Corporate Governance Strategic Priorities 2017–2020

Suruhanjaya Sekuriti
Securities Commission
Malaysia

CORPORATE GOVERNANCE
STRATEGIC PRIORITIES 2017–2020

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Introduction

Over the years, the Securities Commission Malaysia (SC) has taken consistent and structured measures to strengthen the corporate governance (CG) regulatory framework and advocate the adoption of corporate governance best practices among listed companies. This is in recognition of governance being integral to maintaining trust and confidence in the capital market.

Our journey to strengthen the corporate governance standards in Malaysia began with the establishment of the High Level Finance Committee in 1998. The establishment of this committee signified the commitment of the government and the private sector to promote sound corporate governance standards in Malaysia. The report issued by the Committee in 1999 recommended reforms to among others, laws governing shareholder rights, duties of directors and disclosure provisions. Apart from the legal reforms advocated, the report also recommended the formulation of the first *Malaysian Code of Corporate Governance* (MCCG). As a result, the MCCG was issued in 2000.

Other milestones in our corporate governance journey included the establishment of the Audit Oversight Board (AOB) in 2010 to provide an effective and robust audit oversight framework in Malaysia. In the same year, the *Capital Markets and Services Act 2007* (CMSA) was amended to empower the SC to initiate action against directors who cause wrongful loss to listed companies.

In 2011, the SC issued the *Corporate Governance Blueprint 2011*, which sought to promote greater internalisation of good governance culture, and recommended among others, mandating the establishment of a Nominating Committee, reviewing the development of integrated reporting, establishing an institutional investors council and formulating an industry-driven institutional investors code. In 2017, the SC released the new and enhanced MCCG.

Other key milestones in our corporate governance journey are presented below:

1998
- High Level Finance Committee on Corporate Governance
- Malaysian Institute of Corporate Governance
- *Code of Ethics for Directors* by Companies Commission Malaysia

1999
- *High Level Finance Committee Report on Corporate Governance*

2000
- *Malaysian Code on Corporate Governance*
- Minority Shareholder Watchdog Group

2001
- *Capital Market Masterplan*
- Revamp of corporate governance section in *Bursa Malaysia Listing Requirements*

2004
- Provisions regarding whistle-blowing and redress mechanism for breaches of securities laws were amended in the securities laws

2007
- Revision to the *Malaysian Code on Corporate Governance*
- *Companies Act (Amendment) 2007*
- *Capital Markets and Services Act 2007*

2010
- Bursa Malaysia's *Corporate Governance Guide* (1st Edition)
- Amendments to CMSA empowering SC to prosecute CG transgressions – ss317A and 320A
- Audit Oversight Board

2011
- *Capital Market Masterplan 2 – Growth with Governance*
- *Corporate Governance Blueprint 2011*
- ASEAN CG Scorecard

2012
- Listing Requirements (LR) amendments on Related Party Transactions, CG and internal control disclosures
- *Malaysian Code on Corporate Governance 2012*

2013
- LR amendments for PLCs to issue annual reports within four months of FYE
- Bursa Malaysia's *Corporate Governance Guide: Towards Boardroom Excellence* (2nd Edition)

2014
- *Malaysian Code for Institutional Investors*
- Integrated Reporting Steering Committee

2015
- Institutional Investor Council Malaysia
- Bursa Sustainability Framework and Toolkit

2016
- *Investor Stewardship and Future Key Priorities Report*
- LR amendments mandated MD&A, disclosure of non-audit fees, Key Audit Matters, and poll voting
- *Companies Act 2016*

2017
- New *Malaysian Code on Corporate Governance*
- Institute of Corporate Directors Malaysia
- Bursa Malaysia's *Corporate Governance Guide 2017*
- LR amendments on new CG reporting approach and format

Corporate Governance Strategic Priorities (2017–2020)

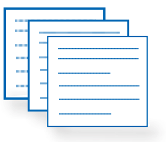
The Corporate Governance Strategic Priorities presented in this document are the product of an extensive review by the SC on the state of corporate governance of public-listed companies (PLCs) in Malaysia. The review drew inputs from domestic and international stakeholders, lessons from past and recent corporate governance failures, and changes in market structure and business needs. It also took into account the growing need for companies to address the converging interest of corporate citizenship, social and environmental concerns.

The following strategic priorities also seek to address some of the corporate governance challenges and concerns:

- Templated or boilerplate disclosures on corporate governance practices;
- The need for a centralised institute to represent directors' interests, provide a structured approach and process to professionalise directors, and drive good governance;
- Fragmentation in efforts to promote corporate governance initiatives in Malaysia;
- Extremely long tenure of independent directors ranging between 20 to 46 years;
- Slow progress made in embracing gender diversity on boards since 2011; and
- The need for good corporate governance culture to be imbued early in the life cycle of companies and among youth.

PRIORITY 1

Enhancing the CG regulatory framework



a. Strategic and differentiated approach in the new MCCG to drive internalisation of CG values;

b. Introduce CG guidelines for capital market intermediaries; and

c. Enhance surveillance and enforcement framework for serious CG breaches.

