Suruhanjaya Sekuriti
Securities Commission
Malaysia

CG

CORPORATE GOVERNANCE MONITOR 2022

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DISCLAIMER

This report aims to provide a general understanding of the subject and is not an exhaustive write-up. It is not intended to be a substitute for legal advice nor does it diminish any duty (statutory or otherwise) that may be applicable to any person under existing laws.

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1 CONTENTS

2 INTRODUCTION

Corporate Governance Monitor 2022

The *Corporate Governance Monitor 2022* (CG Monitor 2022) is the first edition of the CG Monitor issued since the *Malaysian Code on Corporate Governance* (MCCG)[1] was updated in 2021 (MCCG 2021). The CG Monitor 2022 reports on the adoption of the best practices outlined in the 2017 and 2021 editions of the MCCG as well as the quality of corporate governance disclosures. The SC has adopted a new presentation format for the CG Monitor 2022 (compared to earlier editions of the report) to provide better focus on the main observations and key take-aways.

This report should be read together with the 2017 and 2021 editions of the MCCG. Data and observations on the adoption of the MCCG and the quality of disclosures are based on the Corporate Governance Reports (CG Reports) issued by public-listed companies (PLCs or companies) for the financial year ending 31 December 2021.

Overall, the adoption of the MCCG remains positive, with a majority of companies continuing to adopt the best practices. While the quality of disclosures remains satisfactory for many of the best practices, the SC observed that companies still tend to provide broad and generic statements, lacking details on implementation or clear reasons for departures from the recommended practices.

This year's edition of the CG Monitor features Thematic Reviews of the following:

1) The sustainability disclosures of 50 companies in sectors that are emissions, foreign labour and export intensive; and

2) The demography of senior management of the top 100 listed companies in relation to among others, gender diversity and tenure.

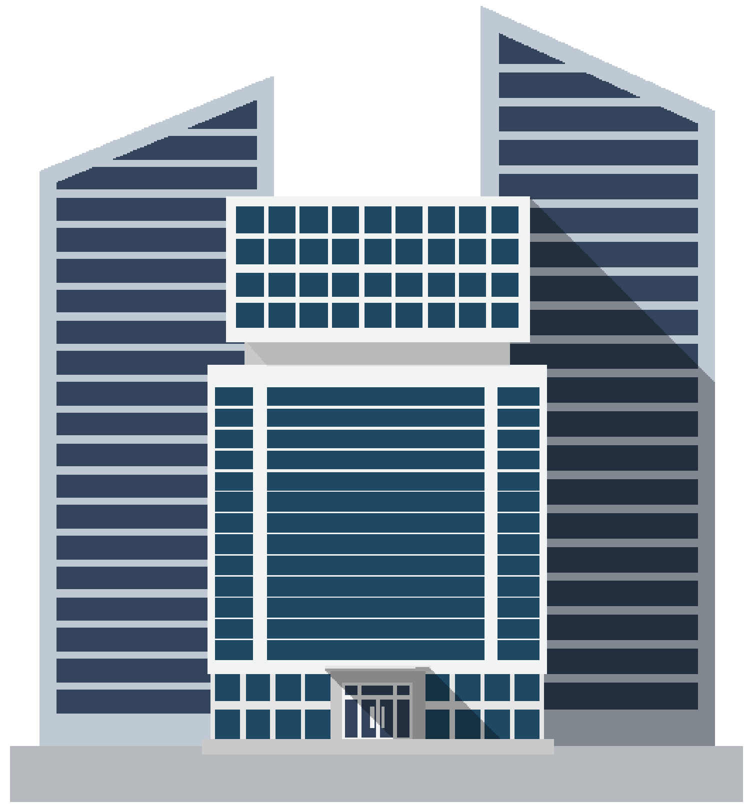
Data coverage

The Corporate Governance Reports (CG Reports) of 869 companies with the financial year from 1 January 2021 to 31 December 2021 were reviewed for the CG Monitor 2022. For 466 of these companies with the financial year ending 31 December 2021, the review was based on the companies' adoption of the revised MCCG 2021. The CG Reports of 74 companies were not included in the review due to among others, a change in the companies' financial year, delisting, or suspension.

