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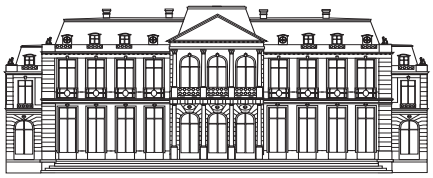

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"CORPORATE GOVERNANCE IN ASIA: A COMPARATIVE PERSPECTIVE"

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Corporate Governance in Singapore: Current Practice and Future Developments

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CORPORATE GOVERNANCE IN SINGAPORE: CURRENT PRACTICE AND FUTURE DEVELOPMENTS

ABSTRACT

Singapore's small size and lack of natural resources have necessitated an open trade policy. Singapore has virtually no exchange controls on inflows and outflows of foreign currency funds by residents and foreigners, whether in amount or destination. Singapore also has a very liberal policy towards foreign direct investment (FDI), with no limitation on the extent of foreign ownership, except in the onshore banking and news media sectors. In addition, the equities and derivatives markets are the best developed in the region.

However, when compared to those of the U.S. and U.K., corporate governance in practice and philosophy have up till now remained relatively under-developed in Singapore. In addition, the high concentration of ownership combined with a weak takeover market appears to work in favor of owner-managers who can consume at the expense of minority shareholders. Further, without the strong bank-centered monitoring mechanisms common in Japan and Germany, there appears to be a lack of either market or structural governance mechanisms to discipline errant managers. Given the government's policy of developing Singapore into a major center for the accumulation and disbursement of corporate capital, excessive legislation and onerous reporting requirements were also seen as counter-productive to the development of this still nascent market. This paper surveys the regulatory and structural environment in Singapore, and presents empirical evidence on corporate governance practices in areas such as ownership structures, disclosure, board of directors, the use of stock option plans, and the impact of government corporate ownership.

Largely in response to the economic crisis affecting this region, the Singapore government has undertaken a wide-ranging review of the economy, and proposed or implemented a number of fiscal and monetary initiatives. Some of these initiatives include a broad-based cost cutting exercise, development of a bond market, development of the funds management industry, improving disclosure in the financial and corporate sectors, and improving corporate governance practices. This paper examines these initiatives and assesses their likely impact on future corporate governance practices in Singapore.

Corporate Governance in Singapore: Current Practice and Future Developments[1]

INTRODUCTION

Singapore's small size and lack of natural resources have necessitated an open trade policy. Total trade amounts to more than two-and-a-half times GDP, while data from the 1990 input-output tables show that imports comprised 55% of total expenditure and 60% of exports. In addition, Singapore has virtually no exchange controls on inflows and outflows of foreign currency funds by residents and foreigners, whether in amount or destination. Singapore also has a very liberal policy towards foreign direct investment (FDI), with no limitation on the extent of foreign ownership, except in the onshore banking sector. Other than a 40% maximum limit for foreigners in the onshore banks and 3% maximum limit on foreign shareholders in a local media company, there are no other restrictions on share ownership. On many dimensions, ownership policies in key sectors are more liberal than many more developed nations. For example, there are more restrictions on the ownership of financial institutions and media companies in Canada.

In such an environment, it would be expected that corporate governance would evolve along the lines similar to those of the U.S. and U.K. (Jensen and Ruback, 1983). However, this is not what we see in Singapore. Corporate governance in practice and philosophy is still relatively under-developed when compared to those of the U.S. and U.K. In addition, the high concentration of ownership combined with a weak takeover market appears to work in favor of owner-managers who can consume at the expense of minority shareholders. Further, without the strong bank-centered monitoring mechanisms common in Japan and Germany, there appears to be a lack of either market or structural governance mechanisms to discipline errant managers.

This paper is divided into four parts. Part I provides a description of the historic macroeconomic and structural characteristics of the Singapore economy. It also discusses the impact of the economic crisis on Singapore and the initiatives taken by the government in response to the crisis. Part II discusses the institutional environment as it relates to corporate governance in Singapore. It includes descriptive data on various aspects of corporate governance, such as ownership structure, board structure, disclosure and the use of stock option plans. It also reports results of recent empirical tests of factors that influence corporate governance in Singapore companies. Part III discusses the likely future developments in corporate governance in Singapore in light of the economic crisis and the government's response to the crisis. Part IV concludes the paper.

[1] Support from the National University of Singapore Academic Research Grant (RP 981030), Economic Development Institute of the World Bank and the Organisation for Economic Co-operation and Development (OECD) for this project is gratefully acknowledged. Opinions are the sole responsibility of the authors and not the sponsoring organizations.

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PART I: THE SINGAPORE ECONOMIC ENVIRONMENT BEFORE AND AFTER THE CRISIS[2]

Singapore is a small country (582 square metres) with no natural resources. It achieved independence in 1965, at which time it had a population of 1.9 million and growing at a rate of 2.5% per annum, and an unemployment rate estimated at 10%. The economy was highly dependent on entrepot trade and the provision of services to British military bases in Singapore. There was a small manufacturing base, limited industrial know-how and local entrepreneurial capital. In order to develop Singapore, the government adopted the following strategies:

1. Industrialisation to solve the unemployment problem and diversification away from regional entrepot trade.
2. Internationalisation by attracting foreign investors to develop the manufacturing and financial sectors.
3. Improving the investment environment by introducing employment and industrial relations legislation and investing in key infrastructure, such as the development of the Jurong Industrial Estate and Port of Singapore.
4. Establishing new companies such Singapore Airlines, Neptune Orient Lines, Development Bank of Singapore and Sembawang Shipyard in areas where the private sector lacked capital or expertise.

During the 1980s, the government adopted strategies to restructure the economy towards higher value-added activities in light of the tight labour market. These strategies included ensuring wage increases reflect the tight labour market, increasing emphasis on education and training, encouraging the increased use of technology, adopting a more selective investment promotion policy, increasing emphasis on research and development, and developing higher value-added services.

Growth in the 1980s was interrupted by a recession in 1985. At that time, a parliamentary designated committee was set up to review the reasons for the recession and measures to cut costs were swiftly implemented. The economy recovered in 1986, due in large part to expanded trade. Despite the recession, average GDP growth in the 1980s averaged 7.1% and unemployment fell to its lowest level of 1.7% in 1990.

By 1990, Singapore was classified a Newly Industrialised Economy (NIE) by the United Nations. The economy had become more matured, and was enjoying rapid growth as were many other economies in the region. Then, the Strategic Economic Plan was formulated to transform Singapore into a developed country. In the 1990s, the aims of Singapore are to become a globally-oriented city, a centre for high-tech manufacturing industries and an international business hub. She hoped to achieve this by being the hub of an Asia Pacific economic community through active participation in regional economic initiatives, and investing in other rapidly growing economies in the Asia Pacific.

[2] The discussion in this section draws heavily from the Ministry of Trade and Industry webpage, http://www.gov.sg/mti/mti4.html.

Table 1 provides a summary of key annual indicators for Singapore in 1997.[3]

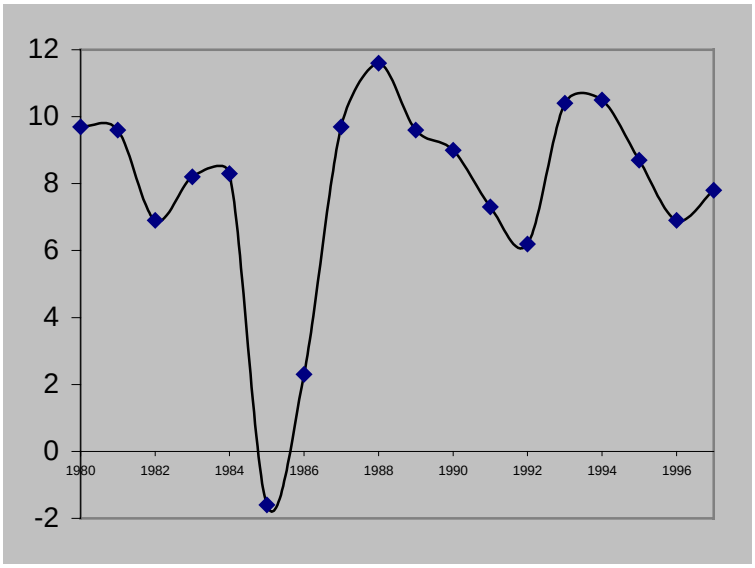
Table 1: Key Annual Indicators in 1997

Indicator	Value
Mid-year Population ('000)	3,736.7
Annual Population Growth (%)	3.5
GDP (S$m)	143,014.0
Per Capital GDP (S$)	38,272.8
Per Capital GNP (S$)	39,310
Annual Growth at 1990 Market Prices (%)	7.8
Unemployment Rate (%, seasonally adjusted)	1.7
Annual Growth in Productivity (%)	1.6
Annual Inflation Rate (%)	2.0
Foreign Investments (S$m)	5,908.1
Official Foreign Reserves (S$m)	119,616.8
Average Exchange Rate (per US$)	1.4848
Total Trade (S$m)	382,217.7
Exports (S$m)	185,612.5
Domestic Exports (S$m)	107,535.2
Imports (S$m)	196,605.2

Economic Growth

Singapore's economic growth averaged 10% per year during the period 1965-1980, unemployment rate falling to 3% in 1980, and the development of a strong manufacturing sector accounting for 28% of GDP in 1980 compared to 15% in 1965. Figure 1 shows the real GDP growth for Singapore from 1980 to 1997. Figure 2 shows the composition of nominal GDP at 1980, 1990 and 1997.

