.</p>
<p>3.2 The <u>C</u>hairman should:</p> <p>(a) schedule meetings that enable the Board to perform its duties responsibly while not interfering with the flow of the company's operations;</p> <p>(b) prepare meeting agenda in consultation with the CEO;</p> <p>(c) exercise control over quality, quantity and timeliness of the flow of information between Management and the Board; and</p>	<p>See Section 2 Proposal 4.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>(d)assist in ensuring compliance with company's guidelines on corporate governance.</p> <p><u>(a) lead the Board to ensure its effectiveness on all aspects of its role and setting its agenda;</u></p> <p><u>(b) ensure that the directors receive accurate, timely and clear information;</u></p> <p><u>(c) ensure effective communication with shareholders;</u></p> <p><u>(d) ensure constructive relations between the Board and Management;</u></p> <p><u>(e) facilitate the effective contribution of non-executive directors in particular;</u></p> <p><u>(f) ensure constructive relations between executive directors and non-executive directors; and</u></p> <p><u>(g) assist in ensuring compliance with company's guidelines on corporate governance.</u></p> <p><u>The responsibilities set out above provide guidance and should not be taken as a comprehensive list of all the duties and responsibilities of a Chairman.</u></p>	

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>3.3 The responsibilities set out in the above guidelines pertain only to the chairman's role in respect of board proceedings. It should not be taken as a comprehensive list of all the duties and responsibilities of a chairman.</p>	<p>Recommends deleting as it will be covered under Guidance Note 3.2.</p>
<p><u>Commentary:</u></p> <p>Companies may appoint an independent non-executive director to be the lead independent director where the Chairman and the CEO is the same person, or where the Chairman and the CEO are related by close family ties. The lead independent director (if appointed) should be available to shareholders where they have concerns which contact through the normal channels of the Chairman, CEO or Finance Director has failed to resolve or for which such contact is inappropriate.</p>	<p>See Section 2 Proposal 5.</p>
BOARD MEMBERSHIP	
<p><u>Principle:</u></p> <p>4 There should be a formal and transparent process for the appointment of new directors to the Board.—As a principle of good corporate governance, all directors should be required to submit themselves for re-nomination and re-election at regular intervals.</p>	<p>Recommends deleting since the recommendation that all directors be subject to re-nomination and re-election at regular intervals is already in Guidance Note 4.2.</p>
<p><u>Guidance Notes:</u></p> <p>4.1 Companies should establish a Nominating Committee</p>	<p>Recommends drafting refinements.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>(“NC”) to make recommendations to the Board on all board appointments. The NC should comprise at least three directors, a majority of whom, including the chairman, should be independent. <u>Its membership should be disclosed in the annual report.</u> The NC should have written terms of reference that describes the responsibilities of its members; and its membership is disclosed annually.</p>	
<p>4.2 The NC should be charged with the responsibility of re-nomination having regard to the director's contribution and performance (e.g. attendance, preparedness, participation and candour) including, if applicable, as an independent director. As a principle of good corporate governance, aAll directors should be required to submit themselves for re-nomination and re-election at regular intervals and at least every three years.</p>	<p>Recommends drafting refinements.</p>
<p>4.3 The NC is also charged with determining annually whether or not a director is independent, bearing in mind the circumstances set forth in paragraph 2.1 and any other salient factors. If the NC determines that a director who has one or more of the relationships mentioned therein is in fact independent, the company should make such disclosure as stated in paragraph 2.2.</p>	<p>Recommends status quo.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>4.4 When a director has multiple board representations, he or she must ensure that sufficient time and attention is given to the affairs of each company. The NC should decide whether or not a director is able to and has been adequately carrying out his/her duties as director of the company. Internal guidelines should be adopted that address the competing time commitments that are faced when directors serve on multiple boards.</p>	<p>Recommends status quo.</p>
<p><u>4.5 A description of the process for the selection and appointment of new directors to the Board should be disclosed. This should include disclosure on whether the company conducted an independent search for directors as part of the nomination process.</u></p>	<p>See Section 2 Proposal 6.</p>
<p>4.65 Key information regarding directors, such as academic and professional qualifications, shareholding in the company and its subsidiaries, board committees served on (as a member or chairman), date of first appointment as a director, date of last re-election as a director, directorships or chairmanships both present and those held over the preceding three years in other listed companies and other major appointments, should be disclosed in the annual report. In addition, the company's annual disclosure on corporate governance should indicate which directors are executive, non-executive or considered by the NC to be independent. The names of the directors submitted for election or re-election should also be accompanied by such</p>	<p>Recommends status quo.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>details and information to enable shareholders to make informed decisions.</p>	
