SINGAPORE

KEY POINTS

- Singapore has one of the region's best corporate governance frameworks; its well developed financial markets and rules generally protect outside investors. A recent survey of institutional investors ranked Singapore as the second most desirable investment destination after Australia in the region.

- Low trade and investment barriers expose Singapore's corporates to international competition, so goods markets are very open and efficient.

- However, the Government increasingly recognises its involvement in several services sectors may shelter some firms from international competition. Government linked companies, GLCs, also constitute a large proportion of Singapore corporate sales and assets, possibly weakening outside investor protection and contributing to barriers new market entrants face. Encouragingly, the Government is partly responding to these concerns by selling its shares in some GLCs.

- Since the crisis, the Government has further improved the formal corporate governance framework, moving to a disclosure based system with strong market incentives supporting self-compliance.

- In January 2000, the Government established the Corporate Governance Committee and subsequently adopted many of its recommendations. As part of new listing rules, companies must comply with the new voluntary Corporate Governance Code or publicly disclose any failure to do so.

- Regulators' key priorities include improving corporate disclosure, clarifying the roles of the chairman and CEO and better defining the relationship between boards and management.

Singapore's well developed corporate governance and financial market regulatory framework generally protects outside investors. Its sound prudential and corporate governance framework helped Singapore largely avoid the crisis and since 1997, the Government has upgraded the business regulatory framework and started to reduce its role in corporate and financial sectors (Teen, 2000). While institutional investors rank Singapore highly as an investment destination, the top 20 corporates are GLCs and operate within a different incentive structure to privately owned corporates (PricewaterhouseCoopers, 2001).

CORPORATE STRUCTURE

Singapore has an unusually high level of government involvement in its corporate sector for a market economy, the heritage of the Government's proactive role in Singapore's post-Independence economic development. The private sector is typical of East Asia, with a high proportion of family owned and managed firms.

Government Ownership Important

Some analysts see the GLCs' dominant market position and level of government support as Singapore's major corporate governance issue. Of Singapore's largest 500 firms, GLCs account for 12 per cent of total sales, 19.5 per cent of profits and 23 per cent of assets. Temasek Holdings, the state investment vehicle, controls state investments valued at S$47 billion, including Singtel and Singapore Airlines, but it does not detail its entire holdings (Claessens et al., 1999). Temasek companies operate in transport, media, financial services, property development and leisure sectors. The Government also owns a significant share of the largest bank, Development Bank of Singapore (*South China Morning Post*, www.scmp.com, 27 June 2001).

While the Government remains a relatively passive shareholder and GLCs operate like other major companies, GLCs have public duty obligations which may expose them to sub-optimal investments (Ong et al., 2001). As well, many GLCs have close, non-transparent relationships with regulators; regulators sit on GLC boards, potentially providing them with advantages over private corporates. No large and few small GLCs have been declared bankrupt, despite some incurring serious losses; consequently, GLC managers may face moral hazard issues in determining investments. GLCs have ready access to low cost finance, including in the past from the Development Bank of Singapore and the compulsory national pension fund, raising questions about the extent of market discipline these companies face.

Families Important Also

Private sector corporates are highly concentrated; the top ten families control 25 per cent of Singapore's corporate sector. Families also control three of the four large listed banks including several that are part of large non-financial conglomerates. Unlike many other Asian family corporates, Singaporean ones often appoint outside managers, increasing distance between managers and owners and possibly boosting minority investor protection (Naughton, 2001). However, more than elsewhere in the region, owners use pyramid structures to ensure control, reducing transparency and increasing outside investors' risk (Claessens et al., 1999).

MARKETS WORKING WELL

Despite Singapore's unusual corporate structure, open trade and foreign direct investment make most domestic markets competitive and efficient, although some service sectors have some protection. Singapore's large and deep share market also generally disciplines corporate behaviour.

