What shareholders, issuers and regulators should know about remuneration practices in listed companies in Singapore

The Singapore Report On Remuneration Practices

Avoiding the Apaycalypse

Volume 1

MAK YUEN TEEN
CHEW YI HONG

SUPPORTED BY THE SINGAPORE EXCHANGE

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THE SINGAPORE REPORT ON REMUNERATION PRACTICES
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AUTHORS
MAK YUEN TEEN & CHEW YI HONG

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Foreword

Executive remuneration remains a sensitive and politicised subject globally. A persistent perception of executive pay awards is that they do not always align with company and management performance. Statistics highlighting the yawning pay gap between C-suite leaders and the people who work for them continue to drive headlines.

The scepticism about the rigour and overall quantum of executive pay can become a flashpoint for investors who question its correlation with a company's results. It can also become a major source of dissatisfaction and distraction for employees. This demonstrates the increasing importance of transparency in remuneration practices as part of a company's overall effort to improve its culture and corporate governance standards.

As SGX-listed companies start to map out their strategies and resource allocations in the year ahead, this timely report by Professor Mak and Mr Chew will shine the light on remuneration disclosure and practice in Singapore. It will serve to remind and inform companies to design their remuneration scheme and corresponding disclosure in a way that ensures alignment with best-in-class corporate governance standards.

Tan Boon Gin
Chief Executive Officer
SGX RegCo

THE SINGAPORE REPORT ON REMUNERATION PRACTICES

VOLUME 1

Main Report

INTRODUCTION

Executive remuneration is one of the key concerns of investors, especially outside of Asia. Although boards and remuneration committees would arguably be in a better position than shareholders to determine how much and how best to pay senior management, poorly designed “pay for performance” schemes approved by boards and remuneration committees have contributed to excessive executive pay, sharp increases in the ratio of top executive pay to average employee pay, management myopia, inappropriate risk-taking and other dysfunctional management behaviour, and are widely considered as a key contributory factor to the global financial crisis. Consequently, rules relating to the setting, approval and disclosure of remuneration of directors and top executives are being increasingly strengthened, and more countries now give shareholders a binding or advisory vote on director and executive remuneration policies and/or amounts through “say on pay” reforms.

Global Trends

For example, in Switzerland, shareholders have a binding vote on executive and director pay, and golden “hellos” and “parachutes” are not allowed. Australia has a “two strikes” test, whereby if the remuneration report for key management personnel (including directors) receives 25 percent or more of votes against in two successive AGMs, shareholders will vote at the second AGM to determine whether the directors will need to stand for re-election within 90 days. If this resolution passes with 50 per cent or more of eligible votes cast, then this ‘spill meeting’ will take place within 90 days. Directors, executives and their "closely related parties” are prohibited from voting on remuneration-related resolutions.

In the United Kingdom, shareholders are given a binding vote on the forward-looking remuneration policy once every three years and an annual advisory vote on actual remuneration for directors. Companies in the United States have to give shareholders an advisory vote on the pay of their “named executive officers” and a “frequency” vote to decide whether shareholders should vote on executive pay every 1, 2 or 3 years.

In comparison with the pay of CEOs, executive directors and other senior executive officers, non-executive director remuneration is generally less contentious because the amount is usually small relative to the former. Further, non-executive remuneration is already subject to a binding vote by shareholders in nearly all markets. For non-executive directors, the focus tends to be more on how they are paid rather than the amounts, with the use of share options or other performance-based share schemes often specifically discouraged. In countries like Australia and UK, the grant of share options and performance shares to independent directors is a relevant factor in assessing their independence under corporate governance codes.

Historically, share options have been a popular form of remuneration for independent directors in the US but their use has declined markedly. Even among Silicon Valley companies where such schemes have been most widely used, a study have found that their use has halved over a ten-year period between 2003 and 2013. Today, there is convergence towards the viewpoint that aligning the interests of non-executive directors with shareholders is best achieved through restricted share grants that are not conditional on company performance, or equity ownership guidelines encouraging or requiring non-executive directors to use part of their fees to purchase the company shares and to hold those shares over the duration of their board tenure.

An Under-Appreciated Issue in Asia

Executive and director remuneration is covered in the G20/OECD Principles of Corporate Governance, in corporate governance rules formulated by regulators in most countries, and in policies used by institutional investors and proxy advisory firms for assessing corporate governance of investee companies. In the 2012 Singapore Code of Corporate Governance ("Code"), "Remuneration Matters" is one of the four areas of the Code, with three principles and 14 guidelines focused on it.

However, compared to other markets, remuneration matters have received less attention from investors in Asia because the excesses often seen in those other markets are not as evident. Instead, investors in Asian companies have been more concerned about related party transactions. The reality is that executive and director remuneration is in essence a form of related party transaction. Indeed, financial reporting standards require disclosure of key management personnel remuneration as part of related party disclosures.

In contrast, stock exchange rules tend to exclude directors' and executive remuneration as a form of related party transaction, even though remuneration is one of the ways that controlling shareholders can extract resources out of the company. Such risks may be particularly pertinent in family- and founder-controlled companies, which are prevalent in Asia, including Singapore.

In such companies, remuneration for directors, management and employees who are related to the family or founder may be much higher than market-based remuneration paid to professionals having similar responsibilities. These differentials are essentially extra "dividends" that are not paid to other shareholders. In such companies, independent directors are essentially appointed by controlling shareholders who then serve on remuneration committees recommending remuneration for those who appoint them or for their relatives.

Family- and founder-controlled companies also tend to be small- to mid-sized companies which attract less interest from institutional investors and little or no scrutiny from proxy advisory firms. In recent years, controversies surrounding remuneration of executive directors have arisen in such companies in Singapore, for instance Hong Fok and Lian Beng.

The 2016 KPMG report on compliance with the Singapore Code of Corporate Governance by Mainboard companies commissioned by SGX found compliance with the remuneration guidelines to be the poorest of the four areas covered by the Code. This increases the risk of excessive remuneration or inappropriately designed remuneration schemes.

What This Report is About

This report provides a comprehensive analysis of practices relating to the setting, disclosure and approval of the remuneration of directors and key management personnel for more than 600 SGX-listed companies, and the amount and mix of remuneration used. It also provides information on remuneration amounts and mix for key board, board committee and executive roles, including board chairman, committee chairs and members, lead independent directors, and CEOs. Comparisons across companies with different market capitalisation and industry sectors are also made.

The report identifies good and questionable practices and leaders in remuneration disclosures.

COVERAGE

The study covers all companies with a primary listing on the SGX. Secondary listings are excluded because they are not required to comply with most of the continuing listing requirements of SGX and do not have to comply with the Code. Real estate investment trusts and business trusts are also excluded because they are usually externally managed and do not have staff, and remuneration for directors and key management personnel (KMP) are determined and paid by the manager/trustee-manager.

We also excluded newly-listed companies because their remuneration practices as a listed company are nascent. In total, 609 companies are included in our study.

The study is based on annual reports for financial years ending from April 2016 to March 2017 and published between August 2016 and July 2017. Information on directors' remuneration proposed for shareholders' approval is obtained from the notice of annual general meetings (AGMs) for the relevant financial years.

KEY FINDINGS

We identify 13 companies to be the best in compliance with the Code guidelines on remuneration, especially disclosures. Some large cap companies that made the list are CapitaLand, Frasers Centrepoint, Singapore Exchange and Singapore Telecommunications. Small cap companies include Baker Technology, Dynamic Colours, Nera Telecommunications and SP Corporation. The only mid cap that made the list is Tuan Sing Holdings. We would emphasise that good remuneration practices require more than just compliance with Code guidelines and disclosures.

Based on remuneration paid to directors and key management disclosed in financial statements, the 609 companies paid a total combined amount of $2.5 billion in the year, or about $4.1 million on average per company. Shareholders in these companies approved or pre-approved total remuneration of $188 million for non-executive and independent directors, ranging from $50,000 to $4,000,000 on a per company basis, with a mean of $312,000 and a median of $199,000. On a per director basis, the median fee is $53,000 - $49,000 for small cap companies, $64,000 for mid cap companies and $103,000 for large cap companies.

For companies within the same market cap group, companies that disclosed having family members earning $50,000 or more generally pay higher remuneration to directors and key management relative to market cap, revenues and total assets.

We also found that within the same market cap group, companies with higher remuneration tend to be less transparent in remuneration disclosures. Companies often cite fear of poaching for not fully disclosing remuneration. Fear of poaching would imply that companies are paying below the market. Our findings do not support this. On the contrary, they are consistent with companies that disclose less may be trying to avoid drawing attention to relatively higher remuneration. We should point out that we are not advocating that companies should pay below-market remuneration as that can adversely affect their ability to attract and retain talent.

Some other key findings include:

- All companies, except one, have a remuneration committee or equivalent. However, contrary to the Code, 48 companies have an executive director and one other had two executive directors on the remuneration committee. 5 companies have a non-independent director and 1 has an executive director (an executive chairman) as the chairman of the remuneration committee. Six companies did not meet the majority independence criteria for their RC as recommended by the Code, including 2 that had an executive director on their RC.

- Disclosure of remuneration in bands together with the names of individuals is the most common disclosure method used across all categories of Chairman, CEO, executive directors, non-executive non-independent directors, independent directors and key management personnel. Just 4% of the companies disclosed the exact remuneration amounts with name of at least 1 key management personnel and only 2% did so for 5 or more key management personnel. Seven companies said they have no key management personnel other than the executive directors.

- Although the Code recommends that companies disclose total remuneration paid to the top five key management personnel, more than 30% did not do so or disclosed with incomplete information. 23% disclosed the aggregate remuneration for fewer than five key management personnel and nearly 10% disclosed for more than five key management personnel.

- Eleven companies used an unlimited top band for disclosing the remuneration of the executive chairman (including a CEO who also holds the chairman's role). Fourteen companies used an unlimited top band for the CEO (who does not hold the chairman's role), while 10 companies did so for executive directors other than an executive chairman or CEO. For chairman, non-executive director and executive director remuneration, about 1% of companies did not disclose any information at all for each of these categories of directors.

- Ninety companies disclosed the fee structure of non-executive directors, with large cap companies leading the way.

- For companies that disclosed the exact remuneration of the executive chairman, the median amount is $545,000 and the maximum is $8.4 million. For CEOs, the median remuneration is $614,000 and the maximum is $12.9 million, for companies disclosing exact remuneration.

- For companies that disclosed a fee structure for non-executive directors, the base fee for small caps is as low as $10,000 and as high as $71,500, with a median of $38,000. For mid caps, the minimum base fee is $28,000 and the highest is $60,000 with a median of $44,000. For large caps, they are $38,000, $150,000 and $68,000 respectively. The additional fees for chairing the board or committees or for serving on committees, as a percentage of base fee, increase as companies get larger

- At least 17 companies use remuneration shares or restricted shares as part of the remuneration for non-executive directors, including independent directors. Most clearly disclose that there are no vesting and performance conditions and with a selling moratorium that lasts until the director leaves the board. Together with the use of share ownership guidelines by some other companies, these are good practices that more companies should follow.

- There are at least 180 companies where non-executive directors and independent directors are eligible for share options or performance shares (including 32 that gave out such awards during the year) which we consider to be inappropriate for such directors.

ABOUT THE COMPANIES

MARKET CAPITALISATION

74%
(LESS THAN $300 MILLION)
SMALL CAP

12%
($300 MILLION TO $1 BILLION)
MID CAP

14%
($1 BILLION OR MORE)
LARGE CAP

72% MAINBOARD ISSUERS

67% SMALL CAP
17% MID CAP
16% LARGE CAP

28% CATALIST ISSUERS

99% SMALL CAP
1% MID CAP
0% LARGE CAP

PERIOD UNDER REVIEW

FINANCIAL YEAR END	2016 APR	2017 MAR
ANNUAL REPORTS PUBLISHED BETWEEN	2016 AUG	2017 JUL

COMPANIES BY SECTOR

INDUSTRIALS	34%	MATERIALS	8%
CONSUMER DISCRETIONARY	14%	CONSUMER STAPLES	6%
INFORMATION TECHNOLOGY	10%	FINANCIALS	4%
REAL ESTATE	10%	HEALTHCARE	3%
ENERGY	8%	TELECOMS & UTILITIES	2%

FOR THE SECTOR COMPARISONS IN THE REPORT, THE 11 SECTORS HAVE BEEN MERGED INTO 4 CLUSTERS DUE TO THE SMALL NUMBER OF COMPANIES IN SOME SECTORS.

