

An aerial photograph of a city skyline, featuring several prominent skyscrapers, including the Petronas Twin Towers. The image is overlaid with a semi-transparent blue filter. The text is positioned in the upper half of the image.

Malaysian Code on Corporate Governance

Securities Commission Malaysia
Session with Public Sector Auditor | 26 October 2017

All rights reserved. No part of this publication may be reproduced, stored in or introduced into a retrieval system, or transmitted in any form or by any means (graphical, electronic, mechanical, photocopying, recording, taping or otherwise), without the prior written permission of the Securities Commission Malaysia.

- **The Malaysian Code on Corporate Governance – key features & enhancements**
- **Highlights of major departure from 2012 MCCG**
- **Next Steps**



Key features of the MCCG

focusing on driving internalization of good corporate governance

Positioned as the Malaysian Code on Corporate Governance

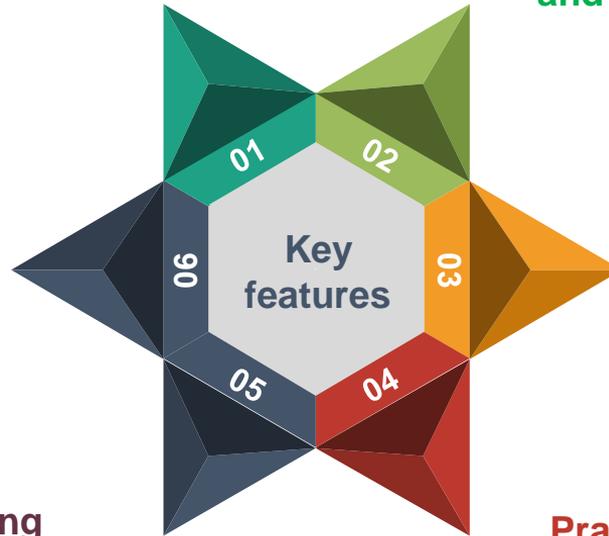
Adopts the Comprehend, Apply and Report approach (CARE)

Step Up practices to encourage companies to achieve CG excellence

Intended Outcomes are placed up-front to provide users with line of sight

Differentiated approach identifying practices and reporting expectations for Large Companies

Practices are supported by Guidance to aid implementation and better disclosure



Alternatives and Timelines

	MCCG 2012	2017 onwards
Explaining alternatives	Comply or explain	Apply or explain an alternative
	Alternative (if any)	Companies which depart from a practice are expected to have an alternative practice and explain how the application of the practice achieves the intended outcome
Actions and Timelines	N/A	When Large Companies depart from a practice, they are also required to disclose the actions they have taken or will take, and the timeframe required to apply the practice.

Reporting application of the MCCG

- Companies will be required to provide **meaningful explanation** on how it has applied each practice in the MCCG.
- The **first batch** of companies that will be required to report their application of the MCCG will be companies with **financial year ending 31 December 2017**.

Example:

➤ Companies with FYE 31 December 2017



➤ Companies with FYE 30 June 2017



Reporting application of the MCCG - for Large Companies



Market Cap **RM2B** at the start of the financial year

Market Cap drops <RM2B in June

Report application of the MCCG as a Large Company

----->
Market Cap continues to be <RM2B

Encouraged to report as a Large Company



Market Cap <**RM2B** at the start of financial year

Market Cap increases >RM2B in June 2017

Report application of the MCCG as a non-Large Company

----->
Market Cap continues to be >RM2B

Report application of the MCCG as a Large Company

Practices were enhanced and new ones introduced to ...

- a) **Strengthen board composition, independence, accountability and transparency** through
 - i. participation of independent directors
 - ii. carefully reviewing the tenure of independent directors
 - iii. gender diversity on boards
 - iv. greater transparency on remuneration
 - v. rigorous board and director evaluations

- b) **Support effective audit, risk management and internal control** by
 - i. strengthening the independence and effectiveness of the audit committee
 - ii. facilitating objective oversight by the board of the audit committee
 - iii. having dedicated focus on risk management through a Risk Management Committee
 - iv. ensuring the internal audit function is effective and independent

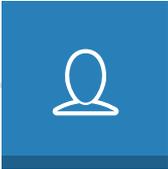
- c) **Maintain integrity in corporate reporting and meaningful relationship with stakeholders** through
 - i. having regular and transparent communication with stakeholders
 - ii. adopting integrated reporting as a form of concise communication
 - iii. ensuring participation of all directors at shareholder meetings
 - iv. using technology to facilitate voting and shareholder participation at meetings

Practices for large companies

Practice 4.1
The board comprises a majority independent directors



Practice 5.1
Board engages independent experts periodically to facilitate objective and candid board evaluations



Practice 4.5
The board must have at least 30% women directors



Practice 11.2
Encourage to adopt integrated reporting based on a globally recognised framework



Step-up practices

The introduction of step-up practices is meant to encourage companies to go a step further in strengthening their governance practices and processes. In doing so, companies are encouraged to disclose application of these practices to demonstrate their commitment to the higher standards of corporate governance.