DIRECT FINANCING PROMINENT

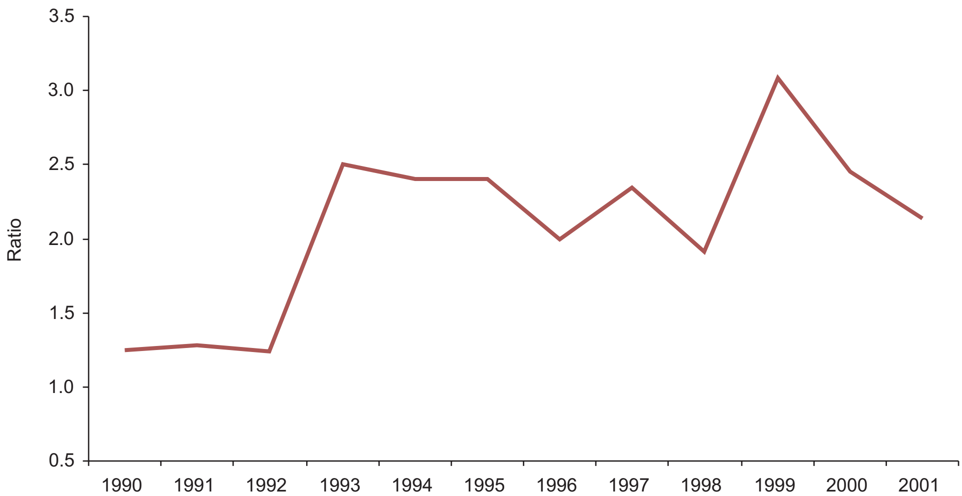
While local banks still significantly finance domestically oriented private corporates, Singapore's direct financing markets are well developed and deep. In 1999, its share market capitalisation peaked at US$198 billion or over 250 per cent of GDP, second only to Hong Kong's in East Asia (Figure 16.1) (Naughton, 2001). In 2000, 390 companies were listed, up sharply from 266 in 1996, including 43 foreign companies. Since 1999, each year an average of 13 foreign firms have listed, highlighting the market's quality and appeal (Naughton, 2001). Singapore is one of only three East Asian economies CalPERS includes in its Equity Permissible Country List. The Australian Stock Exchange also cross-lists Singaporean firms (Shaw, 2001).

However, with a few large family companies and the state tightly holding a high proportion of listed equity, market liquidity and turnover is not high by regional standards, reducing the share market's potential to discipline corporates (Naughton, 2001).[1] Furthermore, debt to equity ratios for construction sector firms are five times greater than those in the manufacturing sector, reflecting their family owners' preference for bank over equity finance (CEIC, 2002).

Figure 16.1

Share Market Large and Increasing

Share Market Capitalisation to GDP, 1990-2000



Source: CEIC, 2002.

[1] By regional standards, Singapore's market turnover ratio of 67 per cent is modest (Naughton, 2001).

In 2000, the Singapore Stock Exchange's new guidelines granted companies greater freedom in issuing initial public offers.[2] After the financial crisis, initial public offers collapsed but since 1999, they have grown strongly (Figure 16.2).

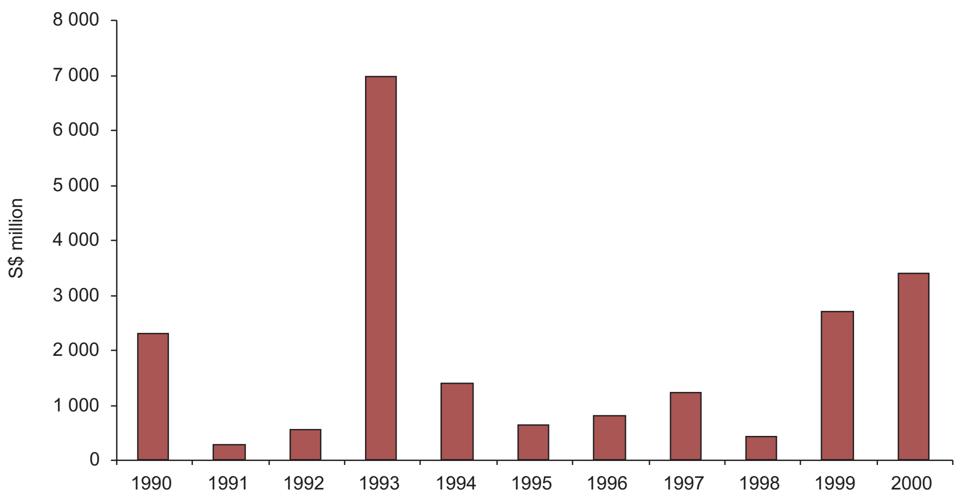
Singapore's share market regulations now encourage acquisition and merger activity; this should increase management discipline. In November 2000, the Securities Industry Council modified the takeover code so a company or individual investor can bid for more than 50 per cent of another company without having to bid for all the outstanding shares (Ing Barings, 2000). Also, to increase transparency, now a bid for 25 per cent or more of a company's stock triggers a takeover; this is below the regional norm of 30 to 35 per cent (Naughton, 2001).

Since the crisis, banking sector merger activity in particular has increased and foreign acquisitions have more than tripled (Hale, 2001). For example, in June 2001, Overseas Chinese Banking Corporation launched a hostile bid for Keppel TatLee Bank, and Development Bank of Singapore bid for Overseas Union Bank (*South China Morning Post*, www.scmp.com, 27 June 2001). A friendly bid from United Overseas Bank countered Development Bank of Singapore Bank's bid; United Overseas Bank prevailed in August 2001 (*Far Eastern Economic Review,* www.feer.com, 13 September 2001).