COMPANIES BY REVENUE

LESS THAN $25M — 24%

MORE THAN $25M TO $100M — 29%

MORE THAN $101M TO $250M — 20%

MORE THAN $251M TO $500M — 12%

MORE THAN $501M TO $1B — 6%

MORE THAN $1B — 9%

COMPANIES BY EBIT

38% — NOT PROFITABLE

27% — PROFITS OF $10M LESS THAN $10M

15% — MORE THAN $10M TO $25M

7% — MORE THAN $25M TO $50M

COMPANIES BY TOTAL ASSETS

Total assets	%
LESS THAN $25M	10%
MORE THAN $25M TO $100M	28%
MORE THAN $100M TO $250M	24%
MORE THAN $250M TO $500M	12%
MORE THAN $500M TO $1B	8%
MORE THAN $1B TO $2B	7%
MORE THAN $2B TO $3B	3%
MORE THAN $3B TO $5B	3%
MORE THAN $5B	6%

COMPANIES BY EBIT

EBIT	%
MORE THAN $50M TO $100M	5%
MORE THAN $100M TO $250M	4%
MORE THAN $250M TO $500M	2%
MORE THAN $500M TO $1B	2%
MORE THAN $1B	1%

ABOUT THE BOARDS

BOARD SIZE

6.9 DIRECTORS

SMALL CAP 6.4

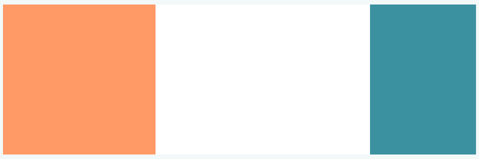
MID CAP 7.8

LARGE CAP 9.2

The boards in our study have an average (mean) of 6.9 directors, with small caps having an average of 6.4 directors, mid caps having an average of 7.8 directors and large caps having an average of 9.2 directors.

BOARD COMPOSITION

34% ED 51% ID 15% NED[1]



SMALL CAP

36% ED 50% ID 14% NED

MID CAP

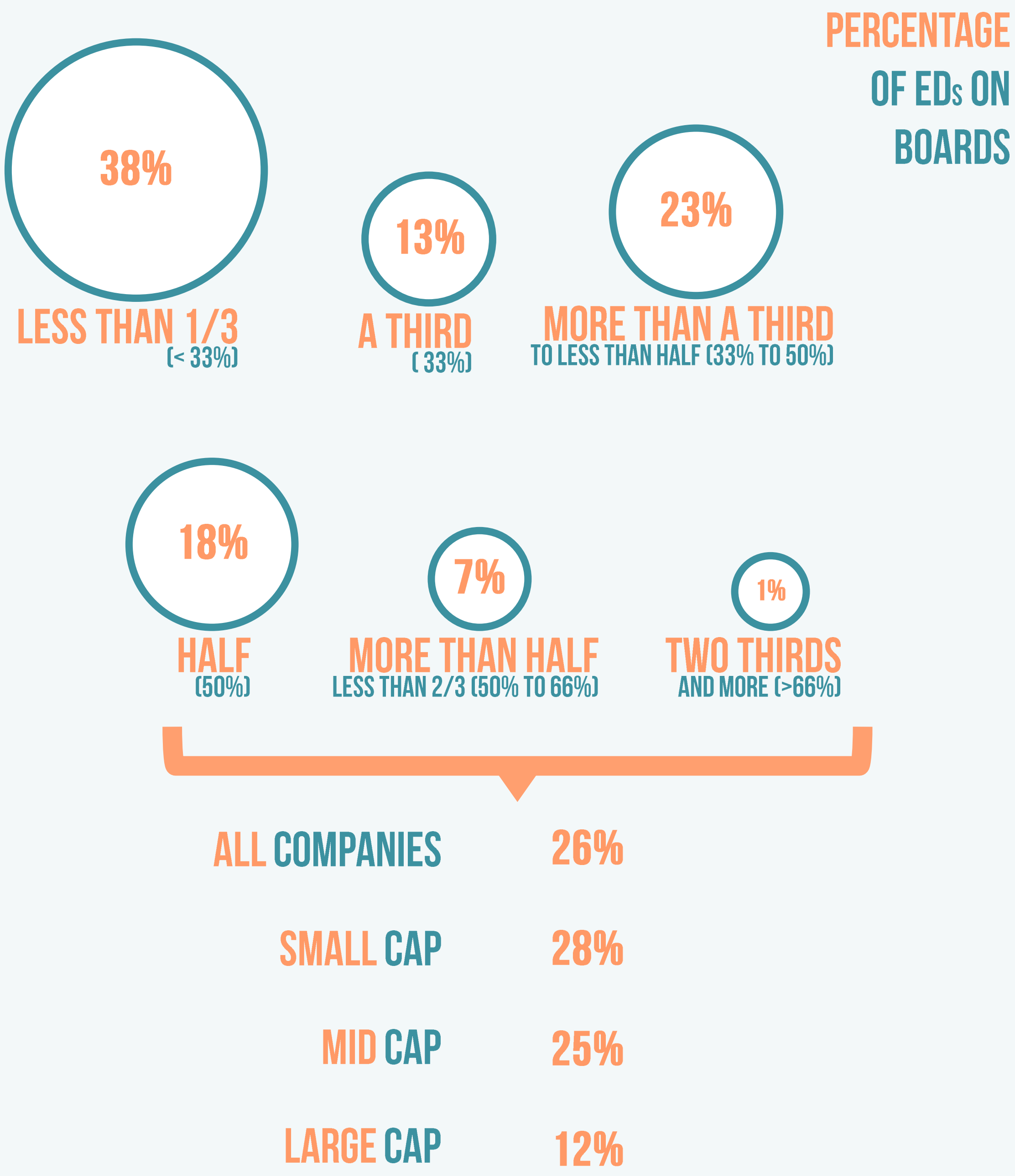
34% ED 51% ID 15% NED

LARGE CAP

23% ED 57% ID 20% NED

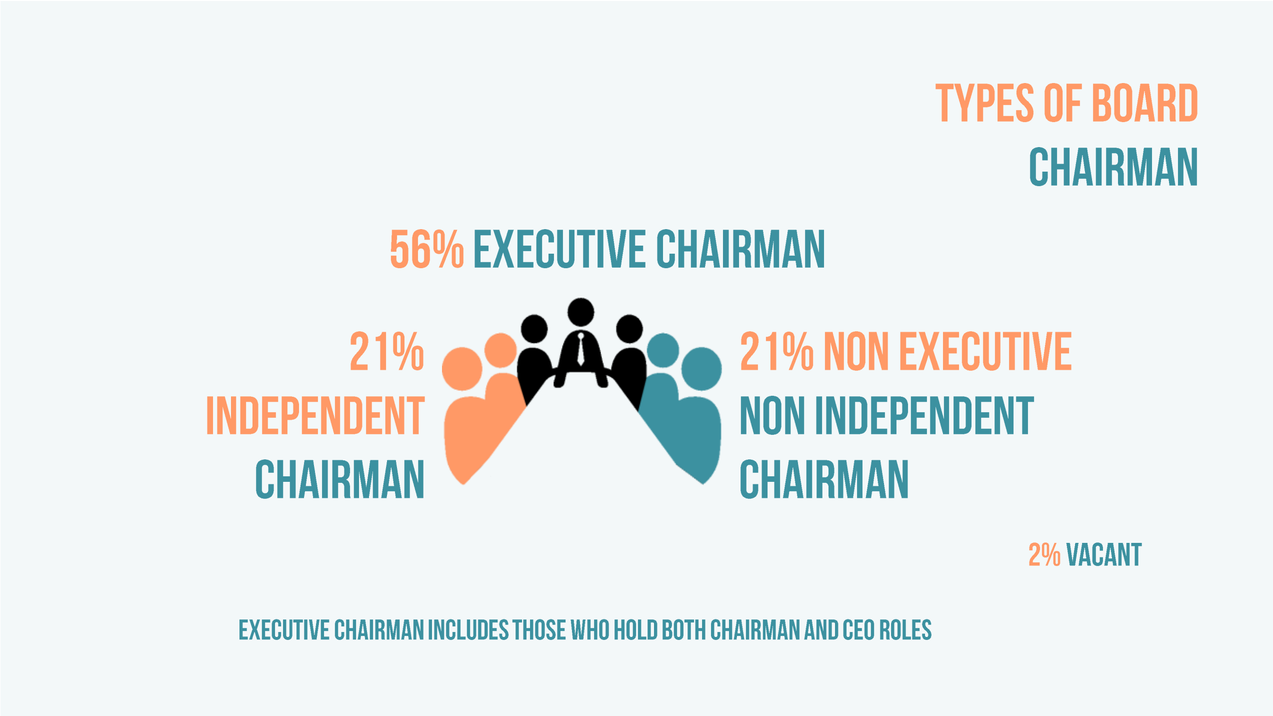
THE BOARD COMPOSITION IS THE AVERAGE PERCENTAGE OF EACH TYPE OF DIRECTOR ACROSS ALL THE BOARDS IN OUR STUDY

[1] In this report, the term "non-executive directors" or "NEDs" refers to non-independent non-executive directors (i.e., excluding independent directors). The exception is the section and discussions on fee structure where the term includes independent directors, since companies do not disclose separate fee structures for non-independent non-executive directors and independent directors.



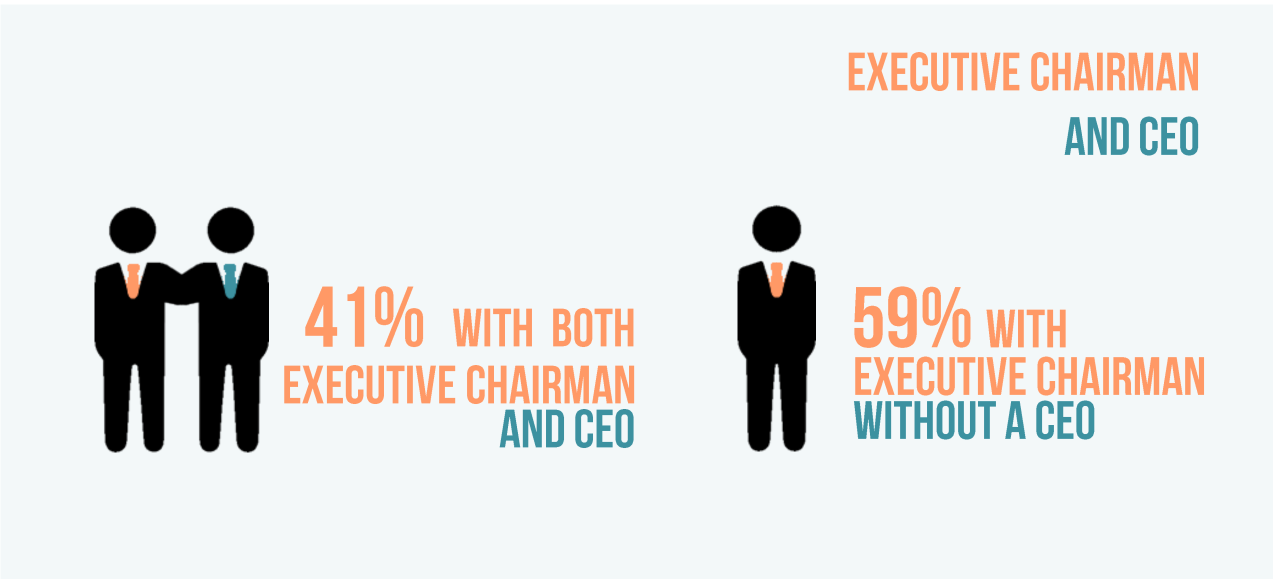
There is an average of 34% of executive directors (EDs), 51% of independent directors (IDs) and 15% of non-independent non-executive directors (NEDs) across the boards. Smaller companies tend to have a higher percentage of EDs and a lower percentage of IDs compared to larger companies.

In addition, just over a quarter of companies have 50% or more EDs on the board. For large cap companies, the percentage of companies with 50% or more EDs drops to just 12%.



56% of all companies have an executive chairman (including a CEO who also holds the chairman's role). For the remaining companies that have appointed a chairman, half of each of them have a non-independent, non-executive chairman and an independent chairman. The percentages of executive chairman in small cap, mid cap and large cap companies are 58%, 59% and 42% respectively.

Companies in the financials and real estate (FR) cluster have a lower percentage of executive chairman (49%) compared to the other clusters of consumer discretionary, consumer staples and healthcare (CH); energy, information technology, telecommunications and utilities (EITU) and industrials and materials (IM) clusters (55% to 60%).



REMUNERATION COMMITTEES

The Code recommends that companies establish a Remuneration Committee (RC) with at least three members, with all members being NEDs and a majority, including the Chair, being independent directors. MAS regulations for banks and tier 1 insurers mandate an RC complying with these composition requirements and impose a more stringent definition of the independence of directors.

In this study, only 1 company – Sunright - did not have a RC or an equivalent committee.

Over 83% of the companies have a 3-member RC. 14% have 4 members in the RC while just 2% have a 5-member RC. Large cap, mid cap and small cap companies have an average of 3.4 members, 3.3 members and 3.1 members respectively.

55% of the companies have only IDs serving on the RC. Contrary to the Code, 48 companies have an ED each on the RC and one other company has two EDs on the RC. Together, they make up 8% of all RCs. 37% of the RCs had non-executive non-independent directors in them. Six companies did not meet the majority independence criteria, including 2 that had EDs on the RC. 1% of the RCs have both executive and non-executive non-independent directors.