PRIORITY 2

Strengthening the CG ecosystem

a. Establish and operationalise the Institute of Corporate Directors Malaysia;

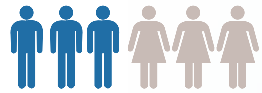
b. Establish the Corporate Governance Council;

c. Collaborate with CG stakeholders to promote integrated reporting and CG excellence; and

d. Promote shareholder activism.

PRIORITY 3

Promoting greater gender diversity on boards



a. Recognise companies with diverse boards; and

b. Engage boards to accelerate adoption of gender diversity.

PRIORITY 4

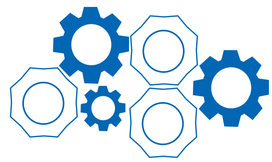
Embedding CG culture early in the life cycle of companies and among youth

a. Develop a CG toolkit for SMEs; and

b. Introduce CG curriculum in tertiary education.

PRIORITY 5

Leveraging technology to enhance monitoring of CG practices and shareholder activism



a. Enhance the CG reporting approach and method;

b. Leverage technology through advanced analytics capabilities to monitor and gain deeper insights into CG practices; and

c. Facilitate electronic voting and remote shareholders' participation.

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PRIORITY 1

Enhancing the corporate governance regulatory framework

An effective corporate governance framework is a continuum of hard and soft law; comprising a combination of legislation, regulations, voluntary standards and best practices. Due to the many dimensions of corporate governance, soft law such as codes and best practises are part of a suite of regulatory tools used to promote good corporate governance practices in Malaysia. While hard law binds the players (companies, directors and officers) to legally enforceable commitments and provides shareholders with enforceable rights, soft law is often used to advance aspirational goals. The SC's approach to corporate governance involves the development of frameworks which combines hard and soft law, complemented by proactive surveillance, supervision and initiation of enforcement action for serious corporate transgressions.

As the Malaysian corporate governance landscape continues to evolve, new experiences and lessons learnt necessitates periodic review and recalibration of the regulatory framework to ensure it remains robust, aligned with global best practices, and is effective in promoting good corporate governance practices.

Priority 1 is to enhance the effectiveness of our regulatory framework in–

(a) promoting internalisation of corporate governance culture; and
(b) mitigating conduct risk in the capital market.

1.1 New MCCG to drive internalisation of corporate governance values

First introduced in 2000, the MCCG has been an important tool in driving early corporate governance reform and the adoption of best practices in the market. The MCCG then, adopted the 'comply or explain' approach.

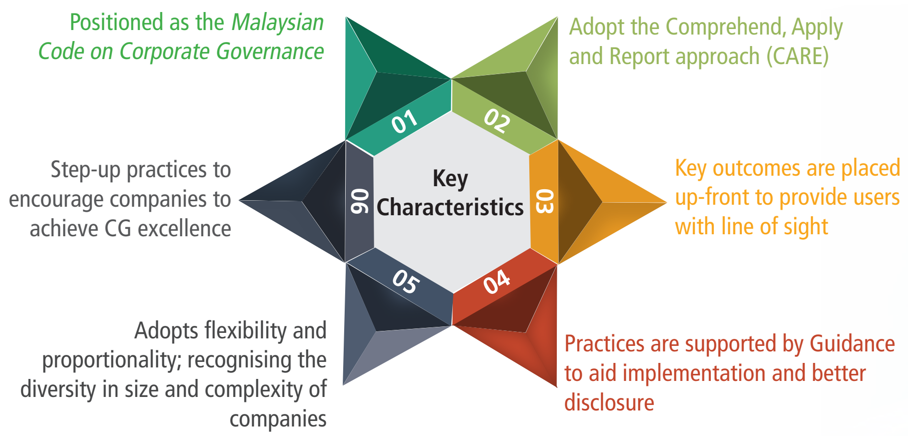
Over the years, the MCCG brought about positive changes in the corporate governance structure and practices of companies. However, the 'comply or explain' model had also perpetuated a box-ticking approach in the adoption of corporate governance practices. Our review of corporate governance disclosures by listed companies revealed that disclosures were often perfunctory, and where there were departures from the best practices, companies did not provide or fail to explain how alternative arrangements or practices supported the relevant corporate governance principles.

The new MCCG launched in April 2017 unveiled new features and enhancements to facilitate application of corporate governance practices in substance and drive meaningful reporting.

Key features of the new MCCG are presented in Diagram 1.

Diagram 1

Malaysian Code on Corporate Governance – key characteristics



(a) **Evergreen Code** – Previous reviews of the MCCG involved revisions to its structure and recommendations. In addition, the revised MCCG issued were tagged to the year of review (e.g. MCCG 2007, MCCG 2012). This approach caused the market to view each version as a completely new Code, even though some of the changes made were incremental. To assist the industry in understanding and focusing their attention on the amendments made to the Code, the new MCCG will be an evergreen Code, retaining its look and feel, and updated when necessary, taking into account local and global developments.