Figure 16.2

Initial Public Offerings Recovering

IPOs, 1990-2000



Source: CEIC, 2002.

[2] No individual investor can take up more than 5 per cent of an offering without a waiver from the exchange, although waivers are given frequently.

The new Securities and Futures Act consolidates the existing Securities Industry Act, the Futures Trading Act and Companies Act provisions on capital raising. The draft introduces a single regime for licensing securities and futures intermediaries (Shanmugaratnam, 2001); it should further strengthen enforcement of listed firms' corporate governance standards.

COMPETITION SHAKES OUT STOCKBROKING BUSINESS

Regional competition and declining margins are forcing family owned stockbroking firms to merge and rationalise. In October 2000, Singapore's ongoing financial liberalisation freed up stockbroker commissions. Opening the market to foreign rivals and online trading ensures tough competition for commissions. In 1998, 51 per cent Goh family owned stockbroker, GK Goh Holdings, merged with family owned Lee and Company. In 2000, 40 per cent family owned stockbroker, Ong Asia, reported its earnings fell 60 per cent; it may partner various other stockbrokers. Some analysts predict the number of brokerages could decline from 25 in mid 2001 to five or six by the end of 2002.

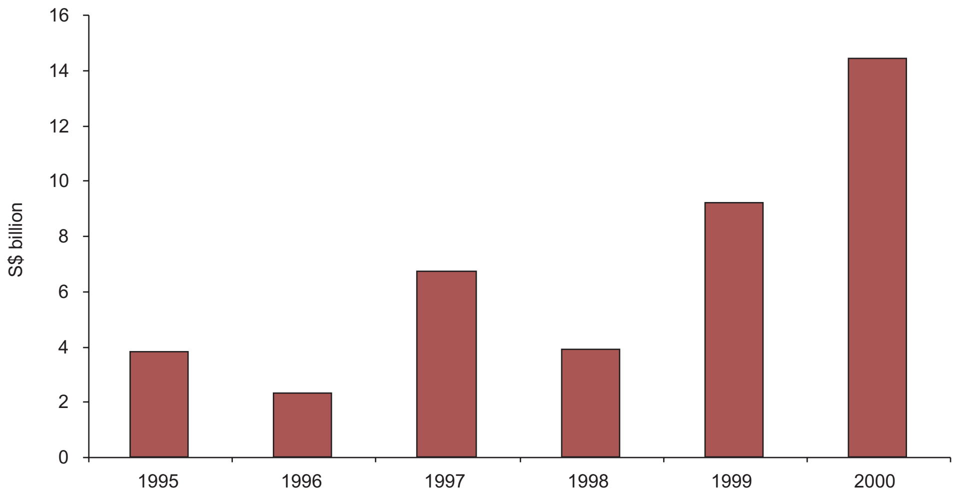
Source: *Far Eastern Economic Review*, www.feer.com, 7 June 2001.

The bond market also has developed strongly in recent years, achieving record issues in 2000 (Figure 16.3). Government run statutory boards like the Land Transport Authority and Jurong Town Corporation issue bonds, creating a sovereign yield curve as a benchmark for private issue prices (*Far Eastern Economic Review*, www.feer.com, 10 August 2001).

Figure 16.3

Bond Market Surging

Corporate Debt Issues, 1995-2000



Source: CEIC, 2002.

INSTITUTIONAL INVESTORS ACTIVE

Government plays an important role in managing Singapore's significant institutional investment funds. The Central Provident Fund, the state run pension fund, manages S$80 billion in investments from all Singaporean wage and salary earners' compulsory contributions (*Financial Times,* www.ft.com, 30 April 2001).[3] In addition, the Singapore Government Investment Corporation invests around US$100 billion of Singapore's foreign reserves and GLC profits in bond and equity markets, GLCs and some start-up firms.

Private institutional investors actively influence corporate governance; 55 per cent of large investors believe the investment community drives improvements in governance (Institutional Analysis, 2001).[4] In June 2000, foreign portfolio investment stood at US$3.3 billion. Some ratings agencies grade large firms' corporate governance although no corporates publish them as yet (Saavedra, 2001).

INITIAL PUBLIC OFFERINGS RULES ENFORCED STRICTLY

The Singapore Exchange insists on inclusive and transparent IPOs. For example, in 1998, after local oil-drilling equipment maker, Mid-Continent Equipment, offered 90 per cent of its shares to five individuals, the exchange discovered the transactions. For eight days, stock prices gyrated wildly until the exchange forced the float manager to buy back shares from burned investors at a high price and delisted the stock, forcing losses on the five original buyers. In January 1999, the Commercial Affairs Department raided the offices of Kim Eng Securities, seizing documents related to an Internet company's IPO. In addition, under new insider trading laws, the Government can sue stock manipulators for the assessed amount those on the other side of the trades lose.