<p><u>Commentary:</u></p> <p><u>Guidance Note 4.2 provides that all directors should submit themselves for re-nomination and re-election at least every three years. For executive officers, such as the CEO, who are employed for a fixed term and who are also directors, there may be a possible breach of the employment contracts if they are not re-elected as directors. To avoid such scenarios, companies are advised to reconcile the employment contracts of executive directors with the recommendation for all directors to be subject to re-election.</u></p>	<p>The commentary covers matters that could either be dealt through the Memorandum and Articles of Association of the individual companies or the individual’s employment contract. It would be prescriptive to include the statement in the Code. Nonetheless, it would be useful to alert companies on the possible breach of employment contracts.</p>
BOARD PERFORMANCE	
<p><u>Principle:</u></p> <p>5 There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.</p>	<p>Recommends status quo.</p>
<p><u>Guidance Notes:</u></p> <p><u>5.1 Every Board should implement a process to be carried out by the NC for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual director to the effectiveness of the Board. This assessment process should be disclosed in the annual report.</u></p>	<p>Original Guidance note 5.3 is moved up as this points to the overall assessment process. Original Guidance note 5.1 which relates to setting of performance criteria is renumbered as Guidance note 5.2.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>5.21 The NC should decide how the Board's performance may be evaluated and propose objective performance criteria. Such performance criteria, that allow comparison with its industry peers, should be approved by the Board and address how the Board has enhanced long term shareholders' value. These performance criteria should not be changed from year to year, and where circumstances deem it necessary for any of the criteria to be changed, the onus should be on the Board to justify this decision.</p>	<p>Recommends status quo.</p>
<p>5.32 In addition to any relevant performance criteria which the Board may propose, the performance evaluation should also consider the company's share price performance over a five-year period vis-à-vis the Singapore Straits Times Index and a benchmark index of its industry peers. Other performance criteria that may be used include return on assets (“ROA”), return on equity (“ROE”), return on investment (“ROI”), economic value added (“EVA”) and profitability on capital employed.</p>	<p>Recommends deletion as such performance criteria are more applicable for assessing the performance of management and may skew the focus of directors towards short-term profit maximisation.</p>
<p>5.3 Every Board should implement a process to be carried out by the NC for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual director to the effectiveness of the Board. This assessment process should be disclosed annually.</p>	<p>Recommends presenting as Guidance Note 5.1.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p><u>5.4 Individual evaluation should aim to show whether each director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties.) The Chairman should act on the results of the performance evaluation, and where appropriate, proposing new members be appointed to the Board or seeking the resignation of directors, in consultation with the NC.</u></p>	<p>This is adapted from the UK Code A.6. It provides guidance on individual evaluation of Directors and places responsibilities on the Chairman to act upon the results of the performance evaluation. This is intended to encourage more rigour in the process of evaluating individual directors.</p>
<p><u>5.5 The non-executive directors should be responsible for the performance evaluation of the Chairman, taking into account the views of the executive directors.</u></p>	<p>See Section 2 Proposal 7.</p>
<p><u>Commentary:</u></p> <p><u>The lead independent director (if appointed) or the chairman of the Nominating Committee should lead the non-executive directors in the performance evaluation of the Chairman.</u></p>	<p>See Section 2 Proposal 7.</p>
ACCESS TO INFORMATION	
<p>Principle:</p> <p>6 In order to fulfil their responsibilities, Bboard members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.</p>	<p>Recommends status quo.</p>
<p><u>Guidance Notes:</u></p> <p>6.1 Management has an obligation to supply the Board</p>	<p>Recommends status quo.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>with complete, adequate information in a timely manner. Reliance purely on what is volunteered by Management is unlikely to be enough in all circumstances and further enquiries may be required if the particular director is to fulfil his or her duties properly. Hence, the Board should have separate and independent access to the company's senior management.</p>	
<p>6.2 Information provided should include background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and monthly internal financial statements. In respect of budgets, any material variance between the projections and actual results should also be disclosed and explained.</p>	<p>Recommends status quo.</p>
<p>6.3 Directors should have separate and independent access to the company secretary. The role of the company secretary should be clearly defined and should include responsibility for ensuring that board procedures are followed and that applicable rules and regulations are complied with. <u>Under the direction of the Chairman, the company secretary's responsibilities include ensuring good information flows within the Board and its committees and between senior management and non-executive directors, as well as facilitating orientation and assisting with professional development as required.</u> The company secretary should attend all board meetings.</p>	<p>This is adopted from the UK Combined Code (2003) A.5 which makes the company secretary responsible for ensuring good information flows.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p><u>6.4 The appointment and the removal of the company secretary should be a matter for the Board as a whole.</u></p>	<p>This is adopted from the UK Combined Code (2003) A.5.3. The intention is to emphasise that the functioning of the Board can be hampered if the company secretary does not perform his or her role effectively.</p>
<p>6.54 The Board should have a procedure for directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at the company's expense.</p>	<p>Recommends status quo.</p>