(b) **CARE** – The new MCCG adopts the 'Comprehand, Apply and Report' or CARE approach to reflect a philosophy which emphasises the internalisation of good corporate governance values. This entails comprehending, not just the letter but also, the spirit behind the practices, applying the practices in substance and providing meaningful disclosures. Under CARE, the new MCCG also shifts from the 'comply or explain' approach to 'apply or explain an alternative' to support the mindset and culture change required to move away from the box-ticking approach to corporate governance.

(c) **Intended outcomes** – Intended outcomes are placed upfront to assist the board in understanding the outcomes which we hope the company will achieve through the adoption of these practices.

(d) **Guidance** – Practices in the new MCCG are also supported by guidance to aid companies in understanding the considerations and rationale behind the introduction of the practices, the 'dos and don'ts' in the adoption of practices and how disclosures should be made.

(e) **Proportionality** – Recognising the diversity in size and complexity of companies in Malaysia, the MCCG adopts a proportionality approach by requiring only Large Companies[1] to adopt certain practices.

(f) **Step-up Practices** – Companies that aspire to achieve corporate governance excellence are encouraged to apply the step-up practices.

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1 The MCCG defines 'Large companies' as companies that are on the FTSE Bursa Malaysia Top 100 Index or companies with market capitalisation of RM2 billion and above, at the start of the companies' financial year.

1.2 Introduce corporate governance practices for capital market intermediaries to complete the corporate governance framework for the financial market

Corporate governance has traditionally been associated and applied only to PLCs. Post the global financial crisis, policymakers and regulators have focused their efforts in enhancing corporate governance practices and standards in the financial market to address the resulting trust deficit and restore investor confidence. In order to address these issues, there is a need to re-establish standards of behaviour and best practices in all segments of the financial system including the capital market.

Capital market intermediaries provide important services which benefit investors – credit rating agencies evaluate a company's credit-worthiness, analysts assess the company's business prospects, and stock and derivative brokers are conduits that channel investors' investments into the stocks of public companies. These intermediaries play crucial roles in our capital market because they are better equipped to gather information about companies and can therefore check on management's tendency to focus on short-term profits at the expense of long-term shareholder value.

Investors trust and rely on these intermediaries to provide them with honest and independent perspective and information on the companies which they invest in. Analysts need to provide disinterested assessment of a company's prospect and not be unduly influenced by their firm's investment banking activities. Credit rating agencies, though compensated by issuers that they rate, should ensure that they are free from conflicts of interest that may affect their independence. Brokers are expected to always treat their customers fairly and ensure that products and services marketed are designed to meet the needs of identified investor groups and are targeted accordingly.

Clearly, capital market intermediaries occupy an indispensable and pivotal place in our overall financial system. Capital market intermediaries who lose trust will not be able to operate efficiently and profitably. This can have a snowballing effect impairing the functioning of the entire financial system due to their interconnectedness.

Hence, the principles of trust, transparency and accountability apply equally to capital market intermediaries as they do to PLCs. Boards of capital market intermediaries must ensure that policies and procedures which promote good governance such as strong internal controls, effective decision-making structures, and delineation between management and leadership are in place, taking into account their business model and needs.

Thus, the SC will be formulating a corporate governance framework for capital market intermediaries in consultation with the industry and drawing from the experiences of other regulators.

1.3 Enhance surveillance and enforcement framework for serious corporate governance breaches

While we seek to advance corporate governance standards in Malaysia through the introduction of MCCG and other relevant guidelines, the SC will also continue to adopt a holistic approach in achieving its desired outcome through its surveillance, supervision and enforcement tools.

The SC will leverage big data and artificial intelligence capabilities to enhance the effectiveness of its corporate surveillance and supervision efforts. The SC will also continue to engage directors of PLCs, auditors and advisors to pre-empt questionable transactions detrimental to shareholders' interests.

While good governance culture should be self-driven, enforcement by regulators is equally crucial. Regulators often signal their intolerance of corporate misconduct through the initiation of enforcement actions. Effective enforcement actions will not only change behaviour of directors, but also increase societal abhorrence to such transgressions. Further, proportionate sanctions by courts will act as a deterrent of future misconduct.

Deterrence is most effective when personal accountability is imposed on the board, senior management and those making key decisions for the company. In order to ensure that our efforts in promoting corporate governance lead to meaningful behavioural change among corporate Malaysia, the SC will undertake a holistic review of securities laws. This is to ensure that the regulatory framework is effective in promoting the proper discharge of directors' fiduciary duties.