Source: *Far Eastern Economic Review*, www.feer.com, 3 February 2000.

PRODUCT MARKETS HIGHLY COMPETITIVE

Under Singapore's liberal trade and investment regimes, except in some service sectors, local firms face high levels of competition. Since 1990, each year foreigners have increased their investment in Singapore (Figure 16.4) (World Trade Organization, 1999).

However, in some service and utility sectors, foreign investment remains restricted. In 1999, authorities lifted the 40 per cent investment limit in locally incorporated banks. Now foreigners can own up to 74 per cent of telecommunications firms. Restrictions remain in some electricity and water services, and on property acquisitions. No limits exist on portfolio investment.

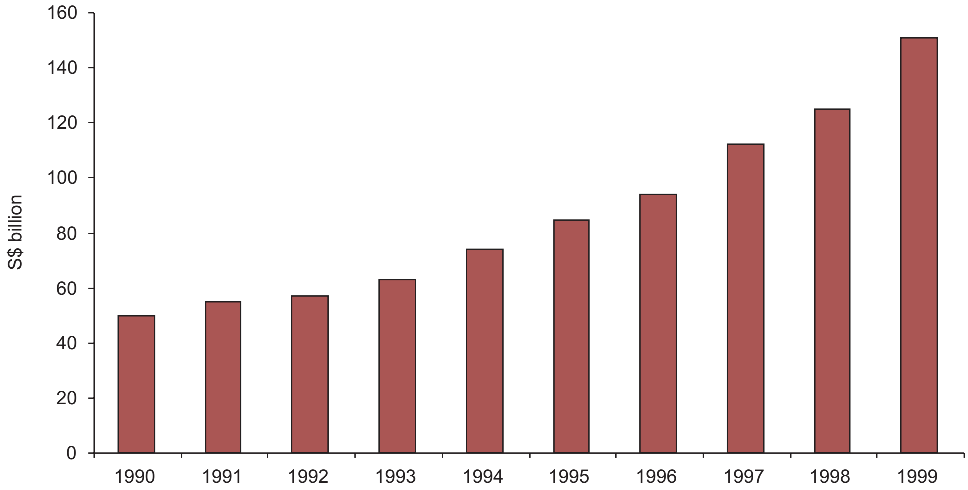
3 However, traditionally, most of this has been invested in government bonds.

4 In October 1999, PricewaterhouseCoopers and the Singapore Stock Exchange surveyed 47 corporate investors, including security dealers and brokers, asset management firms, banks and insurance companies; 55 per cent of these large investors came to this conclusion.

Figure 16.4

FDI Important and Rising

Inward FDI Flows, 1990-1999



Source: CEIC, 2002.

Singapore's virtually free trade status means goods, other than alcohol and some agricultural products, attract no tariffs. Import prohibitions and licensing measures comply with international safety standards, apart from a few items for reasons of food security (World Trade Organization, 1999). With tariffs low, import penetration is high, so manufacturing sector managers face global discipline in their investment decisions.

Like Hong Kong, Singapore has no competition law, believing its free markets make this unnecessary.[5] However, GLCs' powerful positions in many sectors raise concerns about entry barriers new firms face (World Trade Organization, 1999). Traditionally, many GLCs often monopolised their market, blocking new entrants and competition. In addition, Temasek firms may subsidise each other and crowd out smaller private firms (World Trade Organization, 1999). Most GLCs are large, especially in the service sector, where competition generally is lower.

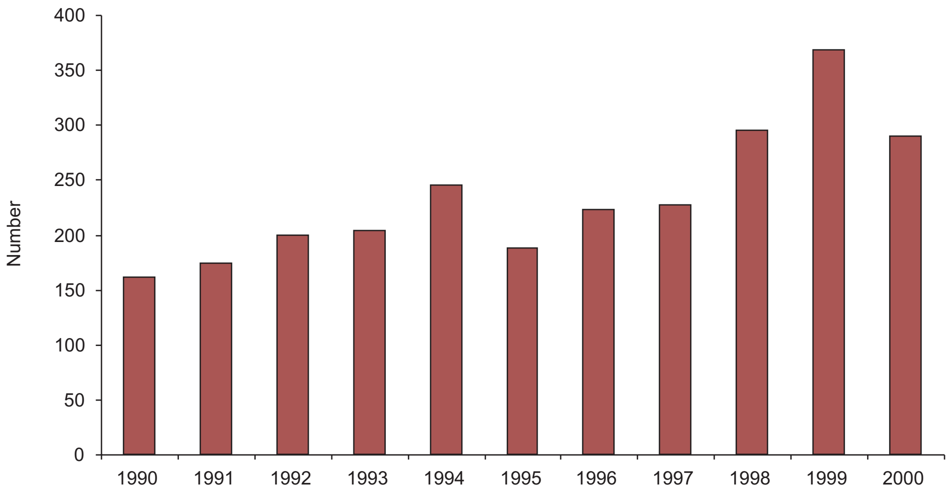
Major GLCs rarely, if ever, fail; instead, they restructure or merge. By contrast, private firms often fail, disciplining remaining firms (Figure 16.5). Although GLCs generally appoint outside directors, the Government influences these appointments and companies' operation. Nevertheless, most directors merit their appointments and separating ownership and management produces good governance.

