SGX makes good disclosures, but needs more transparency on share plans

This is in the case of cash-based remuneration, where no shareholder approval is needed and all rests with the remuneration committee and the board having enough information, by M.K. Yuen Te H.

In Sept 20, the Singapore Exchange (SGX) held its annual general meeting (AGM), which, according to news reports, was dominated by questions about listed companies' use of cash balances and their shareholders' future. A large number of shareholders at the AGM voted to reject the proposal of restricted share plans (RSP), in part because of the high percentage of shareholders voting against any resolution. To put this in context, studies of AGMs in 2014, 2015 and 2016 by Chew Yi Feng and me show that the average percentage of shareholders voting in favour of share and share option schemes is more than 50 per cent. In 2016, out of 190 resolutions for performance or restricted share schemes, only three issues received less than the support required by SGX for an RSP – with all approval by shareholders; another eight received less than 80 per cent support.

The fact that SGX proposed to shareholders for approval for what turned out to be a rather unpopular plan should be a matter for the board and in Remuneration and Staff Development Committee (ROSC) to think about. That being said, eight of the 11 resolutions, including all the resolutions relating to the election or re-election of directors, recommendation on the issue of bonus shares to two others relating to the re-appointment of external auditors and general shareholders' meeting, received more than 90 per cent, as there are no indications of a shareholder revolt. In terms of remuneration disclosure, SGX is one of the best, if not the best, among listed companies here.

PARTICIPATION OF NEDs:

Let's look at the RSP, which is to be used as a supplement to the existing performance share plan (PSP). Approval by shareholders in 2015, non-executive directors (NEDs), including independent directors, are eligible to participate in the plan. NEDs obtain restricted shares in the form of cash fees or where the Committee deems appropriate, to recognise the contribution made by each.

SGX revealed that it has introduced a new "cash-settled share option scheme" in which NEDs may elect to have up to 70 per cent of their annual cash fees paid as options. The cash-settled share option scheme is only available to NEDs with a minimum of five years of experience and a remuneration of at least 10 per cent of the average of the market median remuneration of independent directors.

GROUP EMPLOYEES:

SGX said that it is intended "to serve as an additional motivational tool to attract and retain Group Employees whose contributions are essential to the long-term growth and profitability of the Group and to give recognition to outstanding Group Employees who have contributed to the growth of the Group."

There is no requirement for any performance conditions to be set. The RSD has almost total discretion regarding the grant of shares to employees under the RSP, including interna, number of shares, vesting periods, retention period, special provisions relating to vesting and lapsing of awards, and cancellation of awards.

The only limitation is that the total number of new shares issued under the share schemes cannot exceed 10 per cent of the total number of outstanding shares. It is therefore possible that employees are given additional shares under the RSP for "retention" reasons, if shares under the RSP do not vest because performance conditions are not met.

One supporter for the RSP may indicate that shareholders are comfortable approving essentially a "blank cheque" plan with no performance conditions for executives, even if they believe that the executive administering the plan are truly independent.

CHANGES IN THE PSP:

This leads me to the company's PSP. In April this year, the board announced some changes to the PSP. The new PSP, as proposed by the remuneration committee, is to be implemented in three stages, with Stage 1 being the most significant.

Stage 1 involves the introduction of a share-based performance plan (SBPP) for eligible employees, including executive directors. In Stage 2, the SBPP will be extended to non-executive directors.

The new SBPP is designed to align the interests of employees with the long-term performance of the Group, and to provide a competitive remuneration package for employees.

The new SBPP is intended to be introduced in the first quarter of the financial year 2016, and is expected to be implemented within the fiscal year 2016/2017.

The new SBPP features a "purposeful" component, which is designed to provide incentives for employees to achieve specific goals. This component is linked to the Group's strategic objectives and is intended to ensure that employees are aligned with the overall objectives of the Group.

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