

# Corporate Governance Report

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**Singapore Exchange (SGX) is committed to high standards of corporate governance and business integrity in all its activities. We have complied with all provisions of the Code of Corporate Governance 2005 throughout the financial year ended 30 June 2010.**

## **MISSION**

We aim to offer a highly trusted securities and derivatives marketplace for capital raising, risk transfer, trading, clearing and settlement, and to serve our stakeholders.

SGX's Mission is the foundation upon which the Board has formulated its Corporate Governance (CG) policies to steer SGX in the conduct of its business.

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SGX's CG practices conform with the Securities and Futures (Corporate Governance of Approved Exchanges, Designated Clearing Houses and Approved Holding Companies) Regulations 2005 (SFR 2005) as well as with the Code of Corporate Governance 2005 (Code).

SGX is conscious of its leadership role in setting the standards of CG; that its behaviour and CG practices will be scrutinised by all stakeholders, such as investors, other listed companies and the Monetary Authority of Singapore (MAS). To maintain its reputation as a trusted marketplace, its CG practices must accord with the best practices expected by the market.

Amidst a challenging environment in 2009, SGX achieved yet another milestone: the successful introduction and implementation of electronic poll voting for all resolutions at its Annual General Meeting (AGM) in October 2009, a first for a listed company in Singapore. Poll voting works on the principle of one-share-one-vote, as opposed to the prevailing practice of a 'show of hands' or 'one-person-one-vote'. With an electronic hand-held device, votes are recorded instantly with the results being displayed live-on-screen. Electronic poll voting has introduced near total transparency in the voting process.

As part of its initiatives to strengthen and encourage shareholder participation, SGX developed two Investor Guides to assist shareholders to make better use of annual reports and contribute meaningfully at AGMs. The guides aid investors by highlighting a list of issues and questions that investors should bear in mind when reviewing each section of the annual report and in preparing for the AGM. The guides were sent to all shareholders for its 2009 AGM.

Early this year, SGX also noted with interest the intense debate in the press on the ideal number of directorships each director should be allowed to assume. The Nominating Committee (NC) decided that a limit on directorships was not necessary, as each company required different time commitments. Instead, the NC decided that it was more relevant and practical to seek an annual confirmation from each director on his ability and willingness to devote sufficient time and attention to SGX's affairs, having regard to all his external commitments.

SGX tightened its risk management systems to manage and mitigate the effects of severe market volatility in the 2009 downturn. As a result, the markets continued operating in an orderly manner. Please refer to 'Focusing on Risk Management' in the Annual Report (AR) for further information on risk management activities undertaken in the financial year under review.

The Governance & Transparency Index, launched by the Business Times and the Corporate Governance & Financial Reporting Centre of NUS Business School, National University of Singapore, ranked SGX among Singapore's top three companies, in April 2010.

## **CORPORATE GOVERNANCE FRAMEWORK**

The management of SGX's CG rests on two pillars:

- I) Corporate Governance as a listed company; and
- II) Self-Regulatory Organisation Governance.

This Report describes SGX's CG policies and practices vis-à-vis the Code and the SFR 2005. It is to be read in conjunction with the SRO Governance Report, which sets out SGX's CG as a self-regulatory organisation (SRO).

Unless specified otherwise, references to independence of directors, are references to independence as defined under SFR 2005, which are more stringent than the requirements of independence as set out in the Code.

## BOARD MATTERS

### BOARD'S CONDUCT OF ITS AFFAIRS

#### Principle 1

##### Principal Duties of the Board

The Board oversees SGX's affairs and is accountable to shareholders for the management of SGX's business and its performance. The principal duties of the Board include:

- a) approving broad policies, strategies and objectives of SGX;
- b) approving annual budgets, major funding proposals, investment and divestment proposals;
- c) approving the appointment of the CEO, directors and succession planning process;
- d) approving the adequacy of internal controls, risk management, financial reporting and compliance; and
- e) approving the policy for managing and/or mitigating perceived or actual conflicts of interest between SGX's regulatory accountabilities and commercial interests.

##### Independent Judgement

All directors exercise due diligence and independent judgement and make decisions objectively in the best interests of SGX. The assessment criteria in the Chairman's assessment of directors include intensity of participation at meetings, quality of interventions and special contributions. Based on the results of the Board evaluation, all directors have discharged their duties consistently well.

##### Delegation by the Board

To assist the Board in the discharge of its oversight function, various Board committees, namely the Audit Committee (AC), Nominating Committee (NC), Regulatory Conflicts Committee (RCC), Remuneration Committee (RC) and Risk Management Committee (RMC), have been constituted with clear written terms of references (TOR). The TOR set out the duties, authority and accountabilities of each committee as well as qualifications for committee membership, in line with the SFR 2005 and the Code. The TOR are reviewed on a regular basis to ensure their continued relevance, as are the committee structures and membership. The TOR of Board committees are publicly available on SGX's website at [www.sgx.com](http://www.sgx.com).

The RCC has been appointed by the Board to supervise the management of SGX's SRO conflicts. Please refer to the 'SRO Governance Report' in the AR, for further information on the activities of the RCC.

Please refer to Principle 4 to 5, 7 to 9, 11 and 12 in this Report, for further information on the activities of the AC, NC, RC and RMC respectively.

##### Key Features of Board Processes

The schedule of all Board, Board committee and annual general meetings for the next calendar year is planned well in advance, in consultation with the directors. The Board meets at least four times a year at regular intervals. Besides the scheduled Board meetings, the Board meets on an ad-hoc basis as warranted by particular circumstances. Telephonic attendance at Board meetings are allowed under SGX's Articles of Association (Articles). The Board and Board committees may also make decisions by way of circulating resolutions.

Please refer to the 'Directors' Meeting Attendance Report' in this Report for further information on the number of Board and Board committee meetings held in the financial year under review.