REMUNERATION MATTERS

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
PROCEDURES FOR DEVELOPING REMUNERATION POLICIES	
<p><u>Principle:</u></p> <p>7 There should be a formal and transparent procedure for <u>developing policy on executive remuneration and for</u> fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.</p>	<p>The intention is to highlight the importance of having a concrete policy for determining remuneration and not merely disclosing the absolute figures of directors’ remuneration. The amendments are based on the wordings in the UK Combined Code (2003).</p>
<p><u>Guidance Notes:</u></p> <p>7.1 The Board should set up a <u>R</u>emuneration <u>C</u>ommittee (“RC”) comprising <u>a majority entirely</u> of non-executive directors, <u>the majority of whom, including the chairman, should be independent. —who are independent of Management and free from any business or other relationships, which may materially interfere with the exercise of their independent judgement.</u> This is to minimise the risk of any potential conflict of interest.</p>	<p>Recommends tightening composition of RC. See Section 3 Proposal 8.</p>
<p>7.2—The RC should be chaired by an independent non-executive director, and have at least one member who is knowledgeable in the field of executive compensation, failing which the committee should have access to expert advice inside and/or outside the company.</p>	<p>The first part on Chairman of remuneration committee is not necessary since it is covered under the proposed Guidance Note 7.1. The Code need not prescribe who should be the Chairman of the remuneration committee.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
	<p>Recommends moving the second part on a member who is knowledgeable in the field of executive compensation to the proposed “Commentary” section. The UK Combined Code (2003) does not prescribe such requirement.</p>
<p>7.23 The RC will recommend to the Board a framework of remuneration for the Board and key executives, and to determine the specific remuneration packages for each executive director and the CEO (or executive of equivalent rank) if the CEO is not an executive director.</p> <p>The RC’s committee’s recommendations should be made in consultation with the chairman of the Board and submitted for endorsement by the entire Board.</p> <p>The RC committee should cover all aspects of remuneration, including but not limited to director's fees, salaries, allowances, bonuses, options, and benefits in kind. <u>The RC will also review the remuneration of senior management.</u></p>	<p>Recommends clarifying roles of RC. See Section 3 Proposal 9.</p> <p>Chairman of the Board should not be involved in the remuneration committee’s deliberations.</p> <p>Recommends clarifying roles of RC. See Section 3 Proposal 9.</p> <p><u>Other issues</u> UK companies incorporate forward-looking remuneration statements in their annual reports. Recommends status quo as it will suffice for companies to focus on the policy behind setting the remuneration. There is no need to require forward-looking statements as it will not be of much value to investors but may impose more work for companies.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p><u>Commentary:</u></p> <p><u>1 For companies with a single controlling shareholder, it may be appropriate for an RC Chairman to be independent of management but not independent of substantial shareholders.</u></p> <p><u>2 If necessary, the RC should seek expert advice inside and/ or outside the company on remuneration of all directors.</u></p>	<p>For companies with several large shareholders and none of whom has outright control, the proposal is for an RC Chairman to be independent of both management and substantial shareholders. See Guidance Note 7.1. The proposed commentary is to give companies the flexibility to appoint an RC Chairman who is only independent of management under certain circumstances.</p> <p>This is extracted from the existing Guidance Note 7.2 and Guidance Note 8.3. The Board should be allowed to consult experts for remuneration of all directors.</p>
LEVEL AND MIX OF REMUNERATION	
<p><u>Principle:</u></p> <p>8 The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more <u>than is necessary</u> for this purpose.</p> <p>A <u>significant</u> proportion of the <u>executive directors'</u> remuneration <u>should be structured so as to link rewards ; especially that of executive directors, should be linked to corporate and individual</u> performance.</p>	<p>The intention is to emphasise that remuneration should be kept to an appropriate amount and to discourage inflation of such remuneration.</p> <p>The insertion of “significant proportion” is to emphasise the point that remuneration and performance should be closely related. The proposed amendments are based on the exact wordings in the UK Combined Code (2003). The Code will not prescribe the percentage that constitutes “significant</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
	<p>proportion". The definition will be left to companies' discretion.</p> <p>Principle B1 of the UK Combined Code (2003) refers only to executive directors' remuneration and does not include a statement pertaining to non-executive directors. Recommends adopting a similar approach in Principle 8.</p>
<p><u>Guidance Notes:</u></p> <p>8.1 In setting remuneration packages, the company should be aware of pay and employment conditions within the industry and in comparable companies.</p> <p>The remuneration packages should take into account the company's relative performance and the performance of individual directors.</p>	<p>Recommends moving the first sentence to the proposed "Commentary" section. Guidance Notes should contain only concrete statements.</p> <p>Recommends deleting the second sentence as it is a repetition of Principle 8.</p>
<p>8.12 The performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive directors and should be designed to align their interests <u>of executive directors</u> with those of shareholders and link rewards to corporate and individual performance. There should be appropriate and meaningful measures for the purpose of assessing executive directors' performance.</p>	<p>Recommends deleting the phrase as it is a repetition of Principle 8.</p> <p>Recommends drafting refinements.</p>
<p>8.23 The remuneration of non-executive directors should be appropriate to the level of contribution, taking</p>	