PRIORITY 2

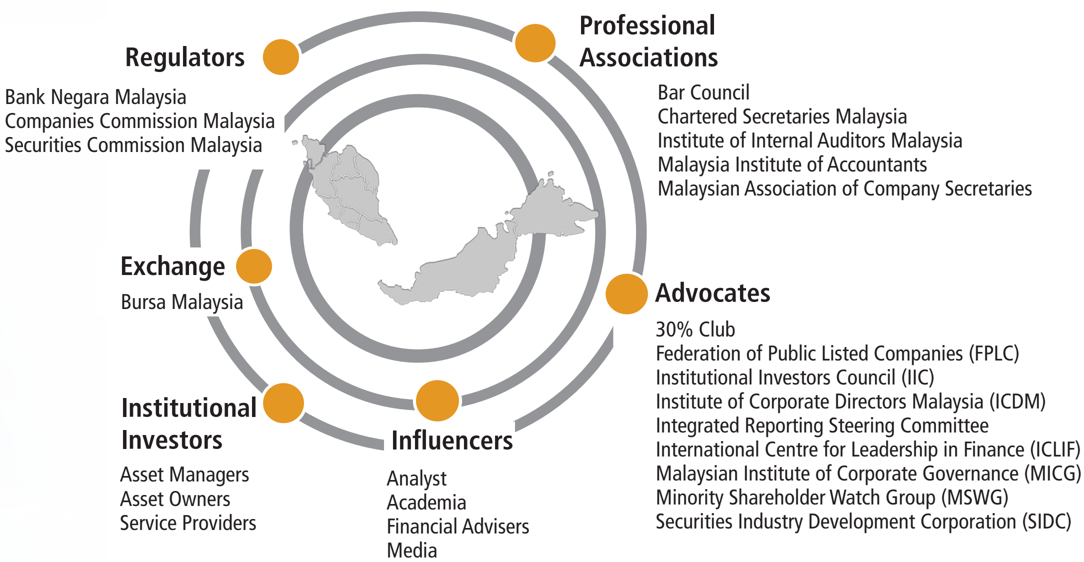
Strengthening the corporate governance ecosystem

Driving good corporate governance is the collective responsibility of all participants in the capital market, which include directors, investors, auditors, corporate finance advisers, analysts, advocates and financial journalists. The different roles played by these participants require greater co-ordination to maximise impact and achievement of the common objectives.

Given the interplay of various stakeholders in the ecosystem, there is a need to centralise and co-ordinate initiatives to harness the strengths and resources of each stakeholder. It is the collective interaction, and multi-stakeholder that contributes to better outcomes, as no single stakeholder can drive the process alone.

Diagram 2

The corporate governance ecosystem in Malaysia



2.1 Establishment of a Corporate Governance Council

Corporate governance initiatives in Malaysia are driven by a kaleidoscope of stakeholders as illustrated in Diagram 2. In order to ensure that the corporate governance vision and initiatives are aligned, the establishment of a co-ordinating body is essential to launch the corporate governance agenda into the next Sigmoid Curve.

In this regard, a Corporate Governance Council (CG Council) will be established, bringing together key stakeholders to provide strategic direction for the development of corporate governance policies and initiatives for the capital market and co-ordinate its implementation.

Through the partnership and co-ordinated efforts of all key stakeholders, the SC is confident that the CG Council will be able to promote public awareness and make good corporate governance an integral part of Malaysia's corporate culture.

2.2 Establishment of the Institute of Corporate Directors Malaysia

The effectiveness of individual directors is a critical factor for board performance and ultimately the long-term success of a company. Countries such as the United States, United Kingdom, Hong Kong, Germany, Australia, New Zealand, Singapore and Thailand have established institute of directors (IoD) to support continuous professional development and drive the adoption of corporate governance best practices among directors.

Although there are several private entities which have been established in Malaysia with the objective of, among others, providing directors' training programmes and promoting corporate governance excellence, none of these entities have been able to undertake and fully fulfil the role of an IoD in Malaysia.

Recognising the contribution that an effective IoD can make towards enhancing directors' professionalism, the SC established the Institute of Corporate Directors Malaysia (ICDM) on 19 July 2017. ICDM is recognised by both the SC and Bank Negara Malaysia as the IoD in Malaysia. It will focus on elevating the standards of professionalism among Malaysian corporate directors, represent the interests of directors in Malaysia, maintain a comprehensive directors' registry and support overall board effectiveness. ICDM will also be a key member of the CG Council to represent the voice of directors.

In fulfilling its objectives, ICDM will be offering an extensive suite of development programmes under its Directors' Professional Development Pathway (Pathway), which will include the programmes for newly appointed and aspiring directors. ICDM will also establish collaboration including mutual recognition of programmes with other providers such as the Iclif Leadership and Governance Centre and the Securities Industry Development Corporation (SIDC) to ensure alignment in the objectives of programmes offered and avoid duplicity.

2.3 Promoting Shareholder Activism

Shareholders have a significant influence in driving corporate governance in the companies that they invest in. However, shareholders are often not aware of their legal rights and as a result, fail to avail themselves of the opportunity to engage the board and protect their interests effectively.

