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gaining momentum

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Singapore Exchange Limited

Annual Report  
FY2004/2005

The Listing Manual of SGX-ST requires all listed companies to describe, in their annual reports, their corporate governance practices, with specific reference to the principles of the Singapore Code of Corporate Governance introduced in April 2001 (Code). SGX takes pains in improving its corporate governance, and is making steady progress. In 2004, an investor relations firm, Orient Capital, conducted a study amongst European fund managers of their perceptions of SGX against 14 leading Singaporean and Australian companies, including listed exchanges. SGX was ranked first in the category for corporate governance.

**PRINCIPLE 1: BOARD'S CONDUCT OF ITS AFFAIRS**

- 1.1 The board oversees SGX's business affairs. The key matters for board oversight include:
  - (a) approving broad policies, strategies and objectives of the company;
  - (b) monitoring management performance;
  - (c) overseeing the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;
  - (d) approving annual budgets, major funding proposals, investment and divestment proposals; and
  - (e) assuming responsibility for corporate governance.
- 1.2 Matters which are specifically reserved to the board for approval are:
  - (a) matters involving a conflict of interest for a substantial shareholder or a director;
  - (b) material acquisitions and disposal of assets;
  - (c) corporate or financial restructuring;
  - (d) share issuances, dividends and other returns to shareholders;
  - (e) matters which require board approval as specified under the company's interested person transaction policy; and
  - (f) any investments or expenditures exceeding \$10 million in total.
- 1.3 To assist in the execution of its responsibilities, the board has established six board committees, namely, the Nominating Committee (NC), the Audit Committee (AC), the Remuneration Committee (RC), the Appeals Committee, the Risk Management Committee (RMC) and the Conflicts Committee (CC). The terms of reference and composition of each board committee are available at [www.sgx.com](http://www.sgx.com). The composition of each board committee is also found at the back cover page of the Annual Report.
- 1.4 The board meets at least six times a year. The frequency of meetings and the attendance of each director at every board and board committee meeting, are disclosed in this Report.
- 1.5 Once a year, an executive session is arranged for the non-executive directors (NEDs) to meet without the presence of management and executive directors to review any matters that they wish to raise privately. The session is chaired by the chairman of the NC.

#### DIRECTOR TRAINING

- 1.6 SGX conducts a comprehensive orientation programme to familiarise new directors with SGX's business and governance practices. The aim of the orientation programme is to give directors a better understanding of SGX's businesses and allow them to assimilate into their new roles.
- 1.7 Each director is provided with an annually updated manual containing board and company policies relating to the disclosure of interests in securities, disclosure of conflicts of interest in transactions involving SGX, prohibition on dealings in SGX's securities and restrictions on the disclosure of price-sensitive information. Directors are also informed of regulatory changes initiated by or affecting SGX.
- 1.8 SGX has an on-going training budget for directors to receive further relevant training of their choice in connection with their duties – relevant courses include programmes run by the Singapore Institute of Directors. Directors are also welcome to request further explanations, briefings, or information on any aspect of SGX's operations or business issues from management.
- 1.9 SGX regards the collective effort to assess the board as detailed under paragraph 5.1, as an essential component of director development. It forms an active, on-the-job training session where directors have access to their own and management's comments on the board's effectiveness and benchmarking studies comparing board and governance practices of SGX with other listed companies.

#### PRINCIPLE 2: BOARD COMPOSITION AND BALANCE

- 2.1 The board comprises 12 directors. The Chairman and the CEO are the only executive directors, while the remaining 10 directors are non-executive and independent of SGX.
- 2.2 Each director has been appointed on the strength of his calibre, experience and potential to contribute to SGX and its businesses. Please refer to the "Board of Directors" section of the Annual Report for the directors' profiles.
- 2.3 Each of SGX's directors brings valuable insights from different perspectives vital to the strategic interests of SGX.
- 2.4 The board considers that the present board size and number of committees facilitate effective decision-making and are appropriate for the nature and scope of SGX's operations. The board also considers that its directors possess the necessary competencies to lead and govern SGX effectively.

**PRINCIPLE 3: CHAIRMAN AND CEO**

- 3.1 The roles of the Chairman and CEO are separate and their responsibilities are clearly defined to ensure a balance of power and authority within SGX.
- 3.2 The Chairman manages the business of the board and the board committees, and monitors the translation of the board's decisions and wishes into executive action.
- 3.3 The Chairman approves the agendas for board and board committee meetings, and exercises control over the quality, quantity and timeliness of information flow between the board and management.
- 3.4 The CEO manages the businesses of the company, and implements the board's decisions. The CEO has appointed an executive committee (EXCO), comprising senior management executives, to assist him. The CEO is chairman of the EXCO. The CEO and the EXCO are responsible for the day-to-day operation and administration of SGX.

