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April 3, 2018

The Secretariat, Corporate Governance Council  
C/o Markets Policy & Infrastructure Department  
Monetary Authority of Singapore (MAS)  
10 Shenton Way, MAS Building  
Singapore 079117

**Re: Consultation Paper P002-2018 Recommendations of the Corporate Governance Council**

Dear Mr. Chew Choon Seng and Corporate Governance Council Members:

We are writing on behalf of the California State Teachers' Retirement System (CalSTRS) in response to the request for public comments on the Corporate Governance Council's consultation paper concerning proposed amendments to the Singapore Exchange (SGX) (SGX-ST- SGX LR) Listing Rules. CalSTRS is the largest educator only pension fund in the world, with a global investment portfolio valued at approximately \$224.4 Billion as of February 23, 2018.<sup>1</sup> We serve the investment and retirement interests of more than 914,454 plan participants and their beneficiaries.<sup>2</sup> CalSTRS believes an essential part of managing our portfolio is promoting good corporate governance and stewardship at companies we hold in our investment portfolio.<sup>3</sup> Therefore, we appreciate the opportunity to respond to this consultation in regards to the Singapore Exchanges' Listing Rules.

CalSTRS is an active shareholder and invests in more than 8,000 global equity securities valued at over \$123.2 billion, which includes \$713 million in companies listed on the SGX. As a long-term steward of capital, we are keenly interested in how corporate governance and

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<sup>1</sup> CalSTRS Current Investment Portfolio for the period ending February 28, 2018  
<https://www.calstrs.com/current-investment-portfolio>

<sup>2</sup> CalSTRS at a Glance, Fact Sheet: <http://www.calstrs.com/sites/main/files/file-attachments/calstrsataglance.pdf>

<sup>3</sup> CalSTRS, "Our Fiduciary Responsibility Comes First", April 2, 2010. <http://www.calstrs.com/blog-entry/our-fiduciary-responsibility-comes-first>

Mr. Chew Choon Seng, Chairman  
Members  
Corporate Governance Council  
Monetary Authority of Singapore  
4/3/2018  
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listing rule requirements are approached in Singapore. [CalSTRS' Corporate Governance Principles](#) support the Corporate Governance Council's recommendations to the SGX.

Our response in your suggested format follows.

Thank you for the opportunity to comment and provide support to the recommended Singapore Exchanges' Listing Rules amendments. If you have any questions please contact Mary Hartman Morris, Investment Officer, [Mmorris@calstrs.com](mailto:Mmorris@calstrs.com) or +916-414-7912.

Sincerely,



Aeisha Mastagni, Co-Interim Director



Brian Rice, Co-Interim Director  
Corporate Governance  
California State Teachers' Retirement System

RESPONSE TO CONSULTATION PAPER

|  |  |
|--|--|
| <b>Consultation topic:</b>   | Consultation Paper on Recommendations of the Corporate Governance Council  |
| <b>Name<sup>1</sup>/Organisation:</b><br><br><sup>1</sup> if responding in a personal capacity | California State Teachers' Retirement System   |
| <b>Contact number for any clarifications:</b>  | +916-414-7412  |
| <b>Email address for any clarifications:</b>   | Mary Morris, Investment Officer<br><br>Mmorris@calSTRS.com   |
| <b>Confidentiality</b>   |  |
| I wish to keep the following confidential:   | N/A<br><br><i>(Please indicate any parts of your submission you would like to be kept confidential, or if you would like your identity to be kept confidential. Your contact information will not be published.)</i> |

**General comments:**

The California State Teachers' Retirement System (CalSTRS) agrees that this is an appropriate time to review the status of corporate governance and its regulation in Singapore and thank the Council for the opportunity to provide comments from the perspective of a governance-focused international institutional investor.

**Question 1: The Council seeks comments on the draft Introduction**

CalSTRS supports the outlined Revised Code as outlined in Annex C.