Figure 1: Real GDP Growth from 1980 to 1997

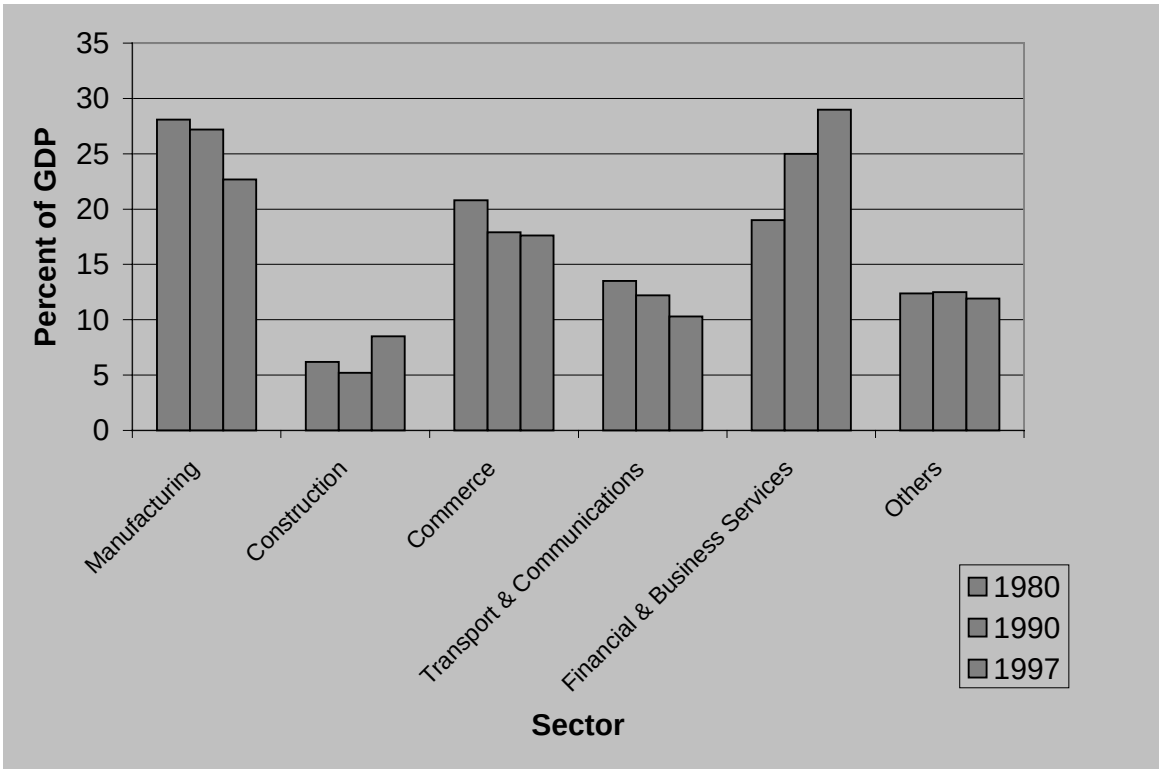


[3] Source: Statistics Singapore's website (http://www.singstat.gov.sg/FACT/KEYIND/keyind.html)

Figure 2: Composition of Nominal GDP for in 1980, 1990, and 1997

Trade and Investment

In 1997, total exports were S$185.61 billion, up from S$95.21 billion in 1990. Over the same period, total imports were up from S$109.81 to S$196.61 billion. In 1997, the five largest export



markets were USA (S$34.1b), Malaysia (S$32.4b), Europe (S$28.6b), Hong Kong (S$17.8b) and Japan (S$13.1b). In 1997, the three largest sources of exports were office machines (S$50.7b), telecommunications equipment (S$13.1b), and petroleum products (S$12.7b).[4]

Foreign equity investment in Singapore is largely in the form of direct equity investment, for example through multinational corporations (MNCs). In 1995, total foreign equity investment of S$99.2b was made of S$84.3b in direct equity investment, and S$14.9b in portfolio and other equity investment. The largest source of direct equity investment in 1995 was in financial and business services (S$38.2), followed by manufacturing (S$30.6b). Singapore's direct equity investment abroad in 1995 was S$36.7b, with 25.6% in manufacturing and 60.3% in financial services. Figure 3 shows the trend in foreign direct equity investment in Singapore and Singapore's direct equity investment abroad for the period 1986-1995.[5]

[4] Source: Statistics Singapore's website (http://www.singstat.gov.sg/FACT/KEYIND/keyind.html)

[5] Source: Singapore Department of Statistics, Singapore 1997 Statistical Highlights.

Figure 3: Trend in Incoming and Outgoing Direct Foreign Equity Investment from 1986-1995

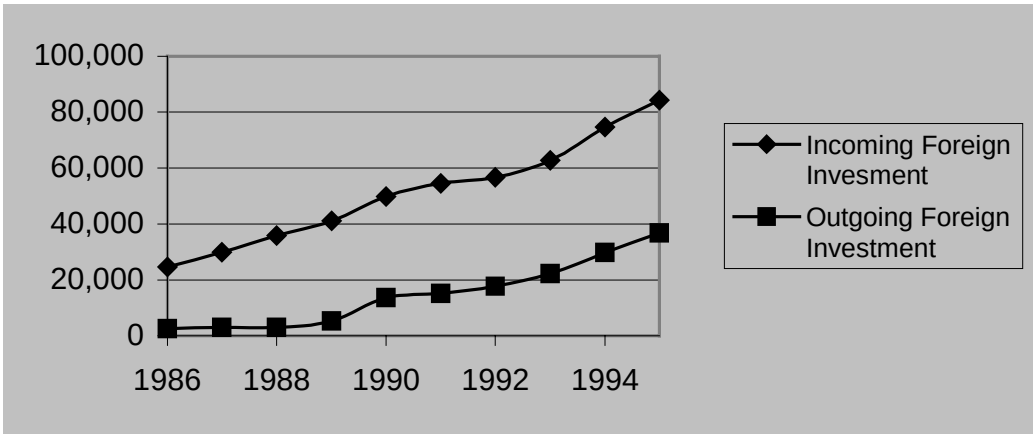


Table 2 shows the composition of foreign direct equity investment in Singapore for 1986-1995, in terms of industry sector and investor country respectively. Table 3 shows the composition of Singapore's direct equity investment abroad for 1986-1995.

Table 2: Composition of Foreign Direct Equity Investment in Singapore for 1986-1995

Year	Total (S$m)	Industry (%)			Investor Country (%)				
		Manufacturing	Financial Services	Others	USA	Japan	UK	Netherlands	Others
1986	24,703	49.4	38.2	12.4	27.8	14.8	14.6	4.5	38.3
1987	29,947	48.6	39.6	11.8	26.6	15.3	12.2	5	40.9
1988	35,799	44.2	42.5	13.3	21.4	18.1	11	5.5	44
1989	41,063	43.3	41.1	15.6	20.3	20.5	9.4	6.7	43.1
1990	49,831	39.7	43.2	17.1	17.2	21.4	9.3	8.2	43.9
1991	54,563	37.9	42.2	19.9	17.5	21.5	11.3	8	41.7
1992	56,661	35.4	46.4	18.2	17	23.3	10.6	7.2	41.9
1993	62,767	35.7	45.6	18.7	17.9	21.5	9.8	6.5	44.3
1994	74,605	36.4	44	19.6	16.2	21.2	8.9	5.6	48.1
1995	84,267	36.3	45.4	18.3	16.9	20.1	7.9	5.2	49.9

Table 3: Composition of Singapore's Direct Equity Investment Abroad for 1986-1995

Year	Total	Industry (%)			Host Country (%)				
		Manufacturing	Financial Services	Others	Malaysia	Hong Kong	USA	New Zealand	Others
1986	2,598	NA	NA	NA	37.9	19.2	2.5	0.3	40.1
1987	2,962	NA	NA	NA	34.1	18.2	2.3	0.2	45.2
1988	2,994	NA	NA	NA	34.4	18.2	3.6	0.6	43.2
1989	5,289	NA	NA	NA	26.9	15.8	5.5	15.7	36.1
1990	13,622	17.6	66.3	16.1	20.5	16.6	5.1	10	47.8
1991	15,184	19.1	66.6	14.3	20.6	15.6	8.6	9.1	46.1
1992	17,741	21.2	63.8	15	22.1	17.2	9	7.5	44.2
1993	22,181	20.5	65	14.5	20.8	17.3	8	8.2	45.7
1994	29,765	21.6	62	16.4	21.8	16.6	5.6	7	49
1995	36,866	25.6	60.3	14.1	19.8	13.8	5.5	5.3	55.6

The Impact of the Economic Crisis

Although Singapore was less affected by the economic crisis than most other Asian economies, the effect was still severe relative to its previous growth patterns. The strategy of increasing regionalisation adopted in the early 1990s meant that the health of the Singapore economy was closely linked to that of other regional economies. For example, many Singapore banks have reported significant non-performing loans made to other Associate of South East Asian Nations (ASEAN) countries although there were no bank failures resulting from the crisis. Contagion was also widely seen as contributing significantly to the effects of the crisis on Singapore.

The effects of the crisis included significant declines in stock and property prices, a large fall in demand in the local property market, an average decline of 20% in the value of the Singapore dollar relative the U.S. dollar, increasing unemployment and bankruptcies, and a significant decline in GDP growth.[6]

Economic Growth

In the third quarter of 1998, the economy contracted by 0.7%, following a growth of 6.2% in the first quarter and 1.8% in the second quarter. Overall, growth was 2.3% in the first three quarters of 1998, compared to 7.8% for the whole of 1997. The official GDP growth forecast for 1998 is 0.5% to 1.0%, taking into consideration further contractions in the fourth quarter, while the forecast for 1999 is between -1.0% to 1.0%. All sectors of the economy experienced deterioration in growth, with the manufacturing, distribution, and financial services sectors registering negative growth in the third quarter of 1998.

Asset Prices

Consumer prices fell by 0.8% in the third quarter of 1998, the first such decline since March 1987. For the first 9 months of 1998, the change in CPI averaged 0.2%, compared to 2.0% for the whole of 1997. Both private residential prices and resale prices of government flat (the latter

[6] The source of data for the discussion in this section is Recent Economic Developments in Singapore, Monetary Authority of Singapore, 23 November 1998.

comprise 70% of total housing units in Singapore) continued to fall by an annual rate of 31% and 20% respectively in the third quarter of 1998. Between the second quarter of 1996 and the third quarter of 1998, private residential property prices fell by 40%, while resale government flats had fallen by 24% since the fourth quarter of 1996. In addition, the stock of unsold housing units tripled between the first quarter of 1996 and the third quarter of 1998 to 19,627. In sum, the regional crisis has aggravated an ongoing consolidation in the property market.

The stock market has also fallen considerably. In 1997, the Stock Exchange of Singapore (SES) All-Singapore Share Price Index fell 12.2%, with the last three quarters showing declines. For the first three quarters of 1998, the index fell by 6.7%, 12.8% and 18.0%, respectively.

Interest Rates

Interest rates have declined steadily since their peak in January 1998. The 3-month domestic interbank rate rose from 3.31% in the first half of 1997 to 9.00% in January 1998, before falling back to 3.38% at the end of October 1998.

Balance of Payments

The current account surplus continued to increase, rising to S$8.8b in the third quarter of 1998, compared to S$7.2b in the second quarter and S$4.7b in the first quarter. This is due to the faster decline in imports relative to exports. The capital and financial account had a deficit of S$6.8b in the third quarter. The overall balance of payments recorded an S$865m surplus, increasing Singapore's official foreign reserves to S$122b by the end of September 1998.

Labour Market

Total employment fell in the second and third quarters of 1998. In the second quarter, the decline was mainly in the manufacturing sector; while the third quarter decline was more broad-based and also affected the services sector. A net loss of 18,000 jobs was recorded in the third quarter of 1998, which is the highest quarterly number of jobs lost since the recession in the mid-80s. The seasonally adjusted unemployment rate rose from 2.3% in the second quarter of 1998, to 4.5% in the third quarter.