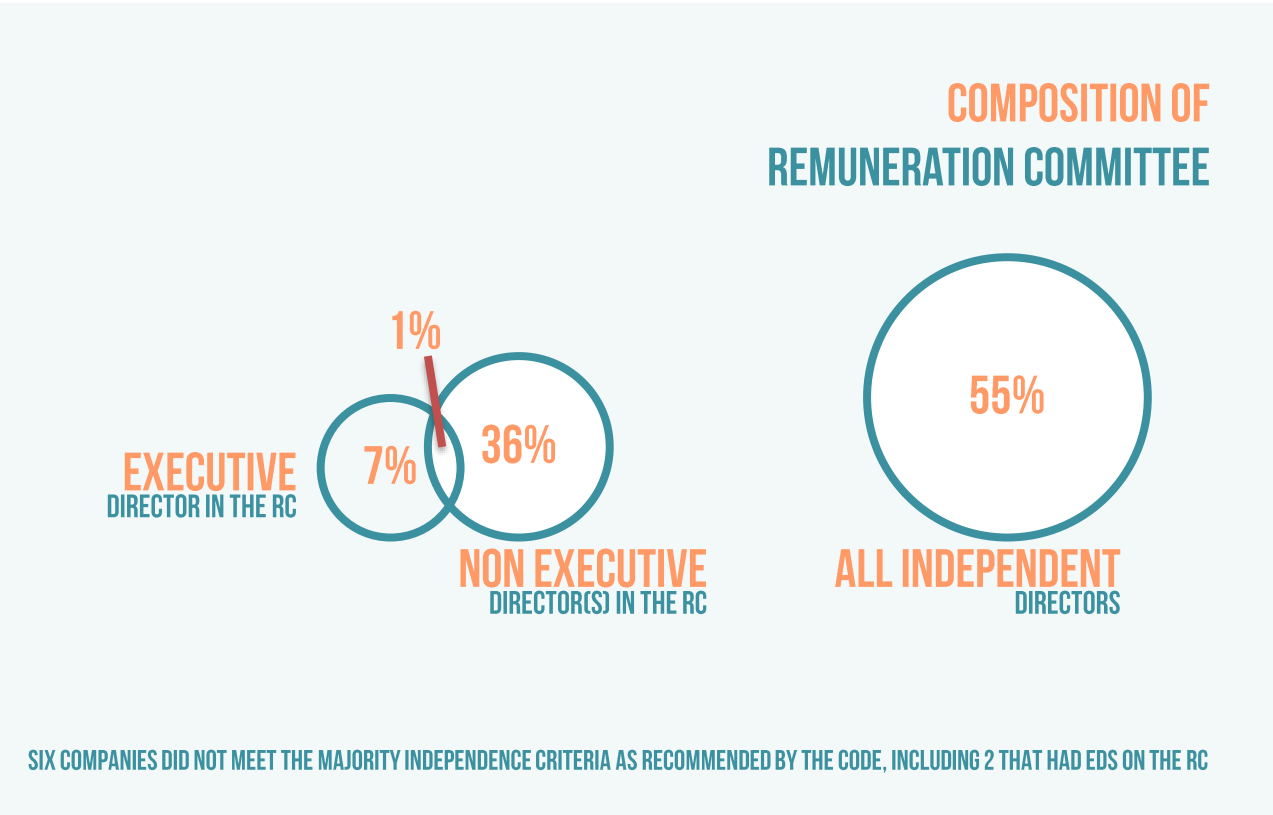
Most RCs have an independent Chair as recommended by the Code, except for AEM, Bukit Sembawang, Courts Asia, Creative Technology, SIA Engineering, and UOI. Creative Technology has an executive RC chairman while the others have non-executive non-independent chairmen. UOI's RC is unique in that its chairman is a non-executive non-independent director while the other two members are non-independent directors under MAS regulations for insurance companies.

The Special One

At Sunright, the board assumes the responsibility on remuneration matters (Sunright also has no NC). The board of Sunright consists of 2 executive directors, a non-independent non-executive director who is the spouse of Chairman/CEO, and 2 independent directors who have served on the board since 1994.

The chairman of the board is also the chairman of the RC in only 10% of the companies. In a quarter of the companies, the board chairman is a member of the RC whereas the board chairman is not in the RC for 65% of the companies.

17 companies have renamed their remuneration or compensation committee to incorporate other functions, such as nomination, staff development, enterprise resource, management development and executive resource functions. The RC is also routinely in charge of the company's share-based incentive plans such as share option, restricted share or performance share plans.



Use of Remuneration Consultants

Guideline 7.3 of the Code states: “If necessary, the RC should seek expert advice inside and/or outside the company on remuneration of all directors. The RC should ensure that existing relationships, if any, between the company and its appointed remuneration consultants will not affect the independence and objectivity of the remuneration consultants. The company should also disclose the names and firms of the remuneration consultants in the annual remuneration report, and include a statement on whether the remuneration consultants have any such relationships with the company.”

In our study, 62 companies disclosed that they used an external remuneration consultant (this excludes companies that disclose that they use remuneration consultants where necessary). Of the companies that engaged a remuneration consultant, only 6% of the small caps did so, compared to 18% of the mid caps and 30% of the large caps. Larger companies are better resourced and may therefore be better able to engage a consultant. They are also more complex, with a more extensive organisation structure that requires professional advice on remuneration and human resource management.

To Use or Not to Use Remuneration Consultants, That’s the Question

Unlike the audit committee (AC), the Code does not have guidelines on recommended competencies on the RC. In practice, boards tend to be more conscious about having accounting and/or financial management expertise for the AC when recruiting board members but little thought goes into the expertise required for the RC. There is often little specific executive remuneration and human capital experience on boards. Yet, remuneration matters are technical in nature and increasingly complex.

While there are well-documented problems with the use of remuneration consultants, one has to ask how an RC would be able to independently and competently develop appropriate remuneration policies and set remuneration packages for directors and key management personnel as recommended by the Code if it does not have the necessary expertise or access to such expertise and to external sources of remuneration data.

Questions The Remuneration Committee Should Ask
By Chris Bennett

While directors do not need to become statisticians or remuneration "experts", a better understanding of the nature of the data they are dealing with when considering remuneration will help them ask better questions of their advisors, which in turn can help them make a better estimate of the total amount they need to pay. Those involved in remuneration committees might also want to consider their role.

Remuneration consultants may, understandably, take a narrow view of remuneration and focus on the results of benchmarking, or their view of the latest trends in remuneration practice. In a sense, this is an appropriate way for them to behave as subject matter experts. However, the role of the independent director is different and they should integrate and synthesise a wide range of perspectives in making remuneration decisions. Some specific questions that the remuneration committee might want to ask are:

1. What is our business strategy?

    1.1. How does the remuneration package of the CEO support the objectives of our strategy?

    1.2. What are the downside risks of the structure of the remuneration package? In particular, what might be the unintended consequences of long and short term incentive plan designs?

    1.3. How congruent is the amount and structure of pay of those under the purview of the remuneration committee with other levels within the organisation?

2. What are the characteristics of the sample used for benchmarking?

    2.1. How representative is it of the group that information is sought about?

    2.2. How similar are the firms in the comparator group to our company, and to each other?

    2.3. How similar in size, scope, and strategy are the firms in the sample? How similar are they to our own firm?

    2.4. Do the individuals included in the sample have the skill sets that we seek?

    2.5. How easily could our incumbent move to one of the firms in the sample? Does s/he have the relevant skills?

3. How useful is the external benchmarking of the quantum of senior executive remuneration for our firm?

3.1. Should external benchmarking be supplemented with a stronger focus on internal relativities in some cases?

4. A few key technical questions are useful to appreciate the quality and limitations of the benchmarking data offered:

4.1. What are the confidence intervals? (a technical term that means "how sure can we be that, given the size of the sample and the total population, that the result we have really represents what happens in the whole population")
4.2. What is the standard deviation?
4.2.1. How much variation is there from the mean in the data? The lower the standard deviation the closer all the numbers are to the mean and, therefore, the more meaningful it is.
4.3. What manipulations have been conducted on the data?
4.3.1. To age it (update older data collected with "typical" increases)?
4.3.2. To fill in gaps in the data?

Chris Bennett has extensive experience as a director and senior executive in many countries, including South-East Asia. He has managed the executive remuneration practice in major consulting firms and advised boards and remuneration committees on executive remuneration and other corporate governance matters. After his retirement, he has focused on designing and facilitating education programmes for directors and senior executives in the areas of his interest. He is also conducting doctoral research in the area of cultural cognition and board decision-making.

Recommendation 1:

Companies should consider whether the responsibilities of the RC should be expanded to cover other human capital-related issues.

Recommendation 2:

To better ensure that remuneration policies and packages are appropriate, the board should consider expanding its competencies to include human capital and remuneration experience. The remuneration committee should have the necessary expertise for remuneration matters or access to such expertise and to external sources of remuneration data. Where it engages an external remuneration consultant, it should critically evaluate the independence of the remuneration consultant and its recommendations.

REMUNERATION DISCLOSURES

With respect to remuneration disclosures, the Code recommends:

- disclosure of exact remuneration of each individual director and the CEO, on a named basis, including a breakdown into different components.
- disclosure of remuneration of at least the top 5 key management personnel who are not directors or the CEO in bands of $250,000 on a named basis, broken down into different components (but as best practice, companies are encouraged to disclose exact remuneration)
- total remuneration of top five key management personnel to be disclosed
- disclosure of remuneration of immediate family members of directors and CEO who earned more than $50,000 per year in bands of $50,000, on a named basis and indicating nature of relationship

Most companies disclosing in bands use the $250,000 bands recommended by the Code, but some companies have used smaller or larger bands.

The charts below show the percentage of companies adopting different levels of disclosure of total amount of remuneration for the Chairman, CEO, EDs, NEDs, IDs and KMP. It can be seen that disclosure of exact remuneration is only practised by a minority of companies in all cases but is especially lacking for KMP. The reasons offered for poorer disclosures are generally boilerplate in nature.

LEVEL OF DISCLOSURE

CHAIRMAN

36%
EXACT AMOUNTS NAMED BASIS

61%
BANDS, NAMED BASIS

2%
UNLIMITED BANDS NAMED BASIS

1%
UNDISCLOSED

NOTE: IN THIS DIAGRAM AND THE 5 THAT FOLLOW, THE FIGURES SHOWN ARE THE PERCENTAGES OF COMPANIES ADOPTING THE DIFFERENT TYPES OF DISCLOSURE OF THE TOTAL AMOUNT OF REMUNERATION RECEIVED BY EACH PERSONNEL TYPE.

CEO

30%
EXACT AMOUNTS NAMED BASIS

66%
BANDS, NAMED BASIS

4%
UNLIMITED BANDS NAMED BASIS

EXECUTIVE DIRECTORS

27%
EXACT AMOUNTS NAMED BASIS

70%
BANDS, NAMED BASIS

2%
UNLIMITED BANDS NAMED BASIS

1%
UNDISCLOSED

LEVEL OF DISCLOSURE

NON EXECUTIVE DIRECTORS

42%
EXACT AMOUNTS
NAMED BASIS

57%
BANDS,
NAMED BASIS

1%
UNDISCLOSED

NOTE: THE TERM "NON-EXECUTIVE DIRECTORS" OR "NEDS" REFERS TO NON-INDEPENDENT NON-EXECUTIVE DIRECTORS (I.E., EXCLUDING INDEPENDENT DIRECTORS) WITH THE EXCEPTION BEING THE SECTION AND DISCUSSIONS ON FEE STRUCTURE WHERE THE TERM INCLUDES INDEPENDENT DIRECTORS SINCE COMPANIES DO NOT DISCLOSE SEPARATE FEE STRUCTURES FOR NON-INDEPENDENT NON-EXECUTIVE DIRECTORS AND INDEPENDENT DIRECTORS.

INDEPENDENT DIRECTORS

38%
EXACT AMOUNTS
NAMED BASIS

62%
BANDS,
NAMED BASIS

KEY MANAGEMENT PERSONNEL

18%
UNDISCLOSED

4%
EXACT AMOUNTS
NAMED BASIS

70%
BANDS,
NAMED BASIS

1%
UNLIMITED BANDS
NAMED BASIS

7%
BANDS,
UNNAMED

For this report, when companies are lacking in disclosure, we have made educated guesses in some cases to fill in the gaps. For instance, for the example below, we would have assumed that the two EDs are in the top band for directors' remuneration while the other 6 NEDs are in the "Below S$250,000" band.

The remuneration for FY2016 is shown below:-

Remuneration Bands	No. of Directors in Remuneration Bands
S$1,250,000 to S$1,499,999	2
S$1,000,000 to S$1,249,999	0
S$750,000 to S$999,999	0
S$500,000 to S$749,999	0
S$250,000 to S$499,999	0
Below S$250,000	6

Remuneration Bands	Remuneration of top five executives
S$750,000 to S$999,999	1
S$500,000 to S$749,999	1
S$250,000 to S$499,999	3
Below S$250,000	0

To maintain confidentiality of remuneration, the names of the Directors and the top five key executives are not stated. There are no employees who are immediate family members of a Director or the Group CEO whose remuneration exceeds S$50,000 during FY2016.