##### Board Approval

SGX has adopted internal guidelines setting forth matters that require Board approval. 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, interim dividends and other returns to shareholders;
- e) matters which require Board approval as specified under SGX's interested person transaction policy; and
- g) any investments or expenditures exceeding \$10 million in total.

For expenditures of \$10 million and below, SGX has internal guidelines which set out, among others, the authorisation limits granted to management for approval of capital and operating expenditures, specified financial transactions and supplementary budgets.

While matters relating to SGX's objectives, strategies and policies require the Board's direction and approval, management is responsible for the day-to-day operation and administration of SGX.

##### Board Orientation and Training

A formal letter of appointment is provided to every new director. The formal letter of appointment indicates the amount of time commitment required and the scope of duties. The new director will also receive a manual containing Board and SGX 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.

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SGX conducts a comprehensive orientation programme, which is presented by senior management, to familiarise new directors with its business and governance practices. The orientation programme gives directors an understanding of SGX's businesses to enable them to assimilate into their new roles. The programme also allows the new director to get acquainted with senior management, thereby facilitating board interaction, and independent access to, senior management.

The directors are provided with continuing education in areas such as directors' duties and responsibilities, corporate governance and changes in financial reporting standards, so as to enable them to properly discharge their duties as Board or Board committee members. For example, the NC was briefed on the major proposed changes set out in MAS' March 2010 consultation paper, relating to the CG framework for financial institutions in the banking and insurance sector.

The directors may also attend other appropriate courses, conferences and seminars, at SGX's expense. These 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.

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## **BOARD COMPOSITION AND GUIDANCE**

### ***Principle 2***

#### **Board Independence**

The SFR 2005 provides that an independent director is one who is independent from any management and business relationship with SGX, and also independent from any substantial shareholder of SGX. Under this stricter definition, a majority of the Board (being eight of the 11 directors) is considered independent. A table setting out each director's independence under the Code and under the SFR 2005 is included in this Report.

Under the SFR 2005, it is mandatory for the NC to determine annually whether a director is independent. Please refer to Principle 4 in this Report for further information on the NC's determination of a director's independence.

#### **Board composition and size**

The Board comprises 11 directors. The CEO is the only executive director. The remaining 10 directors are non-executive directors (NEDs), eight of whom are independent.

Each year, the NC reviews the size and composition of the Board and Board committees, and the skills and core competencies of its members. These competencies include banking, finance, accounting, business acumen, management experience, industry knowledge, familiarity with regulatory requirements and

knowledge of risk management. The Board considers that its directors possess the necessary competencies to lead and govern SGX effectively.

Taking into account the nature and scope of SGX's businesses and the number of Board committees, the Board considers that a board size of between 10 to 12 members as appropriate. The Board believes that the current composition and size provides sufficient diversity without interfering with efficient decision-making.

#### **Board Guidance**

An effective and robust board whose members engage in open and constructive debate and challenge management on its assumptions and proposals, is fundamental to good corporate governance. For this to happen, the Board, in particular NEDs, must be kept well informed of SGX's businesses and affairs and be knowledgeable about the industry in which the businesses operate. To ensure that NEDs are well supported by accurate, complete and timely information, NEDs have unrestricted access to management, and have sufficient resources to discharge their oversight function effectively, NEDs receive periodic information papers and board briefings on latest market developments and trends, and key business initiatives. Regular informal meetings are held for management to brief directors on prospective deals and potential developments at an early stage, before formal Board approval is sought.

An annual Board strategy meeting is also organised for in-depth discussions on strategic issues and directions for SGX.

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## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

### ***Principle 3***

#### **Separation of the Role of Chairman and the Chief Executive Officer**

The roles of Chairman and CEO are separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. The Chairman is not related to the CEO.

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. He approves the agendas for the Board meetings. Together with the Chairmen of the Board committees and with input from management, he also reviews the agendas for Board committee meetings. He exercises control over the quality, quantity and timeliness of information flow between the Board and management. In addition, he provides close oversight, guidance, advice and leadership to the CEO and management.

At AGMs and other shareholder meetings, the Chairman plays a pivotal role in fostering constructive dialogue between shareholders, the Board and management.

The CEO manages the businesses of SGX and implements the Board's decisions. He chairs the executive committee (EXCO). EXCO, which comprises senior management executives, meets weekly to discuss, review and approve the day-to-day operations and administration of SGX.

Board interaction with, and independent access to, senior management is encouraged. EXCO members are invited to attend all Board meetings, and relevant Board committee meetings. In addition, Board members have the contact details of each EXCO member.

### Lead Independent Director

Although the Chairman is a NED, he is not considered independent under the SFR 2005 and the Code, for a period of three years from 28 September 2007, the date of his re-designation as non-executive Chairman. The Board appointed Mr Low Check Kian, chairman of the NC, as Lead Independent Director (LID) in May 2006 to lead and co-ordinate the activities of the NEDs of SGX. The terms of reference of the LID are available on SGX's website.

The LID presides at all meetings of the Board at which the Chairman is not present. He develops the agendas for and serves as chairman of the executive session of the NEDs and is the principal liaison on Board issues between the NEDs and the Chairman.

The LID aids the NEDs to constructively challenge and help develop proposals on strategy and to review the performance of the Chairman and management.

The Chairman and the LID facilitate the effective contribution of NEDs in particular, and encourage constructive relations between management and NEDs.

Once a year, two formal sessions are arranged for the NEDs to meet without the presence of management or executive directors. One of the sessions is held without the presence of the Chairman and is chaired by the LID.

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## BOARD MEMBERSHIP

### Principle 4

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#### NC Composition

The NC is chaired by Mr Low Check Kian, who is the LID. Please refer to the Corporate Information section in the AR, for the composition of the NC. In compliance with the SFR 2005 requirements, the NC has five members, four of whom are independent directors.