[1] The MCCG is a set of recommended corporate governance best practices for PLCs. The *Bursa Malaysia Listing Requirements* (Listing Requirements) requires a PLC to explain the adoption or departure of each best practice in a prescribed format annually.

3 BOARD DATA

959[2]
PLCs
(Dec 2021: 943 PLCs)



BOARD OF DIRECTORS[2]

5,469
individual directors
(Dec 2021: 5,317)

4,324 1,145

5,469 individual directors holding **6,834** board positions

BOARD POSITIONS		
Executive	INED*	NINED**
2,183 (Dec 2021: 2,156)	3,550 (Dec 2021: 3,417)	1,101 (Dec 2021: 1,106)

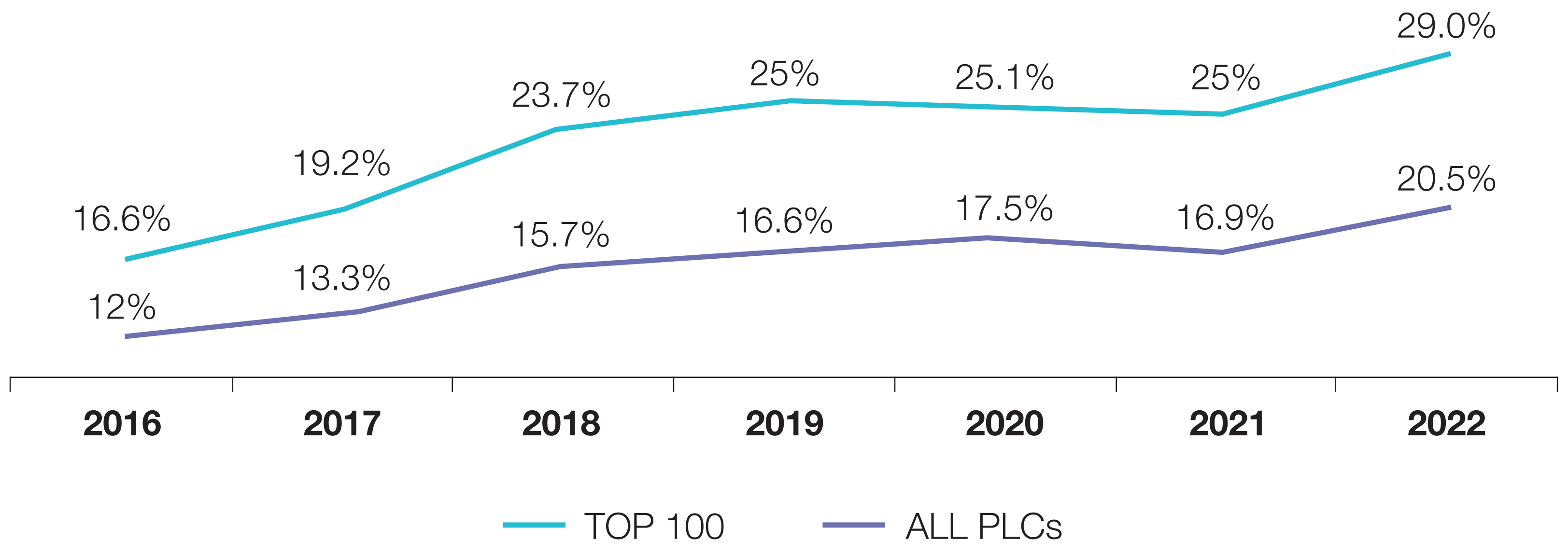
* *Independent Non Executive Director* ** *Non Independent Non Executive Director*

64% of new board appointments in 2022 (2021: 59%) were for the position of INEDs and a majority of these appointments were for boards of small-cap companies.

[2] Data as of 1 October 2022.
[3] Under the Listing Requirements, a PLC is required to have at least one woman director on its board. The requirement was introduced in January 2022 and came into effect on 1 September 2022 for PLCs with market capitalisation of RM2 billion and above as of 31 December 2021, and for the remaining PLCs on 1 June 2023.

PARTICIPATION OF WOMEN ON BOARDS[2]

Participation of women on boards (WOB) for the top 100 PLCs and across all PLCs increased by 12.4% and 8.5% respectively from 2016 to 2022.



