

Financial Leadership Forum White Paper

Financial Regulation in Singapore Challenges, Priorities and Future Direction

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Executive Summary

This white paper is based on the insights from the sixth Robert Half Financial Leadership Forum. It contains the perspectives shared by our panel of senior executives, including their views on the changes made to the Code of Corporate Governance.

Held in partnership with the Institute of Certified Public Accountants of Singapore (ICPAS), the forum focused on the changing financial regulatory environment in Singapore and what every finance professional needs to know to stay relevant.

We hope you enjoy reading these insights shared by experts from the industry, and that you find the information useful in your journey towards becoming a top finance professional in your field.

Panelists

Dr Ernest Kan

President
Institute of Certified Public Accountants of Singapore
(ICPAS)

Mr Andrew Chow

Partner
WongPartnership LLP, Singapore

Mr Tay Lai Wat

Chief Operating Officer and Chief Financial Officer
Stamford Land Corporation

Mr Geoff Weir

Chief Financial Officer, Asia Pacific
Digicel

Moderator**Mr Matthew Shaw**

Director
Rubicon Consulting

The New Regulatory Environment

CFOs are under pressure to keep up with the explosion in new regulations across nearly all aspects of corporate activity. What is driving this explosion in regulations and can we expect it to continue?

The regulatory environment in Singapore and at the international level is changing rapidly. New corporate governance rules, anti-money laundering initiatives, and regulation and compliance issues are increasingly occupying the time of Singapore's financial leaders.

Dr Ernest Kan, President of ICPAS, noted what he remembers as the beginning of the increased activity of regulators. "I remember last year during a period of four weeks, four pieces of documentation came out from the Monetary Authority of Singapore, the Singapore Exchange (SGX) and the Accounting and Corporate Regulatory Authority (ACRA). These appeared over a few weeks. So at that point, I think there certainly was an explosion."

Is there a reason behind this sudden flood of new compliance requirements? Is it the expected reaction after a deep and long-lasting financial downturn?

Mr Andrew Chow, Partner of WongPartnership LLP, believes it is part of a historical pattern. After a period of regulation comes one of deregulation, followed by a crisis, after which, regulation takes the lead again.

"Look at history if you want to understand what is happening now. The Great Depression led US regulators to separate securities companies or investment banks from deposit taking banks. This was repealed in the late 1990s, and the Dodd-Frank Act is now attempting to separate banks from firms that engage in high-risk derivatives trading activities.

In addition, in the 1980s, the deregulation of the savings and loan market led to another crisis when companies started lending aggressively with little regard to credit risk. In the 1990s, Alan Greenspan argued for the deregulation of Over the Counter (OTC) derivatives, believing the industry could regulate itself. And in 2008, the credit crisis happened mainly due to sub-prime mortgage derivatives."

In Singapore, a lot of focus has been on the changes to the Code of Corporate Governance, in particular, the requirement to increase the representation of independent directors on boards when the CEO and Chairman is the same person.

Mr Tay Lai Wat, COO and CFO of SGX-listed Stamford Land Corporation, explains that the new rules increase the focus on risk.

"The board is always looking at risk. One of the groups I run is in shipping. Shipping has a lot of risks and if you don't understand them, you shouldn't go into shipping. For example, if your ship sails to America, you would be very careful with American rules and regulations. And they can be prohibitive but that's a risk we have to take."

Mr Tay argues that, for a board to be effective, directors need a full understanding of the risks involved so that they can make better decisions. "Our independent directors always have access to any expertise they require – that's

without fail. Fortunately for our group, we have board members who understand our risks and our business too."

Mr Tay contends board members in Singapore are not working hard enough, and in some cases, directors may be spread too thin to cover the numerous companies they represent. "In Australia, the boards meet monthly. In Singapore, most boards meet quarterly. Have you come across one company that meets monthly? Is that working hard enough?"

Mr Geoff Weir, CFO of Digicel, Asia Pacific, said his company acts and behaves like a listed company even though it is privately owned. "It is a conscientious decision to have the highest standards because we may, at some stage, look for a different funding mechanism, and we do not want to have organisation upheaval in our governance as well as in our ownership structure."

While the changes are happening quickly, the regulators understand that all organisations need time to adapt and comply. That is why generous timelines have been set before many of the changes take effect. "I think it is good that our authorities recognise the challenges, because to implement changes, you need to give people time," said Dr Kan.

The Challenge of Change

Compliance teams are being strengthened, and people with risk and regulatory management skills are in high demand. But does Singapore have the talent pool to cope with the spike in demand, and what can professionals do to keep up to date?