[5] The Government has established regulatory frameworks in service sectors undergoing liberalisation, including telecommunications and energy (World Trade Organization, 1999).

Figure 16.5

Bankruptcies Discipline Firms

Number of Companies Wound Up, 1990-2000



Source: CEIC, 2001.

GOVERNMENT REVIEWS ITS ROLE

The Government is responding to investor and WTO concerns about the GLCs' potential impact on competition and governance standards and reducing its presence in finance, goods and service markets. It also is increasing banking sector competition through mergers and more relaxed foreign entry.

Privatising Singapore Inc

The Government recognises reducing the role of GLCs is important to increasing Singapore's dynamism, by encouraging new private firms to enter Singaporean markets. In May 2000, the Government reiterated it would continue to sell down its holdings in large firms, gradually floating many large GLCs (*South China Morning Post*, www.scmp.com, 17 May 2001). In 2001, it reduced its stake in Singtel, surrendered its veto power over important corporate decisions and removed Singtel's monopoly. Singtel, Singapore Airlines and Development Bank of Singapore are all listed on the stock exchange, exposing them to listing rules (Lee, 2001).

Before it sells them, the Government encourages larger GLCs to operate in overseas markets, so they compete internationally and foreign shareholders can scrutinise them (*Far Eastern Economic Review*, www.feer.com, 4 October 2001). In 2001, Singtel acquired Cable and Wireless Optus and Development Bank of Singapore took control of Hong Kong's Dao Heng Bank. The Government stresses these firms have full commercial freedom when investing abroad and all GLCs answer to their private shareholders (*South China Morning Post*, www.scmp.com, 17 May 2001; Ong et al., 2001). Foreigners can invest in most GLCs, although limits remain on Singapore Airlines and Singapore Press Holdings.

Government Role as an Institutional Investor

Singapore's aged population increases by 6 per cent per year, boosting demand for a competitive institutional investor sector. With Central Provident Fund real returns low, averaging only 0.07 per cent per year between 1987 and 1998, many Singaporeans will need additional retirement funds. For example, 24 per cent of retiring fund members hold less than S$16 000 in their accounts (*Far Eastern Economic Review*, www.feer.com, 25 May 2001).

In 2000, the Government began outsourcing part of the funds management of its Central Provident Fund, providing opportunities for private asset managers. This has the potential to increase institutional investors' role in improving local listed companies' corporate governance.[6] New regulations also should allow independent financial advisers to become intermediaries for retail investors (*Far Eastern Economic Review*, www.feer.com, 1 March 2001).[7]

Other government and private institutional investors also have a growing role. Since 2001, workers also can voluntarily place additional retirement savings with private firms through the Supplementary Retirement Scheme (*South China Morning Post*, www.scmp.com, 9 February 2001). American International Assurance controls more than half of the Singaporean life insurance market, although in June 2000, Citibank entered the insurance market, aiming to gain a 20 to 25 per cent market share within five years (*Far Eastern Economic Review*, www.feer.com, 25 May 2000).

Government increasingly uses its position as a large investor to increase governance standards. In 1999, Temasek Holdings introduced separate chairman and CEO functions, director rotations and limited board member tenure in GLCs (Asian Corporate Governance Association, 2000). Many GLCs have audit and remuneration committees and by 2003, all must comply with Singapore's new code of corporate governance (Sim, 2001). The code encourages companies to focus on shareholder value and protect minority shareholders (Ong et al., 2001).

Banking Sector Reforms

More liberal rules allowing foreign entry also increases discipline local banks face. In October 1999, four foreign banks, ABN Amro, Banque National de Paris, Citibank and Standard Chartered Bank, received Qualifying Full Bank privileges and several more received restricted bank licences (*Business*

6 Since 1994, fund members have been able to invest in private unit trusts and with foreign fund managers, although they must retain S$60 000 in the fund, including applicable housing assets. By December 1998, only around 16.5 per cent of members used these accounts (Sim, 2001; *Far Eastern Economic Review*, www.feer.com, 25 May 2000).