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>into account factors such as effort and time spent, and responsibilities of the directors. Non-executive directors should not be over-compensated to the extent that their independence may be compromised. The Board may, if it considers necessary, consult experts on the remuneration of non-executive directors. The Board should recommend the remuneration of the non-executive directors for approval at the AGM.</p>	<p>Recommends deleting the sentence as it is covered under Commentary of Principle 7. Recommends deleting the sentence as the Companies Act already requires that all directors’ fees be approved at AGMs.</p> <p><u>Other issues</u> The idea of advocating a pre-approval of a ceiling for the fees to be paid to non-executive directors was considered. This is to pre-empt scenario where shareholders refuse to approve non-executive directors’ fees as proposed by the board, which will result in the non-executive directors not getting paid. Recommends status quo as there is no prohibition on companies pre-approving directors’ fees.</p>
<p>8.34 In the case of service contracts, there should <u>be</u> a fixed appointment period for all <u>executive</u> directors, after which they are subject to re-election. In any case, service contracts should not be excessively long or with onerous removal clauses. The RC should <u>review</u> consider what compensation commitments the directors' contracts of service, if any, would entail in the event of early termination. The <u>RC committee</u> should aim to be fair and avoid rewarding poor performance.</p>	<p>Recommends clarifying that service contracts are applicable only to executive directors. Recommends deleting the reference to reappointment as it is already covered under Guidance Note 4.2.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p><u>Notice periods should be set at a period of six months or less. If it is necessary to offer longer notice periods to new directors recruited from outside, such periods should reduce to six months or less after the initial notice period.</u></p>	<p>Recommends setting out the maximum length of notice period in the Code. The UK Combined Code (2003) sets the maximum period at one year. Proposed wordings are based on the UK Combined Code (2003).</p>
<p>8.45 Long-term incentive schemes, including share schemes, are generally encouraged. The RC should consider review whether directors should be eligible for benefits under long-term incentive schemes. The use of share schemes, including share option schemes, should be weighed against other kinds of long-term incentive scheme.—The costs and benefits of long-term incentive schemes should be carefully evaluated. In normal circumstances, offers of shares or granting of options or other forms of deferred remuneration should vest over a period of time. The use of vesting schedules, whereby only a portion of the benefits can be exercised each year, is also strongly encouraged. Directors should be encouraged to hold their shares beyond the vesting period, subject to the need to finance any costs of acquisition and associated tax liability.</p>	<p>Recommends deleting as there is no need to emphasise share schemes.</p> <p>Recommends highlighting the need to consider the costs and benefits of the schemes.</p> <p><u>Other issues</u></p> <p>The Code can be silent on whether stock options can be issued to non-executive directors since (i) non-executive directors bear the same responsibilities as other directors (thus there should not be a differentiation in the treatment of non-executive directors); (ii) there are costs and benefits to the use of stock options.</p>
<p><u>Commentary:</u></p> <p><u>In setting remuneration packages, the company should be aware of pay and employment conditions within the industry and in comparable companies.</u></p>	<p>This is extracted from Guidance Note 8.1.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p><u>But they should use such comparison with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvements in performance.</u></p>	<p>This is adopted from the UK Combined Code (2003) B1 Supporting Principle.</p>
DISCLOSURE ON REMUNERATION	
<p><u>Principle:</u></p> <p>9 Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the company's annual report. <u>It 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.</u></p>	<p>Currently, companies only give general statements on their remuneration policies. Recommends wording the disclosure requirements on remuneration policy more explicitly to encourage more meaningful disclosure. The wordings are adapted from the Australian Code.</p>
<p><u>Guidance Notes:</u></p> <p>9.1 The <u>company Board</u>—should report to the shareholders each year on the remuneration of directors and at least the top 5 key executives (who are not also directors) of the company. This annual remuneration report should form part of, or be annexed to the company's annual report of its directors. It should be the main vehicle through which the company reports to shareholders on remuneration matters. The members of the RC should be listed in the report.</p>	<p>Recommends aligning term with Principle 9.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>9.2 The report should set out the exact remuneration of each director. The report should <u>also</u> set out the names of directors and at least the top 5 key executives (who are not also directors) earning remuneration which falls within bands of S\$250,000. There will be no upper limit. Within each band, <u>There will be a breakdown (in percentage terms) of each director’s remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, and stock options granted and other long-term incentives. Companies are however encouraged, as best practice, to fully disclose the remuneration of each individual director.</u></p>	<p>Recommends disclosing exact remuneration of each director. See Section 3 Proposal 10.</p>
<p>9.3 For transparency, the report should disclose the same details of the remuneration of employees who are immediate family members⁹ of a director or the CEO, and whose remuneration exceed S\$150,000 during the year. <u>As in the case for the top 5 key executives (who are not also directors), the disclosure should be made in bands of \$250,000.</u> This can be done on a no-name basis with clear indication of which director or the CEO the employee is related to.</p>	<p>Recommends status quo for related persons i.e. in S\$250,000 bands. See Section 3 Proposal 10.</p>
<p>9.4 The report should also contain details of employee share schemes to enable their shareholders to assess the benefits and potential cost to the companies. The important</p>	<p>Recommends status quo.</p>