(Source: Food Empire Holdings Annual Report 2016)

The Code also recommends that a breakdown of the remuneration of each director, CEO and KMP be provided by showing the base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives components.

For the disclosure of remuneration of chairmen and CEOs, 1% of the companies did not provide the breakdown as recommended by the Code. Companies that provide the number of directors in unnamed bands, such as the example shown below, are often those that do not provide breakdowns. In the case of EDs, 1% of companies that have EDs (other than executive chairman and CEO) did not provide the breakdown in remuneration.

Investors would generally like to know the structure or mix of remuneration in terms of fixed versus variable, short-term versus long-term and cash-based versus share-based remuneration. Disclosure practices adopted by companies often do not allow investors to clearly assess remuneration in such terms. For example, some companies do not clearly distinguish the short-term annual cash bonus or profit-share from other variable performance incentives, which may or may not be short-term in nature.

Remuneration Disclosure for Chairman

Disclosure of chairman remuneration was poorer for executive chairmen compared to other chairmen. For those with an executive chairman, only 29% of the companies disclosed the exact remuneration, including 4% (out of the 29%) whose chairmen waived their remuneration or drew nominal sums. Two-thirds disclosed the remuneration in bands, usually of $250,000. 11 companies (3%) disclosed the remuneration of the executive chairman with no upper limit, with the bands ranging from “above $500,000” to “above $1.5 million”.

The companies that disclosed an unlimited top band for the executive chairman are A-Sonic Aerospace, Chip Eng Seng, Del Monte Pacific, Excelpoint, Falcon Energy, Hor Kew, Kim Heng, KOP, Noble, Raffles Medical and Wee Hur.

Disclosure in bands is generally not meaningful for non-executive non-independent chairmen and independent chairmen given their fee levels and typical width of the bands used.

For companies with a non-executive non-independent chairman, 51% disclosed the exact remuneration (including 10% waiving or getting a nominal sum), 44% disclosed in bands, and 5% disclosed remuneration bands without naming the individuals in the bands. 44 companies (80%) that disclosed the remuneration of the non-executive non-independent chairman in bands used a 0-$250,000 band. Only 5 companies used smaller bands, including 0-$50,000, 0-$80,000, 0-$100,000 and $100,000-$200,000.

The disclosure of the remuneration of non-executive non-independent chairmen is an improvement over that for executive chairmen but could be better. While no company disclosed the remuneration of the non-executive non-independent chairman with an unlimited upper band, about 5% of the companies with a non-executive non-independent chairman did not clearly disclose the remuneration because they either did not tag the names to the bands or did not provide any information at all.

For companies with an independent chairman, a disappointingly low 41% disclosed exact remuneration and the remaining 59% disclosed in bands.

Large cap companies are more likely to disclose exact remuneration for the chairman, regardless of whether he/she is executive, non-executive non-independent or independent. For example, all the large cap companies that have an independent chairman disclosed the exact chairman remuneration, while the 4 mid-cap and 73 small cap companies with independent chairman disclosed in bands, mostly in $250,000 bands. However, 7 companies used bands of less than $250,000, while Ezion used a US$250,000 band. Gallant Venture was the company with independent chairman that used the largest band of $500,000.

The Financials and Real estate cluster is more transparent than other clusters when it comes to disclosure of the chairman's remuneration, whether the chairman is executive, non-executive non-independent or independent.

Remuneration Disclosure for CEO

Of the 387 companies (64%) that have a separate CEO (or managing director or equivalent), 29% disclosed exact remuneration and 66% disclosing in bands. Four percent of these companies used a tighter band of 0-$50,000 or 0-$100,000 while over 90% used a band of $250,000. Of the latter group, 18% of the CEOs were within the 0-$250,000 band, 29% within the $250,000-$500,000 band, and 20% within the $500,000-$750,000 band.

14 companies disclosed an unlimited top band for its CEO. The companies are Anchor Resources, BRC Asia, CH Offshore, Del Monte Pacific, Indofood Agri Resources (delisted since), Interra Resources, IPS Securex, ISDN, New Silkroutes Group, Noble Group, Olam International, Singapore O&G, Talkmed and Zico Holdings. The bands for this group ranged from "above $250,000" to "above $2 million".

Remuneration Disclosure for EDs

For companies with EDs other than executive chairman and CEO, only 112 (27%) disclosed their remuneration in exact amounts. 70% disclosed in bands on a named basis, mostly using $250,000 bands. Two percent – or 10 companies – used unlimited top bands for EDs. These companies are BRC Asia, Colex Holdings, Excelpoint Technology, Indofood Agri Resources, ISDN

Holdings, New Silkroutes, Noble Group, Olam International, Singapore Medical Group and Wee Hur Holdings. Three companies did not disclose at all and they are HG Metal, Pacific Century Regional Developments and Starland Holdings.

Remuneration Disclosure for NEDs and IDs

For NEDs and IDs, disclosure in bands generally provides no useful information given the fee levels and typical width of the bands used. It is therefore disappointing that only 42% of companies that have NEDs disclosed exact remuneration for NEDs and only 38% did so for IDs. In most cases, a $250,000 band is used although some companies used smaller bands of $0 to $100,000. IDs are supposed to encourage companies to improve their corporate governance and transparency and it does not reflect well on them when their own remuneration is not disclosed.

Disclosure of Fee Structure for NEDs

We found only 90 or 15% of the companies that disclosed the fee structure for NEDs. We believe the adoption and disclosure of a fee structure, coupled with disclosure of exact amounts for each NED, is the best practice for disclosure of remuneration of NEDs.

The typical disclosure for companies that have a system of setting NED fees based on board roles and board responsibilities is as follows:

> *The non-executive Directors will receive a basic fee and a fee for their appointments in the various Board Committees in FY 2017. They will also receive additional fees if they are chairpersons of Board Committees. The Company is fully aware of the need to pay competitive fees to attract, retain and motivate the Directors. Directors' fees are recommended by the Board for approval at the Company's AGM. The directors' fees recommended for FY 2018 amount to S$176,000 (FY 2017: S$176,000).*
>
> *(Source: King Wan Annual Report 2017)*

While companies often state that they have a fee structure for the NEDs, only 15% of them eventually disclosed the fee structure in the annual report.

In contrast, many companies also used a boilerplate statement that is based on “directors’ effort” and that follows closely the Code guideline. For example, a company with such a statement is GKE Corporation:

> *The Independent and Non-Executive Directors do not have service agreements with the Company. They are paid fixed Directors’ fees, which are determined by the Board, appropriate to the level of their contributions, taking into account factors such as the effort and time spent and the responsibilities of the Independent and Non-Executive Director. The fees are subject to approval by the shareholders at each AGM. Except as disclosed below, Independent and Non-Executive Directors do not receive any other remuneration from the Company in FY2017.*
>
> (Source: GKE Corporation Annual Report 2016)

The adoption and disclosure of a formal fee structure promotes good transparent thinking in the remuneration of NED remuneration. We believe that the adoption of a formal fee structure has the following benefits:

i. The goal of the RC would be then to determine the scope of responsibilities and the time commitment expected of each NED and to compensate them fairly for their time, expertise and commitment.

ii. The NEDs would be under no/less pressure to adjust their own remuneration upwards or downwards in response to how the executive directors are being paid.

iii. In bad times, NEDs are expected to put in more effort and should not be expected to have a fee cut (although a fee reduction may be a symbolic gesture if remuneration for employees is cut).

iv. In good times, NEDs are expected to rein in and avoid excessive executive remuneration and will not be tempted with higher directors’ fees to support higher executive remuneration. Higher fees for IDs when executive remuneration increases may be seen as a “pay-off” for them to support higher executive remuneration. If the fees for IDs and NEDs are up to the discretion of the controlling shareholders/ management, they might feel beholden to them.

v. A formal fee structure also makes it more transparent when additional fees have to be paid for overseas travel allowances, additional meetings, etc.

Large cap companies lead the way in the disclosure of fee structure. Of those that disclosed a fee structure, 36 are large cap companies, 20 mid cap companies and 34 small cap companies. This translates to 52%, 26% and 7% of large cap, mid cap and small cap companies respectively that disclose the fee structure for non-executive directors.

Remuneration Disclosure for KMP

The Code recommends that companies name and disclose the remuneration of at least the top 5 KMP (who are not directors or the CEO) in bands of S$250,000. Seven companies disclosed that they have no KMP other than EDs on the board or the CEO. All these companies were small caps and all but one have an executive chairman.

Just 43% complied with the Code and identified 5 or more KMP with remuneration provided in bands (or better), with breakdown provided. This includes 2% that followed the best practice recommendation by fully disclosing the remuneration of the top 5 or more KMP in exact amounts with breakdown.

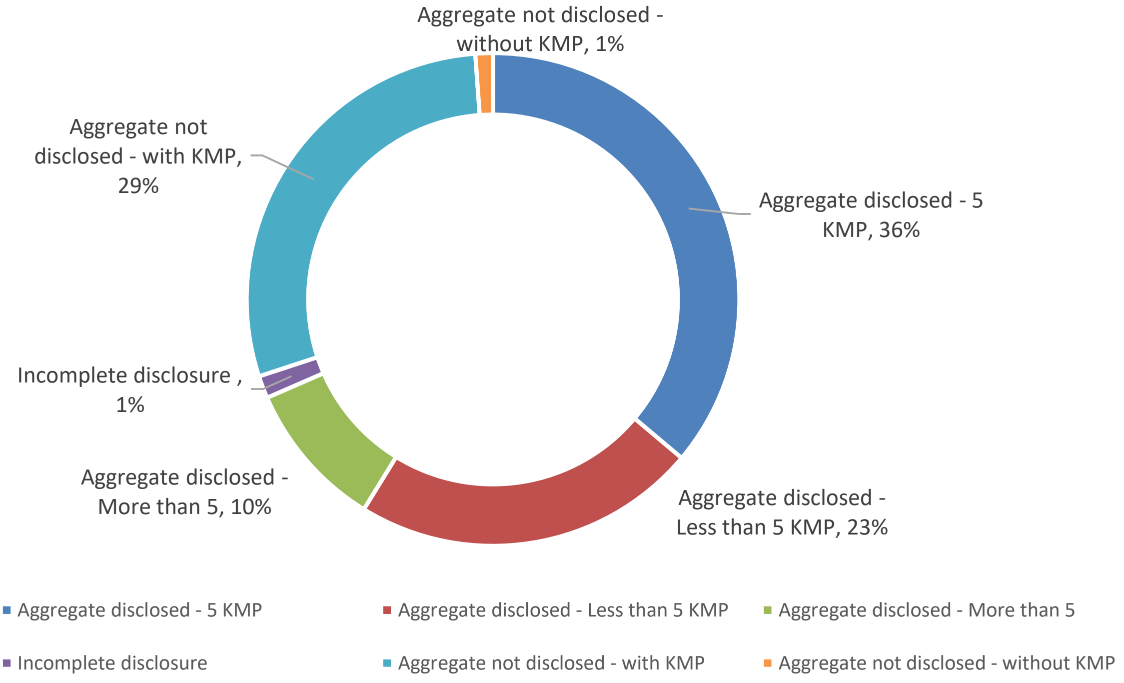
The remaining 57% had different types of non-compliance. 2% disclosed exact amount with names and breakdown for less than 5 KMP. 27% disclosed in bands of $250,000 or less with names and breakdown for less than 5 KMP. 1% used unlimited top bands with breakdown provided. The remaining 27% had a mixture of non-compliance, such as KMP names not provided, larger bands used, or breakdown not provided.

Disclosure of amount and breakdown of remuneration for KMP

	Type of disclosure	Number/ Percentage of companies (percentages are based on those with KMP)	Complied to the Code
Companies with KMP	Exact remuneration and breakdown with names of top 5 KMP or more	12 (2%)	Yes
	Banded ($250,000 or less) and with names and breakdown for 5 KMP or more	245 (41%)	Yes
	Exact remuneration and with names and breakdown for less than 5 KMP	15 (2%)	No
	Banded ($250,000 or less) and with names and breakdown but for less than 5 KMP	161 (27%)	No
	Unlimited top bands with breakdown provided	7 (1%) (all but 1 provided the names of the KMP)	No
	Incomplete disclosure (including KMP names not provided, larger bands used, breakdown not provided)	162 (27%)	No
Companies with no KMP		7	No

Aggregate remuneration for KMP

In addition, and more as a countermeasure to companies just reporting in bands, the Code also recommends companies to disclose in aggregate the total remuneration paid to the top five KMP (who are not directors or the CEO).



More than 30% of the companies did not disclose the aggregate remuneration of its top 5 KMP or disclose with incomplete information. For 69% of the companies, the aggregate remuneration of KMP is disclosed. 140 or 23% of all the companies in the study disclosed the aggregate remuneration of its KMP but had only included 4 or fewer KMP. 218 or 36% of all the companies in the study reported the aggregate for its top 5 KMP. 58 or nearly 10% disclosed the aggregate of 6 or more KMP.