Click here for the latest information on the participation of women on boards

PLCs with all-male boards

771 PLCs have at least one woman director on the board[3]
(Dec 2021: 706 PLCs)

ALL PLCs	TOP 100
188 PLCs (Dec 2021: 237 PLCs)	0 PLC (Dec 2021: 2 PLCs)

	ALL PLCs	TOP 100
≥ 30% WOB	224 PLCs (Dec 2021: 177 PLCs)	50 PLCs (Dec 2021: 41 PLCs)
≥ 50 % WOB	28 PLCs (Dec 2021: 26 PLCs)	3 PLCs (Dec 2021: 2 PLCs)

In 2022[2], there were 885 new board appointments, out of which 305 (34%) were women directors. 80% of the women directors were appointed as INEDs.

Board Chairman[4]

822

PLCs with named Chairmen

825 Chairmen were appointed on 822 PLCs[5]

788 (96%)

37 (4%)

DIRECTORATE		
Executive	INED*	NINED**
228	420	177

* *Independent Non Executive Director* ** *Non Independent Non Executive Director*

Tenure

AVERAGE	LONGEST
10 years	51 years[6]

Chairmen who are also Chief Executive Officers (CEOs) **29** individuals

Long-serving independent directors

734

independent directors (2020: 775) with tenure of more than nine years, sitting on the boards of 417 PLCs (As of 1 January 2021)[7]

TENURE (YEARS)	NUMBER OF DIRECTORS		TWO-TIER VOTING		SIMPLE MAJORITY	
	2021	2020	2021	2020	2021	2020
BETWEEN 10 TO 12 YEARS	**259 (171 PLCs)**	275 (206 PLCs)	**79 (41 PLCs)**	27 (24 PLCs)	**114 (83 PLCs)**	207 (157 PLCs)
BETWEEN 13 TO 20 YEARS	**391 (211 PLCs)**	411 (268 PLCs)	**171 (78 PLCs)**	232 (160 PLCs)	**130 (80 PLCs)**	128 (82 PLCs)
BETWEEN 21 TO 30 YEARS	**81 (40 PLCs)**	85 (67 PLCs)	**42 (16 PLCs)**	52 (40 PLCs)	**29 (16 PLCs)**	27 (23 PLCs)
BETWEEN 31 TO 40 YEARS	**3 (3 PLCs)**	3 (3 PLCs)	**1 (1 PLC)**	1 (1 PLC)	**1 (1 PLC)**	1 (1 PLC)

26 PLCs used the two-tier voting process for the first time in 2021 (Total 2020: 36).

293 Resolutions were voted using the two-tier voting process (Total 2020: 312).

81 Long-serving independent directors resigned in 2021 and did not stand for re-election (Total 2020: 28). Half of them had tenure of 15 years or more.

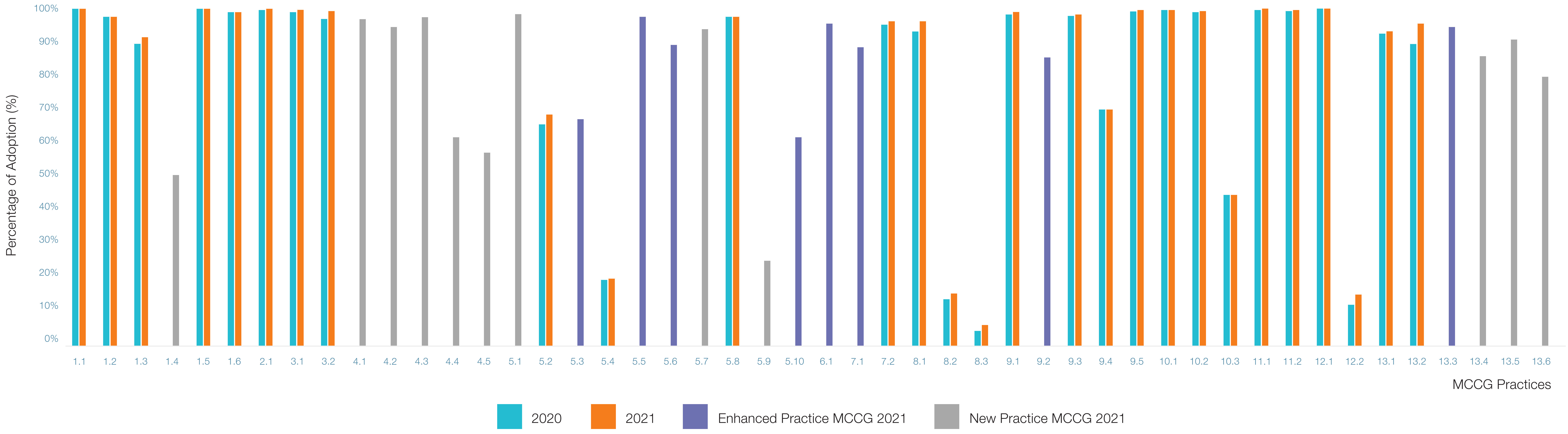
There was a decline in the use of the two-tier voting process in 2021 compared to 2020. This was mainly due to the voluntary resignations of long-serving independent directors. Refer to page 9 for observations on the use of the two-tier voting process.