Under the *Companies Act 2016*, shareholders are vested with the rights to, among others

Vote on resolutions at general meetings	Call for general meetings and place items on the agenda	Appoint and remove directors	Approve directors' fee and benefits	Review management's decisions	Appoint, determine fees and remove auditors	Commence civil action

Under securities laws, investors are vested with the rights to, among others

Make an application to the court if they were aggrieved (under section 360 of the CMSA)	If they have suffered loss or damage due to reliance on any capital market persons, investors may request for Commission to act on their behalf to institute civil proceedings (section 358 of the CMSA)

On the institutional shareholders front, there are ongoing efforts to promote active stewardship through the Institutional Investors Council (IIC) and the implementation of the *Malaysian Institutional Investors Code* (II Code). Through this, institutional investors are expected to, among others formulate a stewardship and voting policy, incorporate sustainability considerations in their investments and engage their investee companies on governance and issues that may impact the company's ability to drive long-term

List of signatories to the Malaysian Code for Institutional Investors

(As at 30 August 2018, there are 20 signatories to the II Code)*

1. Aberdeen Asset Management Sdn Bhd	11. Kenanga Investors Bhd
2. Affin Hwang Asset Management Bhd	12. Kenanga Islamic Investors Bhd
3. AIIMAN Asset Management Sdn Bhd	13. Khazanah Nasional Bhd
4. BNP Paribas Investment Partners Malaysia Sdn Bhd	14. Kumpulan Wang Persaraan (Diperbadankan)
5. BNP Paribas Investment Partners Najmah Malaysia Sdn Bhd	15. Legal & General Investment Management
6. CIMB - Principal Asset Management Bhd	16. Nomura Asset Management Malaysia Sdn Bhd
7. CIMB - Principal Islamic Asset Management Sdn Bhd	17. Nomura Islamic Asset Management Sdn Bhd
8. Employees Provident Fund	18. Pertubuhan Keselamatan Sosial (PERKESO)
9. Hermes Equity Ownership Services	19. ValueCAP Sdn Bhd
10. Hermes Fund Managers	20. VCAP Asset Managers Sdn Bhd

* *Listed in order of adoption.*

value creation.
Realising that company meetings are an important platform for shareholders to engage with board of directors, the MCCG has recommended several practices aimed at facilitating greater shareholder participation and engagement. These include among others:

(a) Serving longer notice period for annual general meetings from the required 21 days to at least 28 days to provide shareholders sufficient time to review details of resolutions and make informed decisions when exercising their voting rights;

(b) Requiring directors to attend general meetings to provide shareholders with the opportunity to effectively engage with each director and to obtain meaningful responses; and

(c) Leveraging technology to facilitate shareholder participation in general meetings through the use of live webcasting of general meetings and electronic voting. Free live webcasting services are available from major video hosting providers such as YouTube.

Boards, on the other hand, have a duty to continuously facilitate meaningful stakeholder engagement. This can foster mutually beneficial relationship and co-operation between companies and their stakeholders in driving long-term value creation.

2.4 Stakeholders and corporate governance excellence

Promoting integrated reporting

The corporate reporting landscape has evolved over the years, extending the spectrum of stakeholders to include creditors, employees, regulators and ultimately, the public at large. In Malaysia, corporate disclosures have evolved from reporting on Corporate Social Responsibility to Sustainability (on Economic, Environmental, Social and Governance[2]), and integrated reporting has also begun to gain traction among larger listed companies, in part, due to the efforts of the Malaysian Integrated Report Steering Committee (MIRSC).

Integrated reporting goes beyond consolidating the disclosure of financial and non-financial information into one single document. An integrated report is a comprehensive value-creation story that helps to establish the linkages between past and current performance, and between current performance and future outlook.

It shows the combination, inter-relatedness and dependencies between the business components and stakeholders that are important to the organisation's ability to create value over time. An integrated report therefore provides a fuller picture of a company's position, performance, long-term potential and sustainability which enables stakeholders to better assess the company.

The MCCG encourages large companies to adopt integrated reporting based on a globally recognised framework. Further, the SC will continue to collaborate with the MIRSC to promote the adoption of integrated reporting, including bringing experts to

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[2] Bursa Malaysia's Sustainability Reporting Framework focuses largely on EES only because the governance elements, represented by 'G' has already been extensively covered under the existing disclosure requirements in the *Listing Requirements* and the *Malaysian Code on Corporate Governance*.

conduct capacity building and awareness programmes on integrated reporting.

Corporate governance awards

In order to incentivise better corporate governance practices and reporting, recognition of industry best practices and corporate governance champions are important. However, to ensure that recipients are truly deserving of their awards, the SC will review all existing awards to raise the bar by streamlining the awards' criteria and enhancing the robustness of the assessment process. This new process will include holistically examining the company's entire spectrum of corporate governance practices before deciding whether a company is even eligible for consideration.

PRIORITY 3

Promoting greater gender diversity on boards

One of the contributing factors to board effectiveness is its composition – the mix of skills, experience, nationality, ethnicity and gender of its members. Homogeneous boards have the inherent risk of insularity and group think; hindering boards from engaging in quality deliberations and effective decision-making. A diverse board on the other hand, brings diverse perspectives which contribute to the creative tension required in the boardroom.

The need for women participation across sectors and levels of the Malaysian economy remains high in the government's agenda. The policy to have 30% women in decision-making positions for the public sector was announced in 2004. This resulted in an increase from 18.8% in 2004 to 35.6% in 2017 in the number of women in senior decision-making positions in the civil service[3].