Practice 4.3

The board has a policy which limits the tenure of its independent directors to nine years



Practice 7.3

Companies are encouraged to fully disclose the detailed remuneration of each senior management on a named basis



Practice 8.4

The Audit Committee should comprise solely of independent directors



Practice 9.3

The board establishes a Risk Management Committee a majority of independent directors, to oversee the company's risk management framework and policies

Practice 4.1

ENHANCED

- To objectively safeguard the interest of shareholders, provide impartiality in decision making and effective oversight of management

Challenges

- 45 out of the top 100 companies do not have majority independent directors on their board.¹

Code

MCCG 2012:

The board must comprise a majority of independent directors where the chairman of the board is not an independent director.

New Code:

At least half of the board comprises of independent directors. For Large Companies, the board comprises of majority independent directors.

¹ MSWG Malaysia-ASEAN CG Scorecard Assessment 2016

Practice 4.2

ENHANCED

- To objectively safeguard the interest of shareholders, provide impartiality in decision making and effective oversight of management
- To address concerns on impact of long tenure on independence

Challenges

- 810 independent directors have served more than 9 years.²
- Longest tenure of an independent director – 37 years.³
- Templated justifications for reappointments
- 52 companies did not table specific resolutions for reappointment of independent directors.⁴

Code

MCCG 2012:

Tenure of independent directors should not exceed nine years. After which annual shareholders' approval is required.

New Code:

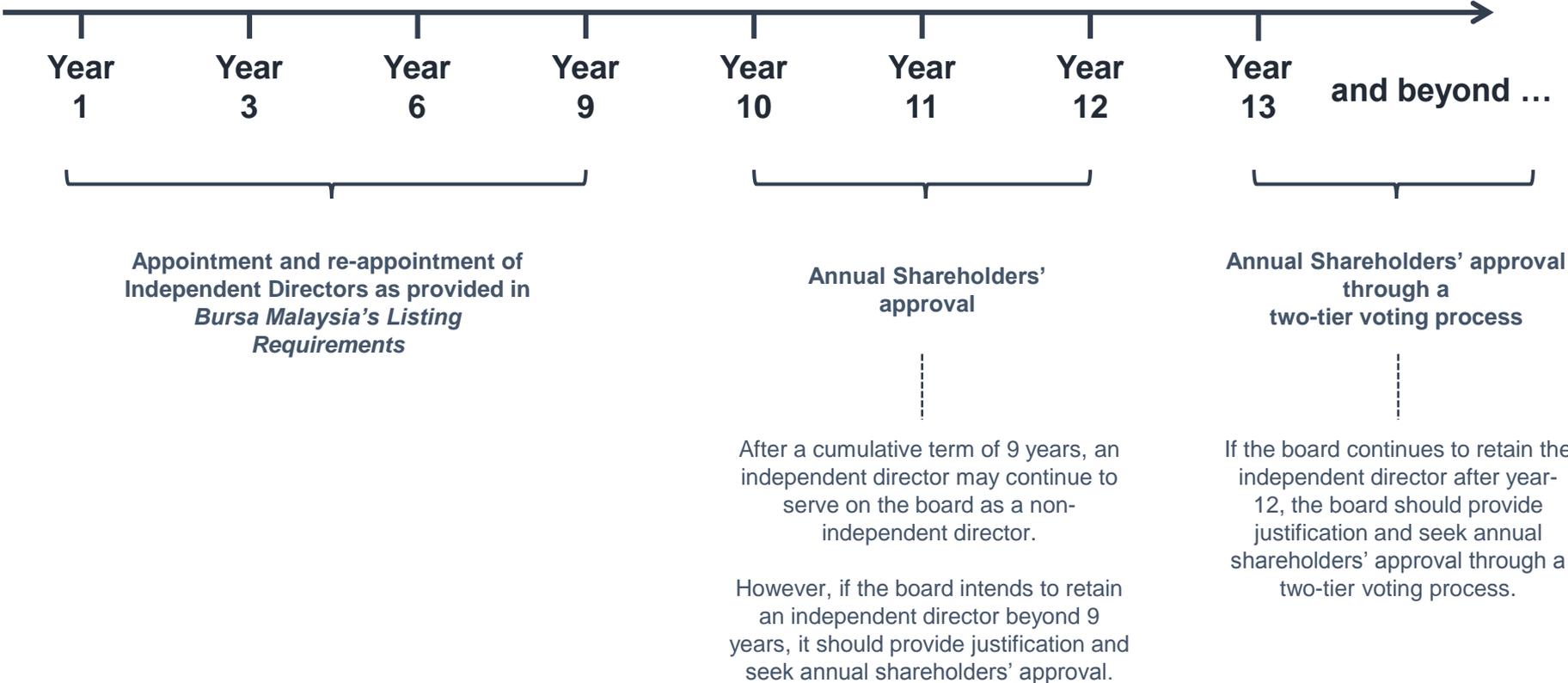
Tenure of independent directors should not exceed nine years, but annual shareholders' approval applicable from year 9-12 only, thereafter the annual two tier voting process should be adopted.

