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Alert investors to impact of accounting rules

Tharman suggests looking into whether firms should be required by law to explain how key accounting policies affect them

By **SOH WEN LIN**

SINGAPORE should study whether domestic companies ought to be required to highlight and explain to investors how key accounting methods could affect the firms, said Senior Minister of State (Trade and Industry and Education) Tharman Shanmugaratnam yesterday.

"This is particularly important for areas where standards are ambiguous, and which involve subjective decisions or assessments," he said during the keynote speech of the 28th Annual Report Award ceremony at The Mandarin Singapore.

"The more complex the financial structure of the company, the greater the need to provide investors with clear, concise and intelligible explanations of the accounting policies."

He said Singaporean companies and investors alike could learn from the recent Enron debacle, the world's biggest bankruptcy.

The full story is still being unravelled but the United States-based energy giant's collapse came amid murky financial structures and vehicles used to offload liabilities, untimely disclosure of information and ignored conflicts of interest within the company.

To prevent similar future disasters, the US Securities Exchange Commission is debating whether to make highlighting and explaining key accounting principles a legal requirement, Mr Shanmugaratnam told The Straits Times on the sidelines of the ceremony.

"We in Singapore should follow those proceedings, and also consider if we should make it a requirement here," he said.

In the meantime, Singapore companies should avoid "a wooden approach to corporate governance, ticking the boxes in terms of attendance, composition of committees, and so on, and focusing on processes that are easily observed from outside rather than on the quality of governance".

He said that a tendency over the years for companies and auditors to neglect the substance and focus on the legal form of financial statements had to be reversed.

Initiatives that he proposed to improve the quality of corporate boards included:

◆ Exposing non-executive directors to the company's business;
◆ Including strong individuals around the table, including outstanding managers and substantial shareholders; and
◆ Acknowledging and managing inevitable conflicts of interests among corporate directors and managers, rather than ignoring them.

He said that conflicts of interest "arise as long as we seek to harness the entrepreneurial drive of owners and the expertise and flair of management".

"The issue is therefore not about the existence of conflicts of interests, but how they can be best managed in the interests of all shareholders," he added.

To that end, the Corporate Governance Committee has set out guidelines to raise the standards on managing such conflicts, he said.

The guidelines include strengthening the independent element on corporate boards and requiring companies to make quarterly rather than bi-annual earnings announcements.

They seek to enable boards to exercise diligent oversight of management, and to protect the interests of all shareholders rather than substantial shareholders alone, he said.

But for all of Mr Shanmugaratnam's recommendations, he emphasised that corporate transparency and discipline should come from market players rather than regulators, despite the market's imperfections and propensity towards volatility.

"Far better that we should move to a market-based regulation, where investors make decisions, know they have to accept the consequences of their own decisions and learn from past mistakes, than return to a regulatory model that is no longer practicable in a rapidly changing and more globalised market environment, and that no longer satisfies the needs of a diverse base of investors," he said.

"We must continue to push ahead in the next few years.

"Confidence in our markets will depend on the quality of information that allows investors to decide when and where to put their hard-earned money."

Winners

MAINBOARD

Grand award: Keppel Land
Best annual report award: Singapore Technologies Engineering
Best corporate governance report award: DBS Group Holdings and Singapore Technologies Engineering

SESDAQ

Grand award: Not awarded
Best annual report award: Inter-Roller Engineering

STATUTORY BOARDS

Grand award: Housing Board
Best annual report award: Inland Revenue Authority of Singapore and Singapore Productivity and Standards Board