The government in its 2018 manifesto, *Buku Harapan*, made a commitment to empower the rights of women in Malaysia and recognise the importance of their roles. The effort was set to be undertaken through five key commitments:

1. Ensuring a national economic system that advances the interest of women;
2. Ensuring women's health and social security;
3. Ensuring the national education system provide the foundation for women to do well in life;
4. Ensuring the legal system protects women's rights and dignity; and
5. Democratise the political system to create more female leaders.

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[3] http://www.freemalaysiatoday.com/category/nation/2017/03/02/women-take-up-35-of-top-management-posts-in-civil-service/

Similarly, in the capital market, gender diversity on boards and senior management has been an area of focus in the promotion of good corporate governance. The importance of gender diversity on boards of listed companies was highlighted in the *Corporate Governance Blueprint 2011*. In this regard, the SC continues to support the government's aspiration of achieving 30% of women on boards.

Measures to enhance gender diversity on boards of public-listed companies

2011

CG Blueprint – Emphasised the need for board diversity including gender diversity.

2012

CG Code – Boards to have a criteria for board appointment; nine year tenure for independent directors and annual shareholders approval for reappointment.

Listing Requirements – Limit directorships to 5.

2015

Listing Requirements – Require PLCs to disclose their policy on board composition.

2016

Listing Requirements – Require PLCs to disclose statistics on women participation on board and senior management in the annual reports.

2017

CG Code

- Disclosure of policy and targets on gender diversity.
- Large Companies to have 30% women on board.
- Two tier voting for independent directors serving > 12 years.
- Step up practice – nine year tenure limit for independent directors.

Some observations on the participation of women on boards

- Research demonstrates economically meaningful effects of female board representation on firm performance. These effects are markedly larger for committee membership. There is evidence that female representation, especially when integrated more closely into the governance mechanism, increases firm profitability.[4]

- Leadership behaviours more frequently applied and demonstrated by female corporate leaders such as people development, risk management and participative decision-making have been proven to improve organisational performance.[5]

- U.S. companies that began the period with at least three women on the board experienced median gains in Return on Equity (ROE) of 10 percentage points and Earnings per Share (EPS) of 37%. In contrast, companies that began the period with no female directors experienced median changes of -1 percentage point in ROE and -8% in EPS over the study period.[6]

- An analysis of the S&P Composite 1500 found that firms with women in top roles experienced an increase in 'innovation intensity' and were worth, on average, about US$40 million more than companies with only male leaders.[7]

- In the US, S&P 500 companies with diverse boards outperformed rivals by 1.91%. In the UK FTSE 350, the gap was 0.53% and for the Indian CNX 200, 0.85%. This translates into an opportunity cost of US$567 billion, US$74 billion and US$14 billion in each of the three markets respectively – or around 3% of GDP in the UK and US.[8]

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4 Green, Colin P. and HomRoy, Swarnodeep, *Female Directors, Board Committees and Firm Performance* (October 12, 2017).
5 *Diversity – Institutional Investors Rising to the Challenge* (2016) Hermes Investment Management.
6 *The Tipping Point*, Women on Boards and Financial Performance: 2016 Women on Boards Report MSCI.
7 *Navigating disruption without gender diversity? Think again.* Ernst and Young (2016).
8 *Women in business: The value of diversity*, Grant Thornton (2016).

3.1 No all-male boards on the top 100 PLCs by end 2018 and achieve 30% women participation on boards of listed companies by end 2022

There is an increasing body of evidence which suggest that the participation of women on boards positively impacts the board and overall company performance. A study of Malaysian listed companies in 2012 found that companies with at least one woman on board have higher return on assets than those that have none and the differences are statistically significant[9]. Many global asset owners and other institutional investors are also stepping up their assessment of gender diversity in their investee companies, with some having voted against re-election of directors on grounds they failed to take steps to add women to their boards[10].

We have seen progress in gender diversity on boards of listed companies, which is the result of increased awareness, commitment and drive by the regulators, advocates and listed companies. Key statistics are as illustrated in Diagram 3. However, despite this and the measures implemented over the years, progress has been relatively slow.

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9 *Women on Boards of Malaysian Firms: Impact on Market and Accounting Performance* (2012), Shamsul Abdullah, Ku Nor Izah Ku Ismail and Lilac Nachum.

10 *Wall Street Journal* (25 July 2017) re State Street Global Advisors + Australia Superannuation Fund.

Diagram 3

Key statistics – Gender diversity on boards

Indicators for Top 100 listed companies on Bursa Malaysia			
Indicators	**December 2017**	**December 2016**	**December 2015**
Target – 30% women participation on boards of the Top 100 listed companies by 2020	19.2%	16.6%	17%
Target – No all male boards on the Top 100 listed companies by end of 2018	2 companies with all male boards (as at 16 July 2018)	20 companies with all male boards	N/A
Percentage of women participation in senior management of the Top 100 listed companies	27% UK – 22% Hong Kong – 16.8%	29.1%	30.5%

Indicators for all listed companies on Bursa Malaysia (overall)			
Indicators	**December 2017**	**December 2016**	**December 2015**
Percentage of women participation on boards	13.3%	12%	10.5%
Percentage of women participation in senior management	28.4%	29.2%	29.8%

