Excluding directors of listed firms from SGX board would limit talent pool.

THE Singapore Exchange (SGX) has acknowledged that having directors on its board who are linked to listed companies could give the appearance of a potential conflict of interest but it argued that excluding these people would 'drastically limit' the talent pool.

The exchange also indicated that hiving off its supervisory function to a supervisory subsidiary, as in the case of the Australian Stock Exchange (ASX), is something on which it is keeping 'an active watch'.

In a public statement yesterday responding to a commentary in BT ('SGX should set governance benchmark', Dec 25), SGX added that there are enough safeguards to avoid perceived or actual conflicts, one of which is the legal governance by the central bank.

'Unlike most other listed companies, the rules to ensure SGX directors' independence are governed by law, rather than a code,' said SGX.

Under the Securities and Futures Regulations 2005 (SFR 2005), the Monetary Authority of Singapore (MAS) governs and regulates SGX's board and board committee independence, said SGX.

'The SFR 2005 reflects a balanced approach adopted towards determining whether directors who are directors of listed companies can be considered independent,' it said.

An independent director is defined by the rules as one who is free from business and management relationships and one who is free from any relationship with SGX member firms or its related companies.

'On the one hand, as the frontline market regulator, it is desirable to have representation from listed companies. On the other hand, it is acknowledged that this could lead to the appearance of a potential conflict of interest,' said SGX.

It said that 'the balance was drawn in favour of considering the directors of listed companies to be independent' for the following reasons:

(a) considering that SGX has over 700 listed companies, to exclude the directors of listed companies from sitting on the SGX board . . . would be to drastically limit the size of the talent pool from which SGX can source for capable individuals who meet MAS's 'fit and proper' criteria to serve as directors of SGX;

(b) there are adequate checks and balances and safeguards to 'manage, mitigate or avoid' conflicts of interest, such as having a conflicts committee and having an annual report to the MAS that describes how it has discharged its duties with regards to conflicts.
'Hiving the supervisory function to a supervisory subsidiary, as in the case of the Australian Stock Exchange, is a development that the SGX board and the Regulatory Conflicts Committee is keeping an active watch,' it said.

'The issue of governance and self-regulation is a constant consideration. There is no one optimal solution. As always, MAS and SGX will collaborate closely and adopt a model that is best suited for Singapore as changing circumstances may dictate.'

The most recent review of its governance framework by an external expert in May last year, however, recommended no change, it said.

The bourse also clarified that director and chairman of IB Daiwa Corp and Crosby Asset Management Robert Owen - also head of SGX's regulatory conflicts committee - has no connection with any SGX member. It said that IB Daiwa Corp is 'totally unrelated' to the Daiwa group of SGX member companies while Crosby is listed on AIM and has no connection with the bourse here.

Together with Mr Owen, all other independent directors meet the 'stringent requirements' set out by MAS, SGX said. 'There is therefore a strong element of independence on SGX's board.'

The commentary in BT had also said that some felt that the pegging of the CEO's bonus to financial benchmarks could lead to the temptation to relax regulatory effectiveness.

SGX dismissed this, saying that a large part CEO's remuneration comes in the form of long-term incentives, adding that the CEO also has to meet 'qualitative targets' such as regulatory functions.

'To relax regulatory effectiveness in favour of short-term gains is not in his, or SGX's, or the marketplace's interest,' said SGX.

The exchange also responded to a letter from corporate governance advocate Mak Yuen Teen ('Thoughts on SGX's regulatory stance', Dec 23), who highlighted that it was dangerous for SGX to keep its enforcement actions from the public, as infractions by companies could be an early warning sign of larger problems.

SGX noted in a separate announcement yesterday that the exchange exercises a range of enforcement actions and that publication of action taken is 'a matter of regulatory judgment'.

'The appropriate degree and form of disclosure, as well as our self-regulatory organisation (SRO) governance framework, can evolve with the development of the market,' wrote head of risk management and regulation group, Yeo Lian Sim. She added that SGX was not the only exchange internationally that also plays a regulatory role.