

SINGAPORE EXCHANGE REGULATION LIMITS INDEPENDENT DIRECTORS' TENURE AND ENHANCES REMUNERATION DISCLOSURES

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On 27 October 2022, Singapore Exchange Regulation (“**SGX RegCo**”) issued a consultation on “Board Renewal and Remuneration Disclosures” to invite feedback on changes to the Listing Rules (Mainboard) and Listing Rules (Catalist) (collectively, the “**Listing Rules**”) for issuers listed on Singapore Exchange Securities Trading Limited.

The first proposal was to remove the two-tier vote mechanism set out in the Listing Rules for independent directors (“**IDs**”) that have served for more than nine (9) years and instead introduce a hard nine-year limit on IDs’ tenure. The second proposal was to require issuers to disclose in their annual reports the exact amount and breakdown of remuneration paid to each individual director and the chief executive officer (“**CEO**”).

These proposals stemmed from recommendations issued by the Corporate Governance Advisory Committee following a review of listed companies’ disclosure on their compliance with the Code of Corporate Governance (“**Code**”). The consultation closed on 17 November 2022. On 11 January 2023, SGX RegCo announced that the proposals will be implemented as part of its continuing measures to improve corporate governance in Singapore listed companies. On even date, the Monetary Authority of Singapore (“**MAS**”) also introduced amendments to the Code to reflect SGX RegCo’s changes to the Listing Rules.

Hard limit on IDs’ tenure

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Previously, IDs who have served for more than nine (9) years could continue to be deemed independent if their appointment was approved in a two-tier vote mechanism i.e., by all shareholders, and then by all shareholders excluding the directors and the CEO of the issuer, and associates of such directors and CEO. This mechanism was extensively utilised by issuers to retain their IDs, increasing the risk that companies' boards will grow stale and their independence be compromised. As IDs provide shareholders with independent views in critical areas such as interested party transactions and financial reporting, SGX RegCo is of the view that decisive action must be taken to accelerate board renewal and promote board independence.

SGX RegCo therefore requires a hard nine-year tenure limit for IDs beyond which such directors will no longer be considered independent. Consequently, with immediate effect, the two-tier vote mechanism for long-serving IDs will be removed. As a transition measure, IDs whose tenure exceeds the nine-year limit can continue to be deemed independent until the issuer's annual general meeting held for the financial year ending on or after 31 December 2023. This gives affected issuers more than one (1) year to search for new IDs. Issuers can seek assistance from the Council for Board Diversity, the Singapore Institute of Directors and the relevant professional associations in their search process. On the effective date of the nine-year tenure limit, IDs who have served beyond the tenure limit can continue to be appointed for future terms but must be designated as non-independent, regardless of whether they have been approved through the two-tier vote previously.

In addition to safeguarding board independence, the nine-year tenure limit also creates opportunities for board refreshment and diversity, allowing issuers to inject valuable knowledge and bring new insights into their boards to guide their businesses for the long term. It also aligns with the hard nine-year tenure limits currently imposed by the MAS on IDs of Singapore-incorporated banks, insurers and managers of real estate investment trusts.

Specific disclosure of remuneration

The new listing rule requires issuers to disclose amounts and breakdowns of remuneration paid to the individual directors and the CEO by the issuer and its subsidiaries on a named basis. Information to be disclosed must include (in percentage terms) fixed or base salary, variable or performance-related income or bonuses, stock options granted, benefits in kind, share-based incentives and awards, and other long-term incentives.

While there were concerns from market participants about privacy, sensitivity and competition, SGX RegCo believes that the increased transparency will enable investors to assess whether the directors and the CEOs are appropriately incentivised and increase board accountability. The new listing rule will take effect for annual reports prepared for the financial years ending on or after 31 December 2024, and will also apply to real estate investment trusts and business trusts.

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