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## **Number of seats held by directors scrutinised**

### **IPO hopefuls may have to justify for those with more than 5 or 6 seats**

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THE Singapore Exchange (SGX) is cracking down on the problem of directors sitting on more boards of listed companies than they can reasonably be expected to handle.

It is taking a tough stand when it reviews applications from companies that want to list, by scrutinising the number of seats an independent director holds.

It is taking the line that an independent director should have only five or six board seats, sources say.

If he or she has more than this number, the exchange is requiring the manager of the listing hopeful to justify why the director is taking up the post, they say.

The trouble with directors sitting on multiple boards is that the workload might become too heavy.

An example of the SGX's new stance has already reared its head, sources say. Late last year, the exchange raised a query about one of the three independent directors of a China firm seeking a listing.

Its concern was that the director might not have sufficient time to devote to the company. As a result, this unnamed company appointed a fourth independent director as a compensating measure.

The 'busy' director thus did not have to be a chairman of any board committees, such as audit, for example.

An IPO manager said of the bourse's moves in this area: 'The first thing the SGX will ask the IPO manager is if the independent director has sufficient time to spend on the company', adding that this was something which would be gauged from the number of his directorships.

Also, a lawyer said queries would arise 'especially, if the prospective director has a full-time job. With quarterly reporting and if his companies' year-ends clash, the director may not be able to cope'.

In the case of many China companies, their financial year ends on Dec 31, so the SGX will query a director who sits on the boards of many mainland companies.

The lawyer added: 'On that basis, the SGX may raise the matter with the IPO manager and ask if the directors have enough time to spend on the company.'

Although there is no hard and fast rule, lawyers who handle initial public offerings (IPOs) confirmed that they were aware of cases where a person deemed by the SGX as having too many directorships has had to pull out.

This has resulted in a replacement having to be found.

According to listing rules, there must be at least two independent directors on each board. As well, the voluntary code of corporate governance says that one-third of the board must be independent.

Such moves are part of a drive to improve Singapore's corporate governance, and amid this, there are also calls for the number of board seats held by each director to be capped.

However, some argue that it is difficult to set a number because different people have different abilities.

The president and chief executive of the Securities Investors Association of Singapore, Mr David Gerald, said earlier this week that his organisation thinks 'multiple directorships should be capped at four or at most six in the interest of good corporate governance'.

On the other hand, there is a shortage of directors with the right skills. So it is no wonder that professionals such as accountants and lawyers end up with many seats.

Indeed, the code says audit committees should have directors who have financial expertise. For example, based on the SGX website, Mr Hoon Tai Meng, the managing partner of law firm TM Hoon & Co, sits on the boards of six listed firms such as Intraco and Hesse Holdings.

Mr Lim Lee Meng, the senior partner of medium-sized accounting firm Chio Lim & Associates, sits on six boards including those of Tye Soon and Suntec Reit.

Member of Parliament Ong Kian Min sits on 10 boards including those of OSIM International, Penguin Boat International and GMG Global.

Another MP, Dr Wang Kai Yuen, sits on 12 boards, including his latest appointment, with troubled logistics company Airocean.

His view about having a fixed number of board seats is that it 'all depends on the individual and how he manages his time. But someone who is familiar with the corporate governance code in Singapore should be able to realise if he has time to meet those commitments'.

Dr Wang added: 'It also depends on the companies in his portfolio; some are very stable, others require more attention.'

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## **SGX statement**

MS YEO Lian Sim, executive vice-president and head, risk management and regulation group, says: 'As part of our consideration of IPO applications, we review the proposed list of independent directors and may question the company.'

**"Boards and nominating committees of listed companies need to satisfy themselves that their independent directors individually or as a group, can effectively fulfil their roles and responsibilities as spelt out in the code of corporate governance."**