#### Re-nomination of Directors

The NC is responsible for reviewing all re-nominations of directors and Board committee members, taking into account the MAS' fit and proper criteria for such appointments, the director's independence status, his participation and contributions during and outside board meetings and other relevant factors as may be determined by the NC. All directors of SGX are approved by MAS, based on its fit and proper criteria, before they are appointed by the Board or at the AGM (as the case may be).

SGX's Articles provide that at each AGM, one-third of the directors, including the CEO who also serves on the Board (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. Effectively, this results in all directors having to retire at least once in three years or even earlier. All new directors appointed by the Board shall only hold office until the next AGM, and be eligible for re-election at the AGM.

#### Annual Review of Directors' Independence

Under the SFR 2005, it is mandatory for the NC to conduct an annual review of each director's independence, based on the SFR 2005 requirements. The NC has ascertained that a majority of the Board members are independent according to these criteria.

Mr J Y Pillay was re-designated to serve as a NED since 28 September 2007. Under the SFR 2005 and the Code, he is deemed non-independent for three years until 28 September 2010, after which he will be considered an independent director. Mr Loh Boon Chye is deemed non-independent under the SFR 2005, as he is employed by Deutsche Bank Group, which wholly-owns Deutsche Futures Singapore Pte Ltd, an SGX member company. He is also involved in the activities of this SGX member company.

Under the SFR 2005, MAS may object to the NC's determination of a director's independence. Ms Euleen Goh is a director of DBS Group Holdings Ltd (DBS Holdings) and DBS Bank Ltd (DBS Bank), which are related companies of an SGX member, DBS Vickers Securities (Singapore) Pte Ltd (DBS Vickers). The NC considers that Ms Goh's ability and willingness to exercise independent business judgement and act in the best interests of SGX is not impeded, as she does not exercise any influence over DBS Vickers and she is a non-executive director of DBS Holdings and DBS Bank. MAS has noted the NC's reasons.

Based on the Code's criteria for independence, nine out of 10 NEDs are independent. A table setting out the independence requirements for the Board under the SFR 2005 and the Code, and SGX's compliance, is set out in this Report.

Although three directors have each served for more than nine years on the Board, namely the Chairman, Mr Ho Tian Yee and Mr Low Check Kian, the Board considers that the new CEO, who was appointed in December 2009, would benefit from their

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experience and wisdom. At an appropriate time, they will retire from the Board, in accordance with the succession planning process.

#### **Directors' Time Commitments**

The NC also considers whether directors, who have multiple board representations, are able to and have been devoting sufficient time to discharge their responsibilities adequately. Starting from FY2011 and on an annual basis thereafter, each director is required to confirm to the NC his ability to devote sufficient time and attention to SGX's affairs, having regard to all his other commitments. The NC is satisfied that all directors have discharged their duties adequately for FY2010, and will continue to do so in FY2011. None of the directors hold more than four listed company directorships.

#### **Succession Planning for the Board and Senior Management**

Succession planning is an important part of the governance process. The NC has adopted a succession plan to ensure the progressive and orderly renewal of Board membership. As part of this plan, the Board appointed an additional director, Mr Liew Mun Leong, on 1 July 2009. After an extensive global search, the Board appointed Mr Magnus Bocker as CEO with effect from 1 December 2009, who will stand for re-election at the 2010 AGM in accordance with SGX's Articles. To step up the pace for refreshing the Board, the NC also recommended, for the Board's approval, the appointment of Mr Thaddeus Beczak, as an additional director at the 2010 AGM. The NC also reviews the succession and leadership development plans for senior management, including the identification and management of talent from among the younger staff.

#### **Criteria and Process for Nomination and Selection of New Directors**

SGX adopts a comprehensive and detailed process in the selection of new directors. An international executive search firm is engaged to propose a list of suitable candidates for the NC's consideration, after an identification of the needs and requirements of SGX. After the NC chairman, the SGX chairman and the other NC members have interviewed the candidates, the candidates are further shortlisted for the NC's formal consideration for appointment to the Board.

The NC complies with the SFR 2005 criteria when reviewing a nomination for a proposed Board appointment. The criteria are as follows: (a) a determination of the candidate's independence; (b) his appointment will not result in non-compliance with any of the SFR 2005 composition requirements for the Board and Board Committees; and (c) whether the candidate is a fit and proper person in accordance with MAS' fit and proper guidelines, taking into account his track record, age, experience and capabilities and such other relevant experience as may be determined by the NC. The MAS' fit and proper guidelines broadly take into account the candidate's honesty, integrity and reputation; his competence and capability; and financial soundness.

Adopting this rigorous selection process, the Board recommends that the shareholders approve the appointment of Mr Thaddeus Beczak at the 2010 AGM. Please refer to page 21 in the AR for key information on Mr Thaddeus Beczak.

#### **Key Information on Directors**

Please refer to the 'Board of Directors' section in the AR for key information on the directors, and the Notice of AGM, for directors proposed for re-election or re-appointment at the AGM. Key information on directors is available on [www.sgx.com](http://www.sgx.com).

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### **BOARD PERFORMANCE**

#### **Principle 5**

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#### **Board Evaluation Policy**

The Board has implemented a process carried out by the NC, for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual director to the effectiveness of the Board. Please refer to the Board Evaluation Policy, which is available on [www.sgx.com](http://www.sgx.com).

#### **Board Evaluation Process**

- a) The NC will assess and discuss the performance of the Board as a whole every year, and will ascertain key areas for improvement and requisite follow-up actions; and
- b) Every two years, independent consultants will be appointed to assist in the Board evaluation process. This process includes a questionnaire designed to assess the performance of the Board and enhance the overall effectiveness of directors. The Board and Board committee performance will be evaluated by each director and each EXCO member.

The Board believes that the use of an external independent consultant greatly enhances the quality and objectivity of the evaluation.