Nominal growth in wages eased from 5.7% in 1997 to 4.5% in the first half of 1998, and is expected to ease further with the cut in wage costs recommended by the Committee on Singapore's Competitiveness and the National Wages Council, and which has since been adopted by the Government.

In summary, the impact of the crisis on the Singapore economy, while not crippling has been severe. More importantly, what started out to be a localised impact on manufacturing has spread to the services, real property, and financial sectors engendering a sharp decline in consumer and investor confidence. In order to deal quickly with the situation, the government initiated a series of budgetary and off-budgetary measures to lower the cost of business, encourage greater mobility in the labour market to growth, high-valued added sectors, and minimize the social costs associate with declining asset values and job displacements.

The Government's Response

Economic Initiatives

In June 1998, the government announced a S$2b package of off-budget measures to cut business costs and enhance the economic infrastructure as well as to help stabilise specific sectors of the Singapore economy. Major cost containment measures included additional property tax rebates on commercial and industrial properties, and rebates on electricity tariffs. Infrastructure spending is to be accelerated through the year 2002. Measures to support the property and financial sectors were also introduced.

In November 1996, a parliamentary designated Committee on Singapore's Competitiveness was formed to review Singapore's competitiveness over the next 10 years. The Asian financial crisis caused a re-examination of Singapore's competitive position. In November 1998, the Committee a series of short-term recommendations to help alleviate the effects of the crisis and long-term strategies to enhance Singapore's competitiveness over the next decade. These recommendations included reducing total wage costs by up to 20%, which included trimming employer pension fund contributions from 20% to 10%, and reducing foreign worker levies in the manufacturing and services sectors. It also recommended reducing land and factory rental rates, government charges for a wide range of services, vehicle use-related costs, and extending property tax rebates, suspending stamp duties on share transactions, and reducing or extending income tax rebates for fiscal year 1999. The total package was estimated to reduce business costs by S$10b a year, which is equivalent to about 7% of GDP.

Financial Sector Reforms

In late 1997, the Monetary Authority of Singapore (MAS), Singapore's Central Bank, embarked on a fundamental review of its policies in regulating and developing Singapore's financial sector. This review was undertaken by the Financial Sector Review Group, chaired by the Chairman of the MAS and Deputy Prime Minister Brigadier-General Lee Hsien Loong. In February 1998, the MAS unveiled a series of sector reforms aimed at making Singapore the dominant financial centre in South East Asia. The MAS' new strategy involved the creation of an investor friendly regulatory environment that had, as its primary objectives, transparent supervision, product innovation, and aggressive advocacy for the industry.

The Financial Sector Review Group also formed various committees to make recommendations on various aspects relating to the financial sector. The major committees are the Committee on Banking Disclosure, the Corporate Finance Committee, and the SES Review Committee.[7] Appendix 1 shows the key financial sector reforms that have been implemented to date and the proposed reforms that are currently being considered. More recently, the Corporate Finance Committee formed by the Financial Sector Review Group released its final report in which it called for a move from the current philosophy of regulation that is somewhere between merit and disclosure, towards a predominantly disclosure-based regulatory regime. Appendix 2 reproduces the key recommendations of the Corporate Finance Committee. In Part III of the paper we discuss the implications of these reforms for corporate governance in Singapore.

[7] See Report on Banking Disclosure, May 1998; Report of the Corporate Finance Committee, 29 October 1998; Report of the SES Review Committee, 29 July 1998.

PART II: CORPORATE GOVERNANCE IN SINGAPORE – PAST AND PRESENT

Regulatory Environment

The Singapore corporate governance system is loosely based on the Anglo-American model (Li, 1994; Prowse, 1998). However, because the capital market in Singapore is thin (there are only about 300 listed companies on the mainboard of the Singapore Stock Exchange), and equity is tightly held among the investors (including government, corporations, individuals and financial institutions), takeovers tend to be friendly rather than hostile. Furthermore, the lack of strict accounting standards (Singapore adheres to International Accounting Standards rather than FASB standards) and the lack of legal backing and enforcement of these standards means that the quality of publicly available corporate information is generally lower than in the U.S. More importantly, the high concentration of ownership among company management and large shareholders potentially violates the principle of the decision management and decision ratification (Fama and Jensen, 1983), and may result in the expropriation of wealth from minority shareholders to large shareholders (La Porta et al., 1996).

Companies Legislation and Shareholders Rights

In Singapore, the Companies Act of 1990 governs the registration of companies and is the primary source of law protecting the rights of shareholders. Most of the rights of shareholders are specified in Articles of Association that companies are required to adopt. A model set of Articles of Association is contained in the Fourth Schedule of the Act. The model Articles apply to companies that have not adopted their own Articles, or where the companies' Articles are silent on particular matters. Under the model Articles of Association, companies are allowed to issue shares with different rights pertaining to dividends, voting or return of capital. However, Section 64 of the Act requires all ordinary shares to carry one vote per share (the exception being a management share issued by a newspaper company under the Newspaper and Printing Presses Act). Other major features of company legislation relating to shareholders' rights include voting by proxies must be in person and not by mail, and cumulative voting for directors is not permitted.

Regulation of Takeovers

The major source of guidance on the conduct and procedures to be followed in takeover and merger transactions is the Singapore Code on Take-overs and Mergers (hereafter, "The Code"). The Code is non-statutory and supplements and expands on the statutory provisions on takeovers found in sections 213 and 214, and the Tenth Schedule of the Companies Act. Companies listed on the SES that are parties to a takeover or merger also have to comply with the provisions in the Listing Manual of the SES.

The Securities Industry Council administers the Code, which is divided into General Principles, Rules and Practice Notes. It was developed to aid directors and officers in the discharge of their duties in the event of a merger or takeover of a listed company. In general, the Code was set up as a way to protect the minority shareholder from possible adverse impact. As the concentration of stockholdings is very high in Singapore, the likelihood of minority oppression is very real because many takeover resolutions require only majority, rather than super-majority assent by the shareholders. For example, a principle in the Code states that at no time after a bona fide offer has been made can the board of a target firm take action to prevent the shareholders of the target from assessing the merit of the offer. In effect, such a principle prevents the ex-post adoption of poison pills as a method of entrenching management by frustrating the takeover. The Code reinforces the principle that directors have a duty to all shareholders with preference given to none, including and especially to those with personal relationships to the board. In this regard, the Code imposes a rule that there can be no termination of directors' service contracts within a 12-month period if the

contract has more than 12 months to go prior to an impending takeover. This is to prevent directors from taking their own interests into consideration during a tender offer, such interests being to prevent the loss of a position or to capitalize on a golden parachute.

Unlike generally accepted practices in North America the Takeover Code makes no mention or encouragement for boards to hold auctions. In North America, the initiation of an auction by the board is seen as a way to maximise the shareholder value. In Singapore, the Code promulgates a principle that all parties to a transaction must take special care to prevent the creation of a 'false market', which, while left undefined, implies a proscription on auctions. While the Code states that information on the takeover must be made available to all shareholders, it holds the target company responsible for unusual movements in the price of its stock. Rule 7 emphasises the 'vital importance of absolute secrecy before an announcement'. Thus, it appears that the Code is primarily concerned with friendly mergers and not hostile takeovers, in which the very real possibility of an auction may exist[8]. In large part, this is due to the fact that hostile takeovers are rare in Singapore because the concentration of stockholdings in family trusts, related institutions, and government linked corporations renders hostile takeovers very difficult if not impossible.

Disclosure Regulation

Regulation in the public sector is effected primarily by the Registry of Companies and Businesses (RCB), which administers the Companies Act of 1990, and the MAS, which administers the Security Industry Act of 1986. The Companies Act requires financial statements to comply with the detailed disclosure requirements in the Ninth Schedule and to present a true and fair view. There are some differences in accounting and auditing requirements for private companies, public companies and listed companies. For example, the Act includes provisions for maintaining adequate internal accounting controls for public companies, and for listed companies to have an audit committee made up of at least 3 directors, a majority of which must be independent directors.

The regulation of accounting in Singapore involves a combination of private sector and public sector regulation. The Statements of Accounting Standards (SASs) together with the rules contained in the Stock Exchange Listing Manual (administered by the SES) and the Companies Act determine how accounting is practised in Singapore. The two major institutions involved in private sector regulation are the professional accounting body, The Institute of Certified Public Accountants of Singapore (ICPAS), and the Singapore Stock Exchange (SES).[9] The ICPAS has the sole responsibility for developing and maintaining Statements of Accounting Standard (SAS) and issuing Statements of Recommended Accounting Practice (RAP) which specify how to account for certain business transactions. Standards setting is done through the Accounting Standards Committee appointed by the Council of the ICPAS. Each new Standard becomes part of GAAP, the "accounting law of the land." There is also the Financial Statements Review Committee of the ICPAS which reviews published financial statements for compliance with statutory requirements. Since the SAS issued by the ICPAS does not have legal backing and the ICPAS only has the authority to require members to follow its standards and guidelines, compliance with these standards depends largely on general acceptance by the business community. The SAS is based on the International Accounting

[8] According to some commentators hostile takeovers should be encouraged because it engenders the creation of shareholder value by freeing up cash that has been inefficiently employed (Jensen and Ruback, 1983).

[9] The SES, incorporated under the Companies Act and licensed as a stock market under the Securities Industry Act, is regulated by the Securities Industry Act and Regulations and supervised through a set of rules and bye-laws enforced by the 9-member Stock Exchange of Singapore Committee.

Standards (IAS) issued by the International Accounting Standards Committee (IASC). In most cases, SAS are identical to IAS, although there are occasional deviations and omissions.[10]

Financial Sector Regulation

Understanding the institutional environment in which corporate governance is played out in Singapore would be incomplete without understanding the role and importance of the financial services sector. The Singapore government, as part of its industrial policy, targeted the financial services sector 15 years ago for development into one of the three lynchpins of the local economy (information technology and distribution being the other two). At this time, the regulation of disclosure standards in financial institutions is spread over a number of institutions, namely the SES, MAS, Securities Industry Council, Registrar of Companies and Commercial Affairs Department of the Ministry of Finance. Thus, there is no single point of reference both for companies and stockholders and therefore contributes to a lack of transparency to the governance process.

For example, the Banking Act of 1970, limits the investments of banks in other commercial enterprises to a specified percentage if its capital funds, the most recent of which is 20%. They are more severely limited in their ability to take large positions in a singular company even though it may be less than the 20% limit. The exception to this rule is when a bank invests in companies set up to promote development in Singapore, which have to be approved by the regulatory authorities (MAS). In order to take high levels of ownership positions, banks have to undergo a judicial review process by the MAS. In addition to enforcing legislation, the MAS also performs regulatory oversight by direct intervention in matters of corporate governance. For example, it maintains the right to approve the appointment of directors on the boards of financial institutions.

