

Direct Tel 020 3124 3062  
Direct Fax  
E-Mail [sacha.sadan@lgim.com](mailto:sacha.sadan@lgim.com)

Date 15<sup>th</sup> March 2018



The Secretariat, Corporate Governance Council  
c/o Markets Policy & Infrastructure Department  
Monetary Authority of Singapore  
10 Shenton Way, MAS Building  
Singapore 079117

One Coleman Street  
London  
EC2R 5AA  
Tel: +44 (0)20 3124 3000

Email: [MAS\\_MCP@mas.gov.sg](mailto:MAS_MCP@mas.gov.sg)  
Fax: (65) 62203973

Dear Sir/Madam

**CONSULTATION PAPER ON RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODES**

Legal & General Investment Management (LGIM) is one of the largest international investors globally with over USD 1.36tn of assets under management (as at 31 December 2017). We manage assets for a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

Over the past 40 years, LGIM has built a business through understanding what matters most to clients (both institutional and retail) and transforming this insight in to valuable, accessible investment products and solutions. This enables pension funds to meet their key long-term financial objective of ensuring fund assets match future financial liabilities and pay pensions.

In Singapore, LGIM is a significant and growing investor with over USD 1.7bn of equity invested in the region both in index and active funds. Therefore we have a responsibility to ensure that global markets operate efficiently and uphold the highest level of transparency to protect the integrity over the long term. This opportunity to respond to the consultation by the Singapore Corporate Governance Council is very important to LGIM.

In our response (Appendix 1), we have outlined six main areas which we believe the Singapore market would benefit from stronger guidance to strengthen its corporate governance and stewardship framework. These are outlined below:

- 1) Controlled companies
- 2) Auditor rotation
- 3) Diversity policy
- 4) Singapore Stewardship Principles
- 5) Stakeholder disclosure
- 6) Board composition and effectiveness

We hope the comments provided in our response to the Code are useful and welcome a meeting with the Singapore Corporate Governance Council should you like to discuss any other issues.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Sadan', with a stylized flourish at the end.

Sacha Sadan  
**Director of Corporate Governance**  
**LGIM**

# **Appendix 1**

## **Introduction**

LGIM welcomes the opportunity to formally shape the development of the Singapore Corporate Governance Code. We view this as an opportunity for investors to participate in re-creating a globally leading corporate governance code to meet the changing needs of businesses. Please note that the relevant questions from the consultation paper are also referenced where appropriate.

### **1) Controlled companies**

- *Two-tier voting regime and separate disclosure of non-controlling shareholders' votes on independent director appointments (Question 6ii and Question 7)*

**We support the implementation of a two-tier voting regime for the election of independent non-executive directors at controlled companies.** As a UK based asset manager we have had extensive experience of the UK regime for the election of independent non-executive directors at controlled companies. Since the introduction of the listing rules in May 2014, we believe it has worked well in promoting increased transparency and improved communication and engagement between the board and minority investors in relation to board appointments.

We believe that the Singapore market will benefit from such a mechanism. As the Council recognises, a two-tier voting process will ensure an appropriate balance of powers among controlling and non-controlling shareholders. We believe such benefits apply to the election of all independent non-executive directors. Therefore we strongly support this mechanism applied broadly at all controlled companies, without the dependence of director tenure.

Such a mechanism in Singapore ensures explicit accountability of the independent non-executive directors to both controlling and minority shareholders. This provides minority shareholders, such as LGIM with greater assurance of the role that the independent non-executive directors can play on the board.

Furthermore, as explained above, we have seen improved greater communication and engagement between controlled company boards and minority shareholders. This is helpful in promoting good stewardship between all stakeholders and would promote the Singapore market.

Finally the additional transparency at the time of the vote will provide clarity of whether there was a clear mismatch between the vote cast by controlling shareholders and that of minority investors on the appointment of independent non-executive directors.

We expect an independent non-executive director who does not receive the majority support from the minority shareholders or the controlling shareholder to step down from their position on the board. Additionally, we expect the controlling shareholder, the board of directors and minority shareholders to work together to develop a board structure in the interests of all shareholders.

- *Related parties (Question 13 b)*

Activities of related parties (e.g. between a controlling shareholder and an issuer) are an important issue for minority shareholders as there is a real risk that a related party takes advantage of its privileged position. Therefore, LGIM expects adequate safeguards to be put in place to provide protection for the interests of the company and of the shareholders who are not a related party, including minority.

For example, in terms of related party transactions, **LGIM expects the board to authorise major transactions and for companies to disclose sufficient information in its disclosures to ensure shareholders remain informed and are able to make informed voting decisions for approval.**

Likewise, in terms of remuneration, **we recommend transparency of the authorisation process at the board on payments made to related parties in addition to the disclosure of the names of employees who are substantial shareholders or immediate family of substantial shareholders.**

**2) Auditor rotation**

In August 2017, the Monetary Authority of Singapore announced its review of Mandatory Audit Firm Rotation for Local Banks.<sup>1</sup> The outcome of the review was the proposal to remove mandatory rotation but implement mandatory re-tendering to mitigate the risks arising from potential erosion of audit independence.

LGIM places considerable weight on the assurance provided by an independent and high quality external audit for all our investee companies. We expect companies to review the external auditor at regular intervals and periodically rotate the firm. This provides a number of advantages, in stimulating the audit market, emphasises that the audit is an asset for shareholders, and ensures key judgements are challenged and reviewed on a regular basis.

Therefore, **we request an extension of regular re-tendering of the external auditor for all companies, not just local banks. At a minimum, the external auditor should be re-tendered at least every ten years, and a company should change its auditor every twenty years.** Europe had done this and the system has worked well in line with best practice.