⁹As defined in the Listing Manual of the Singapore Exchange to mean the spouse, child, adopted child, step-child, brother, sister and parent.

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>terms of the share schemes, including the potential size of grants, methodology of valuing stock options, exercise price of options that were granted as well as outstanding, whether the exercise price was at the market or otherwise on the date of grant, market price on the date of exercise, the vesting schedule, and the justifications for the terms adopted, should be disclosed.</p>	
<p>9.5—The Board's annual remuneration report need not be a standard term of agenda for AGMs. The Board should, however, consider each year whether the circumstances are such that the AGM should be invited to approve the policy set out in the report and should minute their conclusions.</p>	<p>Recommends deleting. It can be left to companies to decide whether their annual remuneration report should be tabled at AGMs.</p>

ACCOUNTABILITY AND AUDIT

REVISED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
ACCOUNTABILITY	
<p><u>Principle:</u></p> <p>10 The Board <u>should present a balanced and understandable assessment of the company's performance, position and prospects</u>. is accountable to the shareholders while the Management is accountable to the Board.</p>	<p>Recommends rephrasing the principle to focus on the responsibility of the Board to present balanced and understandable reports. Proposed revisions are adopted from the UK Combined Code (2003), Main Principle under C1.</p>
<p><u>Guidance Notes:</u></p> <p>10.1 The Board's <u>responsibility to</u> should provide the shareholders with a balanced and understandable assessment of the company's performance, position and prospects on a quarterly basis. This responsibility extends to interim and other price sensitive public reports, and reports to regulators (if required).</p>	<p>Recommends drafting refinements.</p>
<p>10.2 The Management should provide all members of the Board with a balanced and understandable management accounts <u>which present a balanced and understandable assessment</u> of the company's performance, position and prospects on a monthly basis.</p>	<p>Recommends drafting refinements.</p>

REVISED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
AUDIT COMMITTEE	
<p><u>Principle:</u></p> <p>11 The Board should establish an Audit Committee (“AC”) with written terms of reference which clearly set out its authority and duties.</p>	<p>Recommends status quo.</p>
<p><u>Guidance Notes:</u></p> <p>11.1 The AC should comprise at least three directors, all non-executive, the majority of whom, including the chairman, should be independent.</p> <p>11.2 The Board should ensure that the members of the AC are appropriately qualified to discharge their responsibilities. At least two members should have accounting or related financial management expertise or experience, as the Board interprets such qualification in its business judgement.</p>	<p>Recommends status quo. See Section 4 Proposal 11.</p>
<p>11.3 The AC should have explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.</p>	<p>Recommends status quo.</p>
<p>11.4 The duties of the AC should include:</p> <p>(a) keeping under reviewing the scope and results of the</p>	<p>The duties of the Audit Committee are consolidated and</p>