7 In recent years, the Singapore Government Investment Corporation has allocated S$30 billion of its overseas invested funds to private fund managers including Dresdner RCM, JP Morgan and Alliance Capital (*South China Morning Post*, www.scmp.com, 24 May 2001).

Times Asia, www.business-times.asia1.com.sg, 30 October 2001; *South China Morning Post*, www.scmp.com, 9 May 2001). In December 2001, Malayan Banking Berhad and HSBC also received Qualifying Full Bank privileges.

Other recent Monetary Authority of Singapore measures also should increase competition local banks face, boost lending efficiency and raise corporate governance scrutiny. It encouraged the previous top five banks to merge, reducing the number of commercial banks to three in preparation for foreign entry. Under new regulations, banks must separate their financial and non-financial holdings. The Government also has dropped restrictions on foreign bank branching and ATMs (Sim, 2001).

COMPETITION IMPROVES BANKS' GOVERNANCE

With growing international competition, many Singaporean banks have replaced family managers with foreign professionals and reviewed their internal management. In 1999, family owned Overseas Chinese Banking Corp appointed Hong Kong based Alex Wu as CEO. In 2000, many elderly board directors retired and the bank appointed over 100 foreigners to senior management positions. The bank also is divesting non-core assets, including property, to streamline operations. Recently, Development Bank of Singapore appointed a French national as CEO and took over several regional banks to prepare it for tough regional competition.

Source: *Far Eastern Economic Review*, www.feer.com, 8 March 2001.

REGULATORY FRAMEWORK STRONG

Despite relatively sound pre-crisis standards, since 1997, the Government has further improved the corporate governance framework to insulate Singapore from contagion and strengthen its position as a regional financial centre.[8 9] In January 2000, the Government established the Corporate Governance Committee, which recommended a new Code of Corporate Governance. New listing rules were introduced in April 2001 to require disclosure in relation to compliance with the Code. By 2003, companies must either comply with the new voluntary Corporate Governance Code, or publicly disclose in their annual reports any areas where they fail to comply (PricewaterhouseCoopers, 2001).

In the late 1990s, three committees examined disclosure and accounting standards, company legislation and the regulatory framework.[10] Their recommendations should bring Singapore's corporate governance framework to a best practice disclosure based model, with strong market incentives encouraging regulatory compliance (Asian Corporate Governance Association, 2000). However, while

8 Yeoh Oon Jin, Keoy Soo Earn, Keith Stephenson, Revathy Mahendra-Rajah and Haidi Wilmot, PricewaterhouseCoopers and PricewaterhouseCoopers Legal contributed to this section.

9 The Monetary Authority of Singapore, Registry of Companies and Businesses, Securities Industry Council and Singapore Stock Exchange formally regulate corporate governance.

10 These were the Disclosure and Accounting Standards Committee, Corporate Governance Committee and Committee on Company Legislation and Regulatory Framework, which is yet to report.

transition is underway, the Monetary Authority of Singapore still regulates banks using a strongly merit based approach, rather than insisting on a high level of disclosure and leaving discipline to the market. For regulators, key priorities include improving corporate disclosure, and clarifying the role of chairman and CEO, and the relationship between board and management (Asian Corporate Governance Association, 2000).

TRANSPARENCY

While reporting requirements are world best practice, at least until recently disclosure was not outstanding. For example, in an October 1999 survey, most of the 47 corporate investor respondents were concerned about local financial reporting standards (PricewaterhouseCoopers, 2001). In August 2001, the Disclosure and Accounting Standards Committee suggested improving transparency through better enforcing of accounting standards (Sim, 2001). The Government now presses GLCs to improve their transparency standards (Saavedra et al., 2001).

Corporate Reporting

Before the October 2001 Securities and Futures Act existed, corporates faced limited disclosure requirements, mainly relying on voluntary compliance (PricewaterhouseCoopers, 2001).[11] The Singapore Stock Exchange's reporting guidelines, included in its voluntary Best Practices Guide, contained few specific details, so many companies disclosed the minimum information the Companies Act required (Teen et al., 2000). However, the new law significantly increases disclosure obligations by giving statutory backing to the listing requirements regarding disclosure, which are now at world best practice levels (Shaw, 2001). In 2001, stronger prospectus requirements ensure prospectuses include all the information investors reasonably expect, although enforcement lags.