In 1998, a consultative paper on the securities market, put out by the Corporate Finance committee of the Financial Sector Review Group of the SES, concluded in their review of the securities market situation in Singapore that the SES was not the right place in which to place board monitoring responsibilities. Instead, they recommended that the Monetary Authority of Singapore, with existing jurisdiction over the governance of the financial services industry, and is also the overseer of the regulatory work of the SES, take on the role of monitoring disclosure more fully.

Structural Environment

Equity Markets

As at the end of 1997, there were 241 Singapore companies and 53 foreign companies listed on the mainboard of the SES, with a total market capitalisation of S$329 billion. In addition, there were a total of 62 companies listed on the second board (SESDAQ), with a market capitalisation of S$3 billion. Prior to the economic crisis, IPOs in Singapore tended to be heavily over-subscribed, with retail investors actively participating in IPOs. The interest of retail investors can be attributed to the high savings rate, low interest rates, and the liberalisation of rules concerning the use of Central Provident Fund (a national pension fund) monies for equity investments. The economic crisis

[10] Recently, some commentators have criticized the decision of the ICPAS not to adopt the new IAS standard on extraordinary items, after issuing the exposure draft for comment. The new IAS standard would have tightened considerably the reporting of extraordinary items.

has slowed IPO activity considerably, with some issues being cancelled or deferred, and some companies making IPOs without the support of underwriters.

Ownership Concentration

Table 4 summarises the ownership structures of a sample of SES-listed companies. The median stock ownership by the CEO is 0.3%, and the median ownership by all inside directors is 4.3%. The median proportion of shares owned by blockholders is more than 60%, which is very high relative to many developed Western economies. However, there are some important differences between blockholders in Singapore companies compared to other countries. Unlike Japan and Germany, banks do not directly own significant proportions of shares in Singapore companies because they are not permitted to do so under the Banking Act of 1970. Further, unlike the U.S. and U.K., mutual funds (or unit trusts) are not significant blockholders. This is partly due to the undeveloped funds management industry in Singapore and to the likely lack of interest of large international mutual funds in Singapore's small economy companies. Efforts by the government to encourage the further development of the funds management industry, described in the next part of the paper, are likely to increase the ownership of companies by mutual funds and therefore increase the monitoring provided by these large institutional investors.[11]

At the present time, blockholders in Singapore companies consist mostly of individuals, the government (through government controlled investment vehicles), corporations and government statutory boards (e.g., the Central Provident Fund). Because of the heavy concentration of stock ownership the practice of using nominee (or representative) directors is common. This often contributes to the problem of conflicts of interests, as directors are required by the law to represent all shareholders. In addition, nominee directors can potentially obscure the decision-making process in the boardroom because of their own agendas.[12]

Table 4: Ownership Structures of SES-Listed Companies (1995, n=158)

PERCENTAGE OF TOTAL VOTING SHARES EQUITY	Min	Max	Mean	Median
CEO ownership	0	0.875	0.143	0.003
Inside directors' ownership	0	0.875	0.229	0.043
Blockholder ownership (5% or more)				
All blockholders	0.200	0.981	0.617	0.627
Individual blockholders	0	0.662	0.053	0
Institutional/corporate blockholders (non-nominees)	0	0.943	0.363	0.383
Nominee blockholders	0	0.875	0.203	0.143

[11] In the U.S., for example, such giant pension funds as the California Public Employees Retirement System (CalPERS) are widely known to be active monitors of investee companies. They develop yearly 'hit' lists of under-performing companies, hold closed door meetings with boards to encourage a shareholder friendly business agenda, organize shareholder revolts through the proxy system, and employ the heavy leverage of public opinion and the popular media to pressure companies to conform to best practices standards for corporate governance.

[12] Interestingly, the large institutional investors in the U.S. are almost unanimously against the use of representative directors for this very reason.

As Shleifer and Vishny (1997) note, while large shareholders can potentially improve the monitoring of managers because of the alignment of cash flow and control rights, large shareholders represent their own interests. Where corporate governance is weak, large shareholders may expropriate wealth from minority investors and other stakeholders. Large shareholdings may also result in a loss of diversification and inefficient risk-sharing. Thus, due to the presence of a weak takeover market, lack of disclosure, and weak protection of minority shareholders' rights, the high concentration of shareholdings in Singapore may actually result in a weak corporate governance environment by Anglo-American standards. Recent moves to improve transparency in corporate governance in Singapore may see shareholdings, and thus the incidence of nominee directors, in private companies becoming less concentrated in future.

Government Ownership

A major feature of the Singapore economic landscape is the dominance of government linked corporations (GLCs). The government invests in corporations through three vehicles: MND Holdings, Singapore Technology Holdings, and Temasek Holdings. From here, up to 70% of some GLCs are directly and indirectly controlled by the government while a smaller percentage of major non-GLCs in the banking, shipping, and technology sectors are controlled indirectly through inter-corporate equity shares between the GLCs and non-GLCs. At the end of the 1980s, GLCs comprised 69% of total assets and 75% of profits of all domestically controlled companies in Singapore. In the 1990s, through a program of privatisation, which dispersed the equity of these companies, those numbers have been reduced. However, the government continues to hold majority ownership, through its holding companies (Temasek Holdings, MND Holdings, and Singapore Technologies) in these GLCs. Thus, a study of corporate governance in Singapore would not be complete without understanding the role and governance structures of the GLCs. In many ways, these companies form the bulwark of the domestic economy and are often seen as opinion leaders in the practice of management.

Singh and Siah (1998) suggest that inter-firm competition in Singapore is tempered by co-operation and co-ordinated action in ventures that represent unrelated diversification strategies. This is particularly true for the GLCs, which have a social as well as economic objective, i.e., that of promoting the development of Singapore. For example, the regionalization of such GLCs as Keppel Corporation has often been achieved in concert with other companies, and in many cases, competitors. This is also reflected in the distribution of interlocking directorates. A high percentage of interlocks occur between listed subsidiaries and the parents but also between competitors in the same industry (Singh and Siah, 1998). One effect of this is the moderation of competitive intensity but in addition, because many directors of GLCs are also senior government officials, it is an indirect method for controlling and monitoring corporate activities and business policies by the government.

While the government appears to facilitate governance through GLCs, there are some problems associated with this approach. The appointment of government officers to senior management and board positions within GLCs raises the question as to whether the best managers are running corporations that form an important part of the economy.[13] In addition, according to Vernon and Aharoni (1981), GLCs must respond to a "set of signals from the government to which private managers are less alert. These signals are not related to profits but to goals associated with the well-

[13] This can be contrasted with the approach adopted in New Zealand, which underwent a significant restructuring of its public sector in the 1980s. Under the New Zealand approach, many government departments were converted into state-owned enterprises (some were fully privatised), and a major thrust in this restructuring involves the appointment of private sector managers to senior positions within these enterprises.

being of the nation. These goals may sometimes be in conflict with the commercial objectives of the enterprise". Because of other superordinate goals, GLCs may also face less pressure in paying dividends.

In addition, unlike other blockholders, who may play an important third-party role in facilitating the takeovers of poorly-performing firms, the government is expected to play the role of the long-term investor in these GLCs. Therefore, GLCs are even more protected from an already weak market for corporate control. GLCs are also likely to have easier access to different sources of capital when compared to non-GLCs. Often, the government is perceived by the lenders to have a moral and legal responsibility for their liabilities and this tacit backing of the state implies that the enterprise is guaranteed solvency (La Porta, Lopez de-Silanes, Shleifer and Vishny, 1998). This results in a greater willingness by banks and non-bank financial institutions such as insurance companies to lend money liberally to these enterprises. Accordingly, "the fact that [GLCs] are part-owned (or managed) by the Singapore government enables them to raise funds much more cheaply – by up to four percentage points lower – than others" (Business Times, 4 March, 1997). The Minister of Finance noted that GLCs, being largely cash-rich, usually do not need to resort to raising bonds or bank borrowings (Business Times, 23 August, 1997). This of course reduces the potential discipline to which a GLC will be exposed in a competitive capital market. In a recent interview, Ho Kwon Ping, Chairman of Singapore Power (the Singapore utility) criticised GLCs for excessive diversification (Straits Times, May 15, 1998, p.52). In a competitive market, one would expect any wealth-decreasing diversification to be penalised by investors. However, the reduced exposure to market disciplines caused by a reduced exposure to takeovers and access to cheap capital because of implicit government guarantee may allow GLCs to be less efficient than other private companies.

Foreign Share Ownership Limits

As at June 30, 1998, there were a total of 31 companies on the Singapore Stock Exchange (SES) that had imposed restrictions on foreign ownership. Foreign ownership limits range from 20% to 49%. As noted earlier, foreign ownership limits are imposed by statute in the banking and news media industries. In other cases, these restrictions are adopted voluntarily by the firms themselves through amendments to their Memorandum and Articles of Association (M&A). The justification given for imposing foreign ownership limits include strategic (i.e., defence) and national interests. Where foreign shareholdings have reached the statutory or self-imposed limit, shares are traded in separate local and foreign tranches. In general, foreign tranche shares trade at a significant premium over local shares provoking a debate over whether firms should remove foreign shareholding limits. According to Lam (1997), overseas evidence suggests that the use of foreign shareholding limits to prevent companies from falling into foreign control imposes capital costs on the company. Recently, however, some companies, such as those within the Singapore Technologies (ST) Group, have responded to this debate by increasing their foreign shareholding limits. In addition, companies such as the ST units and Singapore Press Holdings, have merged their foreign and local shares.

The adoption of foreign ownership limits, whether statutory or self-imposed, can facilitate managerial entrenchment. The imposition of a foreign ownership limit prevents control of the firm from being passed to the hands of foreign investors. It also reduces the ability of foreign investors to acquire large stakes in these firms, thereby reducing the potential monitoring that can be provided by large foreign investors. Where the firm has dual listings of foreign and local stocks, the foreign stocks tend to trade at a substantial premium over the local stocks. This reduces the vulnerability of the firm to takeovers. This is because the law requires the mandatory takeover (triggered when an investor acquires more than 25% of the voting stocks) to be conducted at the highest price paid by the acquirer for the stocks over the last 12 months. If the acquisition is done solely through the purchase of local stocks, then the highest price paid is unlikely to be higher than the prevailing foreign price. This means that foreign stockholders are unlikely to sell their stocks to the acquirer. To the extent

that foreign stockholders have some control over the firm's voting rights, and the fact that transfers of restricted stocks have to be approved by the firm essentially precludes a takeover of the firm (Lim, 1997).