CFOs and their teams spend an increasing amount of time and resources dealing with new regulations and managing risk. According to research by Robert Half, the most important function undertaken by 26 per cent of CFOs and Finance Directors is managing risk. This compares to the 24 per cent who focus on business strategy as their top priority. The research also found that 60 per cent of financial services companies have increased their compliance budgets since 2008 – mostly on hiring more qualified staff for compliance.

Dr Kan believes Singapore has enough people entering the profession to support the demand for staff. “We have 25,000 members in ICPAS and that number is growing by 1,000 every year. So we do have a lot of qualified professionals out there. Continuing education is something that I would instil and constantly advocate. I would encourage all professionals to just keep learning,” Dr Kan said.

Mr Chow agreed that the talent is there, but suggests they need to change the way they approach their jobs. “We have a lot of smart and talented people in Singapore. I see a lot of compliance people who can do the job, but they don’t think laterally. When I was in banking, I used to take fresh university graduates and train them in basic regulations and laws, and then try to get them to think beyond the letter of the law. I sent them for cross-training by making them sit on a trading desk so they understood how the products were structured,” said Mr Chow.

Mr Weir believes Singapore’s talent pool and business environment complements the vision of Digicel. That is why Digicel is establishing its new Risk and Compliance Centre of Excellence here, to connect the management of risk across the group.

“We operate in six Pacific Island markets and there are distinct operational risks in each, as well as very high regulatory risks. So what we are doing is bringing together our regulatory compliance function as well as the more operational business risks such as revenue assurance and risk mitigation within our network of operations.”

A different challenge many companies face is trying to identify suitable candidates to sit as independent directors on boards.

“When it comes to filling key positions like independent directors, it is getting a little tricky,” said Dr Kan. “What is required is more than just having finance knowledge and knowing what internal controls are. What is needed is an understanding of the business. If you bring in someone who knows the business, it adds a lot more value.”

Dr Kan argues that regulators are demanding higher standards from board appointees. “Our regulators are very conscious of the need for experienced directors, and rightfully so. One company submitted an application to the stock exchange with three independent directors. SGX came back and wanted the board to add another independent director with industrial knowledge. If you look at the collapses, it’s not that they lack the expertise in the finance area, sometimes it is a lack of understanding the business.”

Mr Weir strongly favours a diversity of views among board members. “I strongly agree with the role of independent directors on a board. And I don’t believe they need to have experience in the same industry as the company, as they can look at problems from a completely different perspective. It may result in slower decisions, but usually it leads to better decisions,” Mr Weir said.

Mr Tay believes industry experts willing to serve as independent directors are hard but not impossible to find. “There are plenty out there if you care to look. More than 90 per cent of Stamford Land’s business is in Australia. So we looked for a good director who understands business in Australia. And we found him – he’s the former deputy prime minister of Australia and he is very interested in property. He was involved in property before politics. So again, if you look hard enough, you’ll find the right people.”

Future Direction

As CFOs respond to the current changes in regulations, they know too well that there will be more to come. What will be the big regulatory and risk management challenges of the future and what can be done to manage them?

Countries around the world are putting in place new regulatory systems and controls. In emerging markets, what was once considered 'cowboy' territory is being replaced by sophisticated compliance regimes modelled on the best in the world.

Mr Weir, with his extensive experience in emerging markets, argues against investing in countries that do not have a robust regulatory environment. "We are strong advocates of regulators and our company wouldn't exist without them. We see regulators as a sort of referee on a soccer pitch. Without the referee, there is chaos and no structure in the game, and what we are looking for is structure. We've actually stayed away from investing in nations because we felt there wouldn't be a fair playing field," said Mr Weir.

As for future changes, Mr Chow has no doubt where the next big challenge for Singapore banks will come from. "The biggest one for local banks, especially private banks, is making tax evasion a predicate offence under the anti-money laundering rules. Tax evasion has never been in there, but now the MAS has announced the changes.

The implication for banks is this: you may have a declaration form from your clients saying they are compliant, but you may also have to do your own investigation. I think that's a big risk that banks will be facing."

Mr Tay suggested that the number of changes and requirements may be too much for the people they are trying to protect to cope with. "If you look at annual reports and prospectuses, I find investors and shareholders don't read them anymore. Even accountants sometimes don't understand what they are doing. We are getting too complex. We need shorter and more simplified accounts. I think people would welcome simplified accounts," Mr Tay said.

