NUS National University of Singapore

CORPORATE GOVERNANCE

Good governance for vibrant capital markets: towards a market-centric dynamic index

The tweaks to the Singapore Governance and Transparency Index reflect the continuous changes in sustainable governance regulations and practices.

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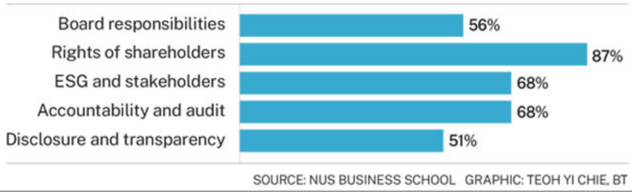
IN 2024, the Singapore Governance and Transparency Index (SGTI) was re-introduced as a dynamic index designed to reflect continuous changes in sustainable corporate governance regulations and practices. The index placed greater emphasis on environmental, social, and governance (ESG), increasing both the number of sustainability-related questions and its overall weighting.

Building on this foundation, SGTI 2025 further expands this framework by incorporating additional sustainability disclosures, including climate reporting.

SGTI 2025 had a mean score of 70.9 points out of a maximum achievable score of 143 points. The base score covers five dimensions: Board Responsibilities (35 points), Rights of Shareholders (10 points), ESG and Stakeholders (20 points), Accountability and Audit (10 points), and Disclosure and Transparency (25 points). The final score is derived from the base score and an adjustment for bonuses and penalties. (See story below).

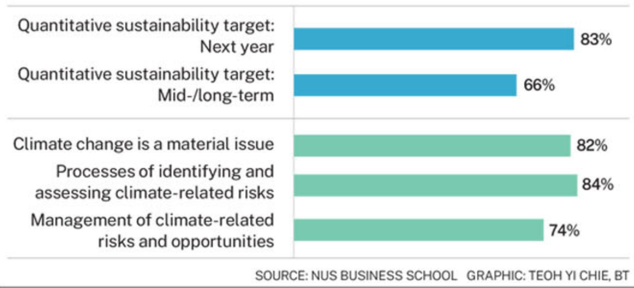
Companies show the strongest performance in disclosures relating to shareholder rights (mean normalised score of 87 per cent), followed by sustainability-related matters and accountability and audit (both having a mean normalised score of 68 per cent).

BREAD sectional scores



SOURCE: NUS BUSINESS SCHOOL GRAPHIC: TEOH YI CHIE, BT

Sustainability targets and climate reporting



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Progress needed on ESG targets and climate risks

Companies could further improve their sustainability reporting by advancing their sustainability targets beyond the short term. Targets are one of the primary components required of sustainability reports and, according to SGX Practice Note 7.6, should be considered for the short, medium and long term.

Over 80 per cent of companies disclose quantitative sustainability targets for the next year.

But only two-thirds of companies disclose such targets for the mid- to long term. Short-term targets are important and necessary because they show that companies are taking specific, concrete actions towards sustainability. This enables them to make some immediate progress, which in turn can help to strengthen investor confidence.

However, longer-term targets are equally important, allowing companies to address more complex sustainability issues. Such targets facilitate a more strategic approach to sustainability, integrating it with long-term business growth and risk-management strategies. This helps to demonstrate companies' ongoing commitment to sustainability and can help them to avoid accusations of greenwashing.

Another area in which companies could improve their sustainable corporate governance is in their climate reporting. Again, over 80 per cent of companies identify climate change as a material issue and disclose their processes for identifying and assessing climate-related risks.

Fewer companies go further to report how they are managing their climate-related risks and opportunities. Transparency in climate reporting means not only identifying risks, but also explaining how those risks are being addressed, and how opportunities are being leveraged.

Limited disclosures may hinder investors and other stakeholders from gaining the comprehensive understanding needed for assessing how effectively the company is addressing climate-related risks, opportunities and evolving standards.

Value measures for market-centric assessment

The national initiative to revitalise Singapore's equities market has gained significant attention. A recent review of it led to the announcement of several measures aimed at enhancing trading liquidity. Among these was the intention to move Singapore to a more disclosure-based regime. This requires key stakeholders to actively assume their roles and responsibilities. For issuers, this includes upholding and strengthening corporate governance, and giving renewed attention to shareholder value creation.