Market for Corporate Control

The takeover market, as might be surmised from earlier discussions, is not active in Singapore. This is due, in large part, to the concentration of stockholdings, the pervasive presence of interlocks, the government investment vehicles, and tight controls by the SES (for example, secrecy rules are in place and strictly enforced in order to reduce speculative buying on rumors). Further, according to Chandrasegar (1995), the Asian way of doing business is marked by an avoidance of aggression, confrontation and bitterness, which usually precludes the use of tender offers. This cultural bias suggests that flamboyant corporate raiders such as T. Boone Pickens, James Gulliver, Ernest Saunders, and the late Robert Maxwell are out of place in Singapore. In addition, unlike their counterparts in London and New York who are inclined to test the limits of the takeover laws and regulations, merchant bankers in Singapore generally do not act without prior clearance with the Securities Industry Council (SIC), the government agency charged with administering the Takeover Code in Singapore. Consequently, hostile takeovers are almost unheard of and when they do happen, auctions seldom take place because of the secrecy rules just described. Thus, the discipline of a takeover market on director behaviour envisioned by Jensen and Ruback (1983) simply does not exist or is very weak in the Singapore context.

BOARD STRUCTURE

TABLE 5 SHOWS THE BOARD STRUCTURES OF A SAMPLE OF SES-LISTED COMPANIES. THE AVERAGE BOARD SIZE IS ABOUT 8, WITH A RANGE OF 4 TO 14 BOARD MEMBERS. THE AVERAGE BOARD HAS A MAJORITY OF OUTSIDE DIRECTORS (57%), WITH A RANGE OF 10% TO 100%. FORTY-SIX PERCENT OF COMPANIES HAVE A DUAL LEADERSHIP STRUCTURE, DEFINED AS THE SITUATION WHERE THERE IS A SEPARATE CEO AND EXECUTIVE CHAIRMAN ON THE BOARD. THEREFORE, ON AVERAGE, BOARDS OF SINGAPORE COMPANIES EXHIBIT THE THREE FEATURES OF BOARDS THAT ARE CONSIDERED TO BE INDICATIVE OF EFFECTIVE BOARDS (JENSEN, 1993). IN SPITE OF THIS, A NUMBER OF FACTORS ATTENUATE THE EFFECTIVENESS OF A SINGAPORE BOARD. THESE FACTORS INCLUDE THE DIFFICULTY OF REMOVING INEFFECTIVE DIRECTORS AND APPOINTING NEW ONES DUE TO THE LARGE STAKES HELD BY DIRECTORS, FAMILY MEMBERS AND PASSIVE SHAREHOLDERS; THE LACK OF CUMULATIVE VOTING, WHICH MAY HELP MINORITY SHAREHOLDERS APPOINT THEIR OWN DIRECTORS; AND THE WEAK MARKET FOR CORPORATE CONTROL, WHICH RESULTS IN FEW BOARD UPHEAVALS EVEN WHEN CORPORATE PERFORMANCE IS POOR. AS AN INDICATION OF THE WEAKNESS OF SINGAPORE BOARDS, THERE IS SOME EVIDENCE THAT THE RELATIONSHIP BETWEEN FIRM PERFORMANCE AND DIRECTORS' PAY IS VERY WEAK.

Table 5: Board Structures of SES-Listed Companies (1995, n=158)

Variable	Min	Max	Mean	Median
1. Board size	4	14	8.030	8.000
2. Proportion of outsiders	0.100	1.000	0.571	0.570
3. Leadership structure [a]	0	1	0.462	/

[A] LEADERSHIP STRUCTURE IS MEASURED BY A DUMMY VARIABLE, WITH 1 FOR A COMPANY HAVING SEPARATE CEO AND NON-EXECUTIVE CHAIRMAN, AND 0 OTHERWISE. THE MEAN REPRESENTS THE PROPORTION OF COMPANIES HAVING SEPARATE CEO AND NON-EXECUTIVE CHAIRMAN.

DISCLOSURE

Since IAS requirements tend to be less detailed than U.S. FASB standards, and IAS tends to allow more discretion in adopting accounting policies, the quality of financial disclosure in Singapore is weaker than in more developed Western economies, such as the U.S., U.K., and Australia. A study by Goodwin and Seow (1998), in which they examined the annual reports of 94 Singaporean companies from 1994 to 1996, concluded that the disclosure practices of Singapore corporations fell short of the recommended levels in the Best Practices Guide. They also concluded that, compared to U.S. firms, disclosure practices were poor, although they were better when compared to their South Asian counterparts.

Stock Options

In recent years, many Singapore corporations have adopted stock option plans as a means of compensating managers and directors. There is no explicit regulation on the maximum term of the options. The SES Listing Manual contains a number of rules governing the use of stock options. Among others, these are:

1) The total number of shares which can be issued under the scheme should not exceed 5% of the issued share capital. If the applicant is listed on SESDAQ, the number of shares available under the scheme should not exceed 15% of the issued share capital. In the case of an applicant which has a foreign currency listing under Chapter 5, the Exchange may vary the requirement on the maximum number of shares that is permitted to be issued under the scheme and any other requirement if the Exchange is satisfied that the applicant has good reasons for it.

2) Not more than 50% of the shares available under the scheme should be issued to directors, chief executive officers, general managers and officers of equivalent rank

3) The maximum entitlement of each participant should be fixed and not exceed 25% of the total shares available under the scheme

4) The exercise price of options shall be pegged at the average market price prevailing during the price-fixing period immediately before the options are granted

5) Any offer of securities under the scheme may only be made within a period of forty-two days commencing after the fifth market day following the date of announcement of the applicant's interim and final results provided always that in the event that an announcement of any matter of an exceptional nature involving unpublished price-sensitive information is made during the aforesaid forty-two day period, offers may only be made after the fifth market day from the date on which the aforesaid announcement is released. The aforesaid forty-two day period may be extended with the approval of the Exchange

6) Save as provided in sub-items (ii) and (iii) of this item, options granted under the scheme may not be exercised within one year of the date of offer:
ii) Where options are granted to employees who have served less than one year's service, such options may not be exercisable within two years of the date of offer
iii) The applicant may provide for staggered exercise of options if the Exchange considers that the purpose is consistent with the objective of this item.

In a survey of 158 companies listed on the SES, 51% had stock option plans in place. However, shares issued to directors and executives under these plans constitute only a small fraction of the total share capital of companies, the maximum percentage being 2.7%, and the mean (median) percentage being 0.2% (0.1%). Of the 80 companies that have option plans, 68.4% (55) only required the options to be held for a minimum period of one year. For these companies, options can be viewed as a mechanism primarily for rewarding short-term performance.

FINANCIAL PROFILES

TABLE 6 SHOWS THE FINANCIAL PROFILE OF A SAMPLE OF SES-LISTED COMPANIES. EQUITY FINANCING IS THE PRIMARY SOURCE OF LONG-TERM FINANCING FOR MOST SINGAPORE COMPANIES. EQUITY FINANCE IS WIDELY AVAILABLE BECAUSE THE HIGH SAVINGS RATE IN SINGAPORE, COUPLED WITH LOW INTEREST RATES, HAS ENCOURAGED MANY RETAIL INVESTORS TO PARTICIPATE IN EQUITY MARKETS. WHERE LONG-TERM DEBT FINANCING IS USED, THEY TEND TO BE IN THE FORM OF BANK BORROWINGS OR TERM LOANS, RATHER THAN BONDS.

TABLE 6: FINANCIAL PROFILE OF SAMPLE OF SES-LISTED COMPANIES (1997, N=265)

Variable	Min	Max	Mean	Median
1. Market-to-book value of equity	0.14	10.44	1.12	0.71
2. Price-earnings ratio	6.4	197.5	27.8	20.4
3. Long-term debt to total assets	0	0.84	0.21	0.21
4. Total debt to total assets	0.02	0.95	0.46	0.44
5. Dividend payout	-0.27	33.64	0.42	0.22
7. Return on equity	-2.19	0.48	0.06	0.06
8. Return on assets	-0.36	0.45	0.05	0.04

Are Corporate Governance Practices Related to Firm Value?

To determine whether corporate governance practices are related to firm value, we collected data on corporate governance structure, financial structure and firm performance for a sample of listed Singapore corporations. We then regressed the market to book value of equity against the following types of corporate governance mechanisms: adoption of option plans, disclosure, managerial ownership, blockholder ownership and board characteristics. We also control for the following: firm size, leverage, industry (financial versus non-financial firms), and government ownership (GLC versus non-GLC).

The results are presented in Table 7 and they show evidence of the relationship between board structure and firm value, but no significant relationship between the use of option plans or disclosure on firm value. Interestingly, firms with more outside directors tend to report lower firm value. Also of interest is the finding that GLCs have lower firm value than their non-GLC counterparts.

However, caution should be exercised in interpreting the results. First, relationships between corporate governance practices and firm performance, such as return on equity or return on assets (not reported) were considerably weaker.

Second, the analysis does not consider the endogeneity of corporate governance mechanisms. That is, it can be argued that corporate governance mechanisms adopted by a particular firm depend on the contracting problems faced by the firm (Demsetz and Lehn, 1985). Therefore, if contracting problems vary across firms, so will their corporate governance mechanisms. This suggests that we cannot assumed a priori an ideal corporate governance mechanism for all firms, and that its employment will increase firm value.

Table 7: Regression of Market-to-Book Value of Equity Against Corporate Governance Mechanisms

Variable	Parameter Estimate	Standard Error	T for H0: Parameter=0	Prob > |T|
INTERCEP	-12.231257	5.67054424	-2.157	0.0327
Option Plan	-0.235798	0.74059599	-0.318	0.7507
Disclosure	0.015793	0.04349942	0.363	0.7171
Outside Directors	-3.484262	1.85815794	-1.875	0.0628
Board Leadership	1.982975	0.86651108	2.288	0.0236
Board Size	0.392707	0.18245378	2.152	0.0330
Inside Ownership	-0.390374	1.65956861	-0.235	0.8144
Block Ownership	2.276423	2.41793909	0.941	0.3481
Govt Ownership	-1.893277	1.03746447	-1.825	0.0701
Industry	-1.159315	1.12959143	-1.026	0.3065
Firm Size	0.561851	0.26730512	2.102	0.0373
Leverage	0.881684	1.88872580	0.467	0.6413

R-squared = 0.1707
Model F-value = 2.676 (p<.0037)

What Explains Cross-Sectional Variation in Corporate Governance Practices?