In the Code, KMP is defined as the CEO and and other persons having authority and responsibility for planning, directing and controlling the activities of the company. The disclosure guideline for at least the top 5 KMP specifically excludes directors and the CEO. Who is considered KMP is subject to interpretation. They are also not necessarily the highest paid executive officers, unlike some countries like the US and HK that focuses disclosure on those that are most highly paid. The Code guideline leaves room for companies that choose not to be transparent or that want to show lower total KMP remuneration to disclose that they do not have KMP, have fewer than 5 KMP, or even to select the lower-paid ones for disclosure. To mitigate this, one possibility is to recommend that companies disclose the total remuneration of at least the five highest-paid executives, other than the CEO and directors.

Remuneration Disclosure for Family members

The Code recommends that companies disclose the details of the remuneration of employees who are immediate family members of a director or the CEO, and whose remuneration exceeds \$50,000 during the year. Companies are to provide the relationship with the relevant director or the CEO and the disclosure bands are to be in \$50,000.

Based on the disclosures, 55% of the companies did not have employees earning more than \$50,000 in the year who are family members of the directors or CEO. This does not include family members sitting on the board as directors or who hold the CEO position.

The percentages of large cap, mid cap and small cap companies without employees earning more than \$50,000 who are related to the directors or CEO are 64%, 55% and 53% respectively.

When small cap companies have family members in the company, the average (mean) number is 2 employees and the number could be as high as 10 (before counting the directors/CEO). In mid cap companies, the average is 2.7 employees when the companies have family members, and there are 3 companies having 7 family members in the companies. The large cap companies have an average of 1.8 family members as employees and one large cap company stands out with 7 family members.

The risks of minority investors being disadvantaged through excessive remuneration are arguably greater for family- and founder-controlled companies because of controlling shareholders' preference for remuneration compared to dividends and their ability to influence the amount of remuneration paid. As remuneration is not covered by interested person transaction rules, there should be greater transparency and safeguards for remuneration paid to controlling shareholders and their family members.

Not in whose interest?

For example, at Lian Beng, which has a market capitalisation of around $350 million, the 3 executive directors who are siblings own about a third of the shares. Together, they were paid as much as $12 million in 2016 (based on the band disclosures) - although there was a significant decline in 2017 due to lower bonuses/profit-shares with a substantial decline in profits.

One executive director is the chairman and managing director, who was paid $3 million to $3.5 million in 2017, down from $5.25 million to $5.5 million in 2016. The other two executive directors were each paid between $1.75 to $2 million in 2017, compared to $3 million to $3.5 million in 2016. One of these two executive directors is responsible for finance, human resource and administration and the other for contracts. Even considering the lower remuneration in 2016, professional managers in similar firms are likely to be paid only a fraction of what these two executive directors are paid. Bearing in mind that, as shareholders, they are already entitled to a third of the total dividends paid, the question is whether their remuneration is fair and appropriate. There are also 5 other family members who are key management and employees and the company declined to disclose their remuneration in the bands of S$50,000 as recommended by the Code, saying that it is not in the interest of the company to disclose.

Incompleteness in disclosure of remuneration amounts

We observe that companies may not include amounts paid at subsidiary level or share options/shares granted in the remuneration table. Therefore, the remuneration table may not give investors a complete picture of the remuneration paid to an individual.

Recommendation 3:

Independent directors should encourage companies to be more transparent in their remuneration disclosures. They can start by ensuring that their own remuneration is disclosed in exact amounts.

Recommendation 4:

Companies should disclose the fee structure for non-executive and independent directors, such as the base fee, additional board chairman fee, additional fees for chairs and members of each committee, and other applicable fees.

Recommendation 5:

The Code can be enhanced by clarifying that the remuneration amounts and components shown in the remuneration table should include remuneration paid at the subsidiary level and the fair value of share options/shares granted.

Recommendation 6:

To allow investors to better understand the structure or mix of remuneration, the Code can recommend that companies disclose the following where they are applicable: annual salary, annual cash bonus, annual profit-share, other cash-based performance-related income/bonuses, stock options granted, share-based incentives and awards, other long-term incentive components, and benefits in kind.

Recommendation 7:

To improve transparency of the amounts paid to key executive officers, the Code could recommend disclosure of the remuneration of top five highest-paid executives individually and in total, rather than top five key management personnel (who are not the CEO or directors).

EXECUTIVE DIRECTOR AND KEY MANAGEMENT PERSONNEL REMUNERATION: AMOUNT AND MIX

Remuneration Amounts and Breakdowns

A. Executive chairmen

For the companies that disclosed the exact remuneration for the executive chairman, the mean remuneration is $984,000 and the median $545,000, with a maximum of $8.4 million.

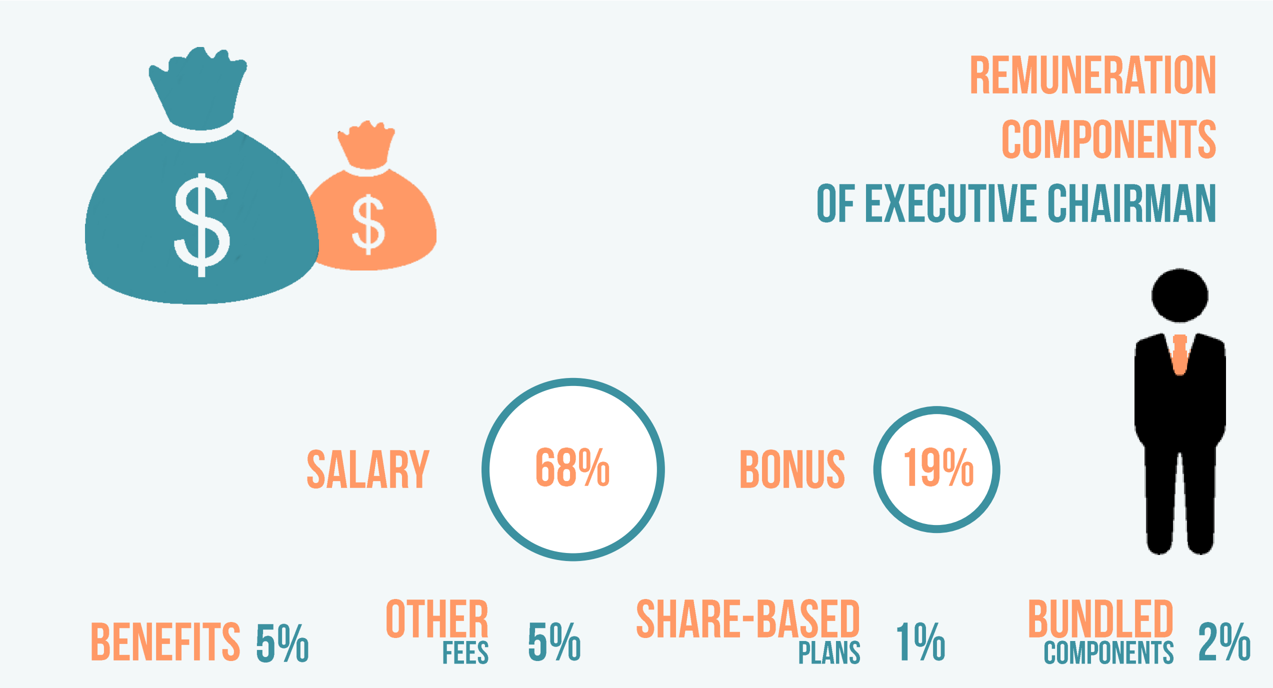
Executive Chairman	
Exact disclosure	Disclosure in bands
Mean $984,000	Mean $857,000
Median $545,000	Median $375,000
Maximum $8.4 million	Maximum $9.4 million

For those that disclosed the remuneration of the executive chairman only in bands, using the mid-point of the band, the mean is $857,000, median is $375,000, and the maximum is $9.4 million.

Based only on the companies that disclosed exact remuneration, the median remuneration for executive chairmen is $2.0 million for large caps, $1.6 million for mid caps and $468,000 for small caps.

When broken down into clusters, the median remuneration for executive chairmen in the FR cluster is just below $1 million, while the median remuneration for executive chairmen in the EITU and IM clusters is in the $540,000-$550,000 range and $330,000 for the CH cluster.

In terms of breakdown of remuneration components, executive chairmen received an average of 68% in salary, 19% in bonus, 5% in benefits, 5% in other fees, 1% in share-based plans and 2% as bundled components (such as bonus and benefits when companies lump the different components together in their disclosure). Less than 5% of the executive chairmen had a share-based component in their remuneration. When they did, the salary component, bonus, benefits and other fees averaged 51%, 25%, 3% and 2% respectively, with the share-based component averaged 19%.



Larger companies tend to pay more in variable components as can be seen in the table below.

Executive Chairman	Salary	Bonus	Benefits	Other fees	Share-based	Bundled
Large cap	38%	43%	2%	11%	0%	7%
Mid cap	48%	38%	4%	6%	2%	2%
Small cap	75%	14%	5%	4%	1%	1%

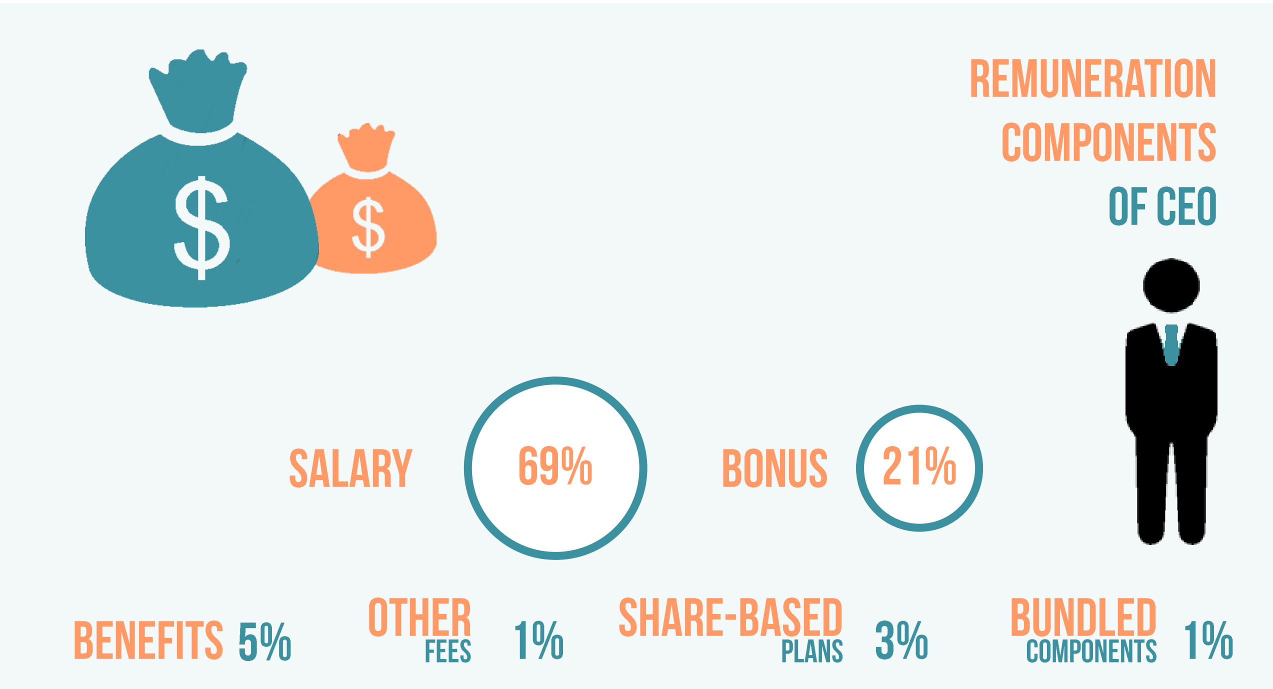
B. CEOs

Companies that disclosed exact CEO remuneration have a mean CEO remuneration of $1.6 million, median of $614,000 and maximum of $12.9 million. For those that disclosed in bands with an upper limit, the mean is $696,000 and the median $450,000 using the mid-point of the bands, with the highest band of $5 million to $7.5 million. Japfa is the company that used the band of $5 million to $7.5 million for its CEO.

Chief Executive Officer (or equivalent)	
Exact disclosure	Disclosure in bands
Mean $1.6 million	Mean $696,000
Median $614,000	Median $450,000
Maximum $12.9 million	Maximum Up to $7.5 million

Based only on the companies that disclosed the exact remuneration, the median remuneration for CEOs is $3.0 million for large caps, $924,000 for mid caps and $414,000 for small caps. The median remuneration for CEOs in the FR cluster is $1.6 million while for the other clusters, the median remuneration ranges from $535,000 to $600,000.

In terms of breakdown of remuneration components, on average, CEOs received 69% in salary, 21% in bonus, 5% in benefits, 1% in other fees, 3% in share-based plans and 1% as bundled components (in instances when companies lumped the disclosure of "bonus and benefits"). Less than 12% of CEOs had a share-based component. When they did, the share-based component averaged 23% while the salary component dropped to 43% and the bonus component averaged 28%. Again, larger companies tend to have higher bonus components.



