

October  
2012

# IMAS Guidelines on Corporate Governance

This Guidance Note is used to:

- Understand the role of investment managers on Corporate Governance
- Set out key guiding principles for IMAS members to establish their corporate governance approaches
- Complement the Revised Code of Corporate Governance issued by the Monetary Authority of Singapore (“MAS”) in May 2012, which underpins corporate governance practices among listed companies in Singapore

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## 1. Background

The Investment Management Association of Singapore (“IMAS”) believes that investment managers, as stewards of the assets of others, need to have regard to their role as shareholders. With this belief, in September 2005, IMAS developed the voluntary “Guidelines for Corporate Governance” (“Guidelines”) to assist investment management members in their capacity as shareholders.

Since then, global events, such as the financial crisis in 2008, amid market turbulence have highlighted pertinent corporate governance issues and prompted closer study of these issues around the world. On 2 May 2012, the Monetary Authority of Singapore (“MAS”) issued a revised Code of Corporate Governance (“Code”), based on the recommendations of the Corporate Governance Council. The Corporate Governance Council was established by the MAS in February 2010 to promote high standards of corporate governance among listed companies in Singapore.

To align to the codes and guidance developed within the MAS Code, and by other bodies, such as the Singapore Exchange, as well as to take account of recent international developments, IMAS has updated its Guidelines, which set out key principles and best practices for investment managers when engaging with the companies they invest in. By having a sound basis of engagement, these Guidelines should create a much needed stronger link between governance and the investment process. IMAS therefore sees these Guidelines as complementary to the MAS Code for listed companies.

It should be noted that compliance with the Guidelines does not constitute an invitation to manage the affairs of investee companies, or preclude a decision to sell a holding, where this is considered in the best interest of end-investors.

## 2. Corporate Governance and Role of Investment Managers

Based on the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance, 2004, corporate governance refers to the processes, structures and information used for directing and overseeing the management of an institution. A good corporate governance framework establishes the mechanisms for achieving accountability between the Board, senior management, and shareholders, while protecting the interests of relevant stakeholders.

As IMAS believes that investment managers, being stewards of the assets of others, need to have regard to their role as shareholders, its member companies are recommended to have a policy relating to corporate governance arrangements and behaviours of the investee companies. They are also recommended to consider the process required to implement this policy, as well as to review the information that should be presented to their clients.

IMAS members, as institutional shareholders, are free to choose whether or not to engage investee companies, but their choice should be a considered one based on their investment policies and approaches.

IMAS considers engagement as an ongoing purposeful dialogue about strategy, performance, risk management, remuneration and corporate governance, as well as voting. IMAS members should in accordance to guidelines put forth in this document focus on the long-term interests of their investee companies.

### 3. Key Principles

The IMAS Guidelines on Corporate Governance are established based on the following key principles:

- Clear policy on corporate governance
- Effective communications with investee companies
- Guidance on monitoring and intervention
- Policy on managing conflicts of interest
- Responsible voting as shareholders
- Clear voting policies and procedures
- Periodic disclosure of corporate governance activities

### 4. Clear Policy on Corporate Governance

IMAS encourages all members to adopt a clear and considered written policy towards their responsibilities as shareholders. As part of this policy, IMAS also recommends that members should take steps to satisfy themselves about the extent to which the firms in which they invest comply with the recommendations of the Revised Code of Corporate Governance issued by the Monetary Authority of Singapore on 2 May 2012 and subsequent updates which may be issued. In this regard, investment managers may wish to include in their policy how investee companies are being monitored, how these companies are being engaged on corporate governance activities, as well as their voting policies.

### 5. Effective Communications with Investee Companies

IMAS welcomes Principle 15 of the Revised Code of Corporate Governance which states that companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communications with shareholders. IMAS encourages members to be ready, where practicable, to enter into regular communications with companies based on mutual understanding of objectives.

Regular communications provides opportunities for investment managers to convey their corporate governance principles and proxy voting policies, as well as to explore with companies any concerns they may have about their compliance with the MAS Revised Code of Corporate Governance.

Regular communications also provides a platform for effective monitoring, so that investment managers can seek to keep abreast of the performance of the investee company, to be up to speed on developments within and external to the company that drive its value and risks, as well as to

ascertain the quality of reporting and its adherence to the MAS Revised Code of Corporate Governance.

Additionally, as part of their regular communications, investment managers should seek to satisfy themselves that the investee company's board and sub-committee structures are effective, and that independent directors provide adequate oversight. On the other hand, investment managers should not wish to be made insiders, and should expect investee companies to ensure that information that could affect their ability to deal in the securities of the company concerned is not conveyed to them.

## 6. Guidance on Monitoring and Intervention

IMAS encourages members to include clear guidance on the monitoring and evaluation of corporate governance activities of investee companies in their written corporate governance policies. They should endeavour to identify at an early stage problems that may result in a significant loss in investment value.

IMAS members should also outline circumstances when they will actively intervene. Intervention should be considered regardless of whether an active or passive investment policy is followed. Instances when members may want to intervene include situations when they have concerns about the company's strategy, performance, governance, remuneration, risks, or those arising from social and environmental matters.

## 7. Policy on Managing Conflicts of Interest

The duty of an investment manager is to act in the interests of its clients and/or beneficiaries and be consistent with client mandates. Conflicts of interest can arise from time to time, which may include voting on matters affecting a parent company or client.

IMAS encourages members to put in place and maintain an effective policy of identifying and managing conflicts of interest, with the aim of taking all reasonable steps to put the interests of their client or beneficiary first. The policy should also address how matters are addressed and handled when the interests of clients or beneficiaries differ.

## 8. Responsible Voting as Shareholders

IMAS welcomes Principle 16 of the Code of Corporate Governance which stipulates that companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company. IMAS strongly encourages members to attend the general meetings of companies in which they have a major holding, where appropriate and practicable, and as responsible shareholders, to exercise actively the voting rights represented by the shares they manage on behalf of their clients. Where relevant, IMAS members should communicate to the boards of investee companies their reasons for disagreeing with any proposal tabled at a general meeting.

## 9. Clear Voting Policies and Procedures

IMAS encourages members to have written policies that they employ, subject to clients' mandates, to determine how to vote proxies relating to the securities in funds they manage. Such policies should be disclosed in writing, and in the case of unit trusts, in the prospectuses, to their clients.

These policies should be designed to reasonably ensure that proxies are voted in the best interests of their clients and/or beneficiaries. They should include both general policies and policies with respect to voting on specific types of issues. In addition, they should cover how conflicts of interest should be addressed.

Members should maintain records on the votes exercised, and any deviation from the policies must be documented. Members should also put in place arrangements to provide a record of how the members have voted their proxies if these are requested by their clients.

IMAS recommends that members agree, in writing, and keep under regular review with trustees, depositaries, and custodians the practical arrangements for circulating company resolutions and notices of meetings and for exercising votes in accordance with standing or special instructions.

IMAS encourages members to establish appropriate systems of internal audit of voting activities. Members may wish to include in their disclosures a statement that such an internal audit system is in place.

## 10. Periodic Disclosure of Corporate Governance Activities

IMAS recommends that members establish processes to maintain a clear record of their corporate governance activities. Members may also wish to take additional opportunities to inform clients about their approach and activities on corporate governance matters.