The SC has and will be adopting several measures to achieve the targets:

(a) Leverage technology to require electronic submission of CG disclosures which includes tracking their adoption of 4.4 & 4.5 under the MCCG which requires listed companies to disclose their gender diversity policies, measures and targets, and for Large Companies to have 30% women on their boards;

(b) Engaging the listed companies with all male boards on their efforts in getting women on their boards;

(c) Closely monitoring the participation of women in senior management, as they are a vital talent pipeline to the board;

(d) ICDM will establish a reliable and comprehensive director registry to provide listed companies with a wider pool of women board candidates;

(e) Working closely with corporate governance advocates including the 30% Club Malaysia to promote and facilitate women participation on boards;[11] and

(f) Publish periodic progress reports on the participation of women on boards and establish a recognition mechanism for companies that show commitment in promoting diverse boards.

[11] In 2017 – the SC hosted 30% Club Business Leaders Roundtable Meetings which were attended by chairmen and board members of listed companies, including those with all-male boards.

PRIORITY 4

Embedding corporate governance early in the life cycle of companies and among youth

4.1 Corporate governance toolkit for small and medium companies

The SME segment is a pivotal driving force of the economic development in Malaysia. At present, 97% of the business establishments in Malaysia are SMEs[12]. It accounts for 66% of employment and contributes around 36% to the national Gross Domestic Product (GDP)[13]. These enterprises are increasingly pursuing new business and organisational models, investing in skills and competencies of their employees, increasing productivity and grasping the key values of innovation. Over the recent years, Malaysian SMEs have performed remarkably well, with growth exceeding that of the overall national economic growth. In the period from 2005 to 2015, the average compounded annual growth rate (CAGR) of SMEs was 7.0%, higher than the 4.9% CAGR of the overall economy.[14]

To support the long-term development of SMEs, several global economies including Malaysia have democratised market access for these enterprises by introducing new avenues for capital raising such as equity crowdfunding and peer-to-peer lending. As the wave of digitisation continues to sweep across global capital markets, there will be increasingly cheaper and broader access to funding for these enterprises. The drive for SMEs to expand and thrive has also resulted in them forming a key component of the overall capital market pipeline to the listed sphere.

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12 Department of Statistics, Malaysia (DOSM) and SME Corp. Malaysia.
13 *Ibid*.
14 *Ibid*.

As SMEs continue to scale up their businesses, and respond to new opportunities and challenges, the need for corporate governance practices becomes critical. Having governance mechanisms and processes in place from the very get-go will support business longevity, increase brand reputation and the companies' ability to access capital. In order for these companies to effectively embrace corporate governance, the inculcation of corporate governance values must therefore start early in their life-cycle; as the Malay saying goes "*melentur buluh biar dari rebungnya*".

The corporate governance structures and practices of companies should mature in tandem with the size and complexities of the business. Starting off with the formulation of a simple business plan, a basic system of accounts and internal controls, and as the company progresses, it should consider among others, setting a framework to identify and manage risks. As the company matures further with the entry of more shareholders, it should ensure that there is separation of ownership and control, and the board is looking after the interest of the company as a whole.

To develop SMEs understanding and appreciation of the fundamental corporate governance principles and practices, the SC will work with relevant bodies and stakeholders to develop a corporate governance toolkit tailored for SMEs[15]. The toolkit will provide an easy-to-follow guide on key areas of corporate governance such as business objectives and strategies, basic internal controls and risk management, stakeholder, management, corporate culture and leadership.

The toolkit will also act as a reference for investors such as private equity and venture capital firms in evaluating their investee companies. With this, the SC aspires to see a greater adoption of corporate governance among SMEs to improve business efficiency, support wealth creation and at a later stage, facilitate their access to financing in public markets.

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15 Similar guides have been issued in other jurisdictions such as the *Corporate Governance Guidance and Principles for Unlisted Companies* in Europe issued by the European Confederation of Directors in 2010 and the *Guidelines on Corporate Governance for SMEs* (3rd edition) by the Hong Kong Institute of Directors in 2014.

4.2 Corporate governance curriculum at tertiary education

The role of the younger population in shaping the world's economy is clear. They have demonstrated their ability and potential to be positive agents of change to shape social and economic development, by contributing fresh ideas and being proactive in identifying solutions to development challenges. Investing in this segment of the population will enable them to reach their full potential as individuals, leaders and agents of change.

A report by BNP Paribas in 2016[16] found that `millepreneurs' under the age of 35 are creating more companies with higher headcounts and have greater profit ambitions compared to their baby boomer predecessors. To ensure that these millipreneurs continue to generate long-term value for their businesses, there is a need to ensure that they have access to the knowledge and skillsets vital to today's business realities, including principles of corporate governance.

The SC will be collaborating with local public and private universities to introduce or enhance the corporate governance module in their curriculum. The corporate governance module will combine the theoretical foundations of corporate governance with the practical application of corporate governance such as meeting the minimum legal requirements, adoption of best practices, and challenges companies face in relation to corporate governance. The module should also be refreshed periodically to include global and local developments on corporate governance. In achieving this, the SC will be collaborating with lecturers from local public and private universities to formulate corporate governance modules for tertiary curriculum.