A number of studies have analysed the factors that affect the propensity of Singapore companies to use particular governance practices, including board structure, disclosure, and stock option plans. These studies are based on the argument that, given competitive capital markets, companies have incentives to align their corporate governance practices to reflect the degree of agency problems faced by a firm and the presence of other mechanisms to control these agency problems. For example, where managers own a significant proportion of the firm's shares, their interests are closely aligned with the interests of outside shareholders, reducing their propensity to make decisions that reduce shareholders' wealth.

Based on a sample of 155 SES-listed companies, Mak and Li (1998) found that companies with limits on foreign ownership, higher growth and that are in the financial sector tend to have larger boards. The use of independent outside directors is lower for companies that have higher ownership by the CEO and other inside directors (managerial ownership), significant government ownership, higher growth, lower blockholder ownership, no limit on foreign ownership, and that are in the financial sector. Finally, companies that have a separate CEO and chairperson (where the chairperson is not an executive director) tend to have lower managerial ownership, lower government ownership, higher growth, and are generally in the non-financial sector. Eng and Mak (1999) examined the factors that explain the disclosure of strategic, non-financial and financial information by SES-listed non-financial companies and find that those that disclosed more information tend to be those that have lower managerial ownership, lower debt, larger size, and higher government ownership. Finally, based on a sample of 158 SES-listed companies, Ching and Mak (1999) found that companies adopting option plans tend to have lower managerial and blockholder (individual and institutional) ownership, and higher government ownership. Therefore, there is evidence that cross-sectional variation in corporate governance practices is related to the type of the ownership structure, industry and other characteristics of companies.

PART III: CORPORATE GOVERNANCE – FUTURE DEVELOPMENTS

In Part I of the paper, we indicated that the Financial Sector Review Group, formed by the government, has unveiled a number of initiatives in its review of the financial sector. These are summarised in Appendices 1 and 2. Perhaps the two reports that have the greatest implications for corporate governance in Singapore are the "Report on Banking Disclosure" (May 1998) and the "Report of the Corporate Finance Committee" (October 1998). In terms of banking disclosure and the impact on corporate governance, the more salient measures that have been adopted include:

- discontinuing the practice of maintaining hidden reserves,
- providing details on loan loss provisions,
- disclosing off-balance sheet items in notes to accounts,
- disclosing significant exposures, and
- improving the ability of foreign regulators to inspect the Singapore branches of their banks.

Some notable recommendations in the "Report of the Corporate Finance Committee" that have implications for corporate governance include:

- moving towards a predominantly disclosure-based philosophy of regulation with a high standard of prospectus and continuous disclosure,
- more timely release of annual reports and interim results,
- encouraging listed issuers to report their results on a quarterly basis,
- consolidating securities legislation into a unified code,
- moving to a single securities regulator responsible for enforcing all aspects of securities law and regulation (including disclosure obligations) and prescribing accounting rules,
- allowing shareholders civil right of action for insider trading and compensation for losses from insider trading,
- adopting best practice principles in corporate governance for all listed issuers of stock,
- disclosing corporate governance practices and procedures adopted by listed issuers in their annual reports,
- allowing controlling shareholders who are executives of the company to participate in employee share ownership schemes (ESOPs), subject to approval by minority shareholders,
- encouraging a wider participation in ESOPs,
- easing, and eventually removing, the current 5% limit on the maximum size of ESOPs, and
- allowing greater flexibility in the setting of exercise price for options with specified vesting periods.

Another important development in corporate governance in Singapore is the legalising of share buybacks. Share buybacks provide an additional mechanism for company management to return excess cash to shareholders and can therefore reduce the free cash flow problem described by Jensen (1990). Some companies such as Singapore Press Holdings have announced plans to reduce their share capital by buying back shares. The development of the bond market and the fund management industry can also enhance corporate governance. To help develop the bond market, the government has encouraged GLCs and statutory boards to raise funds through bond issues, and several have either done so or have announced plans to do so. This is likely to have positive

implications for the corporate governance of GLCs and statutory boards, as borrowing through bond issues subject them to the discipline of the capital markets and can reduce moral hazard problems. Finally, the government has committed to place S$25 billion of Government Investment Corporation (GIC) funds and S$10 billion of MAS funds to external (international) fund managers to manage. The entry of external fund managers may alter the ownership structure of Singapore companies, with a shift towards greater ownership by fund management companies. Fund managers owning significant blocks of shares in companies have both the incentives and ability to monitor management, and are therefore likely to play a more important role in the corporate governance of Singapore companies in the future.

Finally, in recognition of the importance of corporate governance, the Singapore Stock Exchange, with support from the Monetary Authority, instigated the formation of the Singapore Institute of Directors (SID) in May, 1998. The Institute, governed by a Council comprising industry leaders and government representatives, is a voluntary association registered under the Companies Act. It is modelled after the British Institute of Directors and is chartered to improve and professionalise the practice of directing in Singapore companies. With the help of experts from industry and academia, the Institute has developed a director certification program modelled after the British and Australian IODs. Directors of newly listed companies and those wishing to obtain membership in the Institute may participate in this program in order to enhance their directing skills and knowledge. The objective of the SID is to eventually require all directors of mainboard listed companies (as is now the case with London Stock Exchange listed companies) to be certified by coursework. If similar experiences in the U.K. and U.S. can be generalized, the institionalization of directing in Singapore will raise the level of awareness of directors' legal and moral responsibilities, professional conduct in the boardroom, and standardise the implementation of legal remedies for shareholders seeking redress for fraud and other corporate malpractices.

Part IV: Concluding Comments

THE FINANCIAL CRISIS HAS LED THE GOVERNMENT TO IMPLEMENT A NUMBER OF INITIATIVES TO IMPROVE SINGAPORE'S COMPETITIVENESS, AND TO STRENGTHEN ITS FINANCIAL SECTOR. SIGNIFICANT PROPOSALS HAVE BEEN MADE TO IMPROVE CORPORATE GOVERNANCE IN SINGAPORE. THESE INCLUDE THE IMPROVEMENT OF DISCLOSURES BY BANKS AND OTHER LISTED ISSUERS, THE CREATION OF A SINGLE SECURITIES REGULATOR WITH WIDE POWERS, THE IMPROVED ABILITY OF INVESTORS TO TAKE CIVIL ACTION AGAINST INSIDER TRADING, AND THE GREATER FLEXIBILITY OF USING STOCK OPTION PLANS TO ALIGN THE INTERESTS OF SHAREHOLDERS AND MANAGEMENT OF COMPANIES. OTHER FINANCIAL SECTOR DEVELOPMENTS SUCH AS THE DEVELOPMENT OF THE FUNDS MANAGEMENT INDUSTRY AND THE BOND MARKETS ARE LIKELY TO FURTHER ENHANCE CORPORATE GOVERNANCE IN THE FUTURE.

HOWEVER, A NUMBER OF CONCERNS REMAIN. FIRST, THERE REMAINS DOUBT AS TO WHETHER CURRENT AND PROPOSED SECURITIES AND COMPANY LEGISLATION, AND THE GENERAL LEGAL FRAMEWORK IN SINGAPORE ACCORD ADEQUATE PROTECTION TO THE RIGHTS OF MINORITY SHAREHOLDERS TO ENCOURAGE THEM TO INCREASE THEIR PARTICIPATION IN SHARE OWNERSHIP. IN THE ABSENCE OF SUCH PROTECTION, OWNERSHIP IN SINGAPORE IS LIKELY TO REMAIN HEAVILY CONCENTRATED WITH SIGNIFICANT OWNERSHIP BY EXECUTIVES (AND THEIR FAMILIES), WHICH VIOLATES THE SEPARATION OF DECISION MANAGEMENT AND DECISION CONTROL AND LEADS TO THE INEFFICIENT SHARING OF RISKS. SECOND, THE CONTINUED PARTICIPATION OF THE GOVERNMENT IN MANY PRIVATE SECTOR FIRMS REDUCES THE EXPOSURE OF THESE FIRMS TO COMPETITIVE MARKETS AND CREATES MORAL HAZARD PROBLEMS THROUGH IMPLIED PERFORMANCE GUARANTEES. GIVEN THE PERCEIVED NEED TO USE THESE GOVERNMENT-OWNED COMPANIES AS TOOLS FOR ECONOMIC DEVELOPMENT AND REGIONALISATION OF THE DOMESTIC ECONOMY, WE ARE DOUBTFUL THAT SINGAPORE WILL MOVE TOWARDS A MODEL OF CORPORATE OWNERSHIP IN WHICH THE GOVERNMENT DOES NOT OWN SIGNIFICANT EQUITY IN PRIVATE SECTOR FIRMS. THUS, WE FEEL THERE IS AN URGENT NEED TO IMPROVE THE ACCOUNTABILITY, MANAGEMENT AND MONITORING OF THESE GOVERNMENT-OWNED COMPANIES. THIRD, THE SHIFT TOWARDS A DISCLOSURE-BASED REGIME SUGGESTS SIGNIFICANT CHANGES IN THE WAY THE ACCOUNTING PROFESSION WILL BE REGULATED, ACCOUNTING STANDARDS SET AND ACCOUNTING RULES ENFORCED. WE BELIEVE THIS IS A STEP IN THE RIGHT DIRECTION. HOWEVER BECAUSE THERE ARE POWERFUL VESTED INTERESTS IN MAINTAINING THE STATUS QUO[14] THERE IS A REAL DANGER THAT IF THESE CHANGES ARE NOT MADE QUICKLY AND DECISIVELY, THEY WILL BE WATERED DOWN. THE CORPORATE GOVERNANCE REGIME WILL BE WEAKENED FURTHER RATHER THAN STRENGTHENED BY THE SHIFT TOWARDS A DISCLOSURE-BASED REGIME.

[14] The opacity of financial statements serves the interests of entrenched management and large shareholders who have ready access to private information and can therefore expropriate residual that rightly belongs to the less informed minority shareholder.