During the financial year, the Board engaged an independent consultant to conduct SGX's Board Evaluation for FY2010. Separate questionnaires were administered to EXCO and to the Board. For example, the questionnaire (for the Board) included the evaluation of factors such as board composition, managing company's performance, board processes, committee effectiveness, risk management and succession planning. The EXCO questionnaire focused on evaluation of factors such as the board's development and monitoring of strategy, working with management and management of risk. The Board evaluation results were presented to the NC and to the Board. The results showed an overall improvement in all areas of evaluation from the 2008 board evaluation exercise.



### Board Performance Criteria

The Board reviews its performance against qualitative and quantitative targets on an annual basis.

The Board is required to ensure that a proper balance is maintained between its commercial objectives and its regulatory responsibilities. Therefore, the Board performance criteria include a measure to capture the performance of its regulatory responsibilities as a SRO.

In line with the Code's recommendation of using quantitative financial indicators, the Board has adopted performance measures which align its interests with shareholders' interests, such as (a) absolute minimum SGX Total Shareholder Return (TSR), and (b) SGX's TSR performance against the TSR of the FTSE/MV Exchanges Index, which is an index of 18 listed exchanges, in order to benchmark its relative performance against other exchanges.

### Individual Director Evaluation

There is an individual assessment of each NED's contribution by the Chairman, and the results of the assessment are discussed with the NC chairman. Some factors considered in the individual review are directors' attendance and participation in and outside meetings, the quality of directors' interventions and special skills and contributions made by directors.

The performance of individual directors is taken into account in their re-appointment or re-election. Specific needs which arise from time to time are taken into account in any appointment of new directors.

The assessment of CEO's performance is undertaken by the RC, together with the NC chairman, and the results are reviewed by the Board. The NEDs, led by the LID, assess the Chairman's performance, and the LID provides the feedback to the Chairman.

## ACCESS TO INFORMATION

### Principle 6

#### Complete, Adequate and Timely Information

Management recognises the importance of ensuring the flow of complete, adequate and timely information, on an on-going basis to the Board, as essential to the Board's effective and efficient discharge of its duties. To allow directors sufficient time to prepare for the meetings, all Board and Board committee papers are distributed a week in advance of the meeting to directors. This enables the discussion during the meeting to focus on questions that directors may have. Management's proposals to the Board for decision provide background and explanatory information such as facts, resources needed, risk analysis and mitigation strategies, financial impact, expected outcomes, conclusions and

recommendations. 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. To facilitate direct access to the senior management, directors are also provided with the names and contact details of the management team. Draft agendas for Board and Board committee meetings are circulated to EXCO and Board committee chairmen respectively, in advance, in order for them to suggest items for the agenda and/or review the usefulness of the items in the proposed agenda.

In order to keep directors abreast of analysts' views on SGX's performance, the Board is updated twice a year on the market view which includes a summary of analysts' feedback and recommendations following the full-year and half-year results. A monthly financial performance report is also provided to the Board. This report includes the financial and management accounts, accompanied by an analysis of SGX's performance and supporting data. Quarterly financial statements are reviewed and approved by the AC except for the financial year-end statements which are approved by the Board. In addition, the RMC members receive monthly risk reports on clearing, credit and market risk.

### Company Secretary

Directors have separate and independent access to the Company Secretary. The Company Secretary is responsible for, among other things, ensuring that Board procedures are observed and that SGX's memorandum and articles of association, relevant rules and regulations, including requirements of the SFA, Companies Act and Listing Manual, are complied with. She also assists the Chairman and the Board to implement and strengthen CG practices and processes, with a view to enhancing long-term shareholder value.

The Company Secretary also assists the Chairman to ensure good information flows within the Board and its committees and between senior management and NEDs, as well as facilitating orientation and assisting with professional development as required. As primary compliance officer for SGX's compliance with its listing rules, the Company Secretary is responsible for training, designing and implementing a framework for management's compliance with the Listing Rules, including advising management to ensure that material information is disclosed on a prompt basis. The Company Secretary attends and prepares minutes for all Board meetings. As secretary to all the other Board committees, she assists to ensure coordination and liaison between the Board committees and the Board.

The appointment and the removal of the Company Secretary is subject to the Board's approval.

### Independent Professional Advice

The Board has a process for directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at SGX's expense.

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## REMUNERATION MATTERS

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### PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

#### *Principle 7*

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##### **Remuneration Committee**

Mr Ng Kee Choe, an independent director, chairs the RC. Please refer to the Corporate Information section in the AR, for the composition of the RC. Mr Ng has many years of experience in senior management positions and on various boards dealing with remuneration issues.

All four members of the RC, including the RC chairman, are independent non-executive directors. No member of the RC is involved in deliberations in respect of any remuneration, compensation, options or any form of benefits to be granted to him.

The RC reviews matters concerning remuneration of the Board, CEO and senior management. The RC approves the framework of remuneration for the entire organisation including the structuring of the long-term incentive plans. The RC also approves the annual salary increment pool and total incentive pool for distribution to staff of all grades. The RC's recommendations are submitted for the Board's discussion or, (as the case may be), approval.

The RC chairman, together with the NC, reviews and recommends to the Board the specific remuneration packages for executive directors and the CEO upon recruitment. Subsequently, annual increments, variable bonuses, performance share grants and other incentive awards, will be reviewed by the RC for recommendation to the Board. Please refer to 'Remuneration Report' in the AR for further information on SGX's compensation philosophy and actual performance targets for the award of long-term incentives.

The RC has access to appropriate advice from the Chief Human Resource Officer, who attends all RC meetings. The RC may seek expert advice inside and/or outside SGX on remuneration of directors and staff.

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### LEVEL AND MIX OF REMUNERATION

#### *Principle 8*

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The RC administers the Performance Share Plan (PSP). The performance-related elements of remuneration are designed to align interests of executive directors, EXCO and staff with those of shareholders and link rewards to corporate and individual performance. Details of SGX's compensation philosophy and the compensation framework including the PSP awards made thereunder, and the performance conditions for the vesting of the awards, are found in 'Remuneration Report' in the AR.