**Question 2: The Council seeks comments on its proposed approach to streamline the Code as outlined in Paragraph 3.4. In particular, the Council would like to seek views on:**

**[Annex E Table 1: Requirements Shifted from Code to SGX Listing Rules](#)**

- a. **the 12 Provisions (or Guidelines) set out in Annex E, Table 1 to be shifted to the SGX LR;** CalSTRS supports Table 1 requirements shifted from Code to SGX Listing rules

**[Annex E Table 2: Requirements Removed from Code](#)**

- b. **the 15 Provisions (or Guidelines) set out in Annex E, Table 2 to be removed from the Code; and** CalSTRS does not believe Table 2 requirements should be removed from the Code. Although the intent is to reduce the length and prescriptive nature of the Governance Code; we believe these requirements can be seen as a foundation of good governance, allowing for application at company specific explanations versus boiler plate language.

**[Annex E Table 3: Requirements Shifted from Code to Practice Guidance](#)**

- c. **the 24 Provisions (or Guidelines) set out in Annex E, Table 3 to be shifted to the Practice Guidance.** CalSTRS is neutral on whether these requirements should be shifted from the Code to Practice Guidance as long as these requirements continued to be exercised diligently.

**Question 3. The Council seeks views on whether the Practice Guidance provides useful guidance, albeit non-binding, to help companies comply with the Code and adopt best practices. The Council also welcomes suggestions on the topics to be covered by the Practice Guidance.**

## **Annex F Practice Guidance**

CalSTRS believes the Practice Guidelines will be a useful reference. As noted in our response to Question 14, we believe the Practice Guidelines for the new Principle on stakeholder engagement should recommend that each company disclose all material stakeholder groups, the key issues relevant to each, and the company's policies, procedures and engagement activities with each such group.

### **Question 4. The Council seeks comments on its proposed approach to rationalise the tests of director independence as outlined in Paragraph 4.3.**

CalSTRS is a proponent of providing disclosures on director(s) independence. CalSTRS embraces the importance of independent directors as outlined in our Corporate Governance Principles (1. b.) stating that boards should be comprised of at least two-thirds of independent directors. However, CalSTRS recently amended its principles to allow for support and vote for current qualified independent directors in markets where independent boards are not the norm.

## **CalSTRS Corporate Governance Principles, updated November 1, 2017**

### **Question 5. The Council seeks comments on the recommendation to lower the shareholding threshold for assessing director independence from 10% to 5%, and the adequacy of a three-year transition period.**

CalSTRS opposes the Council's recommendation to lower the shareholding threshold for assessing director independence from 10% to 5%. Where there is a single shareholder or group that exercises effective control of the company, a director affiliated with a large shareholder that is not affiliated with the controllers should not be disqualified as an ID.

The Introduction to the Recommendations states that "a majority of SGX-listed companies have concentrated ownership structures" and "it is important for independent directors ("IDs") in such companies to not be beholden (perceived or otherwise) to certain *controlling shareholders*" (emphasis added). This reflects the Council's correct understanding that the main challenge to a board's ability to act in the interests of all shareholders equally is the possibility that the *controlling shareholders'* interests are not always aligned with those of the minority shareholders.

In our experience, it is precisely directors nominated by large minority shareholders that are best able to effectively exercise the independent judgement necessary to counterbalance the interests of the controlling shareholders. Where there is a controlling shareholder, the interests

of large minority shareholders are likely to be completely aligned with those of all other minority shareholders. And it is the large minority shareholders who are likely to have the resources and the influence to nominate capable directors and support them in their work. Retail investors are not able to do this. Accordingly, the Council should be affirming, rather than restricting, the qualification as IDs of directors nominated by large minority shareholders in companies (like the majority of SGX-listed firms) that have controlling shareholders.

**Question 6. The Council seeks comments on the two options: (i) to incorporate the nine-year rule as a hard limit, or (ii) to subject IDs who would like to serve more than nine years to a two-tier vote – all shareholders and non-controlling shareholders (as defined in the SGX LR). Both options will be SGX LR requirements. The Council also seeks views on the adequacy of a three-year transition period.**

CalSTRS supports a periodic review of a Board's composition and skill-sets of the board as tied to the current company's long-term strategy and business plan. We agree that directors after serving a long period of service may no longer be independent, therefore supporting an annual board evaluation, periodic refreshment and renewal of the Board. Although, CalSTRS Corporate Governance Principles do not outline a hard limit on the number of years a director can serve before they are no longer considered independent, CalSTRS supports a rigorous review after the nine-year rule with disclosure of how the independence or non-independence was established for board members. See CalSTRS response to Question 4 which outlines our perspective on the need for independent boards.