REVISED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>audit and its cost effectiveness, and the independence and objectivity of the external auditors. Where the auditors also supply a substantial volume of non-audit services to the company, the AC committee should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money:-</p> <p><u>(b) reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance;</u></p> <p><u>(c) reviewing the adequacy of the company's internal controls, as set out in Guidance note 12.1;</u></p> <p><u>(d) reviewing the effectiveness of the company's internal audit function; and</u></p> <p><u>(e) making recommendations to the Board on the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor.</u></p>	<p>presented under Guidance Note 11.4 for clarity. The duties are also expanded to reflect best practices for functions of the Audit Committee.</p>

REVISED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
11.5 The AC should meet with the external auditors, and with the internal auditors, without the presence of the company's Management, at least annually.	Recommends status quo.
11.6 The AC should review the independence of the external auditors annually.	
<u>11.7 The AC should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The AC's objective should be to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow up action.</u>	See Section 4 Proposal 12.
11. 8 7 The Board should disclose the names of the members of the AC, details of the Committee's activities, and the number of Committee meetings held in that year, and the attendance of individual directors at such meetings in the company's annual report.	Recommends deleting as Guidance Note 1.4 already recommends that companies disclose attendance of board members at specialised committee (e.g. NC, RC and AC) meetings.
INTERNAL CONTROLS	
<u>Principle:</u>	
12 The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.	Recommends status quo.
<u>Guidance Notes:</u>	
12.1 The AC should ensure that a review of the <u>adequacy effectiveness</u> of the company's material internal <u>financial</u>	

REVISED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>controls, including financial, operational and compliance controls, and risk management <u>policies and systems established by the Management (collectively “internal controls”)</u>. The AC should ensure that a review of the <u>effectiveness of the company’s internal controls</u> ,—is conducted at least annually.</p> <p>Such review can be carried out by the internal and/or <u>public accountants, provided that where the public accountant is also the external auditor of the company, the AC should satisfy itself that the independence of the public accountant is not compromised by any other material relationship with the company</u>external auditors.</p>	<p>Recommends maintaining consistency with auditor independence rules which provide that an external auditor appointed by a public company to audit its accounts is prohibited from providing internal audit services (those related to internal accounting controls, financial systems or financial statements) to the same public company.</p>
<p>12.2 The Board should comment on the adequacy of the internal controls, <u>including financial, operational and compliance controls, and risk management systems</u> in the company’s annual report.</p>	<p>Recommends clarifying what constitutes internal controls.</p>
<p>INTERNAL AUDIT</p>	
<p><u>Principle:</u></p> <p>13 The company should establish an internal audit function that is independent of the activities it audits.</p>	<p>Recommends status quo.</p>
<p><u>Guidance Notes:</u></p> <p>13.1 The Internal Auditor’s primary line of reporting should be to the chairman of the AC although the Internal</p>	<p>Recommends status quo.</p>