**PRINCIPLE 4: BOARD MEMBERSHIP**

- 4.1 The NC's main roles are to ensure a rigorous process of board appointments and re-appointments, the determination of independence of each director, and identification of new directors who have the appropriate knowledge, experience and skills to contribute effectively to the board. The NC also reviews the process of succession planning for the organisation.
- 4.2 The NC is chaired by Mr Low Check Kian, an independent NED. It comprises five directors, the majority of whom are independent.
- 4.3 The NC recommends all appointments and re-appointments of directors to the board and board committees. As an exchange holding company, all appointments and re-appointments to the board, the NC and the CC, are subject to the approval of SGX's regulator, the Monetary Authority of Singapore (MAS).
- 4.4 All NEDs are appointed to the board by way of a formal letter of appointment indicating the amount of time commitment required and the scope of duties.
- 4.5 The NC conducts an annual review of director independence. Based on the Code's criteria for independence, the NC has ascertained that all NEDs are independent. The directors' present and past directorships are disclosed in the Annual Report.
- 4.6 In addition, members of the CC are held to a more stringent independence standard, which is set out in the Supplemental Deed of Undertaking given by SGX-ST to MAS on 25 November 2004. The original Deed and Supplemental Deed are posted on SGX's website. The Supplemental Deed

provides that members of the CC must be non-executive, and independent of certain business and management relationships with SGX and its subsidiaries. No CC member can have connections with SGX member firms or related companies of SGX member firms. A majority of CC members must not be connected to any substantial shareholder of SGX. The NC has ascertained that all members of the CC are independent according to this standard.

- 4.7 As a matter of policy, NEDs are expected to serve for four to six years. The NC may recommend the extension of a director's service. SGX has recently developed a set of policy and procedures for the appointment of NEDs in response to the upcoming changes to the Code. They are posted on SGX's website.
- 4.8 SGX places importance on the board renewal process. Since SGX's listing in 2000, all but three members of the original board have been replaced with new directors.

#### **PRINCIPLE 5: BOARD PERFORMANCE**

- 5.1 For the third year running, SGX commissioned an independent consultant to conduct a formal and independent assessment of the functions and effectiveness of the board as a whole, based on evaluations by each director and EXCO member. The assessment report was reviewed by the board and the recommendations duly noted.
- 5.2 The board has decided that the financial indicator to use as a measure of its performance is total shareholder return (TSR). The statistics on TSR of SGX are found in the "Operating and Financial Review" section of the Annual Report.
- 5.3 The assessment of each NED's performance is undertaken by the Chairman and the results of the assessment are discussed with the NC chairman. The criteria for assessment include attendance record, intensity of participation at meetings, the quality of interventions, and special contributions.
- 5.4 The assessment of the Chairman's and the CEO's performance is undertaken by the RC, and the results are reviewed by the board.

#### **PRINCIPLE 6: ACCESS TO INFORMATION**

- 6.1 Proposals to the board for decision or mandate sought by management, are in the form of memos that give the facts, analysis, resources needed, expected outcomes, conclusions and recommendations.
- 6.2 Board and board committee papers are distributed a week in advance of the meeting to directors. Staff who can provide additional insight into matters to be discussed will be present at the relevant time during the

board and board committee meetings. Draft agendas for board and board committee meetings are circulated to EXCO and board committee members respectively, in advance, in order for them to add items to the agenda.

- 6.3 Additionally, analyst reports on SGX are forwarded to the board every quarter in order for directors to keep abreast of analysts' views on SGX's performance.
- 6.4 The Company Secretary's role is to advise the board through the Chairman on all governance matters, ensuring that legal and regulatory requirements as well as board policies and procedures are complied with; and facilitating and organising directors' induction and training. Where directors, whether individually or as a group, require independent professional advice, the Company Secretary will appoint a professional adviser with costs to be borne by SGX. The Company Secretary attends all board meetings.
- 6.5 Board interaction with, and independent access to, senior management are encouraged. SGX will be organising a directors' off-site with senior management annually. EXCO members attend board meetings. In addition, board members have the contact details of each EXCO member.

**PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES**

- 7.1 The RC reviews matters concerning board and CEO remuneration. The RC approves the framework of remuneration for the entire organisation including the structuring of long-term incentive plans. The RC also approves SGX's annual increment and variable bonus pools for distribution to employees of all grades.
- 7.2 Mr Ng Kee Choe, an independent director, chairs the RC. Mr Ng has many years of experience in senior management positions in a leading Singaporean commercial bank including dealing with remuneration issues. He has also chaired or sat on the remuneration committees of other listed companies. The majority of the RC are independent. No RC member or any director is involved in deliberations in respect of any remuneration, compensation, options or any form of benefits to be granted to him.
- 7.3 The RC has access to appropriate advice from the Head of Human Resources, who attends all RC meetings.
- 7.4 The NC, together with the RC chairman, reviews and recommends to the board the specific remuneration packages for executive directors and the CEO upon recruitment. Subsequently, annual increments, variable bonus, share option grants and other incentive awards, are reviewed by the RC for recommendation to the board.

#### PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION

- 8.1 NEDs are remunerated under a framework of basic and attendance fees for serving on the board and board committees. The parameters for directors' fees are as follows:
- (a) basic fee – \$30,000 per annum; and
  - (b) attendance fee – \$1,200 per meeting except for the AC.
- 8.2 The AC chairman and the AC members receive additional basic fees (of \$15,000 and \$7,500 respectively) to take into account the nature of their responsibilities and the greater frequency of meetings in light of SGX's quarterly reporting practice. They do not receive attendance fees for AC meetings.
- 8.3 Fees for NEDs are subject to the approval of shareholders at the AGM. Executive directors do not receive directors' fees. A breakdown of the fees payable to each director is given at the "Remuneration Report" section of the Annual Report.
- 8.4 NEDs are required to seek nomination and re-election at regular intervals. No compensation is payable for the early termination of an NED.
- 8.5 The CEO's contract<sup>1</sup> was extended, and revised, by the board in September 2004, before its due expiry in February 2006. The new term runs from 1 January 2005 to 31 December 2007. In line with market practice for fixed-term contracts, compensation will be payable up to the expiry of the contract should the CEO's contract be prematurely terminated through no fault of his.
- 8.6 The Chairman has a service contract for the duration of his appointment as a director. There are no compensation provisions for the termination of the Chairman's contract.
- 8.7 Both the CEO's and the Chairman's service contracts have a variable component linked to performance.
- 8.8 The RC administers and is responsible for the allocation of options under the Employee Share Option Scheme (ESOS). Although the ESOS rules allow grants to NEDs, none of the NEDs have been granted share options. Accordingly, the RC is able to exercise impartial and objective judgment in the grant of share options under the ESOS as there is no self-interest involved.

#### PRINCIPLE 9: DISCLOSURE ON REMUNERATION

- 9.1 Please refer to the "Remuneration Report" section of the Annual Report for disclosure of the remuneration of the executive directors and the EXCO.

<sup>1</sup>For details of share options granted to the CEO, please refer to Note 13(e) of the Audited Accounts.

**PRINCIPLE 10: ACCOUNTABILITY**

- 10.1 Management provides directors with a monthly financial management report, which includes the monthly management accounts, other financial statements and an analysis of those accounts. The report is submitted within 20 days of the month end.
- 10.2 The board provides shareholders with quarterly and annual financial reports. Results for the first three quarters are released to shareholders within 30 days of the end of the quarter. Annual results are released within 45 days of the financial year end. In presenting SGX's annual and quarterly financial statements to shareholders, the board aims to provide shareholders with a balanced and clear assessment of SGX's position and prospects.

**PRINCIPLE 11: AUDIT COMMITTEE**

- 11.1 The AC has written terms of reference that are approved by the board and which clearly set out its responsibilities. (See paragraph 11.6 below)
- 11.2 The AC meets at least four times a year with management, in the presence of internal and external auditors.
- 11.3 The AC is chaired by Mr Ho Tian Yee and comprises six members, all of whom are independent NEDs.
- 11.4 The members of the AC collectively have expertise or experience in financial management, and are qualified to discharge the AC's responsibilities.
- 11.5 The AC has explicit authority to investigate any matter within its terms of reference. It has full access to, and the co-operation of, management and full discretion to invite any director or senior manager to attend its meetings. The AC has adequate resources to enable it to discharge its responsibilities properly.
- 11.6 The responsibilities of the AC include:
  - (a) to review and approve, on behalf of the board, the company's first three quarters' financial statements;
  - (b) to review the fourth quarter and annual financial statements and to recommend them to the board for approval;
  - (c) to review the scope and results of the external and internal audits, and to evaluate, with the assistance of internal and external auditors, the adequacy of the systems of internal and accounting controls, risk management and compliance;
  - (d) to review the cost effectiveness of the external audit and, where the external auditors provide a substantial volume of non-audit services to the company, to review the nature, extent and costs of such services to avoid an erosion of the independence and objectivity of the external auditors;



- (e) to recommend to the board the nomination of the external auditors and their compensation; and
- (f) to review the interested person transactions, and improper activities of the company, if any.

