Board Matters Quarterly

Issue 1, 2022

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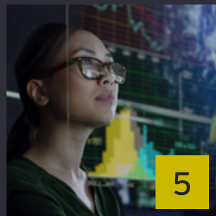
Board Matters Quarterly offers thought-provoking perspectives and insights into leadership and governance issues for boards and audit committees, supporting them to navigate the increasingly complex business environment.

The COVID-19 pandemic exacerbates new and emerging risks that organizations have struggled to contain even before the pandemic. Read more to keep updated on the latest board issues and the strategies to navigate them.

1 How boards can seize the opportunity in enhanced corporate reporting



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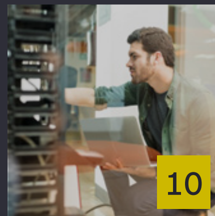

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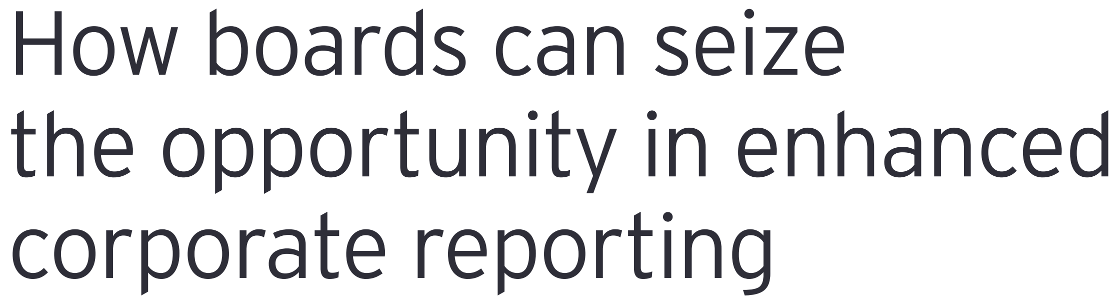

How boards can seize the opportunity in enhanced corporate reporting

Boards can help organizations redefine reporting to provide stakeholders with insights into long-term value and sustainable growth.

By Aris "Bok" C. Malantic and Ronald Wong

Companies are increasingly expected to broaden the quality and scope of their corporate reporting to include enhanced environmental, social and governance (ESG) disclosures. Adopting an enhanced corporate reporting approach enables an organization to articulate a unique narrative on how the business is creating long-term value for its stakeholders. Boards have both a responsibility and an opportunity to challenge their organizations to transform into sustainable businesses and redefine reporting to address the wide-ranging insights that stakeholders are looking for.

To deliver enhanced reporting, companies need to think about transforming their finance operating model so that they can inject the same rigor and relevance of traditional financial reporting into ESG reporting. Boards should challenge their finance leaders to take a fresh look at how reporting is delivered by considering three key areas: data analytics, talent strategy and C-suite collaboration.

Leveraging advanced data analytics

The use of advanced analytics is instrumental in extracting relevant ESG insights from data. Advanced analytics can help companies structure, synthesize, interpret and derive insights from voluminous data, and create credible and useful ESG reporting. Bearing this out, the *EY 2021 Eighth Global Corporate Reporting Survey*, which examines the perspectives of more than 1,000 CFOs, financial controllers and other senior finance leaders globally, found that the top technology investment priority for finance leaders over the next three years is advanced and predictive analytics.

Yet even as finance teams seek to build a more agile financial planning and analysis approach, several data challenges stand in the way. These include the sheer volume of external data, followed closely by data quality and comparability issues, according to the abovementioned survey. Boards should assess if finance leaders have adequate resources and budgets to address these challenges and increase their use of advanced data analytics to deliver more robust reporting.

A key way to leverage data analytics to enhance the quality of reporting is to introduce forward-looking insights, for example, by bringing in external data to corroborate and provide analysis on future trends. Thereafter, this downstream reporting outcome can be used to streamline upstream activities, such as capturing data in the right format to allow for efficient collection and analysis. This requires proper planning from data collection to reporting, with technology as a key enabler. Hence, this process should be considered as part of an organization's digital transformation journey.

Future-proofing finance talent

With accelerated technology adoption, technology and data skills will become crucial for finance teams. Indeed, survey respondents identified understanding of advanced technologies and data analytics as the top two skills respectively that will be important for finance professionals to succeed in their roles over the next three years.

To make enhanced reporting a reality, the board should mandate the management to define a talent strategy that equips the finance team with the right skills for the future. This includes hiring of talent with essential specialist skills like artificial intelligence knowledge and experience as well as upskilling the current finance workforce.

To future-proof the existing finance workforce, boards can challenge finance leaders to rethink their talent strategy and build an investment case for a major upskilling exercise. They should also assess if the finance leaders have taken key actions, such as performing a gap assessment of current staff skill sets and creating incentives to encourage existing finance staff to pick up new skills.

Closing the technology adoption gap between the younger and mature workforce is important for driving the right culture. The senior leadership can empower the younger workforce to champion new ideas on leveraging technology through work improvement initiatives and reward successful initiatives by following through on implementation, with its support.

