KEYNOTE ADDRESS BY MS LIM SOO HOON, CHAIRMAN, ACCOUNTING AND CORPORATE REGULATORY AUTHORITY AT THE CPA FORUM 2013 ON THURSDAY, 1 AUGUST 2013, MANDARIN ORCHARD HOTEL

Associate Professor Themin Suwardy

Mr Low Weng Keong

Distinguished guests

Ladies and gentlemen

Good morning. I am pleased to join all of you at the CPA Forum 2013.

2. Next week, Singapore will be celebrating its 48^{Th} birthday as an independent nation. I often take for granted how fortunate we are to be in this place, but I am reminded each day as I read or watch the news of events in the world around us. One of the key reasons for us being who and what we are today is because since young, it has been deeply impressed upon each and every Singaporean that we are relevant only because we add value to others. Our economy thrives because we believe in making sure it remains competitive. And a key aspect of our competiveness is the reputation Singapore has earned as a trusted business hub. The confidence of investors and shareholders is bolstered when the business environment is transparent with high standards of corporate governance, and with strong regulatory frameworks in place.

3. Such a climate does not come about by accident. We have worked hard to ensure that our business climate remains fair and transparent in order for Singapore to remain competitive and we must continue to do so. Last year, the revised Code of Corporate Governance was issued, marking another major step in our corporate governance journey. A major review of the Companies Act that started some years back is

reaching its conclusion. Earlier this year, public feedback was sought on the draft Companies (Amendment) Bill 2013. We expect to have the Bill tabled at Parliament by early next year. All these efforts will help Singapore maintain its reputation and branding for trust and integrity.

4. As a result, we have been consistently rated by the World Economic Forum's Global Competitiveness Report as having the best corporate boards in Asia for supervising company management[1]. We have also retained our top ranking last year among Asian countries rated by the Asian Corporate Governance Association's Corporate Governance Watch 2012[2].

Fostering a Spirit of Accountability

5. Good corporate governance, however, is more than just gaining accolades and setting standards. Guidelines and legislation alone cannot assure us of high standards of practice. No amount of regulation and codes of corporate governance can prevent all fraud or failure.

6. Governance is a culture. Setting the right tone at the top is crucial in providing effective governance and inculcating a spirit of accountability. This was a key observation that the Asian Corporate Governance Association made about Singapore when it published its Corporate Governance Watch report last year.

7. Despite our top ranking, the report noted that Singapore had not shown much improvement in terms of corporate governance culture. In particular, there was room for improvement with regard to whether listed companies believe that corporate governance provides tangible benefits,

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[1] The World Economic Forum's Global Competitiveness Report has rated Singapore as the highest ranked country in Asia in terms of Efficacy of Corporate Boards for the past 5 years.

[2] Singapore was ranked at the top of the latest Corporate Governance Watch 2012 report, recently published by the CLSA Asia-Pacific Markets and the Asian Corporate Governance Association.

whether companies genuinely try to follow the spirit of the rules, and show leadership by going beyond what the rules require

8. Indeed, companies should not be equating effective governance with merely meeting the demands of the law and the regulators. If companies seek only to comply with the letter and not the spirit of the law, then the goal of good corporate governance will become that much harder to attain.

Strengthening the Corporate Governance Culture

9. This morning I would like to focus on three key players in the corporate governance eco-system: directors, CEOs and CFOs. All three play crucial roles in strengthening the corporate governance culture in Singapore. As corporate leaders, these players provide the moral compass that guide a company's actions, and their example sets the standard for integrity and ethical behaviour among the officers of the company.

10. The top leadership's approach to the issue of corporate governance determines if the rest of the company will view corporate governance as merely a checkbox-ticking exercise, as opposed to one which truly embodies the spirit of the guidelines and legislation.

Directors

11. Let me first focus on the role of directors. As directors, your principal role is to steward the company and steer its course in the best interest of all stakeholders. Board directors, especially those who serve on the company's audit committee, provide an independent check against abuses of power by management and controlling shareholders.

12. Given the recent volatility of financial markets, investors are increasingly concerned about the risk management practices and

capabilities of listed companies, especially those operating in multiple jurisdictions. Directors therefore play a key role in improving transparency in communication with shareholders.

13. This is a key principle that this year's top ranked companies in the Governance and Transparency Index have taken firmly on board. Many have taken the extra effort to improve transparency and disclosure. In particular, these companies made detailed disclosures on directors' training programmes and their top leadership, providing assurance on the integrity of the companies' financial statements. I noted that Property developer CapitaLand even provided additional and voluntary disclosure on the succession planning for the board and senior management.

Chief Executive Officers (CEOs)

14. The next most important key player is the CEO. As the key person tasked with the responsibility of executing the board's strategic directions, the CEO has great influence in decision-making and in steering the operations of the entire company.

15. The CEO and management team very much set the tone for the culture of compliance within the company. It is incumbent upon them to continually emphasize its importance, dedicate resources to the training of relevant personnel and sift out non-compliant business practices.

16. The CEO also has to help clarify the company's position to the shareholders. This requires CEOs to have a broad understanding of the corporate governance framework in order to ensure that business decisions comply with rules and regulations.