##### **Non-executive Directors' Remuneration**

The RC reviewed the remuneration of NEDs, considering factors such as the increasing scope and extent of a director's responsibilities and obligations in the aftermath of the global financial crisis, the level of contribution and time spent. Having regard to the increased focus on risk management and regulatory requirements, and the referencing of directors' fees against comparable benchmarks, the Board agreed with the RC's recommendation to propose an increase in the fees for the Committee chairmen and members with effect from 1 October 2010.

##### **Fee Structure**

Type of Fees	Existing Fees	Proposed Fees
NED – Basic Fee	\$55,000	No change
Audit Committee – Chairman	\$30,000	\$40,000
Audit Committee – Member	\$18,000	\$30,000
Other Committee – Chairman	\$22,000	\$30,000
Other Committee – Member	\$12,000	\$20,000
Attendance Fee (per meeting)	\$1,500	No change

Since 2008, SGX has been seeking shareholders' approval to pay the directors' fees on a current-year basis, at the AGM. With this change, SGX is able to pay the NED fees on a quarterly basis in arrears, instead of 16 months after the past financial year.

The SGX Chairman receives an annual fee plus other benefits, as approved by a separate resolution at each AGM.

##### **Executive Directors' Remuneration**

Executive directors do not receive directors' fees.

CEO's contract stipulates a three-year fixed term. The service contract does not contain onerous removal clauses.

##### **Long-term Incentive Scheme**

Please refer to the 'Remuneration Report' and 'Directors' Report' in the AR for further information on the long-term incentive scheme.

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### DISCLOSURE OF REMUNERATION

#### *Principle 9*

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For disclosure of the remuneration of the executive director and the five top-earning executives and a breakdown of the fees payable to each director, please refer to 'Remuneration Report' in the AR. SGX has also disclosed in the Remuneration Report the remuneration of the five top-earning executives in actual figures, with a breakdown in terms of fixed pay, bonus, long-term incentive and benefits-in-kind.

None of the current staff/directors are related to each other.



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### ACCOUNTABILITY

#### Principle 10

The Board provides shareholders with quarterly and annual financial reports. Results for the first three quarters are released to shareholders within 18 days from the end of the quarter. Annual results are released within 40 days from the financial year-end. In presenting the 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. For the financial year under review, the CEO and the Chief Financial Officer (CFO) have provided assurance to the Board on the integrity of the financial statements for SGX and its subsidiaries. For interim financial statements, the Board provides a negative assurance confirmation to shareholders, in line with the Listing Rules. This, in turn, is supported by a negative assurance statement from the CEO and CFO. Management provides directors with a monthly financial performance report either within 10 business days from month-end or on the day when the annual or quarterly financial results are released.

SGX also provides to its regulator, MAS, an annual report on the RCC's activities in relation to SGX's SRO conflicts management, and an annual self-assessment report of its discharge of its responsibilities as an exchange and a clearing house. In February and March 2010, MAS conducted an annual on-site inspection of SGX. MAS was satisfied that SGX's operations were generally well-managed, and complied with its obligations under the SFA and its regulations, in the areas covered under its inspection.

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### AUDIT COMMITTEE

#### Principle 11

##### Composition of the AC

The AC is chaired by Mr Lee Hsien Yang and comprises four members, all of whom are independent NEDs based on the Code's criteria. Please refer to the Corporate Information section in the AR for the composition of the AC.

In compliance with the requirements of SFR 2005, three members of the AC are independent from management and business relationships, and a majority are independent directors.

The Board considers that Mr Lee Hsien Yang, who has extensive and practical financial management knowledge and experience, is well qualified to chair the AC. Ms Eileen Goh, Mr Ho Tian Yee and Mr Loh Boon Chye collectively have strong accounting and related financial management expertise and experience.

##### Authority and Duties of the AC

The AC's primary role is to investigate any matter within its TOR. It has full access to, and the co-operation of, management and full discretion to invite any director or officer to attend its meetings. The AC has adequate resources, including access to external consultants and auditors, to enable it to discharge its responsibilities properly.

The AC reviews the scope and results of audit work, the cost effectiveness of the audit, and the independence and objectivity of the external auditors. The AC also undertakes quarterly reviews of the nature, extent and costs of non-audit services provided by the external auditors, seeking to balance the maintenance of objectivity of the external auditors and their ability to provide value-for-money services.

The AC meets on a quarterly basis to review the integrity of the financial statements including the relevance and consistency of the accounting principles adopted. The AC approves, on behalf of the Board, each of the first three quarterly financial statements and corresponding SGXNET announcements. The AC recommends to the Board for approval the annual financial results and related SGXNET announcements.

The AC reviews and assesses the adequacy and effectiveness of SGX's system of internal controls and regulatory compliance through discussions with management, the Head of Internal Audit, the Head of Legal & Compliance and the external auditor, at its quarterly AC meetings.

The AC met four times during the financial year under review. The Chairman, CEO, CFO, Heads of Internal Audit, Markets, Operations & Technology, Listings, Legal & Compliance, and the external auditors were invited to attend these meetings. The AC considered and reviewed with management, the Head of Internal Audit and the Head of Legal & Compliance (where applicable) the following:

- a) significant internal audit observations and management's responses thereto;
- b) regulatory breaches;
- c) planned scope of the annual internal and external audit plans to ensure that the plans covered sufficiently a review of the internal controls of SGX;
- d) planned scope of the annual compliance plans; and
- e) budget and staffing for Internal Audit and Compliance functions.

##### External Auditors

The AC recommends to the Board the appointment, re-appointment and removal of the external auditors, and approves the remuneration and terms of engagement of the external

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auditors. Shareholders then approve the re-appointment of the external auditors at the AGM.

During the financial year, the external auditors held a meeting with the AC, and separately with the AC chairman, without the presence of management. The AC reviewed the independence and objectivity of the external auditors through discussions with them as well as a review of the volume and nature of non-audit services provided by the external auditors during the financial year under review. Based on this information, the AC is satisfied that the financial, professional and business relationships between SGX and the external auditors will not prejudice their independence and objectivity. Accordingly, the AC has recommended the re-appointment of the external auditors at the coming AGM.