Collaborating across the business

A significant amount of ESG data is owned by different parts of the business, making it an imperative to collaborate across the different functions. In this regard, CFOs play a pivotal role in advancing the ESG agenda and sustainability performance among their C-suite peers to drive a cohesive ESG approach. For instance, finance leaders should work with sustainability leaders and supply chain executives on environmental performance to understand more about how the company utilizes natural resources and the effect of its activities on the environment. Boards should direct finance leaders to proactively collaborate across the organization to drive effective ESG reporting and demonstrate the economic impact of different ESG strategies and related targets to stakeholders.

In a world where stakeholder demand for reporting on nonfinancial information is growing, the board should challenge the management to redefine reporting and be prepared to disrupt the status quo.”

Boards should also expect CFOs to work closely with them on sustainability performance management and oversight. With their deep understanding of the regulatory and reporting standards environment, finance leaders are well-placed to lead in building trust and transparency into ESG performance.

The integration of sustainability – and broader ESG factors – into the business strategy and enterprise risk management must be a board priority. In a world where stakeholder demand for reporting on nonfinancial information is growing, the board should challenge the management to redefine reporting and be prepared to disrupt the status quo. By accelerating the digitization of finance, defining a talent strategy that focuses on reskilling employees for a very different future and strengthening C-suite collaboration, companies will be well-positioned to deliver the insights expected by their stakeholders.

Boards should consider the following questions:

- How is the company using nonfinancial reporting to communicate how it is generating long-term value for stakeholders and does its ESG reporting meet stakeholders' expectations?
- How is the board supporting and monitoring ESG strategy development and related goals and metrics, including the identification and integration of nonfinancial key performance and management indicators?
- How is the organization injecting rigor into nonfinancial reporting in terms of disclosure processes, controls and obtaining external assurance?
- What governance, controls and ethical frameworks are in place to oversee the use of artificial intelligence and other technologies in the finance function?
- What are the top skill sets needed to enable an enhanced corporate reporting approach and what are the skills gaps in the current finance team? BMQ

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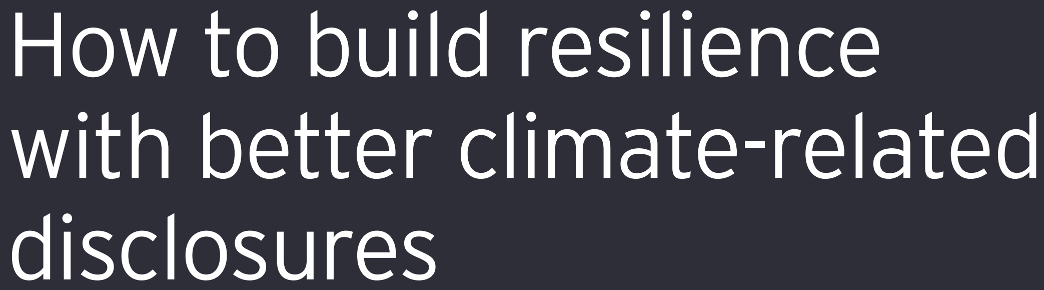


How to build resilience with better climate-related disclosures

Companies must address key gaps in their climate-related disclosures to build resilience and trust with stakeholders.