Chief Financial Controllers (CFOs)

17. I turn next to CFOs. Their fundamental role as good financial stewards with high ethics and integrity has not changed. In addition,

CFOs are now expected to take on other key responsibilities. Their role goes beyond financial management and accounting to include strategic business planning and risk management.

18. CFOs must act as advocates for good governance and of true and fair reporting, just as lawyers act as advocates for the rule of law. When helping companies adapt to new financial reporting standards, CFOs need to explain why these changes are taking place and how they strengthen the organisation's governance. On their shoulders lies the task of ensuring compliance with financial reporting standards, as well as ensuring that its benefits are communicated to staff and shareholders alike.

Leading the way in Quality Financial Reporting

19. Indeed, financial reporting is an area where Directors, CEOs and CFOs all play a particularly crucial corporate governance role. They must not only ensure that financial statements and disclosures comply with financial reporting standards, but more importantly, provide an accurate financial health report of the company, with relevant information about the future risks of the company.

20. Investors, creditors and other market participants rely on getting accurate, timely and comparable financial information from public companies. The efficient allocation of capital depends on financial reports that provide a realistic picture of a company's past performance and future prospects.

21. In recent years, the increasing complexity of accounting standards, and the volatility of global markets and shortening of business cycles have made it even more important that those involved in the financial reporting process provide accurate and timely financial information to retail and institutional investors alike.

22. To help ensure that financial information continues to remain reliable and trusted, the Accounting and Corporate Regulatory Authority (ACRA) regulates the entire financial reporting value chain.

23. Directors are required to ensure financial statements comply with FRS while auditors must ensure they perform audits according to auditing standards. There is also the statutory requirement for companies to file within certain timeframes so that financial information stays relevant.

24. In late 2011, ACRA also initiated a Financial Reporting Surveillance Programme which targets enforcement of companies and directors who breach the financial reporting standards. This programme is ready to move beyond its pilot phase and surveillance will be gradually stepped up. But to truly achieve quality financial reporting, enforcement and compliance measures alone will not suffice.

25. This is where Directors, CEOs and CFOs must take the lead. Quality financial reporting starts with having the right processes, competent financial preparers and tapping on technology to improve and automate processes.

26 Take for example, audit committees. Being led by independent directors who should have relevant financial experience, audit committees play a critical role in boosting investor confidence in the company's financial reporting. It is especially important that audit committees oversee the external audit in the best interests of investors. One of the primary duties of audit committees is to choose the right auditor. In doing so, audit committees should avoid the short-sighted approach of selecting based on price alone. Audit is a complex undertaking requiring the highest standards of professional judgement, integrity and expertise. To truly protect the interest of the company and its stakeholders, audit committees should consider very seriously factors

such as quality and reliability in addition to price when purchasing audit services.

27 Having chosen the right auditors, it is also paramount that management takes the auditor’s findings in the right spirit and correct deficiencies highlighted. In this regard, audit committees set the tone by exhorting management to do the right thing.

28 To help companies boost the quality of their financial reporting, ACRA and its professional partners are working on initiatives that will improve the financial preparation process. This includes helping audit firms to raise the quality of their audits. Audit firms are being encouraged to make attracting and retaining talent a priority, making processes more productive and providing adequate training and quality controls to ensure better quality audits. On ACRA’s part, we will continue to keep up the pressure and level the playing field by maintaining audit standards through our practice monitoring and disciplinary processes.

29 Companies should also leverage on initiatives such as the Governance and Transparency Index which provides a good gauge of the state of corporate governance practices and offers the opportunity for self-evaluation. I understand that we will be seeing the latest results of the Index shortly.

30 I am told that there has been consistent improvement in the Index. In the latest results, close to half of the companies surveyed improved their score by 1-10 points with 16% improving by more than 10 points.

31 On the other hand, 33% saw a decline in score. These companies suffered from inadequate disclosures and being unresponsive to investors. I urge these companies to make corporate governance a priority. If you want to stand apart from your peers and gain an advantage in accessing capital from international investors through the

capital markets, good corporate governance should be a “must-have” rather than a “nice-to-have”.

32 For companies keen to take a pro-active approach, I am heartened to note that more help is also being rolled out. Today’s launch of the second volume of Corporate Governance Case Studies by CPA Australia, is an excellent example of how academia can work with industry to help strengthen corporate governance.

33 Compiled from teaching case studies by the NUS Business school, the book features cases with governance-related issues such as accounting irregularities, unauthorised transactions and missing cash. Many of the cases carry a familiar narrative – red flags in the accounting or financial results, followed by inadequate and unsatisfactory disclosure, leaving shareholders frustrated. They further underscore the importance of rigorous corporate governance and the need for an independent and questioning board.

Conclusion

34 **I**mproving corporate governance is a collective responsibility. If Singapore is to maintain its reputation for trust and integrity and its pole position as a regional financial centre, it is imperative for all corporate leaders to take ownership and lead by example within your companies. Trust is a rare commodity that takes time to build and only an instant to lose. We must jealously guard our hard-earned reputation and brand name as a trusted business hub, and continually raise the bar as far as corporate stewardship is concerned.

35 Thank you and let me wish all of you a fruitful conference for the rest of the day.