- 11.7 In the review of the financial statements for the year ended 30 June 2005, the AC discussed with management and the external auditors the accounting principles that were applied and their judgment of items that might affect the financial statements. Based on the review and discussions, the AC is of the view that the financial statements are fairly presented in conformity with the relevant Singapore accounting standards in all material aspects.
- 11.8 Once a year, the AC meets with internal and external auditors without the presence of management to review any matters that might be raised privately.
- 11.9 The AC has received the requisite information from the external auditors evidencing the latter's independence. It has also reviewed the volume and nature of non-audit services provided by the external auditors during the current financial year. Based on this information, the AC is satisfied that the financial, professional and business relationships between the company and the external auditors will not prejudice the independence and objectivity of the external auditors. Their re-nomination is therefore recommended by the AC.

#### **PRINCIPLE 12: INTERNAL CONTROLS**

- 12.1 SGX's control environment includes an organisational framework that sets out clearly the roles and responsibilities, reporting lines and delegated authorities of management and staff. The related policies and procedures are documented and disseminated to staff for their compliance. Staff are also made aware of the need to comply with SGX's core corporate values.
- 12.2 Internal and external auditors conduct regular reviews of the system of internal controls and significant internal control weaknesses are brought to the attention of the AC and to senior management for remedial action. Additionally the RMC is notified of deficiencies in the risk management processes.
- 12.3 The Compliance function assists in maintaining a strong compliance culture in SGX both in terms of regulations as well as SGX's compliance policies.
- 12.4 In August 2004, the board established the RMC to review and to approve the appropriate risk appetite for SGX to achieve its business strategy. In July 2004, SGX commenced the development of an enterprise-wide risk management framework to enhance its risk management capabilities. The

key risks facing SGX have been identified and action plans have been put in place to mitigate these risks. Assessments are underway to identify risks at the process levels and to assess the controls that are in place to mitigate these risks. Additional controls will be implemented where necessary. Awareness and ownership of risks and controls by the relevant business and support functions have been further enhanced. SGX's Internal Audit (IA) department will perform independent reviews of the risks and controls identified to provide reasonable assurance to management and the AC that the risks and controls have been adequately addressed.

- 12.5 Based on the information provided to the AC, nothing has come to the AC's attention to cause the AC to believe that the system of internal controls and risk management is inadequate.

**PRINCIPLE 13: INTERNAL AUDIT**

- 13.1 IA is an independent function within SGX which reports directly to the AC on audit matters, and to the CEO on administrative matters.
- 13.2 IA operates within the framework stated in its Internal Audit Charter which is approved by the AC. Its mission is to provide independent and reasonable assurance to the AC and management that SGX's risk management, controls and governance processes are adequate and effective. In addition, IA is guided by the philosophy of adding value to the work that it does.
- 13.3 IA has adopted the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors and has incorporated these standards into IA's audit practices.
- 13.4 IA plans its internal audit schedules annually in consultation with, but independent of, management and its plan is submitted to and approved by the AC.
- 13.5 Its plans are aligned to the business objectives of SGX. The audit scope is driven primarily from a risk-based audit approach, with audit resources being focused on higher risk assignments. IA also participates in the development of major systems and new products and services, as well as outsourcing projects, to evaluate the risks, and to ensure that adequate mitigating controls are in place.
- 13.6 IA reports are distributed to the AC, management and the external auditors as and when issued. These reports are discussed with senior management periodically, and with the AC quarterly.
- 13.7 IA works closely with the external auditors to discuss IA's audit scope and findings as well as to co-ordinate their specific audit efforts to achieve maximum synergies. IA also works closely with MAS and shares its findings with them.

13.8 Supervisory reports issued by MAS, external auditors and IA are actively followed up for implementation by management based on the agreed timelines.

13.9 The AC is satisfied that IA has adequate resources to perform its functions, and has appropriate standing within SGX.

**PRINCIPLE 14: COMMUNICATION WITH SHAREHOLDERS**

14.1 SGX adopts the practice of regularly communicating major developments in its businesses and operations through SGXNET and where appropriate, also direct to shareholders, other investors, analysts, the media, the public and its employees.