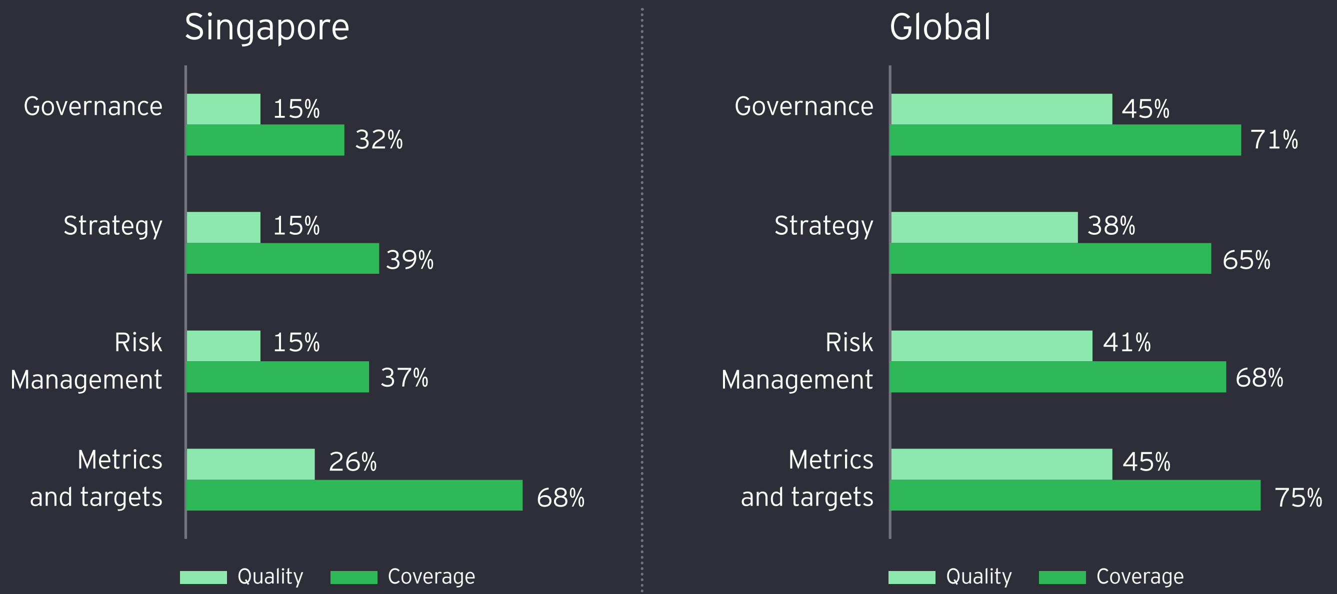
By Simon Yeo

In recent years, there has been a growing spotlight on climate-related disclosures by companies, driven by pressure from regulators, investors and consumers. To build trust and gain confidence in a sustainable future, it is imperative that companies fully understand their climate risks and opportunities, decisively drive their climate strategies and better communicate their performance.

Stakeholders want more comprehensive disclosures than ever before, but the picture is incomplete. The EY *Singapore Climate Risk Disclosure Barometer 2021* study, which covers climate-related disclosures by companies in the country, suggests that more work is needed. It examines the coverage and quality of reporting on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations by 93 companies across 11 sectors. Companies are assessed across all four aspects of the TCFD recommendations: governance, strategy, risk management, and metrics and targets. They are scored on their coverage (number of recommended disclosures that they make) and quality (extent or details of each disclosure).

Just under half of the companies examined have disclosed some climate-related risks, while only 14% have disclosed information for all 11 TCFD recommendations. Furthermore, quality scores are significantly lower than coverage scores – at an average of 18% across the companies analyzed. When these scores are compared with their global counterparts, the difference is stark. Singapore companies significantly lag behind the global average in both the quality and coverage of disclosures.

Coverage and quality of reporting on the TCFD recommendations by companies in Singapore and globally



Source: *Singapore Climate Risk Disclosure Barometer 2021*, 2021, Ernst & Young LLP, 2021.

This is of concern. The climate crisis can fundamentally affect an organization's business model, strategy, risks and opportunities. The very viability of the business may, in fact, be at risk. Climate risks and opportunities should therefore be front of mind in organizations as they chart their future growth strategies. They need to understand their physical and transition risks as well as opportunities that they can leverage to protect and enhance the company's value.

The EY study highlights a few areas that boards can focus on in driving more robust climate risk disclosures.

Drive greater transparency on leadership oversight

The board's responsibility for monitoring and managing material environmental, social and governance issues is a core principle and mandated under the Singapore Exchange sustainability reporting rules. By extension, where climate change is identified as material to the business, disclosures in board statements should include specific actions that the board has taken to consider climate-related risks and opportunities as part of its strategy formulation, and how it oversees the management and monitoring of these factors.

Yet few companies are disclosing board or senior management oversight of climate risks and opportunities. The average coverage score for governance disclosures in Singapore is only 32% – the lowest among disclosures on the aforementioned four core elements of the TCFD recommendations. Even fewer delineate the board's and management's roles and their interaction on climate-related issues.

Apply climate scenario planning

Under the strategy category of the TCFD recommendations, companies should describe three areas: climate-related risks and opportunities faced; their impact on the organization's business, strategy and financial planning; and the resilience of the organization's strategy. Singapore companies' disclosures on strategy are subpar – only 20% of

those analyzed in the study cover all three areas, while the average quality score in this aspect is only 15%.

Notably, many companies limited their disclosures to climate risks, without considering climate-related opportunities. Disclosures on the resilience of their strategy to climate impact also appear to be lacking. This could be because companies are underutilizing structured approaches like scenario analysis to assess the resilience of future strategic trajectories. In fact, only 17% of the assessed companies perform scenario analysis. Considering that scenario analysis helps turn theories into tangible strategies and is perhaps the most critical aspect of the TCFD framework, the board should steer the management to address this gap more proactively.

To do so, companies must understand the relative size and time frame of physical and transition risks in their geography and industry. They also need to construct worst-case, best-case and most-likely case scenarios, while considering the regulatory and market assumptions across different time horizons. As the environment is always evolving, scenario analyses must be updated whenever significant assumptions change.

Singapore Climate Risk Disclosure Barometer 2021 methodology

As part of the research, 93 companies across 11 sectors were assessed on the extent to which they had adopted the TCFD recommendations as at August 2021. Companies were scored on two main metrics: coverage and quality of disclosures. They were first assessed based on how many of the 11 recommended TCFD disclosures they have addressed. The quality of those disclosures was then assessed using a scoring system based on how well they addressed the TCFD recommendations.