² MSWG Malaysia-ASEAN CG Scorecard Report 2015

³ Focus Malaysia - May 23-29 2015 edition

⁴ MSWG Malaysia-ASEAN CG Scorecard Assessment 2016

Appointment of an Independent Director



Two-tier Voting Structure

Under the two-tier voting process, shareholders' votes will be cast in the following manner at the same shareholders meeting:

- Tier 1: Only the **Large Shareholder(s)** of the company votes; and
- Tier 2: Shareholders other than **Large Shareholders** votes.

Example

Tier 1	✓	Successful
Tier 2	✓	
Tier 1	Against	Not successful
Tier 2	✓	

For the purposes of Practice 4.2 , Large Shareholder means a person who–

- is entitled to exercise, or control the exercise of, not less than 33% of the voting shares in the company;
- is the largest shareholder of voting shares in the company;
- has the power to appoint or cause to be appointed a majority of the directors of the company; or
- has the power to make or cause to be made, decisions in respect of the business or administration of the company, and to give effect to such decisions or cause them to be given effect to.

Practice 4.5

ENHANCED

- To bring different perspectives, freshness of ideas and contribute to stronger performance
- Promote greater women participation on boards

Challenges	Code
<ul style="list-style-type: none"> ▪ Top 100 PLCs – women makes up 17.7% of boards (855 out of 6938 board seats) and 25.6% of top management.⁵ ▪ 20 out of top 100 PLCs have all male board.⁶ ▪ Only 7.2% of CEOs are women (out of 972 CEOs).⁷ • Lack of structural support e.g. mentoring, sponsoring of women with potential; social and cultural barriers. 	<p>MCCG 2012: Commentary of the Code recommended companies to establish a policy on boardroom diversity.</p> <p>New Code: The board to disclose the company’s policies to appoint women to the board, its targets and measures to meet those targets. For Large Companies, the board comprise of at least 30% women directors.</p>

⁵ Bursa Malaysia ⁶ Bursa Malaysia ⁷ Bursa Malaysia

Practice 7.1

NEW

- Facilitate shareholders' informed decision making on directors fees at general meeting
- In-line the new provision of Companies Act 2016 – directors' fees and benefits payable to be approved annually

Challenges

- 33 top 100 PLCs disclosed details of remuneration of each member of the board of directors.⁸
- 78 companies disclosed details of remuneration of each member of the board of directors including the CEO.⁹

Code

New Code:

Practice 7.1

There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.

⁸ MSWG Malaysia-ASEAN CG Scorecard Report 2015

⁹ MSWG Malaysia-ASEAN CG Scorecard Report 2015

Practice 7.2 and 7.3

NEW

- Enable shareholders and other stakeholders to assess whether remuneration commensurate with performance of individual and company

Challenges

- 79 companies disclosed remuneration details of each board members and CEO.¹⁰
- 18 PLCs which incurred losses in 2016 paid higher fees – highest increase was 11%.¹¹
- Two companies failed to specify directors' fees even in bands.¹²

Code

New Code:Practice 7.2

The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

[Step-up] Practice 7.3

Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

¹⁰ Focus Malaysia - May 27-June 2 2017 edition

¹¹ Focus Malaysia - May 27-June 2 2017 edition

¹² Focus Malaysia - May 27-June 2 2017 edition

Post Release



Roadshows

Dates will be announced through SC and SIDC's website



Guide

Update of the Bursa Malaysia Corporate Governance Guide



Translation

MCCG will be translated to Bahasa Malaysia and Mandarin



Leverage technology

SC will leverage technology for reporting and monitoring of corporate governance practices

CG 3 year strategic plan

1. Enhance SC's corporate surveillance and enforcement of corporate governance breaches
2. Introduce a corporate governance framework for licensed and registered intermediaries.
3. Strengthening the corporate governance ecosystem through the establishment of:
 - a. Institute of Corporate Directors Malaysia; and
 - b. Corporate Governance Council
4. Increase women participation on boards from the current 17.7% to 30% for the top 100 companies listed on Bursa Malaysia
5. Leveraging technology for monitoring and reporting of CG practices, and facilitating shareholder participation and voting at general meetings
6. Inculcating CG early among SMEs and youth through the introduction of a CG toolkit and CG in tertiary curriculum respectively

Thank you