14.2 SGX issues announcements and news releases on an immediate basis where required under the Listing Manual.

14.3 SGX does not practise selective disclosure of material information. Material information is excluded from briefings with investors or analysts, unless it has been publicly released either before, or concurrently with, such meetings. All materials on SGX's quarterly financial results, and webcasts of SGX's half-year and full-year results briefings for analysts and media, are available on SGX's website.

14.4 For details on SGX's communication with its shareholders, please refer to the "Investor Relations" section of the "Operating and Financial Review" in the Annual Report.

**PRINCIPLE 15: GREATER SHAREHOLDER PARTICIPATION**

15.1 The Articles allow a shareholder to appoint up to two proxies to attend and vote in his place at general meetings. Prior to each AGM, a shareholders' forum is made available on the SGX website to facilitate communication with shareholders on matters that concern them.

15.2 The board and management are on hand at general meetings to address questions by shareholders. The external auditors are also present to assist the board.

15.3 Additionally, shareholders may view the minutes of general meetings, and a summary of the questions and answers raised at general meetings, on the SGX website.

**16. CODE ON SHARE DEALING AND INTERESTED PERSON TRANSACTION (IPT) POLICY**

16.1 SGX has adopted internal codes which prohibit dealings in SGX's securities by directors and employees and their "connected persons" for a period of just over one month before the announcement of SGX's quarterly or half-yearly financial results. For year-end results, the period of prohibition is just over two months. Staff or their "connected persons",

who want to trade securities of any company listed on SGX-ST, must seek prior approval from management. SGX believes that it has not only complied with the SGX-ST Best Practices Guide, but with industry best practices.

- 16.2 SGX has put in place an internal policy in respect of interested person transactions of SGX. There were no IPTs during the financial year.

#### 17. CONFLICTS COMMITTEE

- 17.1 The principal responsibility of the CC was to identify conflicts of interest or possible conflicts of interest which may arise in the course of the performance of regulatory functions in relation to the listing of the company's shares on SGX-ST.

- 17.2 In November 2004, the CC's role was expanded to address conflicts and potential conflicts between SGX's commercial objectives and regulatory responsibilities. This responsibility includes reviewing the adequacy of arrangements within the SGX group to deal with those conflicts, perceived or actual, and carrying out regular reviews of the adequacy of regulatory plans, budget and resources. The CC's terms of reference were revised accordingly.

- 17.3 The CC must notify MAS of any conflict arising from the listing of SGX shares on SGX-ST. To-date, no such conflict has been identified.

- 17.4 The CC is chaired by Mr Robert Owen, an independent NED.

#### 18. APPEALS COMMITTEE

- 18.1 The Appeals Committee decides on appeals against the decisions of the disciplinary tribunals of the company. One appeal was filed and heard last year.

#### MEETING ATTENDANCE REPORT

Name	Board		Audit Committee		Nominating Committee		Remuneration Committee		Risk Mgmt Committee		Conflicts Committee	
	Held	Present	Held	Present	Held	Present	Held	Present	Held	Present	Held	Present
J Y Pillay	8	8			5	5	4	4	3	3	*2	*2
Hsieh Fu Hua	8	8			*5	*5	4	4	3	3	*2	*2
Ho Tian Yee	8	8	4	4	5	5			2	1		
Low Check Kian	8	6			5	5	4	3			2	2
Tang Wee Loke	8	7	4	4								
Loh Boon Chye	8	8	4	3	3	2			3	3		
Ng Kee Choe	8	7	1	0	5	3	4	4	3	3		
Geoffrey Wong	8	6	4	3			2	2				
Lee Hsien Yang <sup>1</sup>	5	5	1	1								
Olivia Lum <sup>1</sup>	5	5	3	3							2	2
Robert Owen <sup>1</sup>	5	4							2	2	2	2
Chew Choon Seng <sup>2</sup>	3	3					1	1				
Wong Ngit Liong <sup>4</sup>	5	5			1	1	3	3				
Richard Gnodde <sup>3</sup>	3	1					2	2				
Goh Yew Lin <sup>3</sup>	3	1	1	0	2	1						
Victor Liew <sup>3</sup>	3	3	1	1	2	1						

*The Appeals Committee decided on one appeal by written decision on 25/08/2004*

<sup>1</sup>Appointed on 17 Sept 2004 <sup>2</sup>Appointed on 1 Dec 2004 <sup>3</sup>Resigned on 17 Sept 2004 <sup>4</sup>Resigned on 1 Dec 2004 \*By invitation