**[Also see Director Tenure as outlined in CalSTRS Corporate Governance Principles, 2 Board Structure, e. Board Refreshment, iii. Director Tenure.](#)**

**Question 7. The Council seeks comments on the recommendation for companies to separately disclose non-controlling shareholders' votes on appointments and re-appointments of IDs who serve less than nine years.**

CalSTRS agrees with the recommendation. Separate disclosure of non-controlling shareholder's votes on appointments and re-appointments of IDs allows investors to better gauge minority shareholder support for or dissatisfaction with IDs.

**Question 8. The Council seeks views on any operational issues with the separate disclosure of non-controlling shareholders' votes on ID appointments, and suggestions on how such issues could be addressed.**

CalSTRS believes companies should easily manage disclosing non-controlling shareholder votes on independent directors.

**Question 9. The Council seeks comments on the recommendation to shift the baseline requirement for at least one-third of the board to comprise IDs to the SGX LR.**

CalSTRS agrees with the Council's recommendation to shift the baseline requirement for at least one-third of the board to comprise IDs to the SGX LR. However, we urge the Council to reconsider the possibility of raising the minimum independent component of all boards to at least one-half. CalSTRS Corporate Governance Principles and voting practices support board composition of at least two-thirds of independent directors who do not have a material or affiliated relationship with the company, its chairperson, CEO or any other executive officers.

**Question 10. The Council seeks comments on the recommendation for a majority of the board to comprise IDs, if the Chairman of the board is not independent.**

CalSTRS supports the Council's recommendation for a majority of the board to comprise of IDs, if the Chairman of the board is not independent. See our comments in Question 9.

**Question 11. The Council seeks comments on the recommendation for a majority of the board to comprise directors with no management or business relationships.**

We support the recommendation. A majority of the Board, at minimum, should consist of Non-executive directors to ensure the Board's role in the oversight of management.

**Question 12. The Council seeks comments on the recommendations for companies to disclose their board diversity policy and progress made in achieving the board diversity policy (including any objectives set by the companies).**

CalSTRS support the Consultation Paper's objective to promote diversity on boards and in the workplace, including but not limited to the dimensions of "skills, experience, gender and knowledge of the company" as well as its recommendation to include "age." Accordingly, we agree with the proposal to require companies to disclose their board diversity policy and progress made in achieving it. However, we believe the Code Provision would be more effective if it required concrete targets and a timeline to achieve them.

[CalSTRS Corporate Governance Principles](#) state, "Board diversity should be considered by the board or the nominating committee. The director nomination process and policy should consider a diverse mix of skills, background, experience, age, gender, sexual orientation and identification, cultural and ethnic composition that are most appropriate to the company's long-term business needs. The board should disclose the policies or procedures used to ensure board diversity. Diversity goals should include cultural diversity in addition to gender and/or race diversity. CalSTRS will hold members of the board's nominating and governance committee and if necessary the entire board accountable if, after engagement about the lack of board diversity, sufficient progress has not been made in this regard."

Specifically with respect to gender diversity, we believe the Code should be strengthened to require that the disclosed diversity policy include the stated goal of achieving at least 30% female representation on the board, and include a time-bound plan for reaching that objective. The MAS should also require that at least one of a board's female independent directors sit on the Nominating Committee so that a trend toward greater gender diversity becomes self-perpetuating. In the U.S., many cite the "[Rooney Rule](#)" which companies are committing to include women and underrepresented minority candidates in every pool from which Board nominees are chosen and will state this in their Board Refreshment Policies and or Nominating Corporate Governance Charter/Principles.

Corporate leaders are increasingly recognizing the strong business case for board and company diversity. Diversity is good for business and, specifically, good for CalSTRS' investments. CalSTRS highlights the importance of Board Diversity in a [2018 Diversity in the Management of Investments Report](#), Engagement section starting on page 18 which also highlights many studies

supporting the importance of board diversity and CalSTRS engagement initiatives in the marketplace.

There is much supporting the proposition that the presence of women in corporate leadership positions improves firm performance and lowers volatility. A 2016 research report by MSCI ESG found that global companies with strong female leadership (3+ women on the board), enjoyed a return on equity of 10.1% per year vs. 7.4% for those without such leadership. MSCI ESG Research also found that companies with lower board diversity than their country average, experienced 24% more instances of governance-related controversies such as bribery, corruption, fraud and shareholder battles. The magic number seems to be when a board is comprised of three or more diverse members, as this helps avoid tokenism and provides the space for safe expression and fuller contribution (Thwing Eastman, Meggin, Damion Rallis & Gaia Mazzucchelli. "The Tipping Point: Women on Boards and Financial Performance." MSCI ESG Research. December 2016).