The findings were based on disclosures from publicly available information, including annual reports, sustainability reports or other platforms like company websites. Where publicly available, a company's disclosure on the CDP (formerly the Carbon Disclosure Project) climate change assessment was also assessed.

In any given sector, the total number of companies was capped at 15. Selected unlisted companies were also added to increase representation, where needed.

About the TCFD recommendations

The TCFD recommendations on financial climate risk disclosures are designed to improve understanding of the impact of climate risks on organizations, while helping them provide forward-looking information to investors on their climate-related risks and opportunities to support informed capital allocation.

TCFD recommendations are built on four core elements:

- The organization's governance on climate-related risks and opportunities
- The actual and potential impacts of climate-related risks and opportunities for the organization's business, strategy and financial planning
- The processes used by the organization to identify, assess and manage climate-related risks
- The metrics and targets used by the organization to assess and manage relevant climate-related risks and opportunities

View climate risks holistically

Nearly half of the companies analyzed disclose their practices in identifying, assessing and managing climate risks. However, their climate risk assessments are mostly limited to certain parts of the business and only include qualitative analysis. Also, less than a third of the companies disclose how climate risks are integrated into the company's enterprise risk management system.

Climate-related risk management must be clearly linked to the company's overall risk management processes. For example, climate risks should be recorded in an enterprise-wide database or included in the agenda of firm-wide risk reporting meetings. Risk management disclosures should elaborate on the frequency and methods of assessment of climate-related risks by the senior management and board.

It is not just in risk management that companies need to take a holistic view. They should also focus on accelerating decarbonization across their value chains. The findings show alarmingly that few companies consider their climate-related supply chain impacts, even though the TCFD recommends that Scope 3 emissions – emissions up and down the value chain – should be measured and reported if appropriate. Businesses need to go beyond emissions from their own operations (Scope 1 and Scope 2) in pursuing decarbonization, considering that supply chain emissions are, on average, 11.4 times higher than operational emissions.[1] The board should assess if the business is deploying decarbonization strategies across the whole value chain, including proactively involving supply chain partners in the efforts.

1. *"Transparency to Transformation: A Chain Reaction," CDP website, www.cdp.net/en/research/global-reports/transparency-to-transformation, accessed 3 January 2022.*

Charting a road map for action

With the net-zero transition gaining momentum, Singapore companies need to act now to accelerate their decarbonization journey and improve their climate risk disclosures. How can the board guide the business to create a strategic climate action road map?

Step 1: Understand and assess the impact of climate change on the business

Companies should first identify where their material exposure to climate risks and opportunities lies. Mapping out their entire value chain and analyzing their carbon footprint to identify emission hot spots is important. So is performing scenario modeling to stress test the business and quantify the financial consequences of material climate risks and opportunities.

Step 2: Develop and implement a clear climate strategy

After defining their carbon ambition targets, companies should develop a robust climate strategy that factors in global and local developments, stakeholder expectations as well as current tools, technologies and resources. Implementing processes to monitor this strategy and evaluate its effectiveness is crucial.

Step 3: Communicate decarbonization approach and performance

Companies should provide timely and transparent disclosures – supported by clear carbon commitments – that allow stakeholders to fully understand and evaluate their climate strategy and performance.

Making quality climate risk disclosures doesn't happen overnight. It will require changes to the organization's governance and risk assessment processes as well as collaboration across the sustainability, risk, finance, operations and investor relations business functions. In fact, it may take several reporting cycles before an organization can generate invaluable information for stakeholders to help them make informed decisions. The earlier an enterprise embarks on its decarbonization journey, the better positioned it will be to engage with investors and shareholders on the climate-related impacts and opportunities for the business, ultimately building resilience and trust with its stakeholders.

Boards should consider the following questions:

- What are the company's vulnerabilities to climate change in the long run?
- Which parts of the business are most exposed to changes in carbon policies and targets?
- How can the company transform climate-related risks into long-term value?
- How does the organization identify, assess and manage climate risks and are these processes integrated into the company's risk management framework?
- What are the emission hot spots in the company's value chain and how can the business work more closely with its supply chain partners to involve them in its decarbonization journey? BMQ

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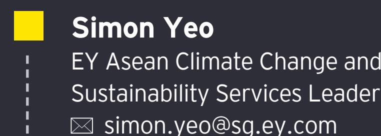
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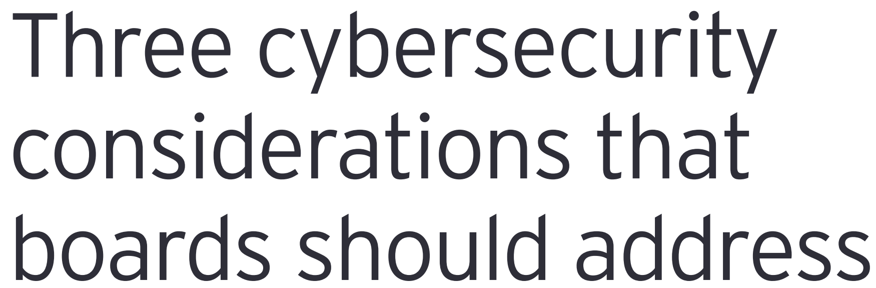

Boards must act across three key areas as major pressures threaten cybersecurity's ability to address risks more effectively.