Under the new law, companies must report annually, within five months of financial year end, and disclose all information likely to affect securities' prices, including changes in directors and senior management and key transactions. Companies must disclose substantial shareholders' direct and deemed interests and the names and holdings of the company's top 20 shareholders.[12] However, directors need not disclose dealings with related parties (Teen et al., 2000).

Despite stricter regulations, surveys indicate companies often report too little, too late; 246 of the 291 local companies posting interim results for the six months to 30 June 2001 did not pass the *Business Times'* Corporate Transparency Index.[13] However, since the crisis, GLCs have lifted their

[11] Post crisis reviews of corporate reporting recommended strengthening disclosure requirements. The Corporate Finance Committee of the Financial Sector Review Group recommended imposing a statutory obligation on companies to disclose information, like the UK, United States, Australian and Canadian approaches (PricewaterhouseCoopers, 2001). The Corporate Governance Committee also recommended making disclosure about companies' level of compliance with the corporate governance Code compulsory under listing rules (Shaw, 2001).

[12] However, the law identifies direct interests, who often include nominee shareholders, rather than actual beneficial shareholders.

[13] The Corporate Transparency Index score is based on what a company's interim report contains and how it is conveyed.

reporting standards. For example, the survey ranked partially state owned Development Bank of Singapore as having the second best corporate governance amongst Singapore's five banks (*Business Times Asia*, www.business-times.asia1.com.sg, 30 October 2001).

Accounting Standards

Singapore's sound accounting standards are based on International Accounting Standards. The Accounting Standards Committee of the Institute of Certified Public Accountants of Singapore develops and maintains Statements of Accounting Standards, and ensures accountants and companies comply with accounting standards (PricewaterhouseCoopers, 2001; Shaw, 2001). Professional accounting standards are in line with developed countries, but are not backed by law, so accounting professionals monitor standards when auditing companies. However, enforcing accounting standards is less effective than in other developed countries (Teen et al., 2000). Consequently, the Disclosure and Accounting Standards Committee advocates legislation to enforce accounting standards (PricewaterhouseCoopers, 2001).

Auditing Standards

Generally, Singapore's auditing standards are sound; the Companies Act requires all companies be audited and the Registry of Companies and Businesses enforces this (Shaw, 2001). Although they lack legal backing, the Singapore Standards on Auditing, based on the International Guidelines on Auditing, define the form and content of audit reports. Companies usually conduct internal audits to complement mandatory external audits.[14] The Best Practices Guide referred to in the Singapore Exchange's Listing Manual recommends that the audit committee comprise at least 3 directors, all non-executive, the majority of whom, including the chairman, should be independent. Under the Companies Act and Listing Rules, all companies must set up audit committees, though some analysts indicate they play little role at present. However, as skill sets increase they may be expected to have more impact.

MINORITY SHAREHOLDER RIGHTS

Minority shareholder protection is reasonable, although cross-holdings and pyramiding can obscure company control. Under the Companies Act, Articles of Association grant shareholders generally sound formal rights. Increasing institutional investor activism boosts the relevance of new regulations protecting minority shareholders.

Companies take the Singapore Exchange's concerns about minority shareholder treatment very seriously. For example, in the Serial System takeover attempt, the executive involved offered to compensate those disadvantaged. The Securities Industries Council hears cases of alleged wrong doing, evaluates the evidence and combines legal action and suasion to ensure compliance. Sanctions include private reprimand, public censure or action designed to deprive the offender temporarily or permanently of securities market facilities (Shaw, 2001).

[14] The internal auditor usually reports solely to the audit committee. The Public Accountants Board regulates external auditors.

Listing Rules

Singapore's exchange employs both voluntary and mandatory listing standards, including the Listing Manual, the Best Practices Guide and the Corporate Governance Committee's Code of Corporate Governance (Sucharitakul, 2001). Since April 2001, listed companies have disclosed corporate governance practices, including deviations from the Corporate Governance Committee's Code of Corporate Governance. From 1 January 2003, companies must comply with the Code for Annual General Meetings. The new Securities and Futures Act resembles the Australian Financial Sector Reform Act; it upgrades listing rules to international standards, requires listed companies to adopt continual disclosure and makes directors civilly and criminally liable for misdemeanours (Shaw, 2001; Shanmugaratnam, 2001).

The securities exchange rarely delists or suspends companies for failing to comply with listing rules (Sucharitakul, 2001).[15] Instead, it releases a press statement naming companies which fail to comply with disclosure or other rules. In the case of disclosure breaches, authorities believe this sanction injures directors' reputations but does not hurt shareholders as much as suspending trading would (Shaw, 2001).

In April 2001, the Singapore exchange announced it would review the Listing Manual and in August, released a consultation paper for public comment (Shaw, 2001). When enacted, proposed amendments, based on International Organisation of Securities Companies listing requirements, should ensure listing rules meet the changing needs of the market.