In the review of the financial statements for the year ended 30 June 2010, the AC discussed with management and the external auditors the accounting principles that were applied and their judgement of items that might affect the integrity of the financial statements. Following the review and discussions, the AC recommended to the Board the release of the full-year financial statements.

#### **Whistleblowing Policy**

During the year, the AC reviewed the revisions to the whistleblowing policy to streamline the reporting channel and extend the coverage of the policy beyond SGX staff to vendors. The revised policy allows a single, confidential line for employees and vendors to report concerns about possible improprieties to the Head of Internal Audit in good faith and in confidence. The policy defines the processes clearly to ensure independent investigation of such matters and appropriate follow-up action, and provides assurance that staff will be protected from reprisals.

#### **Interested Person Transactions Policy**

SGX has procedures in place to comply with the Listing Manual requirements relating to interested person transactions. All new directors are briefed on the relevant provisions that they need to comply with. The AC also reviews any interested person transactions.

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## **INTERNAL CONTROLS**

### ***Principle 12***

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#### **Internal Audit**

On an annual basis, Internal Audit prepares and executes a risk-based audit plan, which complements that of the external auditors, so as to review the adequacy and effectiveness of the system of internal controls of SGX. These include operational, financial and compliance controls. In addition, the external auditors will highlight any material internal control weaknesses

which have come to their attention in the course of their statutory audit. All audit findings and recommendations made by the internal and external auditors are reported to the AC. Significant issues are discussed at AC meetings. Internal Audit follows up on all recommendations by internal and external auditors to ensure management has implemented them in a timely and appropriate fashion and reports the results to the AC every quarter. Separately, the Compliance unit (Compliance) is responsible for putting in place a framework to guide and assist SGX to manage risks that could result in violation of applicable laws and regulations. Compliance reports all breaches, significant issues and their resolutions to the AC every quarter.

#### **Risk Management Committee**

The RMC assists the Board in the oversight of risk management in SGX. Its responsibilities include reviewing and recommending to the Board the type and level of business risk that SGX undertakes on an integrated basis to achieve its business objectives, and the appropriate framework and policies for managing risks that are consistent with SGX's risk appetite. In addition, the RMC also reviews for the Board the adequacy of the SGX's long-term technology strategy and the adequacy of resources required to carry out its risk management functions effectively.

SGX has in place an enterprise-wide risk management framework to enhance its risk management capabilities. This is administered by the Enterprise Risk Management team (ERM), which reports to the Chief Regulatory Officer. The key risks facing SGX have been identified and action plans are in place to mitigate these risks. In addition, the key risks at the process level have been identified via risk self-assessment exercises. Risk awareness and ownership of risk treatments are also continuously fostered across the organisation. Please refer to the 'Risk Management Focus' in the AR for further information on the identification and management of these risks.

Based on the work performed by Internal Audit, ERM and Compliance during the financial year, as well as the statutory audit conducted by the external auditors, the Board, through the AC and RMC, is satisfied that the operational, financial and compliance controls, and the risk management systems, are adequate to meet the needs of SGX in its current business environment.

The system of internal controls and risk management established by SGX provides reasonable, but not absolute, assurance that SGX will not be adversely affected by any event that can be reasonably foreseen as it strives to achieve its business objectives. However, the Board also notes that no system of internal controls and risk management can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

## INTERNAL AUDIT

### *Principle 13*

#### **Line of Reporting and Activities**

Internal Audit is an independent function within SGX. The Head of Internal Audit reports directly to the AC and administratively to the CEO. The AC approves matters relating to the Internal Audit Charter, risk assessment and related audit plans and results and follow up of internal audit activities. The AC approves the hiring, removal, evaluation and compensation of the Head of Internal Audit. The AC Chairman meets the Head of Internal Audit at least four times a year, without the presence of management. Internal Audit has unfettered access to all of SGX's documents, records, properties and personnel including the Chairman and AC.

Internal Audit operates within the framework stated in its Internal Audit Charter which is approved by the AC. The primary role is to assist the Board and senior management to meet the strategic and operational objectives of SGX, by providing an independent and objective evaluation of the adequacy and effectiveness of risk management, controls and governance processes.

All audit reports are copied to the AC, the CEO, the external auditors and relevant senior management representatives. The progress of corrective actions on outstanding audit issues is monitored monthly through a company-wide issue management system. Information on outstanding issues is categorised according to severity and quarterly reports are sent to senior management and AC. High-risk outstanding issues are escalated to senior management to ensure timely resolution.

#### **Adequacy of the Internal Audit Function**

Internal Audit's annual plan is established in consultation with, but independent of, management and is aligned with the risk management framework of SGX. The plan is submitted to and approved by the AC. The AC is satisfied that Internal Audit has adequate resources to perform its functions, and has appropriate standing within SGX.

#### **Professional Standards and Competency**

Internal Audit is a member of the Singapore Chapter of The Institute of Internal Auditors (IIA) and has adopted the Standards for the Professional Practice of Internal Auditing (IIA Standards) laid down in the International Professional Practices Framework issued by the IIA. SGX Internal Audit continues to meet or exceed the requirements of the IIA Standards in all key aspects. Quality assessment reviews are carried out at least once in five years by external qualified professionals.

The professional competence of the internal auditors is maintained or upgraded through training programmes, conferences and seminars that provide updates on auditing techniques,

regulations, financial products and services. Internal Audit is staffed with suitably qualified experienced professionals with diverse operational and financial experience, who are at the level of assistant vice president and above.

## COMMUNICATION WITH SHAREHOLDERS

### *Principle 14*

#### **Disclosure of Information on a Timely Basis**

SGX is committed to disclosing as much relevant information as is possible, in a timely, fair and transparent manner, to its shareholders. Material information is disclosed on a comprehensive, accurate and timely basis via SGXNET. The release of such timely and relevant information is central to good corporate governance and enables shareholders to make informed decisions in respect of their investments in SGX.