By Steve Lam

The disruption of the global pandemic has unleashed a perfect storm for threat agents to act. About three in four (73%) Asia-Pacific businesses saw an increase in disruptive attacks in 2021, compared with just 47% in the previous year, according to the *EY Global Information Security Survey 2021* (GISS).

The rise in cyber attacks has been exacerbated by the speed at which companies rolled out digital transformation to cope with the unprecedented disruption of the pandemic. Many businesses did not involve cybersecurity in the decision-making process, either due to oversight or the urgency to expediate the process. For example, more than half of the respondents in the GISS said their organizations sidestepped cyber processes to facilitate new requirements on remote or flexible working. As a result, new vulnerabilities entered the fast-changing environment and continue to threaten businesses today.

According to the GISS, the senior leadership in many companies is increasingly concerned about the security team's ability to protect the organization and more businesses are putting cybersecurity on their regular board agendas. However, just 9% of boards in the *EY Global Board Risk Survey 2021* reported being extremely confident that their organization's cybersecurity risk mitigation measures can protect the business from major cyber attacks, down from 20% the previous year. How can boards help bolster the cyber resilience of their companies?

The cybersecurity function today is struggling with several pressures that could be holding it back from tackling risks more effectively. This has significant implications for the board's oversight role in the organization's cyber resilience. Understanding the pressures faced by the cybersecurity function and addressing them is therefore a board imperative.

Challenges hampering the cybersecurity function

Chief Information Security Officers (CISOs) are grappling with a confluence of challenges and three stand out: inadequate budgets, strained relationships with the business and regulatory complexity.

The cybersecurity function today tends to be severely underfunded. Despite the growing threat of cyber attacks, the cyber spend of Asia-Pacific businesses is only 0.05% of their annual revenue, according to the GISS. Respondents also said that cybersecurity expenses are not factored adequately into the cost of strategic investments like IT supply chain transformation.

Such cost-cutting has severe implications. The GISS revealed that 41% of businesses in the Asia-Pacific region expect to suffer a major breach that could be averted with better investment. Budget restrictions will also compel CISOs to make difficult decisions to wind down some strategic activities that were initiated before the COVID-19 crisis.

Perhaps even more worrying is cybersecurity's relationships with the rest of the business. Seventy-one percent of Asia-Pacific cybersecurity leaders describe their relationships with business owners as being neutral or negative, while over 4 in 10 (44%) say their dealings with the marketing and HR functions are poor.

Of concern is how cybersecurity is being left out of vital conversations. Almost 80% of respondents in the GISS said cybersecurity teams are not always consulted or briefed in a timely manner until after the planning stage has finished. This suggests that other business functions do not always perceive cybersecurity as a strategic partner. When the CISO's relationship with the business is under strain, the fallout is greater exposure to cyber risks.

Compounding the pressures for cybersecurity functions is regulatory fragmentation as the global compliance environment becomes more complex. Respondents in the GISS foresee that regulations will become more heterogeneous in the coming years, with compliance likely to be the most stressful part of their job.

Reframing the cybersecurity function

The board needs to evaluate the effectiveness of the cybersecurity function regularly. It can help strengthen the cybersecurity team's effectiveness in a few key ways.

First, the board should assess the cybersecurity team's degree of alignment with core business objectives. It is imperative that the CISO is involved in the planning of strategic digital investments so that related risks can be proactively addressed. Only 20% of Asia-Pacific businesses in the GISS include cybersecurity in the planning phase of any digital transformation program, indicating a significant opportunity for improvement in this area.

> By spending more time on discussions about cybersecurity risks, the board will send a clear message that these are critical business issues and that the cybersecurity function is a strategic business partner.

The board should play an active role in bringing cybersecurity to the rest of the business and vice versa. It can do this by directing the CISO to better quantify the commercial value that investing in cybersecurity brings and communicate cyber risks in non-technical terms to help the business understand the strategic value of cybersecurity as an enabler – rather than a roadblock – of growth. It can also direct business units to consider cyber risks and involve the CISO early in business and technology discussions.

Second, the board should monitor the company's investments in cybersecurity and direct the management, if necessary, to take a proactive investment stance on cyber risks. Many CISOs currently struggle with inflexible budgeting models, where cybersecurity budgets are based on an allocated fixed portion within a larger corporate expense without considering the company's growing cyber footprint and what is really required to protect the company from cyber risks. Adopting a flexible risk- and footprint-driven budgeting model instead of a "keep the lights on" approach will allow the business to align its

cybersecurity strategy more closely with transformation initiatives, especially as the company transitions to more agile ways of doing business.