A [January 2018 article](#) estimated that Singapore's Diversity Action Committee's (DAC) target of 20% female representation on the boards of listed companies by 2020 will take an additional 130 female directors to be appointed each year. According to an article in the *Business Times*, females held only 12.2% of board seats among the top 100 listed firms in Singapore as of June 2017, while the total representation of women on all companies listed in Singapore was 10.3%. [The Minister for Culture, Community and Youth, Grace Fu, noted that women make up more than 45% of the labor force today in Singapore](#) (Woo, Jacqueline. "[Singapore must appoint 130 new female directors each year to reach 2020 board diversity goal: Grace Fu.](#)" The Business Times. January 27, 2018.) It seems as though Singapore listed companies are not taking full advantage of a large part of the working population.

Progress in increasing gender diversity on corporate boards remains slow outside of markets with mandatory quotas, especially in Asian markets. In addition to the markets mentioned in the paper that require board diversity policy disclosure (U.K., Malaysia, and Australia), Norway, Italy, France and Germany go even further, having instituted mandatory quotas for gender diversity on boards.

Although CalSTRS does not have any Corporate Governance Principles supporting a specific target for women on boards; Singapore could be a leader in Asia in promoting greater gender diversity on company boards. Enhancing this Code Provision to require a specific 30% goal and a time-bound process for achieving it would be a welcome and effective step in this direction.

**Question 13. The Council seeks comments on the recommendations for companies to disclose:**

**a. the relationship between remuneration and value creation; and**

CalSTRS agrees with the recommendation to require disclosure of the relationship between remuneration and value creation.

**b. the names and remuneration of employees who are substantial shareholders or immediate family of substantial shareholders, where such remuneration exceeds S\$100,000 during the year (revised from S\$50,000), in bands no wider than S\$100,000 (revised from S\$50,000).**

CalSTRS Corporate Governance Principles 1.b. Board Independence outlines, “Directors should seek to avoid the appearance of a conflict of interest by not engaging in any related party transactions with the company. Directors may not be considered independent if they own 20 percent or more of the company, they are employed by a company that owns 20 percent or more interest in the company or they engage in related party transactions in excess of \$120,000.”

**Question 14. The Council seeks comments on the new Principle and Provisions relating to stakeholder engagement as set out in Paragraph 7.3, and whether there will be practical challenges in implementing them.**

CalSTRS supports the Council’s recommendation to expand company engagement beyond shareholders to include stakeholders. With respect to disclosure, the Practice Guidelines for the new Principle should recommend that each company acknowledge all material stakeholder groups, the key issues relevant to each, and the company’s policies, procedures and engagement activities with each such group. Publication of this sort of engagement matrix is an effective means of disclosure and an evolving best practice.

**Question 15. The Council seeks comments on the expectations of companies under the comply-or-explain regime as set out in Paragraph 8.5.**

CalSTRS agrees with the Council’s recommendation as outlined in paragraph 8.5 which states

(a) compliance with the Code Principles is mandatory;

(b) companies are required to describe their corporate governance practices with reference to both the Principles and the Provisions underpinning each Principle; and

(c) variations from the Provisions are acceptable to the extent that companies explicitly state and explain how their practices are consistent with the intent of the relevant Principle.

**Question 16. The Council seeks comments on the proposed establishment of the CGAC, and the functions and composition of the CGAC as set out in Paragraphs 9.3 to 9.5.**

CalSTRS supports the Council's proposed establishment of the Corporate Governance Advisory Committee. However, we question what is intended by the reference to it as "an industry-led" committee. Paragraph 9.5 refers to the composition of the committee as including "governance experts, senior practitioners with practical experience as board Chairmen or directors, as well as representatives with diverse background and experience to represent the views of various stakeholder groups", including institutional and retail investors. We believe that to enhance its credibility, the CGAC should not be "industry-led" but rather equally responsive to the interests of all stakeholders.