The next phase of SGTI will take these two priorities as a starting point. On the one hand, assessment of corporate governance disclosures and practices will continue to be the mainstay of the index.

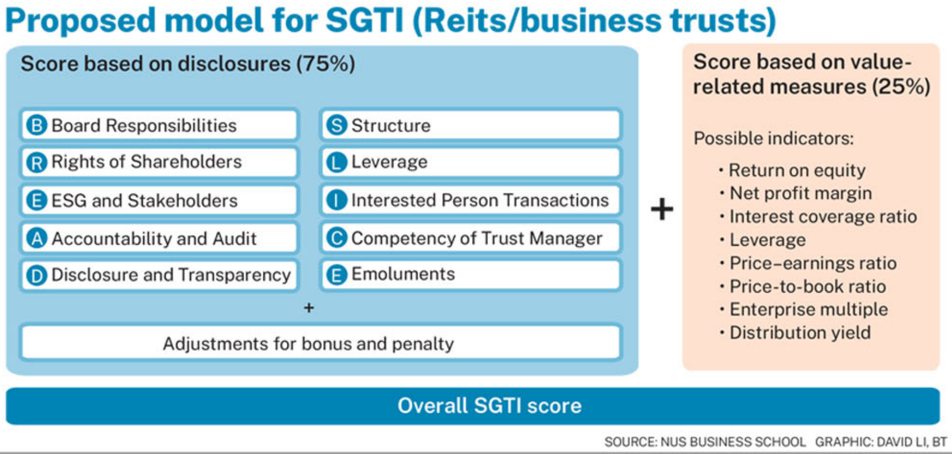
On the other, we propose adding a new dimension, reflecting the fact that creating value for shareholders is a fundamental objective of corporate governance.

Specifically, we propose including value-related indicators based on financial statements or stock-related data, either separately or in combination. Some of these could include return on equity, net profit margin, leverage, price-earnings ratio, price-to-book ratio or the enterprise multiple (enterprise value/earnings before interest, taxes, depreciation and amortisation).

Indicators based on specific aspects such as dividend yield could also be included. These value measures would account for 25 per cent of the total SGTI score, with disclosure-based assessment making up the remaining 75 per cent.

Among the changes announced following a review of the national initiative to revitalise the equities market is a plan to move Singapore to a more disclosure-based regime. PHOTO: REUTERS

Proposed model for SGTI (Reits/business trusts)



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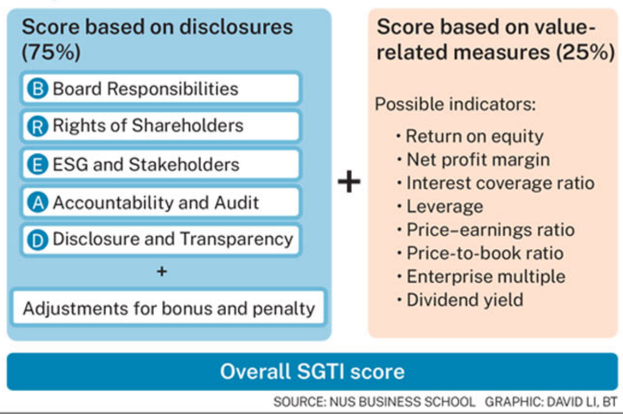
Proposed model for SGTI



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Assessment for Reits and business trusts would follow a similar framework, although they would continue to have additional coverage of trust-specific items (structure, leverage, interested-person transactions, competency of Reit manager or trustee-manager, and emoluments).

By incorporating company performance on market-related indicators, SGTI would have the potential to uncover value stocks that possess both good governance and market-related performance metrics. Since SGTI assesses all issuers, it could also support the broader efforts to place greater focus on small- and mid-cap companies.

Beyond ESG to EESG

This also allows for a wider consideration of sustainability, going beyond ESG to EESG, where the first "E" refers to economics. Much of sustainability has focused on ESG factors.

However, economics is also a key dimension, because corporate sustainability requires financial viability. Also, shareholders are a company's primary stakeholder group. A more market-oriented assessment would better assess the degree to which their interests are being upheld, not just by evaluating transparency and disclosures, but also by considering financial outcomes.

Sustainable corporate governance is not only about what is disclosed; it is also about what is delivered. CGS invites comments on this proposal. Please send your suggestions to *cgs@nus.edu.sg*. Comments are requested by Sep 30, 2025.

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