Malaysian Code on Corporate Governance

Presentation by:
Ms Foo Lee Mei, Chief Regulatory Officer
Securities Commission Malaysia
26 April 2017

- **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

01 Positioned as the Malaysian Code on Corporate Governance

02 Adopts the Comprehend, Apply and Report approach (CARE)

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

04 Practices are supported by Guidance to aid implementation and better disclosure

05 Differentiated approach identifying practices and reporting expectations for Large Companies

06 Step Up practices to encourage companies to achieve CG excellence

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

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

Highlights of 3 major departures from MCCG 2012

1. Explaining alternative practices and timelines

2. Proportionality approach – differentiating large companies from others
   - Composition of board – number of independent directors
   - Composition of board – gender diversity

3. Tenure of independent directors

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.

The differentiated approach
Applying flexibility and proportionality

- The MCCG identifies practices and reporting expectations for **Large Companies**

- Large Companies are companies:
  - on the top FTSE Bursa Top 100 Index; or
  - with market capitalisation of RM2 billion and above

- Other listed companies may consider adopting the practices identified for Large Companies if they aspire to achieve greater excellence in corporate governance.

Practice 4.1

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

Challenges	Code
▪ 45 out of the top 100 companies do not have majority independent directors on their board.[1]	**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	Code
• 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]	**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

Year 1 | Year 3 | Year 6 | Year 9 | Year 10 | Year 11 | Year 12 | Year 13 | and beyond …

Year 1 – Year 9: **Appointment and re-appointment of Independent Directors as provided in *Bursa Malaysia's Listing Requirements***

Year 10 – Year 12: **Annual Shareholders' approval**

After a cumulative term of 9 years, an independent director may continue to serve on the board as a non-independent director.

However, if the board intends to retain an independent director beyond 9 years, it should provide justification and seek annual shareholders' approval.

Year 13 and beyond: **Annual Shareholders' approval through a two-tier voting process**

If the board continues to retain the independent director after year-12, the board should provide justification and seek annual shareholders' approval through a two-tier voting process.

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	Abstain	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
▪ Top 100 PLCs – women makes up 16.8% of boards (855 out of 6938 board seats) and 25.6% of top management.[5] ▪ Only 7.2% of CEOs are women (out of 972 CEOs).[6] ▪ Lack of structural support e.g. mentoring, sponsoring of women with potential; social and cultural barriers.	**MCCG 2012:** Commentary of the Code recommended companies to establish a policy on boardroom diversity. **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.**

[5] *Bursa Malaysia – as at 31 December 2016*
[6] *Bursa Malaysia – as at 31 December 2016*

- The Malaysian Code on Corporate Governance – key features & enhancements
- Select practices – in detail
- **Next Steps**

Post Release

Roadshows

In major cities;
further information will be made available on SC'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

Thank you