**Question 17. SGX seeks comments on the proposed amendments to the SGX LR described in paragraph 10.2.**

CalSTRS supports the shifting of these important requirements or baseline market practices from the Code to the listing rules. However, please note, section (e) See comments in response to question 6, as CalSTRS supports a rigorous review after the nine-year rule with disclosure of how the independence or non-independence was established for board members, (g) establishment of board committees, we would like to suggest boards also include a Governance Committee or include within the Nominating Committee, (h) CalSTRS supports annual election of all directors and believes directors should be accountable to the shareholders they represent and therefore should stand for election every year. as outlined in [CalSTRS Corporate Principles](#) Section III 2 d.) and better disclosure on companies' capital allocation decisions versus strictly on its dividend policies.

As such we agree with the following SGX listing rule amendments with the above caveats:

(a) **Training for first-time directors** – The board plays an important role in the company by, inter alia, establishing the framework of effective controls, reviewing management's performance, providing strategic insights and ensuring that obligations to shareholders are met. Accordingly,

minimum standards of quality should be imposed on directors being appointed to the board of an SGX-listed company for the first time. In addition to the responsibilities of all board directors, these directors should also be equipped with the knowledge required for them to carry out their roles on specific board committees. SGX proposes to require first-time directors to undergo training in the roles and responsibilities of a director. With such a mandatory requirement, new directors are envisaged to be better equipped to meet the demands of their roles on the boards of listed companies.

**(b) IDs to make up at least one-third of the board** – As set out in Council’s Key Recommendation 7 (paragraph 5.3), SGX proposes to require that IDs comprise at least one-third of the board.

**(c) Identification of directors** – To enhance disclosure and accountability to shareholders, SGX proposes to require companies to disclose the designations of all directors (i.e. independent, non-executive, executive etc.) and their roles as members or chairmen of boards or board committees.

**(d) Tests of director independence** – As mentioned in Council’s Key Recommendation 3 (paragraph 4.3), SGX proposes to set out the objective and baseline tests of director independence<sup>22</sup>.

**(e) Nine-year rule** – In addition to the tests of independence in (d) above, a nine-year rule is also proposed to be incorporated in the SGX LR, as set out in Council’s Key Recommendation 5 (paragraph 4.14). Two options are proposed: (i) to incorporate the nine-year rule as a hard limit; or (ii) to subject IDs who would like to serve more than nine years to a two-tier vote which must be approved by the majority of (a) all shareholders; and (b) non-controlling shareholders in separate resolutions. In relation to Option (i), SGX proposes to specify in the SGX LR that a director will not be independent if he has been a member of the board for an *aggregate* period of more than nine years, regardless of whether he was appointed to the board before or after listing. In relation to Option (ii), SGX proposes that the SGX LR will also require that controlling shareholders and their associates (who may be non-controlling shareholders) not vote on the second resolution where only non-controlling shareholders are entitled to vote. This is conceptually similar to the approach for shareholder votes on interested person transactions.

**(f) Disclosure of relationship between Chairman and CEO** – To increase transparency, SGX proposes to require companies to disclose the relationship between the Chairman and CEO if they are immediate family members.

**(g) Establishment of board committees** – To ensure minimum standards of corporate governance, SGX proposes to require companies to establish committees to perform the

functions of an Audit Committee, Nominating Committee and Remuneration Committee with clear terms of reference.

**(h) Re-nomination and re-appointment of directors at least once every three years** – To safeguard against entrenchment of directors within the board, SGX proposes to require all directors to submit themselves for re-nomination and re-appointment at least once every three years.

**(i) Key information regarding directors** – To increase transparency and accountability and to align with the other rule amendments relating to director appointments, SGX proposes to require specific information to be contained in the announcement made by companies on the appointment and re-election of directors.

**(j) Adequacy and effectiveness of internal controls and risk management systems** – The SGX LR currently require listed companies to comment on their internal controls. SGX proposes to amend these rules to enhance disclosures on the adequacy and effectiveness of companies' internal controls and risk management systems.

**(k) Internal audit function** – To ensure sound internal controls are in place, SGX proposes to require companies to establish and maintain an internal audit function that is adequately resourced and independent of the activities it audits.

**(l) Disclosure on reasons for not paying dividends** – To enable shareholders to understand why companies choose not to issue dividends, SGX proposes to require companies to disclose the reasons for such a decision.