Third, the board should review the talent profile and size of the cybersecurity team and assess if it is robust enough to deal with today's cyber attacks. Cybersecurity teams need a combination of individuals with advanced technical skills who can detect emerging threats and find flaws in defenses, as well as members who excel in building interdepartmental relationships. Hiring such multi-skilled talent is challenging, given the shortage and high turnover of cybersecurity talent in the market. This makes it even more critical for the business to devise an end-to-end cyber capability approach that improves hiring, retention, capability building and people development, leverages professional services and uses technologies to automate labor-intensive tasks so that cybersecurity teams can focus on more strategic work.

Oversight of cybersecurity is an increasingly important function of the board. By spending more time on discussions about cybersecurity risks, the board will send a clear message that these are critical business issues and that the cybersecurity function is a strategic business partner. This will help the function work with the business more effectively to execute transformation programs that are not only successful, but also implemented in a cyber-secure way.

Boards should consider the following questions:

- How regularly does the board discuss cybersecurity matters and what metrics does it use to monitor the organization's cyber resilience?
- What governance structures does the board have in place to oversee cybersecurity and are these subject to regular effectiveness reviews?
- How can the organization invest more strategically in cybersecurity to address the growing risk of data breaches?
- How is the organization designing cybersecurity into its data, processes and systems from the outset in digital transformation projects so that it can innovate with confidence?
- Does the board have access to information on supply chains, i.e., which suppliers have access to the organization's systems and what controls and security protocols do they have in place? BMQ

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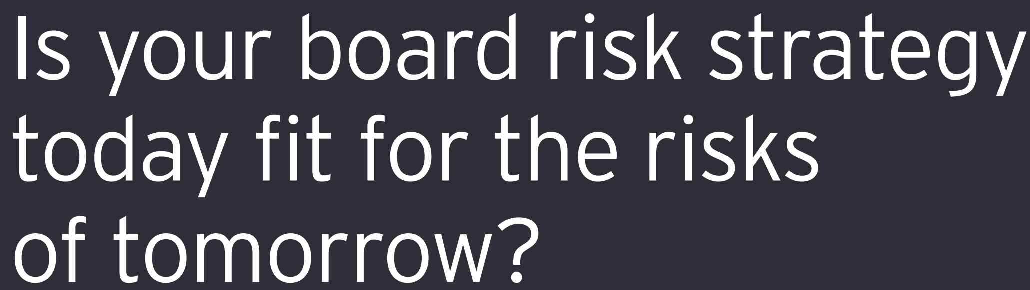

Boards need to reframe their organizations' risk management approach for long-term resilience amid an uncertain risk landscape.

By Alexandra Gradehand

The COVID-19 pandemic has heightened risks that are already omnipresent, including cybersecurity attacks, supply chain disruption and other external threats. In this uncertain environment, robust risk management is essential for enterprise resilience – a key priority on board agendas. According to the *EY Global Board Risk Survey 2021*, nearly 8 in 10 board directors believe that better risk management will be crucial in enabling their organizations to protect and build value in the next five years.

Even then, many board members lack confidence in their organization's capabilities in managing risks. Just 18% of the survey respondents believe that their organization's disaster response and contingency planning are highly effective, while only 13% believe that their organization is highly effective in embedding risk and compliance activities.

Clearly, there is significant room for improvement. Boards have an opportunity to reframe their company's risk management approach for a post-pandemic world. They can exert successful risk oversight and drive more effective risk outcomes in three key ways.

Focus more on emerging and atypical risks

The board and management may be regularly monitoring and addressing traditional risks, such as regulatory changes, a drop in demand and increased borrowing costs, but they need to pay greater attention to atypical and emerging risks. Only 39% in the abovementioned survey say that their company can manage such risks effectively, which may include threats relating to new technology or climate risks.

To deal more effectively with emerging risks, boards should view risks through a long-term lens – ideally considering a time horizon of more than five years. A long-term perspective is essential because many risks may only have a marginal impact today but could escalate in the next 5-10 years. Boards today spend little time looking at such long-term strategic risks due to time constraints and a lack of expertise. They therefore need to refocus their time and look at diversifying their members' expertise as well as leverage technology to increase efficiency in time spent on routine tasks.

Take climate change for example. Only a third of respondents expect a more than moderate impact from climate change on their business in the next 12 months. But this will almost certainly change, as climate change triggers supply chain disruption and stakeholders pressure businesses to do more to combat the issue.

Leverage data and technology to manage enterprise risks

The extensive use of technology to identify and manage risks is a key driver of risk management. Automation technology, for example, can be used to handle manual tasks, allowing risk professionals to focus on more value-adding priorities. Data collection and monitoring can be automated to occur in real time, allowing potential risks to be flagged much sooner than using a purely manual approach. In addition to automation, leveraging artificial intelligence (AI) can help read, review and validate

To deal more effectively with emerging risks, boards should view risks through a long-term lens — ideally considering a time horizon of more than five years.

financial reporting. AI can also help establish trends and patterns by analyzing voluminous data in a much shorter time.

Yet despite the importance of technology, fewer than one in five boards say their organization's risk management is highly effective in leveraging data and technology or delivering timely and insight-driven reporting. Indeed, boards can help drive greater awareness of the role that technology and data can play in enhancing risk management.