Some amendments were proposed to reflect the enactment of the Securities and Futures Act. Some proposed amendments would reduce the minimum number of public shareholders from 1 000 to 500, remove prescriptive quantitative initial public offer distribution guidelines, require continuous disclosure of material information, clarify reporting requirements and better define the exchange's powers to suspend trading in listed securities.

Representation

Minority shareholder representation is reasonable. The Companies Act bans cumulative voting for directors, weakening minority shareholders' representation (PricewaterhouseCoopers, 2001). Authorities allow proxy voting, but not by post. In specific circumstances, companies may issue shares with different voting rights.

Board Structure and Duties

The Code of Corporate Governance recommends companies' boards should include a majority of non-executive members, two finance and accounting professionals and a human resource expert, and have at least one third of the board independent. It also suggests companies establish

15 The Singapore Stock Exchange believes this minimises shareholder punishment; often they are innocent parties.

remuneration, audit and nomination committees, the latter to appoint new directors (PricewaterhouseCoopers, 2001). Listed companies must appoint at least two non-executive directors to their boards. Finally, the Companies Act defines the board's role in overseeing the company.

Although a director can hold any number of board positions, the code indicates directors holding multiple board positions must give sufficient time and attention to each company's affairs (PricewaterhouseCoopers, 2001). In 1999, the Institute of Directors released the Code of Professional Conduct for Directors; directors may be untrained but can be certified through institute programs.

By law, directors must act honestly and demonstrate diligence in discharging their duties.[16] Since 2001, shareholders have been able to file civil actions for damages without first securing a criminal conviction, lowering the burden of proof (PricewaterhouseCoopers, 2001).

CREDITORS' RIGHTS

These are generally well protected, minimising the need for post crisis changes.

Bankruptcy Laws

While formal insolvency proceedings, based on British laws, generally are effective and efficient, the Official Receiver actively oversees and reviews corporate insolvency law.[17] Post crisis reforms prevent undischarged bankrupts from acting as directors or taking a management role. The Companies Act regulates corporate insolvency and the judiciary reviews pre-insolvency court applications. Courts faithfully apply legislation in most cases, although insolvent GLCs tend to merge with healthier GLCs rather than face bankruptcy (Saavedra, 2001).

Bank Supervision

Although banks weathered the crisis well, the Monetary Authority of Singapore has strengthened some controls and is introducing risk based capital standards across the financial sector, in line with best practice (Shanmugaratnam, 2001; Sim, 2001). Under this new framework, banks must report on internal controls and compliance.

Local banks' corporate governance standards often exceed the Corporate Governance Committee's Code of Corporate Governance recommendations. Most banks appoint additional independent board members and report related party transactions, directors' remuneration and risk management practices (Shanmugaratnam, 2001). Rigorous annual Monetary Authority of Singapore inspections and mandatory external audits ensure a high level of compliance with standards.

16 They must uphold fiduciary, skill, care and diligence, and statutory duties.

17 The High Court and Official Receiver supervise private liquidators who act as officers of the court. The Official Receiver monitors private liquidators' conduct, investigates complaints, and undertakes criminal prosecutions and civil actions against company directors (PricewaterhouseCoopers, 2001).

ENFORCEMENT

Overall, transparent and efficient regulatory institutions ensure compliance is high. While strong political-commercial links may complicate enforcement in GLCs, most now are keen to be at the forefront of improving corporate governance standards. Older directors' indifference and lack of skills may deter compliance in some more traditional family owned companies (PricewaterhouseCoopers, 2001). Some analysts consider only the top firms practise high corporate governance standards; others adopt a 'tick-box' approach (Saavedra, 2001).

Press

Despite some useful initiatives, like the *Business Times*' Corporate Transparency Index, the local media does not impose much discipline on companies. The media's approach to corporate governance issues is more 'gung ho' than most other developed economy's media. For example, it criticises lengthy trading suspensions before major announcements; whereas, the western financial media would demand it.

The government linked Singapore Press Holdings has almost monopoly ownership of all local newspapers. However, the first private business weekly, *The Edge*, should start operating in 2002. Its owner, former banker Tong Kooi Ong, holds few interests outside media, suggesting the paper could independently scrutinize Singaporean corporates (*Far Eastern Economic Review*, www.feer.com, 29 October 2001). The *Today* newspaper also is an independent daily in Singapore.

IMPLICATIONS

Competitive and well governed markets protected Singapore from the financial crisis; they continue to ensure generally good corporate governance standards and drive local investment in an otherwise troubled region. Nevertheless, the Government recognises it needs to reduce its corporate sector involvement to continue to realise the full potential of its open markets and best practice regulations.

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