In Singapore, Dr Kan highlighted two SGX listing requirements that he believed would generate continuous debate in the next few years. The first is the requirement that boards express an opinion that the internal controls of a company are adequately addressing the financial, operational and compliance risk of the business.

"This is a very onerous requirement, and the listing rules say the board must express an opinion. We've recently done a study on listed companies and we found not all companies state an opinion per se," said Dr Kan.

"The other change requires the audit committee to give a view as to whether the CFO is performing his or her function adequately. That is another challenge. How is the audit committee going to do that?" asked Dr Kan.

Given their vast experience, each panelist gave their opinion on whether the new regulatory regimes reduce the risk of another global economic collapse.

"I think regulation cannot remove the threat," said Mr Weir. "The key factor running through the financial crisis was a lack of confidence. Regulations are a step towards restoring that confidence."

Mr Tay argued that the new regulations show signs of improvement. "We are making it better, but there is no way you can stop another crisis."

Mr Chow believes personal responsibility and ethics will play a crucial role in preventing another meltdown. "You can't legislate against greedy bankers. Legislation helps you set the standards, but it doesn't help you apply them. That comes from inside, through your principles."

According to Dr Kan, history tells us there will always be another financial scandal, but that Singapore is better placed than most countries to survive. "Singapore has changed a lot. Today Singapore is more disclosure based. And investors in Singapore are getting a lot more educated."

Mr Chow believes that skilled compliance professionals may be the key to balancing the needs of both management and regulators. "The best result is to have a smart regulator, a smart compliance officer, and a smart CEO. What will happen is that regulators regulate, the CEO does the business, and the compliance people will bring the two together. So as an officer, you need to bring the two closer and try and bridge the gap, so that risks are minimised."

This foresees a future where the role of the compliance or financial professional is elevated to become the essential link between the regulator and the business. And the onus will be on each and every professional to acquire the skills and knowledge to take on the most challenging of roles.

Singapore – Going Strong

Singapore has constantly been a popular destination for foreign companies. The panelists share why Singapore is known for its sound governance and will continue to be a conducive business environment in the future.



From left to right: Mr Matthew Shaw, Dr Ernest Kan, Mr Andrew Chow, Mr Tay Lai Wat and Mr Geoff Weir.

"The regulatory environment here was one factor in the decision-making criteria after we undertook a review of where we saw the next few years of development and expansion for Digicel. We find Singapore to be very prudent for businesses and it was a very seamless process to start up here."

Mr Geoff Weir,
Chief Financial Officer,
Asia Pacific,
Digicel

"How do we keep the entrepreneur, chairman, and CEO honest? I think all the regulations in Singapore – the Companies Act, the SGX, and the MAS – would keep them honest."

Mr Tay Lai Wat,
Chief Operating Officer and
Chief Financial Officer,
Stamford Land Corporation

"The Singapore regulators tend to be more conservative. They ensure that all your financial reports and your balance sheets meet tier 1 capital requirements."

While there may not be explosive growth, the system will work with you. It is not going to disappear overnight."

Mr Andrew Chow,
Partner,
WongPartnership LLP,
Singapore

"This is a market where we are known for confidence and good governance."

Our authorities do recognise the challenges in implementing the new Corporate Governance Code. Take the board composition changes, where more than half of your board must be made up of independent directors, if the CEO and Chairman is the same person. Companies are actually given up to 2017 to implement this."

The authorities know that they can't implement certain things overnight, and you need to give people time."

Dr Ernest Kan,
President,
ICPAS

About



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For more information, please visit www.roberthalf.com.sg.

Institute of Certified Public Accountants of Singapore

Established in 1963, Institute of Certified Public Accountants of Singapore (ICPAS) is the national accountancy body that develops, supports and enhances the integrity, status and interests of the profession.

The Certified Public Accountant Singapore (CPA Singapore) is a professional in accountancy, finance and business distinguished by their technical expertise, integrity and professionalism, in addition to a recognised accountancy qualification and relevant work experience. CPAs Singapore serve every corner of the world in every industry. Many of them helm some of the most prominent local and international corporations.

ICPAS accords the CPA Singapore designation. Working closely alongside businesses, ICPAS connects its membership to an unmatched range of information resources, events, professional development and networking opportunities. Presently, there are more than 25,000 members making their strides in businesses across all industries in Singapore and around the world.

ICPAS' international outlook and connections are reflected in its membership of regional and international professional organisations like the ASEAN Federation of Accountants (AFA), the Asia-Oceania Tax Consultants' Association (AOTCA), the International Federation of Accountants (IFAC) and International Innovation Network (IIN).

For more information, please visit www.icpas.org.sg.



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