CEO	Salary	Bonus	Benefits	Other fees	Share-based	Bundled
Large cap	38%	45%	5%	0%	11%	2%
Mid cap	55%	35%	6%	0%	3%	1%
Small cap	74%	15%	6%	2%	1%	1%

Companies with both an executive chairman and CEO/MD

23% of the companies in our study have both an executive chairman and a CEO (or its equivalent). The remuneration of the 32 such CEOs who work under an executive chairman with disclosed exact remuneration had a mean of $806,000, median of $529,000 and maximum of $3.0 million. For companies without an executive chairman that disclosed exact remuneration, the mean, median and maximum were $1.9 million, $703,000 and $12.9 million respectively.

The former group of CEOs is likely to not have the full responsibilities of typical CEOs and may be more like Chief Operating Officers (COOs). This is important for RCs to bear in mind when benchmarking "CEO" pay with other companies.

C. Other executive directors

Excluding the executive chairman and CEO, in total, there were 695 executive director appointments, or an average of 1.7 executive director, when the board has at least one executive director.

As mentioned earlier, the remuneration for executive directors was disclosed in exact terms in 27% of the companies, while 70% disclosed on a named basis in bands, 2% on a named basis with unlimited top band, and 1% which did not disclose at all.

For companies with exact disclosure, the average remuneration for these other executive directors was $412,000 while the median was $251,000.

Looking at remuneration based on market capitalisation, the median remuneration for these executive directors for large caps, mid caps and small caps is $700,000, $425,000 and $201,000 respectively.

KMP Remuneration Ratios

Based on the disclosures required by FRS 24 on Related Party Disclosures, the 609 companies in the study paid directors and members of key management – referred to in FRS 24 as key management personnel - a combined $2.5 billion in the year, or about $4.1 million on average per company.

One caveat is that different companies may define KMP differently and therefore individuals who are included in KMP (other than directors) may be different.

The total market cap of $601 billion suggests that the total remuneration paid to directors and members of the key management is about 0.4% of the total market capitalisation.

The following table shows the remuneration paid to directors and key management according to the market capitalisation of the companies.

	Total remuneration under FRS 24	Total market capitalisation	Remuneration as a percentage of market capitalisation
All companies	$2.46 billion	$601 billion	0.4%
Small caps	$1.08 billion	$32 billion	3.6%
Mid caps	$0.45 billion	$39 billion	1.2%
Large caps	$0.93 billion	$529 billion	0.2%

Not surprisingly, remuneration as a percentage of market capitalisation is relatively higher for small companies. For a slightly lower total remuneration ($1.08 billion for small caps to $0.93 billion for large caps), the combined market capitalisation for large cap companies is $529 billion, or more than 16 times the total market capitalisation of the small cap companies.

	Total remuneration under FRS 24	Total market capitalisation	Remuneration as a percentage of market capitalisation
Nano caps	$373 million	$5 billion	10.8%

The issue of remuneration is extremely pertinent in the "nano" caps (companies with market capitalisation of less than $50 million). For this group of 241 companies in the study, the average remuneration as a percentage of market capitalisation is 10.8%.

When looking at revenue, the 609 companies in the study generated $471 billion in revenue, and thus each remuneration dollar generated $191 in revenue on average. Again, there is a great range across market cap categories. It should be noted that this figure is expected to vary greatly according to industry and business model.

	Total remuneration under FRS 24	Total revenue	Revenue per remuneration dollar
All companies	$2.46 billion	$471 billion	$191
Small caps	$1.08 billion	$53 billion	$49
Mid caps	$0.45 billion	$111 billion	$247
Large caps	$0.93 billion	$307 billion	$330

Based on the total assets in the group, the companies in the study have total assets of $2.1 trillion. The breakdown by market cap is shown below.

	Total remuneration under FRS 24	Total assets	Total assets per remuneration dollar
All companies	$2.46 billion	$2,102 billion	$854
Small caps	$1.08 billion	$94 billion	$87
Mid caps	$0.45 billion	$111 billion	$247
Large caps	$0.93 billion	$1,897 billion	$2040

The conclusion is the same regardless of the choice of market capitalisation, revenue or total assets being used as the benchmark. Remuneration to directors and key management is a higher for smaller companies. We did not compare the remuneration received by directors and key executives to the profits generated because more than a third of the companies are not profitable.

Although there are understandable economies of scale when it comes to larger companies, one could argue that shareholders get less bang for each dollar they pay to directors and key management of smaller companies. Or in productivity jargon – directors and key management of smaller companies are relatively less productive.

A more interesting comparison may be to look at the ratio of remuneration to market capitalisation and other metrics within each market cap category to identify “outliers” or companies that tend to pay higher remuneration to directors and key management compared to comparable companies. As the table below shows, within each market cap category, remuneration as a percentage of the market cap varies significantly as well.

For small caps, the percentages are skewed and tend to be high when the companies get into distressed situations. The median is 4.2% and the mean is 7.1% for small caps.

Remuneration of key management personnel relative to market cap

	Minimum	Mean	Median	Maximum
Small caps	0%	7.1%	4.2%	87%
Mid caps	0%	1.2%	0.8%	6.3%
Large caps	0%	0.5%	0.5%	1.8%

To identify those companies that pay relatively higher remuneration to directors and key management relative to comparable companies, we use market cap as a benchmark. It should be noted that a company in transition or in distress may have exceedingly high ratios which may not be meaningful. Based on the analysis of the companies according to market cap segments, the following companies stand out for having high remuneration relative to their market caps.

When looking at revenue, small caps generated an average of $62 per remuneration dollar but the figure could be as high as $1,680 in a specific case where the company derived its revenue from trading and it was restrictive in its definition and/or modest in its remuneration of key executives ($270,000). For mid caps and large caps, they generated $162 and $390 per remuneration dollar on average. Hong Fok stood out among the mid caps for having the lowest revenue per remuneration dollar as the company only generated about $3.70 per remuneration dollar, less than half the revenue per remuneration of the second last mid cap. In the large cap category, Pacific Century Regional Developments and Yoma Strategic Holdings are the lowest, generating about $10 in revenue per remuneration dollar. As pointed out earlier, revenue is highly dependent on the many factors, including the business model, the stage of growth and the industry.

In terms of total assets per remuneration dollar, again, the metric varies significantly depending on the business model and the industry but generally, the same trend is observed. Total assets per remuneration dollar increases as companies grow larger and more efficient. For small caps, mid caps and large caps, the total assets per remuneration dollar is $125, $318 and $1,426 respectively.

Market cap	Remuneration as a percentage of market cap	Companies	Remarks
Nano caps	More than 30%	CFM Holdings Limited China Medical (International) ES Group (Holdings) Europtronic Group Hoe Leong Huan Hsin Holdings Jaya Holdings QT Vascular Ltd Vashion Group Ltd.	Companies in clear distress or transition have been included as the resources left in the company are being used to pay management during this period.
Small caps (excluding nano caps)	More than 10%	AusGroup Limited Chemical Industries (Far East) Limited. Declout Limited ISDN Holdings Limited Megachem Limited Nam Cheong Limited Ramba Energy Limited Regal International Group Rex International Holding Sinostar Pec Holdings Top Global Limited	The remuneration for this group of companies averaged $7.6 million when the market cap averaged just $63 million. Rex and Declout have the two highest ratio in this group at 17.4% and 15.8% respectively.
Mid caps	More than 2.5%	Breadtalk Group Limited Boustead Singapore Del Monte Pacific Hong Fok Corporation Indofood Agri Resources Lian Beng Group Ltd Noble Group Limited	Amongst the mid caps, Noble has the highest remuneration as a percentage (6.3%) of market capitalisation as its market cap has fallen drastically.
Large caps	More than 1.0%	CWT Limited Hotel Properties Japfa Ltd. UOB-Kay Hian	JAPFA and CWT are the highest among the large caps at 1.8% and 1.7% respectively.

A. Family-managed companies

As mentioned earlier, 55% of the companies did not have employees earning more than $50,000 in the year who are family members of the directors or CEO (excluding family members who are directors). For this group, directors and key executive remuneration was about 5.3% relative to the market cap, while those with family members earning more than $50,000 had a relatively higher percentage of 5.9%.

The table below shows how the two groups differ when the remuneration is considered based on market cap and revenue.

	Market capitalisation	Average remuneration as a percentage of market cap	Average revenue per remuneration dollar	n
Companies that DID NOT have employees earning more than $50,000 who are family members of the directors or CEO	All companies	5.3%	$126	335
	Small caps	6.9%	$71	249
	Mid caps	1.1%	$175	41
	Large caps	0.3%	$384	45
Companies that have employees earning more than $50,000 who are family members of the directors or CEO	All companies	5.9%	$95	274
	Small caps	7.3%	$53	215
	Mid caps	1.5%	$148	35
	Large caps	0.4%	$402	24

Note: The lower the percentage of market cap and the higher the revenue per remuneration dollar, the more "efficient" directors and key management are.

These comparisons are rough proxies to understand the differences between the two groups and have not been adjusted for differences in market capitalisation that exist for each subset (i.e., within each market cap category, there are still differences in market cap between companies with family members and those without). Overall, the evidence suggests that companies without family employees earning more than $50,000 have lower key management remuneration relative to market cap, revenue and total assets. This suggests that companies with extensive family involvement in the business are less efficient or pay higher remuneration.

B. KMP ratios and transparency

To look deeper into the issue of transparency and the level of remuneration, we selected a group of 180 companies that have made exact disclosure in remuneration of directors and the CEO and compared them with those that did not do so. Since market capitalisation itself is a factor affecting the quality of disclosure and the performance metric, we further divided the analysis according to market capitalisation. The findings for large caps are as follows:

	Disclosure in bands	Disclosure in exact amounts
n	26	43
Average market capitalisation	$3.5 billion	$10.2 billion
Remuneration as a percentage of market cap	0.4%	0.3%
Revenue per remuneration dollar	$216	$495
Total assets per remuneration dollar	$642	$1,900

For large caps, the comparison between the two groups shows that there is some evidence that companies which pay relatively lower remuneration to directors and key management had better disclosures, although the group that disclosed better has significantly larger average market cap.

	Mid caps		Small caps	
	Disclosure in bands	Disclosure in exact amounts	Disclosure in bands	Disclosure in exact amounts
n	53	23	350	114
Average market capitalisation	$514 million	$537 million	$66 million	$49 million
Remuneration as a percentage of market cap	1.3%	1.2%	7.3%	6.6%
Revenue per remuneration dollar	$188	$100	$56	$79
Total assets per remuneration dollar	$326	$300	$105	$189

For small caps, despite the group that discloses better having a lower market cap, all the KMP ratios indicate that those pay lower remuneration to directors and key management are, on average, more transparent. The evidence is somewhat mixed for mid caps.

Companies often cite fear of poaching for not fully disclosing remuneration. Fear of poaching would imply that companies are paying below the market. Our findings do not support this. On the contrary, they are consistent with the argument that companies that pay higher remuneration may be disclosing less to avoid drawing attention to their higher remuneration. We should emphasise that we are not advocating that companies should pay below-market remuneration as that can adversely affect their ability to attract and retain talent.

A Word of Caution about "Pay for Performance"

Guideline 8.1 of the Code states: "A significant and appropriate proportion of executive directors' and key management personnel's remuneration should be structured so as to link rewards to corporate and individual performance. Such performance-related remuneration should be aligned with the interests of shareholders and promote the long-term success of the company. It should take account of the risk policies of the company, be symmetric with risk outcomes and be sensitive to the time horizon of risks. There should be appropriate and meaningful measures for the purpose of assessing executive directors' and key management personnel's performance. "

An appropriate remuneration structure or mix for EDs and KMP would include an appropriate balance of fixed pay, short-term variable components and long-term variable components. Short-term variable components are usually mainly in the form of an annual cash bonus, while long-term variable components are usually in the form of shares or share options. The appropriate mix would vary across industries and other factors such as stage of growth of the company and, within a company, would depend on factors such as responsibilities and roles. Often, the variable components increase as seniority increases. However, that needs to be tempered by the roles. For example, those with "control job functions" such as chief financial officer, chief risk officer, chief audit executive (head of internal audit), risk managers, legal, corporate secretarial and compliance roles would generally be expected to have a higher component of fixed pay. The performance measures that are used for determining variable remuneration and vesting of share-based remuneration also need to be appropriate to the role of the executive concerned.

In light of the recent corruption scandals involving some major companies, companies should examine their remuneration policies for not only for EDs and KMP, but throughout their organisation, to ensure that they are not contributing to undesirable behaviour in the pursuit of short-term profits and increased personal remuneration. As they say, you get what you measure and pay for!

"Pay for performance" should be accompanied by the following:

- strong ethical culture
- good board and remuneration committee governance
- transparency in remuneration processes and setting of remuneration packages
- appropriate performance measures, benchmarks and targets
- balance between fixed remuneration, short-term remuneration and long-term incentives
- high standards of disclosure

Otherwise, it may do more harm than good.