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APPENDIX 1

REVIEW OF THE FINANCIAL SECTOR: KEY INITIATIVES IMPLEMENTED TO-DATE

Banking	Insurance	Fund Management	Equity and Futures Markets	Bond Market
Raised Bank Disclosure Standards Discontinue practice of maintaining hidden reserves. Provide details on loan loss provisions. Disclose off-balance sheet items in notes to accounts. Disclose significant exposures. Clarified and Liberalised Guidelines on S$ Loans for Regionalisation Projects Lowered Minimum Cash	Liberalised Investment Limits on Singapore General Insurance and Non-Investment-Linked Life Insurance Funds Put in Place Easier Operating Environment for Captive Insurers Reduced paid-up capital requirement from $1 mn to $400,000. Captive insurers allowed to write prescribed non in-house risks. Enhanced Tax Incentives Extended 10-year tax exemption for Singapore-registered insurers in respect of income from offshore marine hull and liability business.	Committed to Place Out $25 bn of GIC Funds and $10 bn of MAS Funds over Next 3 Years for External Fund Managers to Manage [GIC placed out $6.5 bn as at September 1998.] Revamped CPF Investment Scheme Set new selection criteria for CPF-approved fund managers. Set new investment guidelines and introduced disclosure requirements for CPF-approved unit trusts. Liberalised	Eased Conditions for Foreign Companies to List in S$ on the SES (See MAS 757) Removed Limit on Investments in Foreign Currency-Denominated Shares by CPF-Approved Unit Trusts Launched New Equity Derivative Contracts SIMEX launched MSCI Singapore Stock Index Futures (in September 98) and Dow Jones Thailand Stock Index Futures (in November 98). SIMEX relaunched MSCI Hong Kong Stock Index Futures in November 98. Widened Scope of Activities for Stockbrokers Reviewed SIMEX	Increased Government Debt Issues and Announced a Regular Calendar of Issues Issued $1.5 bn of 10-year Singapore Government Securities (SGS). Increased Bond Issues by Statutory Boards like JTC, PUB, and HDB JTC launched $4 bn medium-term note programme. HDB announced plans to issue $2 bn worth of bonds. Allowed Foreign Entities to Issue S$-Denominated Bonds in Singapore (See MAS 757)

Balance (MCB) from 6% to 3%

Raised Limits on Offshore Banks' S$ Loans to Residents from $200 mn to $300 mn

Launched Real Time Gross Settlement System for Interbank Payments

Facilitated Regulatory Co-operation

Made it easier for foreign regulators to inspect Singapore branches of their banks

Allowed foreign banks to disclose information on credit facilities to their parent supervisory authorities.

Guidelines for Non-CPF Unit Trusts

Introduced new investment, borrowing and advertising guidelines.

Removed minimum investment requirements for unit trust regular savings plans.

Reduced Entry Requirements for Foreign Companies Setting Up as Investment Advisers in Singapore

Reduced minimum shareholders' funds from $500 mn to $100 mn.

Reduced minimum global funds managed by parent company from $5 bn to $1 bn.

Enhanced Tax Incentives

Abolished withholding tax on unit trust

membership structure to allow SES members to apply for SIMEX membership so as to market and trade SIMEX's equity index contracts.

Facilitated applications by stockbroking firms for investment adviser licences.

Introduced New Best Practices Guide on Audit Committees and Dealing in Securities

Legalised Share Buy-Backs

Commenced Inspection of Securities Market Intermediaries

Enhanced Tax Incentives

Extended certain tax incentives for venture capital funds for a further 5 years beyond the current maximum of 10 years.

Renewed tax holiday for SIMEX for another 5 years.

Suspended stamp duty

International Finance Corporation launched the first triple A S$ bond issued by a foreign borrower in October 98.

Allowed Banks to Transact S$ Repurchase Agreements of up to $20 mn with Non-Bank Non-Residents

Allowed Banks to Transact S$ Currency and Interest Rate Swaps with Special Purpose Vehicles for Securitising Mortgages

Allowed CPF-Approved Unit Trusts to Invest in High Grade Bonds

Introduced Tax Incentives to Encourage Origination and Trading of Debt Securities in Singapore

distributions.	on securities transactions for 1
Extended tax exemption to unit holders' distributions made out of capital gains.	year wef 30 Jun 98.
Exempted from tax fund managers who manage more than $5 bn in Singapore.	

Source: Singapore's Financial Sector, Monetary Authority of Singapore's website (http://www.mas.gov.sg/singfinsec/singfinsec_finsecreview-c.html)

REVIEW OF THE FINANCIAL SECTOR: KEY INITIATIVES CURRENTLY BEING WORKED OUT

Banking	Insurance	Fund Management	Equity and Futures Markets	Bond Market
Implement Risk-focused Approach to Bank Examinations Conduct more focused and regular inspections to distinguish stronger banks from weaker ones.	Review Investment Guidelines for Investment-Linked Insurance Policies Enhance Operating Environment for Captive Insurers Introduce New Reinsurance Products Study the actuarial and accounting issues relating to the introduction of specialised pioneer products such as alternative risk transfer products.	Consolidate Unit Trust Regulation in MAS Review Trustees Act Relax investment restrictions on statutory boards, private pension funds and authorised unit trusts. Delink investment limits under CPFIS from Trustees Act. Put in place regulatory framework for private pension funds. Introduce Regulatory Framework for Independent Financial Advisers Introduce Code of Ethics for Fund Managers	Progressively Deregulate Commission Rates Progressively Open Up to Foreign Participation in the Stock-broking Industry Liberalise Employee Share Option (ESOP) Schemes Widen Product Range in Equity Market Expand the SES options market by introducing options on more stocks. Introduce new products (e.g. stock index options, country basket of shares, listed property trusts/real estate investment trusts).	Promote Asset-Backed Securities Market Resolve legal and regulatory issues relating to asset-backed securities. The Housing and Development Board is considering the issuance of mortgage-backed securities. Introduce Regulatory Guidelines for Underwriters and Dealers and Trading Rules for Debt Securities Develop Efficient Clearing System for Corporate Bonds

Create Conducive Environment for Indigenous Boutique Fund Managers	Develop an electronic bulletin board/organised OTC market on SES for trading foreign securities.
Introduce Training Programmes to Develop Local Fund Management Expertise	Demutualise and merge SES and SIMEX
	Shift from Merit-Based Regulation Towards Predominantly Disclosure-Based Regulation
	Consolidate Securities Regulation in MAS to Reduce Duplication and Improve Efficiency

Source: Singapore's Financial Sector, Monetary Authority of Singapore's website (http://www.mas.gov.sg/singfinsec/singfinsec_finsecreview-c.html)

APPENDIX 2

SUMMARY OF RECOMMENDATIONS OF THE CORPORATE FINANCE COMMITTEE

Philosophy of Regulation

Recommendation 1

A predominantly disclosure based philosophy of regulation should be adopted as it best fosters a market driven environment that promotes innovation, entrepreneurship, efficiency and business flexibility while protecting the integrity of the securities market.

The Regulatory Framework

Recommendation 2

To raise the standard of disclosure, there should be a comprehensive and stated legal obligation to disclose.

Recommendation 3

Laws and rules applicable to the securities market, as distinct to core company law, should be consolidated into a single legislation.

Recommendation 4

There should be three tiers of rules. These would consist of primary legislation, secondary legislation and non-statutory rules.

Recommendation 5

a. Securities market rules should as far as possible be made statutory.
b. The securities regulator and the SES should publish its policies and interpretations on rules to provide greater transparency to the market.
c. The securities regulator and the SES should also provide reasons for decisions, and allow an avenue of appeal against the decisions.

Recommendation 6

a. The single securities regulator model should be adopted to clarify responsibility and accountability and raise efficiency. Securities regulation

should be consolidated and administered by a securities regulator.

b. The securities regulator would enforce all aspects of securities law and regulations, including disclosure obligations. The RCB would administer core company law. Criminal prosecution would continue to be done by the CAD or the Attorney General's Chambers. The SES would operate a securities exchange and promote the growth of the securities market. The SES' role as a conduit between market participants and the government, to give feedback to government departments to promote growth, would be enhanced. The SES would approve listing applications, undertake market surveillance, monitor continuing disclosure, promote corporate governance and enforce its Listing Manual. Where a breach of the law is suspected, the matter will be handed over to the securities regulator for investigation and enforcement. It would continue to regulate its member firms.

c. The securities regulator should be distinct from and should not be subordinated to the banking prudential regulator.

Recommendation 7

a. The securities regulator should have power to enforce securities regulation, including pursuing civil actions in the public interest.

b. The public interest test must be properly defined to reduce the uncertainty over when the securities regulator will pursue civil actions, and to avoid moral hazard.

c. The law should allow for damages awarded to be distributed to investors. The securities regulator should be able to offset its cost against the damages awarded before distribution to investors. It should be allowed to retain the damages awarded unless and until valid claims are made against it by investors. The rights of individual investors to litigate for themselves

should be preserved, but the securities regulator should have the right to intervene in litigation brought by private litigants or to initiate litigation on its own in the public interest.

Recommendation 8

The securities regulator should be empowered to impose administrative sanctions for breaches of its rules. The SES should continue to impose contractual sanctions for breaches of its Listing Manual. The power to impose fines for breaches of securities regulation should be reserved for criminal prosecutions.

Recommendation 9

The securities regulator should be granted investigative powers to enforce both statutory and non-statutory securities rules. Where the securities regulator finds evidence of criminality in its investigation it should refer the matter to CAD or the Attorney General's Chambers for criminal investigation.

Recommendation 10

a. A civil right of action for insider trading, which is independent of a criminal conviction, should be created to enable persons to obtain compensation for losses suffered as a result of insider trading.
b. The plaintiff must show that the trading was contemporaneous with the insider trading, but not that the counterparty who dealt with the plaintiff's shares was the insider.
c. The securities regulator should be allowed to intervene in or commence civil actions for insider trading.
d. The insider trader should be liable for all losses suffered by all contemporaneous counterparties, up to a certain maximum value. If the losses claimed are more than the maximum value claimable, the maximum value is to be distributed to the claimants on a pro-rata basis. Where the civil action is pursued by the securities regulator,

it should be allowed to retain the damages awarded unless and until valid claims are made against it by investors.

A High Standard Of Disclosure

Recommendation 11

a. The disclosure requirement should be in the form of a general test in primary legislation supplemented by checklists in secondary legislation. The general disclosure test should cover both prospectuses and continuing disclosure. Primary legislation should empower the securities regulator to make disclosure checklists as it considers necessary.
b. Prospectuses and all continuing disclosure should disclose all information that investors and their professional advisers would reasonably require and expect to find in order to make an informed investment decision.

Recommendation 12

The prospectus checklist for local and foreign issuers should be substantially similar to the proposed International Disclosure Standards on prospectus disclosure with appropriate modifications (which should be kept to a minimum) to meet local requirements.

Recommendation 13

Issuers should be allowed to issue an additional mini prospectus that is more useful to the target audience by providing such investors with the information which they need without unnecessary details. Certain detailed information may also be incorporated by reference in the full prospectus but lodged with a relevant authority and be available for inspection at a website or at the company's registered office.

Recommendation 14

The disclosure checklist for rights issue abridged prospectuses and placement statement of material fact should consist of

the items currently required in Part V of the Fifth Schedule of the Companies Act and information on the intended use of the proceeds and how the use of the proceeds will impact on the financial performance of the issuers.