Boards should mandate the risk function to capitalize on new automation, AI and reporting tools to monitor and manage risks. Having a sufficient budget allocated to investment in technology for this aspect as well as alignment to the overall technology and data strategy of the organization is another imperative.

The board should also direct the management to improve the breadth and depth of risk reporting. Effective risk reporting is forward-looking and predictive, and covers emerging and atypical risks, among others. When done right, it can be a powerful driver of effective risk management.

Align corporate culture to strategy

When aligned with the organization's purpose, a company's culture is pivotal to protecting and creating value. When it isn't, risks increase and potential value is unrealized. In fact, misalignment between culture and strategy is the greatest workforce-related challenge in risk management. Culture is also crucial in enterprise risk management, impacting how an organization identifies and manages risks.

Clearly, it is important to allocate sufficient time to discuss culture at the board level. Yet the survey found that 27% of boards never or rarely discuss the culture needed to support their organization's strategy. This needs to change. The boards can govern culture and work with the management to define, implement and measure a corporate culture that is aligned with the organization's strategy, thereby reinforcing risk management.

To achieve this, the board should review how the management articulates the organization's desired culture and works on closing existing gaps. It should also consider aligning executive compensation to the desired behaviors and culture of the company and assess if there are clear links between rewards and desired behaviors.

Boards can also leverage analytics of cultural trends, benchmarking with others, surveys of risk attitudes and risk awareness. Regular reviews of culture metrics within the organization, such as employee pulse surveys, employee onboarding and exit interviews as well as other relevant surveys, should be conducted.

As the risk environment for businesses becomes increasingly complex, boards need to drive their organizations to pull out all the stops to identify, mitigate, manage and even preempt new threats. Boards can reframe their organization's approach to risk management by catalyzing change through an emphasis on culture and technology, while adopting a long-term lens in managing risks.

Boards should consider the following questions:

- Has the board re-evaluated its risk oversight practices to assess whether there are changes that can be made to strengthen oversight?
- Has the board allocated a sufficient budget to invest in technology for risk management as well as develop a workforce with the skill set to manage it?
- Has the board directed the management to devise a strategy for using data and technology in risk management activities?
- How thoroughly has the board discussed the impact of culture on risk management and the internal control environment?
- Does the board regularly review culture metrics, such as employee pulse surveys, employee onboarding and exit interviews as well as customer surveys? BMQ

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How boards can navigate the SPAC agenda

SPACs bring exciting opportunities but are not without risks, and boards play a critical role in making them a success.

By Max Loh

There has been a surge of market interest in special purpose acquisition companies (SPACs) as the volume of SPACs and capital raised in the US hit a record high. Several Asian exchanges are contemplating rule changes to allow for SPAC listings. In September 2021, the Singapore Exchange (SGX) announced a regulatory framework for the listing of SPACs on the SGX Mainboard.

Board directors involved in a SPAC life cycle – whether as a prospective SPAC board director or as part of a target company – need to thoroughly understand the SPAC environment as well as associated opportunities and risks to provide robust oversight and strategic guidance.

How SPACs work

SPACs are investment vehicles that raise capital from investors through a traditional IPO, which is used later to acquire one or more target companies. As they are shell companies with no actual business functions, SPACs are often referred to as "blank-check companies". Funds raised via the IPO and any additional investments secured are held in trust until the management finds a suitable target.

SPACs typically have two years to find a target; if they don't, the money raised is returned to investors. The target's valuation is agreed between the SPAC and the target, which is then "validated" through equity funding commitments from investors in the form of private investments in public equity.

Investors will vote to either accept or reject the SPAC's merger with the target. If approved, the merger is executed through a de-SPAC transaction and the target private company becomes a public entity.

For targets looking to go public, SPACs offer the advantages of faster speed to market and certainty in valuations as well as the ability to leverage the use of financial forecasts and the sponsor's reputation. As with everything else, these upsides come with risks, including investors being blindsided as they make the investment, inadequate diligence on target companies and overpayment for them, and the average returns on SPACs falling short of those achieved from traditional IPOs.

When it comes to de-SPAC, the financial information of the proposed acquisition target will still be subject to a rigorous review and scrutiny by the listing authority. The target must also be ready to operate and report as a public company, often under a compressed timeline.

Suffice to say that regardless of whether a company undertakes a traditional IPO or SPAC, it must be fully prepared from a governance perspective to stand up to regulatory and stakeholder scrutiny.

Directors with robust M&A experience or industry expertise in the targeted sector where the SPAC is seeking to acquire assets will be highly valuable.

Getting on the boards of SPACs

The board of a SPAC is responsible for providing oversight and navigating the complex process of identifying the right acquisition target, sealing the deal with the target's shareholders and successfully completing the business combination. What does it take to be on the board of a SPAC?

Directors appointed to the SPAC's board should ideally have extensive experience in managing public companies as it is vital to appreciate its regulatory and compliance obligations. Considering that risks exist at every stage of a SPAC life cycle, the board must be able to anticipate and manage them to safeguard the company's interests.