Recommendation 8:

Companies should ensure that the amount and mix of remuneration for executive directors and key management, in terms of fixed versus variable, short-term versus long-term and cash-based versus share-based remuneration, is appropriate for attracting and retaining talent, and encouraging the right behaviour that is in the long-term interest of the company.

Recommendation 9:

To provide better safeguards against excessive remuneration in founder- and family-controlled companies, regulators could consider requiring or recommending the disclosure of the total remuneration paid to the controlling shareholder and family members.

NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration Amounts and Breakdowns

Remuneration: Non-Executive/Independent Chairman

Since the remuneration of non-executive non-independent chairmen and independent chairmen is relatively low compared to the bands used, disclosure in bands provides little clarity on the actual remuneration.

Based only on the companies that disclosed exact remuneration, non-executive non-independent chairmen were paid a mean remuneration of $121,000, a median of $70,000 and a maximum of $960,000, while for independent chairmen, the mean is $258,000, median $90,000 and maximum $1.8 million. The independent chairman fees are heavily skewed by the three banks which paid their chairmen between $1.0 million and $1.8 million. Without the banks, the mean is just $182,000.

Non-executive non-independent Chairman
Exact disclosure
Mean $121,000
Median $70,000
Maximum $960,000

Independent Chairman	
Exact disclosure	Exact disclosure (without the 3 local banks)
Mean $258,000	Mean $182,000
Median $90,000	Median $83,000
Maximum $1.8 million	Maximum $895,000

The median remuneration for non-executive chairmen of large caps, mid caps and small caps are $141,000, $70,000 and $39,000 respectively, while for independent chairmen, they are $438,000, $120,000 and $64,000 respectively.

Across all the industries, we see that the median remuneration of a non-executive non-independent chairman is around $70,000, which is also the overall median for all companies that disclose exact remuneration for the non-executive chairman – the exception is the Consumer and Healthcare (CH) cluster that is slightly lower at $62,000.

	Exact disclosure
CH cluster	$62,000
EITU cluster	$72,000
FR cluster	$71,000
IM cluster	$70,000

Note: The companies are grouped according to the following clusters for comparisons across the sectors: **FR**: Financials and Real estate; **CH**: Consumer discretionary, consumer staples and Healthcare; **EITU**: Energy, Information technology, Telecommunications and Utilities; **IM**: Industrials and materials

Basic and Additional Fees for NEDs

As mentioned earlier, 90 companies disclosed a fee structure for NEDs[2]. The tables below show the amounts of basic and additional fees that these companies paid for NEDs according to market capitalisation.

Fee structure for small cap companies

	Base fee for non-executive director	Additional Board chairman fees	AC chair	AC member	NC chair	NC member	RC chair	RC member
Minimum	$10,000	$6,000	$4,000	$0	$0	$0	$0	$0
Average	$38,000	$28,000	$18,000	$10,000	$9,000	$5,000	$9,000	$5,000
Median	$38,000	$25,000	$18,000	$10,000	$8,000	$5,000	$8,000	$4,000
Maximum	$71,500	$75,000	$40,000	$23,000	$24,000	$19,000	$25,000	$19,000
Percentage relative to base fee (Average)	100%	74%	47%	26%	24%	13%	24%	13%
Percentage relative to base fee (Median)	100%	66%	47%	26%	21%	13%	21%	11%
n	34	23	34		32		32	

For small caps, the base fee is as low as $10,000 and as high as $71,500 with the mean and median of $38,000. About 40% of the companies pay the non-executive chairman an additional fee that is equivalent to the base NED fee or more although one company paid as low as an additional 15%. The median additional board chairman fee is 66% of the base fee.

The small caps pay as much as $4,000 to $40,000 for the AC chairman. On average, the AC chair gets an additional fee of about 47% of the base fee. AC members on average get about half of the fees of the AC chair. The fees for NC and RC chairs are about half of the AC chair fees, and the fees for NC and RC members are usually about half of the AC member fees.

About one-third of small caps that disclosed the fee structure pay an additional fee for the lead independent director (LID). Note that the low proportion of companies that do not disclose an additional LID fee may be because many of them may not have appointed an LID. In cases where there is an additional LID fee, it generally ranged from $5,000 to $10,000 although there is a company that paid just $2,500 as an additional LID fee.

[2] Only for this section on fee structure for NEDs are IDs included in the definition of "NED". For the rest of the report, NEDs are strictly non-executive non-independent directors and specifically exclude independent directors.

Fee structure for mid cap companies

	Base fee for non-executive director	Additional Board chairman fee	AC chair	AC member	NC chair	NC member	RC chair	RC member
Minimum	$28,000	$12,000	$3,000	$0	$3,000	$0	$3,000	$0
Average	$44,000	$51,000	$27,000	$14,000	$12,000	$7,000	$12,000	$7,000
Median	$42,000	$30,000	$27,000	$15,000	$12,000	$7,000	$12,000	$7,000
Maximum	$60,000	$295,000	$56,000	$36,000	$20,000	$15,000	$20,000	$15,000
Percentage relative to base fee (Average)	100%	116%	61%	32%	28%	16%	28%	16%
Percentage relative to base fee (Median)	100%	71%	64%	36%	29%	17%	29%	17%
n	20	13	20		20		20	

For mid caps, the median and average base fees for a NED of $42,000 and $44,000 respectively are only slightly higher than the fees for small cap companies, but the additional fee for the board chairman is slightly higher at 71% of the median base fee.

For other fees, the fee structure is generally similar to small caps in terms of percentage of the base fee. When the companies disclose additional fees for a LID, the median LID fee is about $13,000 or nearly a third of the base NED fees.

Yeo Hiap Seng

At Yeo Hiap Seng (YHS), the chairman receives a flat fee of $350,000 and its deputy chairman-cum-LID gets a $120,000 fee which is inclusive of a $60,000 fee for serving as chairman of a wholly-owned subsidiary (YHS (Singapore) Pte Ltd).

Compared to other mid-cap companies, the chairman's fee is relatively high in terms of the quantum and also compared to the basic fee for non-executive directors of $55,000. However, this may reflect the chairman's responsibilities and contributions. In addition, its Audit and Risk Committee (ARC) chair gets an additional fee of $40,000 while an ARC member gets $20,000. Other committee chairs receive $20,000 additional fee and members get $12,000. These additional fees are also at the higher end of the range compared to other mid-cap companies.

Fee structure for large cap companies

	Base fee for non-executive director	Additional Board chairman fee	AC chair	AC member	NC chair	NC member	RC chair	RC member
Minimum	$38,000	$20,000	$9,000	$5,000	$4,000	$2,000	$4,000	$2,000
Average	$68,000	$370,000	$48,000	$28,000	$25,000	$15,000	$28,000	$17,000
Median	$68,000	$105,000	$50,000	$26,000	$25,000	$15,000	$30,000	$15,000
Maximum	$150,000	$1,355,000	$120,000	$75,000	$50,000	$35,000	$65,000	$45,000
Percentage relative to base fee (Average)	100%	544%	71%	41%	37%	22%	41%	25%
Percentage relative to base fee (Median)	100%	154%	74%	38%	37%	22%	44%	22%
n	36	28	36		36		36	

For large caps, the base fee for NEDs increases to a mean and median of $68,000 but the most significant increase compared to mid caps is the additional fee for the board chairman which increases to a median of $105,000, or 154% when compared to the base fee. If the fees for the chairmen of banks are excluded, the median additional chairman fee drops to $75,000 or 110% of the base fee. The chairman fees for the AC, NC and RC are now 74%, 37% and 44% of the base NED fee respectively while the fees for the board committee members are 38%, 22% and 22% respectively.

Since large caps have a high proportion of independent chairmen, the proportion of companies having LIDs is lower. Based on the small sample of 10 companies that disclosed additional fees for the LID, the median was $10,000 and the mean was $22,000.

Risk committee

47 companies disclosed the fees for the chair and members of the risk committee.

Risk committee	Chairman			Member			
	Minimum	Median	Maximum	Minimum	Median	Maximum	n
All companies	$4,000	$30,000	$120,000	$0	$16,000	$75,000	47
Small cap	$4,000	$13,000	$40,000	$0	$8,000	$20,000	12
Mid cap	$5,000	$26,000	$44,000	$0	$15,000	$24,000	8
Large cap	$20,000	$35,000	$120,000	$10,000	$25,000	$75,000	27

For risk committees, the chair and members tend to get additional fees that are slightly lower than the AC, but higher than the NC and RC.

Executive committee

In addition, some companies have an Executive committee (Exco) and disclosed the fees in the annual report. Of the 16 companies that disclosed the Exco fees, Telechoice stood out as the only small cap company to do so. 15 were large caps and there were no other mid cap or small cap company that disclosed Exco fees.

	Chairman			Member		
	Minimum	Median	Maximum	Minimum	Median	Maximum
Executive Committee	$15,000	$50,000	$85,000	$7,500	$30,000	$55,000

The median fees for the Exco chair and member are $50,000 and $30,000 respectively. These are as high as the fees for the AC chair and the AC member respectively.

Meeting fees

Just 24 companies disclosed meeting/attendance fees for directors. The attendance fees range from $1,000 to $10,000 per meeting while the mean and median attendance fees are $2,500 and $1,750 respectively. About 70% pay the same attendance fee for board committee meetings while the remaining 30% pays about half the fees for a board committee meeting.

A small cap stands out as it pays its NEDs US$7,500 (S$10,000) to attend each board meeting (whether in person or by teleconference), on top of reimbursement for travel expenses. One other company pays the chairman $3,000 for attending the board meeting which is double that of the board members. Another small cap pays attendance fees of $4,000 for a full day session and $2,000 for a half-day session and only pays for attendance at board and board committees meetings other than the regular scheduled meetings. A large cap has fees of $7,000 for an overseas board meeting.

Total Remuneration Paid to NEDs and IDs

For the 609 companies in our study, the total remuneration approved or pre-approved by shareholders at AGMs was $188 million for non-executive and independent directors, ranging from $50,000 to $4,000,000 on a per company basis, with a mean of $312,000 and a median of $199,000. Global Logistics Properties had the highest total fees for NEDs, with a pre-approved amount for year ending 31 March 2018 of US$2.9 million (S$4 million), having paid actual fees of US$2.7 million for FY 2017.The table below shows the distribution of total NED remuneration for all companies, by market cap and for different industry clusters.

	Total NED fees (including fees for IDs)		Minimum	Average	Median	Maximum
All companies	$188 million		$50,000	$312,000	$199,000	$4,000,000
Small caps	$93 million		$50,000	$202,000	$176,000	$1,320,000
Mid caps	$25 million		$64,000	$340,000	$271,000	$1,194,000
Large caps	$70 million		$128,000	$1,020,000	$632,000	$4,000,000
By clusters						
FR cluster	$43 million		$69,000	$518,000	$262,000	$4,000,000
CH cluster	$42 million		$55,000	$287,000	$185,000	$2,100,000
EITU cluster	$35 million		$52,000	$276,000	$195,000	$2,950,000
IM cluster	$68 million		$50,000	$277,000	$180,000	$2,600,000

Note: The companies are grouped according to the following clusters for comparisons across the sectors: **FR**: Financials and Real estate; **CH**: Consumer discretionary, consumer staples and Healthcare; **EITU**: Energy, Information technology, Telecommunications and Utilities; **IM**: Industrials and materials

On a per director basis, the median fee is $53,000 per NED. Based on market capitalisation, the median NED fees per director for small cap, mid cap and large cap companies are $49,000, $64,000 and $103,000 respectively.

Share-based remuneration and share ownership policies for NEDs and IDs

Guideline 8.3 of the Code recommends that the RC should "consider implementing schemes to encourage non-executive directors to hold shares in the company so as to better align the interests of such non-executive directors with the interests of shareholders." Share ownership can be achieved either by paying part of the NED fees in shares, or requiring NEDs to purchase shares based on share ownership guidelines. Clearly, ownership of shares should not be excessive such that the independence of a director is compromised.

We found at least 17 companies that have adopted the practice of paying NEDs (including IDs) part of their fees in the form of "remuneration shares" or "restricted shares". A number of them are government-linked companies. It is important that such shares do not have vesting or performance conditions – the alignment of interest is achieved as the value of the NED shares will increase or decrease in value as the company's share value increases or decreases. It is also important that there is a selling moratorium imposed, so that the NEDs do not trade their shares based on short-term considerations and their interests are aligned with long-term interests of shareholders. Most of the companies that use such remuneration or restricted shares state clearly that there are no vesting and performance conditions and the shares have to be held until the director leaves the board. However, some companies do not state these conditions clearly or call their shares "performance shares" even though there are no vesting or performance conditions.