We believe that embedding corporate governance in tertiary curriculum is critical to support the development of future corporate leaders with high ethical standards and strong appreciation for good governance.

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[16] *Global Entrepreneur Report 2016*.

PRIORITY 5

Leveraging technology to enhance monitoring of corporate governance practices and shareholder activism

The adoption of technology in financial markets has continued to increase over the past few years. Regulators are also leveraging cutting-edge technology and adopting Regtech to enhance their surveillance and monitoring functions. Through the use of big data and artificial intelligence, regulators are gaining deeper insights on trends and risks to inform their regulatory design and intervention.

In our effort to strengthen the corporate governance ecosystem in Malaysia, the SC will leverage technology to monitor and analyse corporate governance practices, facilitate greater shareholder participation at general meetings, enhance collaboration and information sharing between corporate governance stakeholders and regulators, and promote effective and targeted engagements.

5.1 Enhancing the reporting and monitoring of corporate governance practices

Corporate disclosure can be defined as the communication of information by the people inside the company towards those outside. The main aim of corporate disclosure is to communicate the company's performance and governance to stakeholders. This communication is not only called for by shareholders and investors to analyse their investments, but also by other stakeholders to obtain information on areas such as the company's sustainability policies.

Transparency in disclosure namely, absence of boilerplate statements, ease of comprehension, and clear insights into the company's strategy and longer term issues are critical in building trust. Meaningful and reliable disclosures are also crucial in promoting market discipline and facilitating shareholders' activism.

The new MCCG was enhanced with the objective to promote greater transparency by requiring meaningful explanation of corporate governance practices. Under the *Listing Requirements*, companies are required to provide a corporate governance overview statement in the annual report and a separate `Corporate Governance Report' (CG Report). The latter contains the company's explanations on their adoption of each practice in the MCCG.

This reporting method seeks to:

- Provide greater transparency on the corporate governance practices of listed companies;
- Facilitate the preparation of concise annual reports by maintaining an overview statement in the annual report and a separate detailed report on specific practices;
- Enhance stakeholders understanding and their ability to assess how well the company is being governed; and
- Facilitate the regulators in monitoring the corporate governance practices of listed companies.

As part of our continuous efforts to enhance our monitoring capabilities, the SC is also developing an internal (web-based) system which will leverage advanced analytics capabilities and machine learning to analyse both quantitative and qualitative data on corporate governance. The output from this analysis will provide insights on corporate governance trends and identify areas of concerns which may require intervention by stakeholders, the Exchange or the SC. These observations will also enable the SC to have focused engagements with boards of listed companies and stakeholders on areas of concern and share emerging risks. Periodically, these observations and analysis will be made public through thematic reports published by the SC.

5.2 Facilitate shareholder participation and activism

General meetings is a critical element in the governance of a company. It is a central platform through which companies can effectively communicate with its shareholders, and provide them with important and significant information on the state of the company. Shareholders through general meetings also have the opportunity to engage directly with the board and senior management on the company's performance, governance; holding them accountable to their respective duties and responsibilities.

Given the significance of these meetings and the importance of stakeholder engagement, companies are increasingly leveraging technology to support stakeholder engagement including facilitating greater shareholder participation at annual general meetings (AGMs).

Companies for example are organising 'hybrid meetings' where there is a real-time face-to-face component as well as a virtual component to the meeting. Z Energy, a New Zealand based listed company conducted its AGM in 2017 where shareholders were able to attend, ask questions, and vote at meetings by phone, in addition to attending and voting online, or in person. Shareholders were able to dial in and listen to the meeting, fully participate in asking questions, as well as submit their vote by pressing the options on the dial pad of their phone. Shareholders who attended the AGM in person also had the option to use a smartphone app, to submit their votes instead of completing a poll card.

In the UK, Jimmy Choo Group Ltd (Jimmy Choo) held the first virtual AGM of a UK-listed company in 2016. The AGM was held without a physical meeting venue. For Jimmy Choo's AGM, each shareholder was given a unique number and password (to facilitate shareholder identification and record) for them to dial in to ask questions and access the app or web browser to vote. A report on AGM Trends 2017 also found that a number of UK listed companies are planning to hold electronic AGMs in the future.

In Malaysia, the MCCG now encourages companies with large number of shareholders or which have meetings in remote locations to leverage technology to facilitate voting including voting in absentia, and remote shareholders' participation at general meetings. While the practice refers to companies with large number of shareholders or which have meetings in remote locations, we encourage all listed companies to leverage existing or new technology which can help them engage their shareholders more effectively.

To facilitate the adoption of technology in this area, companies should work closely with aFINnity@SC[17] and technopreneurs to explore digital solutions to enhance efficiency in the voting process.

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[17] Alliance of FinTech Community, an initiative facilitated by the SC to catalyse greater interest towards the development of emerging technology-driven innovations in financial services, whether existing or prospectively developing in Malaysia.

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