Directors with robust M&A experience or industry expertise in the targeted sector where the SPAC is seeking to acquire assets will be highly valuable. They can help the SPAC identify high-value targets, weigh the merits of the transaction and its trade-offs as well as preempt potential issues that could derail the acquisition process.

Importantly, the board must also be adept at navigating complex stakeholder relations with the SPAC's management, institutional investors and potential targets to achieve a smooth transition and completion.

If SPACs take off in the Singapore capital market, there will be demand to fill their board seats. Directors who are offered such a role should first consider the reputation of the SPAC's sponsor with whom they will be associating. They should assess their expected level of involvement and oversight-related challenges. Some sponsor groups require board members to be actively involved in identifying and vetting potential targets, while in other cases, directors are less directly involved in the acquisition process.

Further, board directors should assess the level of risk by assuming a board seat on the SPAC, including potential litigation risks arising from situations like the underwhelming performance of the target company after the de-SPAC. Having a clear understanding of the directors and officers insurance secured by the SPAC sponsor and seeing to it that it is comfortable with the level of coverage is crucial.

The reality is also that the SPAC board will likely be reshuffled once the acquisition is complete and a new combined board is formed. While the director's tenure may be short-lived, it can nonetheless be a highly dynamic one.

Navigating the listing path for a SPAC target

On the other side of the deal table, boards of private companies seeking a listing via the SPAC route will need to lead and challenge the management to critically assess its strategic decisions.

While a SPAC may provide an expedited path to a listing for an aspiring acquisition target, the business needs to be ready to operate and report as a public company after the de-SPAC. This often requires advanced preparation in a very short time frame before the merger is completed.

To position itself as an attractive target, the private company should focus on several areas – from strategy and structure to operations and reporting. The board can drive the management to consider the following critically.

Defining deal goals
Is the management clear on how much control it is willing to give up? After the merger, the sponsor will usually take a more active role in shaping the corporate strategy, particularly through board representation.

Devising a plan for incoming capital
Does the team have a concrete plan and timeline of how the company will deploy the funds raised via the SPAC merger? The capital infusion could be used to expand the workforce, develop innovative technologies or reinvent an existing product category, among others. Investors will want to know more and expect the business to deliver on its key milestones and outcomes.

Enhancing business operations
What are the opportunities for organizational improvements that can be undertaken straight after the merger? These can include enhancing policies, processes and internal controls or using digital and analytics to deliver better performance and higher-quality reporting.

Focusing on human capital
Does the company have the right talent to deliver on public company requirements? These include developing proxy materials for the listing, periodic reporting on short timelines and the ability to forecast.

Without question, the rise of SPACs is reshaping capital markets. Directors who are attuned to this growing trend certainly have a clear and present opportunity to contribute to the success of companies going public via this path. BMQ

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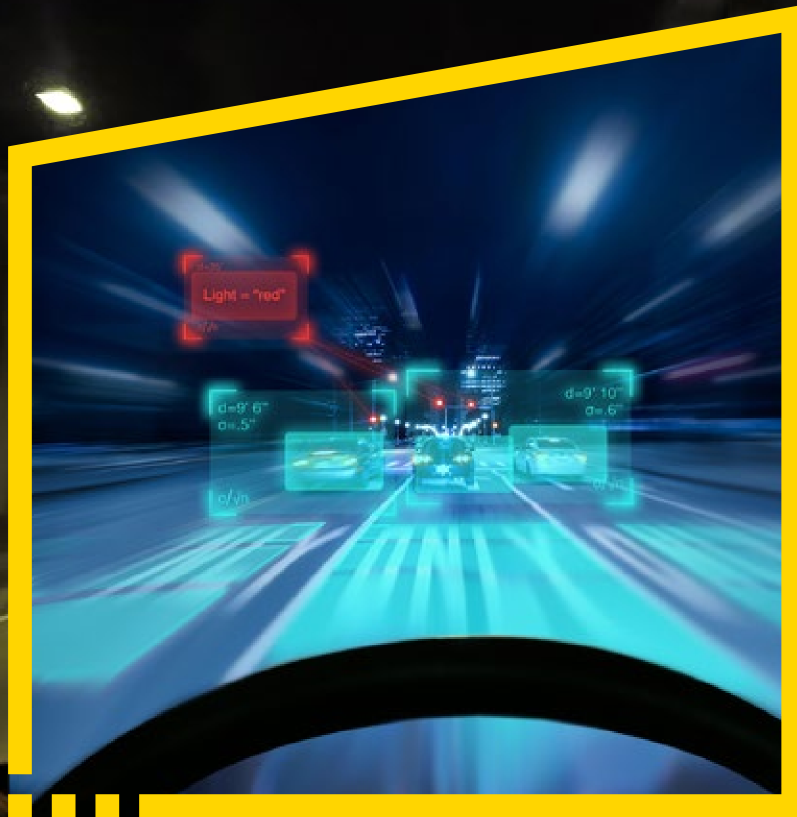

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