In addition to these 17 companies, there are some companies that have adopted share ownership guidelines under which NEDs are expected buy some shares (often the equivalent of at least one year of the cash fees) and to hold the shares until or one year after they leave the board. We consider the use of such remuneration shares and share ownership guidelines to be good practices that more companies should follow. However, we have observed that at Singtel, one of the companies with share ownership guidelines, only 5 out of the 8 NEDs actually hold Singtel shares, with three of them owning less than 2,000 shares each. Perhaps some NEDs face restrictions in holding shares in Singtel. Nevertheless, companies that have share ownership guidelines should encourage NEDs to comply or explain why they are unable

There are at least 180 companies where NEDs (including IDs) are eligible for share options or performance shares (including 32 that gave out such awards during the year). Given that the payoffs from share options are asymmetric and performance shares have vesting conditions linked to performance of the company, we do not believe they are appropriate as NED remuneration. In fact, codes of corporate governance in some countries specifically discourage their use and/or state that their use is relevant in assessing the independence of directors. Even in countries or industries where they have been prevalent, their use has declined substantially.

What makes it worse is that these companies often do not include the grants in the directors' remuneration table or do not include them as part of the directors' fees put to shareholders' approval at the AGM.

Unclear disclosures and other questionable remuneration practices for NEDs and IDs

We found 7 companies that disclose that their NEDs were paid "salaries", either in addition to or instead of fees. In most cases, companies disclosed that the NEDs have other executive roles within the group and, hence, the salaries are likely due to the executive roles. However, there are cases where it is unclear whether a company has mistakenly labelled "fees" as salaries.

Some NEDs also perform other part-time roles or provide consultancy or advisory services for the company and in some cases, receive fees that are very high in absolute terms (such as $800,000) or relative to the NED fees (such as 88%). There are also some IDs who receive fees for providing consulting services to the companies – or firms that they are affiliated with do. In one of the more extreme cases that we have seen, a company pays two of its IDs consulting fees of $144,000 and $180,000 and lump them all as fees in the remuneration table in the Corporate Governance Report. In another case, an ID was appointed as a technical advisor with a monthly fee of $3,800. In the case of IDs, companies generally use the threshold of $200,000 provided in the Code to justify the independence of the directors, notwithstanding the consulting or other fees received.

There are also some NEDs (including IDs) who receive substantial "other benefits" or "bonuses" without proper explanations. One company had an NED receiving 34% in "other benefits", another had a NED receiving 84% in "other benefits" and a third had bonuses of 20% for NEDs.

Vallianz

Vallianz paid its independent directors bonuses of between 22% to 33% despite having a question mark over its survival as it attempts to refinance its massive debts. Its non-executive director was paid a bonus of 61% and its executive director and CEO was paid 41% in bonus. In addition, in the 2015 Annual Report, the company disclosed that the executive director and CEO was paid “S$250,001 and above”.

The following table shows a breakdown of the annual remuneration (in percentage terms) of directors for the financial period under review:

Remuneration Band and Name of Directors	Salary[1] %	Performance Incentives[2]/ Bonus[3] %	Directors' Fees %	Others Benefits %	Total %
S$750,000 to S$1,000,000					
Ling Yong Wah	54	41	4	1	100
Darren Yeo	31	61	7	1	100
S$250,000 and below					
Yeo Jeu Nam	–	33	67	–	100
Bote de Vries	–	22	78	–	100
Wong Leong Jeam	–	–	100	–	100

[*] Raymond Kim Goh resigned as a Non-Executive Director, Chairman of the Board of Directors and member of Audit Committee, Remuneration Committee and Nominating Committee with effect from 27 July 2016 and received 100% of his remuneration during his term of office in the form of director's fees.

Notes

[1] Salary is inclusive of allowances, CPF and other emoluments.

[2] Performance incentives refer to long term cash incentive plan and long term performance driven award.

[3] Bonus is short term cash incentive plan and is a sum of money given in addition to the usual compensation, normally for outstanding performance and service for certain period.

(Source: Vallianz Annual Report 2017)

In the footnote to the remuneration table, note (2) states that performance incentives refer to “long term cash incentive plan and long term performance driven award” while note (3) states that bonus is “short term cash incentive plan and is a sum of money given in addition to the usual compensation, normally for outstanding performance and service for certain period”.

Shareholders should be asking the RC how it had determined, measured and benchmarked “performance” and explain if such “outstanding performance” has resulted in value creation for shareholders.

Recommendation 10:

Non-executive directors should be remunerated primarily through cash fees, remuneration shares or restricted shares. They should not be remunerated through share options, performance shares or any other forms of remuneration that is linked to the performance of the company or the remuneration paid to management.

Recommendation 11:

Companies that do not use remuneration shares or restricted shares for non-executive directors should consider adopting share ownership guidelines encouraging these directors, including independent directors, to use part of their cash fees to buy some shares in the company and retain those shares until they leave the board.

Recommendation 12:

Companies should include all components of remuneration, including the fair value or quantity of share options/shares granted where they are used, in the remuneration for non-executive directors that is put up for shareholders' approval.

LEADERS IN REMUNERATION PRACTICES

As can be seen in this report, companies differ significantly in their remuneration practices. Regardless of the size of the company and the industry it is in, there are certain best practices that should be adopted. A leader in remuneration practices should meet at least the following criteria:

- Remuneration committee composition which complies with the Code and any other rules applicable to the company
- Exact disclosure of remuneration and breakdown for at least the directors and the CEO
- Disclosure of the fee structure for NEDs
- Disclosure of the aggregate remuneration for 5 KMPs
- Identification the KMPs (for this round, we have not excluded companies that did not provide the exact remuneration of their KMPs who are not directors)
- NEDs not eligible for share options, share incentives or other components linked to the performance of the company or to the remuneration paid to management (other than part of the directors fees being paid in the form of remuneration shares)
- All remuneration components are put up for shareholders' approval

Based only on the first three criteria, just 53 companies make the cut. Excluding companies that had not disclosed the aggregate remuneration for 5 KMPs or identified the KMPs, the number falls to 32 companies. After excluding companies that give share options, share incentives or other performance-based incentives, 13 companies remain. All these companies also put all remuneration components for NEDs for shareholders' approval.

These 13 companies which are leading the way in remuneration practices are:

- Baker Technology Limited
- CapitaLand Limited
- Dynamic Colours Limited
- Fraser And Neave Limited
- Frasers Centrepoint Limited
- Jardine Cycle & Carriage Limited
- MTQ Corporation Limited
- Nera Telecommunications Ltd
- Singapore Exchange Limited
- Singapore Telecommunications
- SP Corporation Limited
- Tai Sin Electric Limited
- Tuan Sing Holdings Limited

Leaders in remuneration practices would also ensure that the remuneration quantums are not excessive. However, the appropriate quantum would depend on many factors. In future, we hope to assess remuneration trends for companies over time to determine which companies pay remuneration which is fair and, for executive directors and KMP, is linked to the company's performance and value creation.

CONCLUSIONS AND RECOMMENDATIONS

The findings from our study confirm that there is considerable room for improvement among SGX-listed companies even for basic issues relating to executive and director remuneration, such as composition of remuneration committees, disclosure and the appropriate types and mix of remuneration.

Weaknesses in these areas increase the risk of inappropriate and excessive remuneration which could be harmful to the interests of minority shareholders. However, they may also result in directors and executives not being adequately remunerated for their responsibilities, contributions and performance, resulting in difficulties in attracting and retaining talent, which can be detrimental to the long-term performance of companies.

We have provided a number of recommendations as a first step towards improving remuneration practices, which are summarised below. Boards and remuneration committees, shareholders, regulators and other stakeholders all have a role to play in improving remuneration practices.

Recommendation 1:

Companies should consider whether the responsibilities of the RC should be expanded to cover other human capital-related issues.

Recommendation 2:

To better ensure that remuneration policies and packages are appropriate, the board should consider expanding its competencies to include human capital and remuneration experience. The remuneration committee should have the necessary expertise for remuneration matters or access to such expertise and to external sources of remuneration data. Where it engages an external remuneration consultant, it should critically evaluate the independence of the remuneration consultant and its recommendations.

Recommendation 3:

Independent directors should encourage companies to be more transparent in their remuneration disclosures. They can start by ensuring that their own remuneration is disclosed in exact amounts.

Recommendation 4:

Companies should disclose the fee structure for non-executive and independent directors, such as the base fee, additional board chairman fee, additional fees for chairs and members of each committee, and other applicable fees.

Recommendation 5:

The Code can be enhanced by clarifying that the remuneration amounts and components shown in the remuneration table should include remuneration paid at the subsidiary level and the fair value of share options/shares granted.

Recommendation 6:

To allow investors to better understand the structure or mix of remuneration, the Code can recommend that companies disclose the following where they are applicable: annual salary, annual cash bonus, annual profit-share, other cash-based performance-related income/bonuses, stock options granted, share-based incentives and awards, other long-term incentive components, and benefits in kind.

Recommendation 7:

To improve transparency of the amounts paid to key executive officers, the Code could recommend disclosure of the remuneration of top five highest-paid executives individually and in total, rather than top five key management personnel (who are not the CEO or directors).

Recommendation 8:

Companies should ensure that the amount and mix of remuneration for executive directors and key management, in terms of fixed versus variable, short-term versus long-term and cash-based versus share-based remuneration, is appropriate for attracting and retaining talent, and encouraging the right behaviour that is in the long-term interest of the company.

Recommendation 9:

To provide better safeguards against excessive remuneration in founder- and family-controlled companies, regulators could consider requiring or recommending the disclosure of the total remuneration paid to the controlling shareholder and family members.

Recommendation 10:

Non-executive directors should be remunerated primarily through cash fees, remuneration shares or restricted shares. They should not be remunerated through share options, performance shares or any other forms of remuneration that is linked to the performance of the company or the remuneration paid to management.

Recommendation 11:

Companies that do not use remuneration shares or restricted shares for non-executive directors should consider adopting share ownership guidelines encouraging these directors, including independent directors, to use part of their cash fees to buy some shares in the company and retain those shares until they leave the board.

Recommendation 12:

Companies should include all components of remuneration, including the fair value or quantity of share options/shares granted where they are used, in the remuneration for non-executive directors that is put up for shareholders' approval.

Implementing the above recommendations will go some way towards ensuring that remuneration practices of SGX-listed companies are comparable to international standards and also appropriate for our environment.

Other improvements that can be made include mandatory disclosure of exact remuneration for individual directors and the CEO; aligning the disclosure and approval requirements for remuneration paid to substantial shareholders and family members with the requirements for interested person transactions; and better disclosure of measures used for assessing and rewarding executive directors and senior management.

While giving shareholders a say on executive remuneration is not without its problems, failure to address poor remuneration practices may lead shareholders and other stakeholders to call for this increasingly common international practice to be introduced in Singapore. It is in the interest of companies to avoid this “Apaycalypse”.

About the Authors

Associate Professor Mak Yuen Teen

Mak Yuen Teen is an Associate Professor of Accounting at the NUS Business School, National University of Singapore, where he teaches corporate governance. Prof Mak holds first class honours and master degrees in accounting and finance and a doctorate degree in accounting, and is a fellow of CPA Australia.

He served on committees that developed and revised the Code of Corporate Governance for listed companies in Singapore in 2001 and 2005. He is a member of the Corporate Governance Council formed by MAS to review the Code in 2017. He is a member of the audit advisory committee of UN Women, based in New York.

Prof Mak developed the Governance and Transparency Index, a ranking of governance of listed companies in Singapore. He was the Singapore expert in the development of the ASEAN Corporate Governance Scorecard and Ranking. He chaired the Singapore Corporate Governance Awards from 2003-2009 and the Investor Relations Award under the Singapore Corporate Awards from its inception until 2014. He is also currently a member of the adjudication committee for the MSWG-ASEAN CG awards in Malaysia.

Prof Mak is a regular commentator and speaker on governance issues in the corporate, public and charity sectors. He regularly conducts corporate governance training for directors, regulators and other industry professionals. He has been commissioned by the government, regulators, professional associations and private sector firms to lead research and provide recommendations on various corporate governance issues. He has also published extensively in academic and professional journals.

In recognition of his contributions to improving corporate governance in Singapore, Prof Mak received the Singapore Corporate Governance Excellence Award from the Securities Investors Association (Singapore) in 2014, becoming only the second individual to be given this award in the 15 years history of the Association. In 2015, he received the Excellence in Corporate Governance Award from the Minority Shareholders Watchdog Group in Malaysia for his contributions to improving corporate governance in the region.

For more information about Prof Mak's work, please visit his website at www.governanceforstakeholders.com.

About the Authors

Chew Yi Hong

Chew Yi Hong is an active investor and a keen observer of the corporate governance scene. He received an MBA with Distinction from the London Business School and graduated from Cornell University with dual degrees in Economics and Electrical Engineering.

As an investor, Mr. Chew keeps track of company announcements on a daily basis, attends shareholder meetings and monitors corporate governance developments. He believes that issuers who tap the capital markets should strive to provide shareholders with relevant and material information in a fair and timely manner.

Prior to his time spent at a Big 4 public accounting firm, he consulted for a global fund to address corporate governance issues of a listed issuer. He has also helped issuers and shareholders understand the complex requirements to stay in compliance with the relevant Acts and Codes.

Mr. Chew has also researched on other areas of corporate governance including diversity at the board of directors and senior management in the public and private sectors, and across major Asian economies.

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