REVISED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
Auditor would also report administratively to the CEO.	
13.2 The Internal Auditor should meet or exceed the standards set by nationally or internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.	Recommends status quo.
13.3 The AC should ensure that the internal audit function is adequately resourced and has appropriate standing within the company. For the avoidance of doubt, the internal audit function can either be in-house, outsourced to a reputable accounting/auditing firm, or performed by a major shareholder, holding company, parent company or controlling enterprise with an internal audit staff.	Recommends status quo.
13.4 The AC should, at least annually, ensure the adequacy of the internal audit function.	Recommends status quo.

COMMUNICATION WITH SHAREHOLDERS

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p><u>Principle:</u></p> <p>14 Companies should engage in regular, effective and fair communication with shareholders.</p>	<p>Recommends status quo.</p>
<p><u>Guidance Notes:</u></p> <p>14.1 Companies should regularly convey pertinent information, gather views or inputs, and address shareholders' concerns. In disclosing information, companies should be as descriptive, detailed and forthcoming as possible, and avoid boilerplate disclosures.</p>	<p>Recommends status quo.</p>
<p>14.2 Companies should disclose information on a timely basis. Where there is inadvertent disclosure made to a selected group, companies should make the same disclosure publicly to all others as soon as practicable. This could be through the use of modern technology such as Internet websites.</p>	<p>Recommends status quo.</p>
<p><u>Principle:</u></p> <p>15 Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.</p>	<p>Recommends status quo.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p><u>Guidance Notes:</u></p> <p>15.1 Shareholders should have the opportunity to participate effectively and to vote in AGMs. They should be allowed to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia. In this regard, companies are encouraged to make the appropriate provisions in their <u>Articles of Association</u> to allow for absentia voting methods such as by mail, email, fax, etc, if the shareholders so consent.</p> <p><u>Companies are encouraged to amend their Articles of Association to avoid imposing a limit on the number of proxies for nominee companies so that shareholders who hold shares through nominees can attend AGMs as proxies.</u></p>	<p>Recommends deleting the phrase “<i>and equal effect should be given to votes whether cast in person or in absentia</i>” as that must be the case.</p> <p>See Section 5 Proposal 13.</p> <p><u>Other issues</u> The Hong Kong Code has a specific section on “Voting by Poll”. Recommends maintaining status quo as the current system in Singapore which allows voting by show of hands is working well and offers a shorter process. Companies can request voting by poll after a voting by show of hands.</p>
<p>15.2 There should be separate resolutions at general meetings on each <u>substantially separate distinct</u> issue. <u>Companies should avoid “bundling” resolutions unless the resolutions are interdependent and linked so as to form one significant proposal. Where resolutions are “bundled”, companies should explain the reasons and material implications.</u></p>	<p>See Section 5 Proposal 14.</p>

PROPOSED REVISIONS	CONSIDERATIONS AND RECOMMENDATIONS
<p>15.3 The chairpersons of the Aaudit, Nomination and /or- Remuneration committees should be present and available to address questions at general meetings.</p> <p>The external auditors should also be present to assist the directors in addressing <u>shareholders' any relevant</u> queries <u>about the conduct of audit and the preparation and content of the auditors' report.</u> by shareholders.</p>	<p>D2.3 of the UK Combined Code (2003) recommends that “<i>the chairman should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the AGM and for all directors to attend.</i>”</p> <p>Recommends status quo since they may be practical difficulties for companies with directors who are based overseas.</p> <p>See Section 5 Proposal 15.</p>

Annex 2**DISCLOSURE OF CORPORATE GOVERNANCE ARRANGEMENTS**

The Singapore Exchange Listing Rules require listed companies to describe in the annual reports their corporate governance practices with specific reference to the principles of the Code, as well as disclose and explain any deviation from any Guidance Notes of the Code. Many of these Guidance Notes are recommendations for companies to disclose their corporate governance arrangements. For ease of reference, the specific Guidance Notes in the Code for disclosure are set out below:

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| <ul style="list-style-type: none"> • The number of board meetings held in the year, as well as the attendance of every board member at those meetings and meetings of specialised committees established by the Board | GN1.4 |
| <ul style="list-style-type: none"> • The type of material transactions that require board approval under internal guidelines | GN1.5 |
| <ul style="list-style-type: none"> • Where the company considers a director to be independent in spite of the existence of a relationship as stated in the Code that would otherwise deem him as non-independent, the nature of the director's relationship and the reason for considering him as independent should be disclosed | GN2.2 |
| <ul style="list-style-type: none"> • Relationship between the chairman and CEO where they are related to each other¹⁰ | GN3.1 |
| <ul style="list-style-type: none"> • Composition of nominating committee | GN4.1 |
| <ul style="list-style-type: none"> • Process for the selection and appointment of new directors to the board | GN4.5 |
| <ul style="list-style-type: none"> • Key information regarding directors, which directors are executive, non-executive or considered by the nominating committee to be independent | GN4.6 |

¹⁰ As defined in the Listing Manual of the Singapore Exchange to mean the spouse, child, adopted child, step-child, brother, sister and parent.

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|--|-----------------|
| <ul style="list-style-type: none"> • Process for assessing the effectiveness of the Board as a whole and the contribution of each individual director to the effectiveness of the Board | GN5.1 |
| <ul style="list-style-type: none"> • Clear disclosure of its remuneration policy, level and mix of remuneration, procedure for setting remuneration and link between remuneration paid to directors and key executives, and performance | P9 |
| <ul style="list-style-type: none"> • Composition of remuneration committee | GN9.1 |
| <ul style="list-style-type: none"> • Names and exact remuneration of each director. There will be a breakdown (in percentage terms) of each director's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, and stock options granted and other long-term incentives. | GN9.1/
GN9.2 |
| <ul style="list-style-type: none"> • Names and remuneration of at least the top 5 key executives (who are not also directors). The disclosure should be in bands of S\$250,000 and include a breakdown of remuneration. | GN9.1/
GN9.2 |
| <ul style="list-style-type: none"> • Remuneration of employees who are immediate family members of a director or the CEO, and whose remuneration exceed S\$150,000 during the year. The disclosure should be made in bands of \$250,000 and include a breakdown of remuneration. | GN9.3 |
| <ul style="list-style-type: none"> • Details of employee share schemes | GN9.4 |
| <ul style="list-style-type: none"> • Composition of audit committee, details of the committee's activities, and the number of committee meetings held in the year | GN11.7 |
| <ul style="list-style-type: none"> • Adequacy of internal controls, including financial, operational and compliance controls, and risk management systems | GN12.2 |

Annex 3**MEMBERS OF REVIEW COMMITTEE**

Names	Designation
<i>Chairman</i>	
Mr J Y Pillay	Chairman, Singapore Exchange
<i>Deputy Chairman</i>	
Mr Chew Heng Ching	Chairman, Singapore Institute of Directors
<i>Members</i>	
Ms Kala Anandarajah	Partner, Rajah & Tann
Mr Daniel Chan	Chairman, Investment Management Association of Singapore
Mr Vincent Chen	Member, Securities Investors Association (Singapore) Management Committee
Mr Emmanuel Daniel	Managing Director, The Asian Banker
Ms Joyce Fong	Head (Legal) and Company Secretary, Singapore Exchange
Mr Liew Mun Leong	President & CEO, CapitaLand Limited
Mrs Lim Hwee Hua	Managing Director (Strategic Relations), Temasek Holdings (Pte) Ltd [until August 2004]
Dr Loo Choon Yong	Chairman, Raffles Medical Group Limited
A/P Mak Yuen Teen	Co-Director Corporate Governance and Financial Reporting Centre, NUS Business School
Mr Soo Kok Leng	Corporate Advisor, Temasek Holdings (Pte) Ltd [from September 2004]
Mr Lucien Wong	Managing Partner, Allen & Gledhill
Mr Yeoh Oon Jin	Partner, PricewaterhouseCoopers

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