SGX adopts the practice of regularly communicating major developments in its businesses and operations through the appropriate media, such as news releases, annual reports, shareholders' circulars, shareholders' meetings, and also directly to other investors, analysts, the media, the public and its staff.

SGX notifies investors in advance of the date of release of its financial results, through an SGXNET announcement, and a media release. Results for the first three quarters are released to shareholders within 18 days from the end of the quarter. Annual results are released within 40 days from the financial year-end.

Briefings to present quarterly and full-year results are held for the media and analysts and through video webcasts.

Annual Investor Relations Open Days are held where shareholders are briefed on the performance and prospects of SGX, and are given the opportunity to meet with senior management.

#### **Corporate Website**

SGX's website has much to offer its shareholders. The latest AR, financial results (including webcasts of the quarterly and full-year results briefings for media and analysts and press releases) and company announcements are posted on the website following their release to the market, to ensure fair and equal dissemination to shareholders. SGX also makes available annual reports to shareholders, speeches and presentations given by the Chairman, CEO, and senior management, and a range of other information considered to be of interest to investors.

SGX's website has a clearly dedicated Investor Relations (IR) link, which features prominently the latest and past financial results and related information. The contact details of the IR team are available on the dedicated IR link, as well as in the AR, to enable shareholders to contact SGX easily. IR has procedures in place for addressing investors' queries or complaints as soon as possible.

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Please refer to 'Fulfilling Our Shareholders' Interests' under the Corporate and Social Responsibility Report in the AR, for further information on SGX's communication with its shareholders.

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## **GREATER SHAREHOLDER PARTICIPATION**

### ***Principle 15***

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Shareholders are informed of shareholders' meetings through published notices and reports or circulars sent to all shareholders. Prior to each AGM, a shareholders' forum is made available at [www.sgx.com](http://www.sgx.com) to facilitate communication with shareholders on matters that concern them. The AGM procedures provide shareholders the opportunity to ask questions relating to each resolution tabled for approval. Opportunities are given to shareholders to participate, engage, and openly communicate their views on matters relating to SGX to the directors. The chairman of each of the AC, NC, RC and RMC, external auditors, management and legal advisors (where necessary), are also present to address shareholders' queries.

SGX's articles allow a shareholder to appoint up to two proxies to attend and vote in his place at general meetings. SGX also allows investors, who hold shares through nominees such as CPF and custodian banks, to attend AGM as observers without being constrained by the two-proxy rule, subject to availability of seats.

As the authentication of shareholder identity information and other related integrity issues still remain a concern, SGX has decided, for the time being, not to implement voting in absentia by mail, email or fax.

SGX provides for separate resolutions at general meetings on each distinct issue. All the resolutions at the general meetings are single item resolutions. Detailed information on each item in the AGM agenda is in the explanatory notes to the AGM Notice in the AR.

The Company Secretary prepares minutes of shareholder meetings, a summary of the substantial comments and queries from shareholders and responses to them from the Board and management. These documents are publicly available on [www.sgx.com](http://www.sgx.com).

To have near total transparency in the voting process, effective from 2009 AGM, SGX conducts electronic poll voting for all the resolutions passed at the AGM and EGM. All votes cast for, or against, each resolution will be tallied and displayed live-on-screen to shareholders immediately at the meeting. The total numbers of votes cast for or against the resolutions are also announced after the meeting via SGXNET.

## **SECURITIES DEALING**

To guard against insider trading, SGX's Code of Dealing in Securities (Code of Dealings) adopts more stringent "black-out" policies than prescribed in the Listing Manual. The Code of Dealings prohibits dealings in SGX's securities by directors and staff and their "connected persons" for a period of just over one month before the announcement of its quarterly or half-yearly financial results. For year-end results, the period of prohibition is just over two months.

SGX issues a quarterly circular to its directors and officers informing them that SGX and its officers must not deal in SGX's securities before the release of results and at any time they are in possession of unpublished material price-sensitive information.

In addition to the black-out policy on SGX shares, staff and their "connected persons" who want to trade securities of any company listed on Singapore Exchange Securities Trading Limited (SGX-ST) must seek prior approval from management. In addition, directors and staff are prohibited at all times from trading if they are in possession of material non-public information.

From 2010 onwards, to maintain awareness and compliance with the Code of Dealings, all SGX employees are required to complete an annual online refresher module and submit a certification of their understanding and compliance with the Code of Dealings.

The Board and management believe that SGX has not only complied with the Listing Manual, but with industry best practices.

## **OTHER CODES**

### **Code of Confidentiality**

The SGX group of companies deals with confidential information on a daily basis. Hence, protecting the confidentiality of information is of paramount importance to creating and maintaining the trusted marketplace envisaged in SGX's Mission. SGX is also obligated by law under the SFA to maintain confidentiality of user information, which refers to transaction information of a member or its customer. SGX has a Code of Confidentiality which aims to provide clear guidance to its staff on the proper management, use and disclosure of the different types of confidential information.

### **Code of Conduct & Ethics for Employees**

SGX has a Code of Conduct & Ethics for Employees (Code of Conduct & Ethics) that sets the standards and ethical conduct expected of staff. The Code of Conduct & Ethics covers all aspects of the business operations of SGX such as confidentiality of information, related party transactions, gifts, gratuities or bribes and dishonest conduct. Staff are required to observe and maintain high standards of integrity, as well as compliance with laws and regulations, and company policies.