Recommendation 15

a. The period to present annual reports of listed issuers to shareholders should be shortened to five months from the end of the financial year.
b. To allow more timely preparation of financial statements, the Companies Act should be amended so that auditors can express their opinion on the consolidated financial statements of the holding company without all the financial statements of the subsidiaries having to be signed off by their respective auditors. The amendment should also allow subsidiaries, especially those located overseas, to have their financial year end not more than, say, two months earlier than that of the holding company, except in the case of subsidiaries in jurisdictions where financial year ends are mandated by legislation.

Recommendation 16

Listed issuers should be encouraged to report their results on a quarterly basis. Subject to changes to the law to permit more timely preparation of financial statements, interim results should be released within 60 days of the period end.

Recommendation 17

a. The securities regulator should have the power to prescribe accounting rules for companies that are listed or have made public offers of securities in Singapore and for public offering documents.
b. Foreign companies not already preparing their financial statements in accordance with the prescribed standards should reconcile their financial statements to accounting standards prescribed by the securities regulator.
c. The securities regulator may grant exemptions to

allow locally incorporated public companies that are listed or are making public offers to comply with prescribed accounting standards other than Singapore accounting standards.

Liberalisation and Development

Recommendation 18

a. The SES should continue with its strategy to have different boards to cater to different market segments, for both local and foreign companies, such that:-

   1. The Main Board should be a market for companies with an established profit track record or large market capitalisation.
   2. SESDAQ should be a market that provides for greater flexibility.
   3. The Foreign Board can be abolished as the Main Board and SESDAQ could cater to companies that would have qualified for the Foreign Board.
   4. The listing criteria for foreign and local companies should be identical.

b. Foreign companies should be allowed to decide the currency in which they trade their shares in order to attract more foreign listings to the SES.

c. The Main Board track record listing criteria would require that the listing applicant's management team remains substantially intact. The continuity of management rule should not apply to companies that seek admission to the Main Board based on the market capitalisation criteria.

d. The SES should consider providing some quantitative benchmarks in its listings criteria on promoters' integrity. The securities regulator may exercise judgement to decide not to accept the prospectus which a listing applicant has lodged where it has confidential information which creates doubt about the integrity of the promoters.

e. Singapore should eventually follow the

international practice regarding moratorium on securities disposals, which is driven by investors and underwriters. In the interim, it is proposed that the SES Listing Manual be revised to provide as follows:-

1. The promoters of Main Board issuers should give a contractual undertaking to the issue manager that, in the first six months, they will not dispose of any part of their holdings, and in the following six months, they will retain at least 50% of their original holdings.
2. The promoters of SESDAQ issuers should give a contractual undertaking to the issue manager such that, in the first year they should not dispose of any part of their holdings, and in the following year, they should retain at least 50% of their original holdings.
3. Promoters subject to the moratorium rule are substantial shareholders who have control over the applicant and associates of such substantial shareholders.
4. Promoters' shareholdings in the listing applicant's holding company which is listed on a stock exchange should not be subject to the moratorium..
5. Institutional or strategic investors who take a significant stake in a company within one year prior to the company's listing should be subject to a moratorium period of six months.

Recommendation 19

A listed issuer may raise funds without any specific use of funds subject to disclosure of the rationale for the fund raising and to disclosure of material utilisation of the funds as and when the funds are subsequently deployed.

Recommendation 20

a. Listed issuers may obtain a general mandate to issue new shares by way of rights shares, bonus shares or placement shares, or any combination thereof, subject to an overall limit of 50% of the issuer's existing issued share capital.
b. Consideration should be given to allowing the rights shares to trade on a "when-issued" basis immediately after the close of the rights issue.
c. Listed issuers should have the option to sell excess rights shares in the open market.

Recommendation 21

a. Listed issuers may include in the annual general mandate, a sub-limit for placements of securities representing up to 20% of the existing issued share capital.
b. Listed issuers may sell placement shares at up to a discount of 10% from the current share price. The price should be based on the weighted average price for trades done on the day of announcement, which provides a better representation of the price done on the day in question.
c. A listed issuer may borrow shares from substantial shareholders for placement, in anticipation of the placement shares being issued.

Recommendation 22

a. The overall limit for warrants and convertibles can be raised to 100% of issued share capital.
b. The issuer should have the flexibility to determine the exercise price for warrants and convertible securities.

Recommendation 23

Listing approval for debt securities offered to sophisticated and institutional investors could be given when the issue is fully subscribed. Such securities need not comply with any listing criteria.

Recommendation 24

The documentation requirements for listing applications should be simplified to require only a brief listing application covering essential corporate information, with the substantive information about the listing applicant and its offering given in the draft prospectus.

Recommendation 25

a. Issuers and their underwriters should be allowed to decide how their issues should be distributed, subject to compliance with the SES' rules on prescribed shareholding spread and other rules to prevent undue concentration of holdings, so as to promote liquidity and an orderly market in the securities. It should be left to them to decide whether to distribute the issues by placement or public offer or a combination of both, to choose their end investors, and whether or not to accept multiple applications.
b. The bookbuilding method of securities distribution should be adopted in Singapore securities as an alternative to or in combination with other methods. Consequent changes are required to permit the issue of "red herring" prospectuses and to allow price stabilisation for Singapore dollar initial public offerings.
c. Changes should be made to permit "when issued" trading for initial public offerings to commence on the market day following the close of the offer.

Recommendation 26

a. For the Main Board, SES could consider adopting a graduated scale for size of free float that varies according with the amount of proceeds raised to provide flexibility in raising funds.
b. To allow SESDAQ companies to have greater flexibility, they should be subject to a spread requirement which is less stringent than Main Board companies.

Recommendation 27

The SES should consider setting continuing free float and spread requirements at a percentage of the levels set for of initial listing, in order to maintain a fair and orderly market.

Recommendation 28

a. The rules on corporate governance should eventually take the form of principles and best practices which listed issuers should evolve and observe.
b. Listed issuers should disclose in their annual report, the corporate governance practices and procedures in place during the financial period under review. To achieve wide acceptance, a Code of Best Practices on Corporate Governance should be developed by a body with wide sectoral representation. To give such a code the desired effect, the SES should require listed issuers to disclose how they have applied and complied with the Code or, where appropriate, to make a negative statement.

Recommendation 29

a. Controlling shareholders (defined as a person with the capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of the company) in executive positions should be allowed to participate in ESOS, subject to specific approval by independent shareholders of their participation and the actual grant of options. For Main Board companies, the participation by controlling shareholders should be subject to specific individual and aggregate limits.
b. Participation in ESOS should be extended to non-executive directors as well as directors and employees of the parent group whom the listed issuer considers to have contributed or can contribute to its success, subject to annual disclosure.

c. Unlisted subsidiaries of a listed issuer are free to implement their own ESOS, subject to approval of the listed parent issuer's shareholders.
d. For Main Board companies, the current scheme size limit of 5% should be increased to 15% and eventually removed. For SESDAQ, no limit should be imposed on the size of the scheme. There should be no individual or class limits.
e. Options may be granted at a discount to market price if the options are exercisable only after a specified vesting period, and shareholders have specifically approved the quantum of the discount.
f. Options should not be exercisable within one year of the date of grant. For employees who have served less than a year, the issuer should have the discretion to decide whether to impose a longer moratorium.

Recommendation 30

a. The law on directors duties should be augmented to cover interested person transactions, such that a breach of which could attract legal remedies that can be enforced by shareholders and the securities regulator.
b. In the interim, interested person transaction rules could be streamlined to give greater flexibility to listed issuers, where the interest of public shareholders is not put at risk, as follows:-

1. The scope of interested person transactions should be modified to exclude transactions which involve potential conflict of interest that is remote, or no conflict of interest, by narrowing certain definitions as follows:-

+ An "interested person" is a director, chief executive officer, or controlling shareholder of the listed issuer; or an associate of

any such director, chief executive officer, or controlling shareholder.
+ An "associate" is a person who is an immediate family member, or company or trust in which the person and his immediate family has control.
+ An "entity at risk" is the listed issuer, its subsidiaries, and associated companies over which the listed issuer and its interested person have control.
+ "Control" means the capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of the relevant company.

2. Materiality thresholds that trigger an announcement and/or shareholders' approval should be expressed in terms of a percentage of the listed issuer's net tangible assets and not as an absolute number.

Recommendation 31

Compliance with the new listing criteria for very substantial acquisitions should be based on the enlarged group, instead of just the acquired assets. Very substantial acquisitions of businesses or assets in a similar line of business which meet certain prescribed conditions should not require SES and shareholders' approval.

Recommendation 32

a. The formation of business angel networks and other forms of informal funding sources should be supported.
b. A programme to assist companies to put up coherent business and financial plans should be developed.

Recommendation 33

To cater to companies that may find listing on SESDAQ uneconomical, consideration should

be given to setting up an internet based bulletin board to provide an infrastructure for private venture capital transactions, which is restricted to sophisticated investors and venture capitalists.

Recommendation 34

To develop the venture capital sector and to build Singapore into a hub for regional venture capital activities the following initiatives should be considered:-

a. Continue to attract foreign venture capitalists with the experience and comfort levels in investing in and nurturing start-ups for public listing and foreign investment banks that specialise in underwriting start-up companies and companies with no profit track record.
b. Leverage off the already established base of regional venture capitalists by promoting a range of services to regional venture capitalists and regional companies from internet bulletin board, business plan assistance, business angels network, and eventual listing on SESDAQ.

Recommendation 35

To further develop investment banking activities in Singapore:-

a. Focus should be given to attracting clusters of inter-related components of investment banks, as well as supporting legal and accounting and information technology professionals.
b. Large global investment banks should be targeted to centre their Asian or ASEAN equity divisions in Singapore by facilitating their membership in the SES sooner rather than later.
c. The Financial Sector Promotion body in MAS should be given a pivotal and authoritative role, both in laying groundwork for development and in promoting Singapore to leading investment banks. The SES should complement the Financial Sector Promotion body with respect to the listing and fund raising activities conducted on the SES.

Recommendation 36

As liquidity is an important magnet for industry participants, the following steps are recommended:-

a. Introduce derivative contracts on currency, interest rate and index futures of Asian countries.
b. Clarify the law on the trading of OTC derivatives trading to facilitate the growth of the derivatives business.

Recommendation 37

There should be a review of Singapore's tax environment to make it more competitive and to remove any impediments to innovation in the financial industry and attracting professionals to locate to Singapore, including a review of the need to impose withholding tax on financial instruments.

Recommendation 38

a. The adoption of technology should be accelerated to better connect into the international financial system, facilitate information distribution, fund raising, trading, and the exercise of shareholders rights.
b. As a start, internet should be accepted as a medium for distributing prospectuses and other continuing disclosure requirements. If necessary, the law should be changed to allow this.

Source: Monetary Authority of Singapore website (http://www.mas.gov.sg/publications/index.html)