**3) Diversity Policy (Question 12)**

LGIM believes a suitably diverse mix of skills, experience, thought and perspectives is essential for a board to function and perform optimally. When recruiting members, a board should be cognisant of all elements of diversity that appropriately represent the company's operations, including gender, age, nationality, ethnic origin, background and experience. Consideration should also be given to the geographies in which the business operates, its future strategic international expansion plans and its consumer base.

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<sup>1</sup><https://www.irba.co.za/upload/4%20Response%20to%20feedback%20received%20on%20review%20of%20mandatory%20audit%20firm%20rotation.pdf>

Therefore, we **support the Council’s recommendations for companies to disclose their board diversity policy and progress made in achieving their objectives.**

**We also request that companies to seek to promote diversity below board level, at executive committee, senior management and workforce level.** Companies should ensure that candidates with appropriate skills and qualities are sought through the widest possible means such as the use of recruitment consultants, public advertisements, and the leverage of other relationships in the industry.

Companies should also be prepared to look outside of the usual pool of candidates to include those from a less traditional “corporate board” background. They should also be willing to recruit those without previous board experience as many, if not all, of the board members will have this experience and this will help to expand the candidate pool and the board’s cognitive diversity.

Having a sufficiently diverse workforce at all levels of management is a long term corporate issue and needs sufficient attention at board level in order to permeate throughout the organisation. To assist investors assess the board’s progress on diversity **LGIM asks companies to disclose diversity data at board, executive committee and senior management levels, and also for the rest of the workforce as well as the corporate policy on diversity.** A diversity policy should include meaningful information and examples demonstrating how the company is working on its challenges. This will allow investors to be able to assess the extent to which diversity is embedded in the company’s strategy and its efforts and progress towards better diversity levels.

#### **4) Singapore Stewardship Principles (SSP)**

LGIM believes that good stewardship connects all parties along the investment chain from the savers and citizens who provide capital for investment, to companies whose function in the economy is to create wealth and distribute this back to its citizens.

We support a definition of stewardship which describes *“the active and responsible management of entrusted resources now and in the longer term, so as to hand them on in better condition.”* A concerted effort from all parties is needed to develop a critical mass to make the stewardship system effective.

To strengthen the linkages between good stewardship and a strong corporate governance framework in Singapore, **we request that the Singapore Stewardship Principles are explicitly referred to in the Corporate Governance Code.** For example, paragraph 9 of the Revised Code on Corporate Governance Code should be strengthened to emphasise support for the principles and how this connects with good stewardship in the investment chain.

#### **5) Stakeholder Disclosure (Question 14)**

**LGIM supports the Council’s recommendation of introducing a new principle for companies to consider and balance the needs and interests of material stakeholders.**

A company cannot exist in isolation with society as its success is dependent on its function in the economy to create wealth and distribute this back to its citizens. Therefore, identifying,

understanding and taking into account key stakeholders' views allows boards to create better alignment between its own and its stakeholders' interests. **We expect companies to report in their annual disclosures the governance process behind engagement with key stakeholders and how this information has fed through in to board discussions and decision-making.**

**6) Board Composition and Effectiveness (Questions 2, 3 and 4)**

- *Classification of 'independence' for directors*

**We support the Council's recommendation to lower the shareholding threshold in relation to determining director independence from 10% to 5% and for this to be included in the SGX LR.**

**We also recommend that all the tests of independence are outlined in one place under the LR SGX.** This avoids confusion and ensures consistency on how the definition of independence is applied against all companies.

Furthermore, in relation to test for independence, we note that the objective and baseline tests for deeming directors not be independent includes a three year cooling off period to determine that the relationship between a director and the company ceases to exist. We do not believe that a three-year cooling off period would sufficiently address the issue of independence given the business culture in the region and close relationship in the business community. In our experience, we believe that the connection and loyalty between an advisor/advisory firm and a controlling shareholder is unlikely to be diminished after three years.

**Our preference would be to state that former professional advisors are unlikely to be considered independent in any circumstances or that an extension to of the cooling off period is made to five years.** This is in line with what we have requested in other markets such as Hong Kong.

- *Minimum level of independence*

In order to improve the level of independence on boards, **we recommend that the Corporate Governance Code states a market leading level of 50% board independence** on a comply or explain basis. This would complement the listing requirement to have a minimum one-third of the board comprising independent directors.

By setting out clear expectations in the market, momentum would be created in establishing boards with a greater independence. There is significant academic evidence that independent boards perform successfully for all shareholders. This t will also provide momentum to current initiatives on the role and value of the independent director, to attract high quality and value-adding individuals are appointed.

- *Annual re-election of directors (Question 17)*

We welcome the Council's recommendation of shifting certain important requirements or baseline market practices currently in the Code to the SGX LR for mandatory compliance by all SGX-listed companies.

In relation to the re-nomination and re-appointment of directors at least once every three years, **we recommend for directors who hold a significant position on the Board such as the Board Chair and Chair of the Committees are re-elected annually.** Annual re-election increases the accountability of non-executive directors to investors and is in line with global best practice.

- *External Board Evaluations*

In the current Practice Guidance, we note that an evaluation of the Board and individual directors should be conducted to assess how the Board adds value to the company. It also highlights the benefits of an external process being held to add objectivity to the process.

As global investors, we believe board evaluations have helped to improve board performance. **Therefore, we support external board evaluations and recommend in the Practice Guidance that this is strengthened to include that companies facilitate an external evaluation every three years. Transparency on the process and outcomes of the review to improve the performance of the board should also be disclosed to investors.** Such reviews are now common place in large companies globally and provide assurance that the board and contributions of independent directors are effective and to a high standard.