New stewardship principles urge responsible use of influence

Seven key principles to guide investors with aim of improving corporate governance; adoption completely voluntary

By Kenneth Lim
kenlim@sph.com.sg
@KennethLimBT

Singapore

THE investment industry is confronting its duty to improve corporate governance with a list of best practices aimed at fostering responsible and active investing.

The Singapore Stewardship Principles (SSP), coming after two years of work, focuses on seven key principles. Adoption is, by design, completely voluntary. The hope is that as many investors as possible in Singapore will use the principles, tailored if necessary to their specific circumstances, to benefit both stakeholders and society in the long term.

"The SSP is intended to improve upon this healthy environment by encouraging investors and companies to voluntarily pursue the spirit of stewardship together with good governance, with the objective of sustaining their responsible good performance over the long term," Stewardship Asia Centre (SAC) chief executive Ong Boon Hwee said in a statement. The SAC chairs the SSP steering committee, which will guide further development of the principles in the future.

The Singapore stewardship movement, which is in line with initiatives in other markets, is grounded in the idea that investors, as asset owners and deployers of capital, enjoy significant influence and should therefore use that power in positive ways.

According to the SSP, investors should:

- Establish and disclose stewardship policies;
- Know their investments by regularly communicating with investee companies;
- Actively monitor and engage with investee companies;
- Uphold transparency in managing conflicts of interest;
- Vote responsibly;
- Document and provide relevant updates on stewardship activities to set a good example; and
- Work together with one another when appropriate.

> "We really, really don't want it to become in some way, even unwittingly, an administrative burden, or in some way a box-ticking exercise."
>
> **Stewardship Asia Centre (SAC) chief executive Ong Boon Hwee**

The principles address a pillar of governance that has rarely been the focus over the past few years, said Adrian Chan, deputy chairman of the Singapore Institute of Directors' advocacy and research committee.

"The corporate governance ecosystem, as Singapore matures as a market, the role that institutional investors can play is the missing jigsaw piece, so this actually plugs the gap. Previously it was a little board-centric, and where regulators play a big role."

The new principles, by contrast, were initiated by and undertaken by the industry. The working group that formed the principles comprised 11 organisations across the stakeholder spectrum, alongside support by the Monetary Authority of Singapore (MAS) and the Singapore Exchange.

Unlike other markets, such as the United Kingdom, where the stewardship code is recommended on a comply-or-explain system, the Singapore group decided to make its version completely voluntary. There are currently 38 firms that have expressed support for the guidelines, but there is no central body tasked to verify abidance.

"I don't think it's appropriate for us as a community to oblige all investors, regardless of strategy, regardless of size, to do this," said David Smith, head of corporate governance at Aberdeen Asset Management Asia, who was also part of the working group.

Mr Ong added that it was more important for investors to understand and adopt the principles than to impose rules that might devolve into a box-ticking exercise.

"We really, really don't want it to become in some way, even unwittingly, an administrative burden, or in some way a box-ticking exercise," he said. "Just check the box and you would have accomplished fulfilling the rules."

Even if there is no regulatory force behind the principles, Mr Ong hoped that their existence will foster positive action by getting investors to address the issue and be part of a like-minded network.

"A lot of content or a lot of good practices are built one upon the other," he said. "So by propagating or announcing a set of principles, you sort of create a conversation and that conversation could have a larger impact to reach out to a much wider circle."

MAS lauded the new principles.

"MAS commends the Singapore Stewardship Principles (SSP) developed by the industry working group," a spokesperson for the financial regulator said.

"Effective stewardship by shareholders is an important complement to strengthening corporate governance. Shareholders, in particular institutional investors, can now take guidance from the SSP in their engagements with companies' board and management."