## Composition Requirements for the Board and Board Committees per the SFR 2005

No.	Board/Board Committee	SFR 2005 Reg No.	Composition requirements				
			Independent from management and business relationships	Independent Directors*	Independent from any single substantial shareholder	Additional requirements	Composition requirements fulfilled
1	Board of Directors	6	Majority	One-third	Majority	N.A.	Yes
2	Audit Committee (AC)	14	3 directors	Majority (including AC chairman)	N.A.	Must comprise at least 3 directors	Yes
3	Nominating Committee	9	Majority	One-third	Majority	Must comprise at least 5 directors	Yes
4	Regulatory Conflicts Committee (RCC)	15	3 directors	N.A.	Majority (including RCC chairman)	Must comprise at least 3 directors	Yes
5	Remuneration Committee (RC)	13	Majority (including RC chairman)	One-third	Majority	Matters referred to in regulation 3(3)(c), (d) and (e) do not apply to at least 3 directors	Yes
6	Risk Management Committee	7	N.A.	One-third	Majority	N.A.	Yes

\* Independent from management and business relationships, and from any substantial shareholder.

## DIRECTORS' MEETING ATTENDANCE REPORT

Name of Director	SGX Board		Audit Committee				Nominating Committee			
	Number of meetings held	Number of meetings attended	Chairman	Members	Number of meetings held	Number of meetings attended	Chairman	Members	Number of meetings held	Number of meetings attended
J Y Pillay (SGX Chairman)	6	6			4 <sup>#</sup>	3 <sup>#</sup>			2 <sup>#</sup>	2 <sup>#</sup>
Hsieh Fu Hua <sup>1</sup>	4	4			2 <sup>#</sup>	2 <sup>#</sup>			—	—
Magnus Bocker (CEO) <sup>2</sup>	6	6			4 <sup>#</sup>	4 <sup>#</sup>			2 <sup>#</sup>	2 <sup>#</sup>
Chew Choon Seng	6	5			—	—		√	2	2
Euleen Goh	6	5		√	4	4			—	—
Ho Tian Yee	6	6		√	4	4		√	2	2
Lee Hsien Yang	6	6	√		4	4			—	—
Loh Boon Chye	6	5		√	4	4		√	2	2
Low Check Kian	6	6			—	—	√		—	—
Ng Kee Choe	6	5			—	—		√	2	1
Robert Owen	6	6			—	—			—	—
Liew Mun Leong <sup>3</sup>	6	4			—	—			—	—

# By invitation

<sup>1</sup> Hsieh Fu Hua ceased employment as Chief Executive Officer with the Company with effect from 30 November 2009, and on the same date he resigned as a Director of the Company.

<sup>2</sup> Magnus Bocker was appointed Chief Executive Officer and Executive and Non-independent Director with effect from 1 December 2009.

<sup>3</sup> Liew Mun Leong was appointed to the Board as an Independent Non-executive Director on 1 July 2009.

## ASSESSMENT OF INDEPENDENCE OF INDIVIDUAL DIRECTORS

All references to Regulations are a reference to the SFR 2005, which can be obtained from [www.agc.gov.sg](http://www.agc.gov.sg)

No.	Name of Director	Independence status under the Code	Independence status under the SFR 2005	Reg 3(1)(a) Independent from management relationship	Reg 3(1)(b) Independent from business relationship	Reg 4 Independent from substantial fulfilled
1	J Y Pillay	No	No <sup>1</sup>	No	Yes	Yes
2	Magnus Bocker	No	No <sup>2</sup>	No	No	Yes
3	Chew Choon Seng	Yes	Yes	Yes	Yes	Yes
4	Euleen Goh	Yes	Yes	Yes	Yes	Yes
5	Ho Tian Yee	Yes	Yes	Yes	Yes	Yes
6	Lee Hsien Yang	Yes	Yes	Yes	Yes	Yes
7	Loh Boon Chye	Yes	No <sup>3</sup>	Yes	No	Yes
8	Low Check Kian	Yes	Yes	Yes	Yes	Yes
9	Ng Kee Choe	Yes	Yes	Yes	Yes	Yes
10	Robert Owen	Yes	Yes	Yes	Yes	Yes
11	Liew Mun Leong	Yes	Yes	Yes	Yes	Yes

<sup>1</sup> J Y Pillay was the Executive Chairman of SGX till 28 September 2007. He is non-independent from management by virtue of Reg 3(2)(a), and will be considered independent after 28 September 2010.

<sup>2</sup> Magnus Bocker is the CEO of SGX. He was the President of Nasdaq-OMX, a key technology supplier for SGX. Hsieh Fu Hua, the former CEO who retired on 30 November 2009, was also deemed non-independent.

<sup>3</sup> Loh Boon Chye is non-independent by virtue of Reg 3(1)(b) as he is employed by Deutsche Bank Group which wholly owns Deutsche Futures Singapore Pte Ltd, an SGX member firm.

Remuneration Committee				Risk Management Committee				Regulatory Conflicts Committee				Annual General Meeting	Extra-ordinary General Meeting
Chairman	Members	Number of meetings held	Number of meetings attended	Chairman	Members	Number of meetings held	Number of meetings attended	Chairman	Members	Number of meetings held	Number of meetings attended		
		2 <sup>#</sup>	2 <sup>#</sup>			2 <sup>#</sup>	2 <sup>#</sup>			4 <sup>#</sup>	4 <sup>#</sup>	1	1
		1 <sup>#</sup>	1 <sup>#</sup>			1 <sup>#</sup>	1 <sup>#</sup>			1 <sup>#</sup>	1 <sup>#</sup>	1	1
		2 <sup>#</sup>	2 <sup>#</sup>			2 <sup>#</sup>	2 <sup>#</sup>			4 <sup>#</sup>	4 <sup>#</sup>	1	1
	√	2	2			–	–			–	–	1	1
	–	–	–		√	2	2		√	4	3	1	1
	–	–	–		√	2	2			–	–	1	1
	√	2	2			–	–			–	–	1	1
	–	–	–		√	2	2			–	–	1	1
	√	2	2			–	–			–	–	1	1
	√	2	2		√	2	2			–	–	1	1
	–	–	–		√	2	2		√	4	4	0	0
	–	–	–			–	–		√	4	4	1	1