[4] Data as of 1 October 2022.
[5] Three PLCs have co-Chairmen.
[6] The Chairman is the founder of the company and has assumed the role of Chairman for 51 years, including prior to listing. The company was listed on Bursa Malaysia in 1993.
[7] The Listing Requirements was amended in January 2022 to introduce a 12-year tenure limit for independent directors. The requirement comes into effect on 1 June 2023. Further, the MCCG 2021 recommends that boards set a tenure limit of nine years for independent directors.

4 ADOPTION OF THE MCCG

Chart 1 shows the adoption levels across all 48 practices in the MCCG 2021, including 12 new practices[8] and eight enhanced practices[9]. As the 12 practices are new and eight practices are enhanced, there is no comparison with 2020 on their adoption levels. For the remaining 28 practices, adoption levels were compared against 2020. Out of the 48 best practices, 30 practices recorded adoption levels of 90% or more, compared to 24 practices in 2020. The additional practices which reached the 90% adoption level included board and management responsibilities in relation to sustainability (Practice 4.1), communication with stakeholders on sustainability strategies, targets and performance (Practice 4.2), boards keeping abreast with sustainability issues (Practice 4.3) and companies leveraging technology to facilitate voting in absentia and remote shareholders' participation (Practice 13.3).

Chart 1 - Status of MCCG adoption in 2021 and 2020



[8] The 12 new practices focus on among others, board policies and practices on the selection and nomination processes/criteria for directors, as well as the role of the board and senior management in addressing sustainability risks and opportunities of a company.
[9] Enhanced practices were practices from MCCG 2017 that were updated in MCCG 2021.

Some observations on the adoption of the MCCG and other selected issues are provided below:

Overall adoption levels remained positive.

Companies continued to adopt the best practices, with the highest adoption levels recorded for Principle A, on Board Leadership and Effectiveness. The practices relate to board structure e.g. appointing a Chairman to the board (Practice 1.2), ensuring the positions of Chairman and CEO were held by different individuals (Practice 1.3) and establishing key governance documents including a board charter (Practice 2.1) and a *Code of Conduct and Ethics* (Practice 3.1). Adoption of the best practice to disclose senior management remuneration (Practice 8.2 and Step Up Practice 8.3) remained the lowest compared to other best practices; only 22% of companies disclosed senior management remuneration. It was encouraging that an additional 20 companies started to disclose senior management remuneration in 2021, but the take up of this practice was too little and slow.

Quality of disclosures was satisfactory for most practices, but generic statements were still common.

While there were improvements in the quality of disclosures for some of the best practices, there were areas that could have been improved further. For instance, some companies provided lengthy disclosures with information that were not entirely relevant to the application of the practices, while others were mere replications of text extracted from the MCCG Guidance or *Bursa Malaysia Corporate Governance Guide* (Bursa CG Guide). The quality of disclosures for newly introduced practices was also relatively low as companies may still be familiarising themselves with the new practices and the disclosures related to them. Further observations on the quality of disclosures are provided in the next section.

Encouraging adoption of newly introduced sustainability-related best practices.

New practices related to sustainability were introduced in the MCCG 2021, including the need for boards to ensure they stay abreast with and understand the sustainability issues relevant to the company and its business (Practice 4.3). Most companies reported adoption of this practice and highlighted that their directors have attended training and development programmes on sustainability. In addition to disclosing that directors have attended the relevant training programmes, it would be useful for companies to also share how the training and development needs of directors were identified and the steps taken to ensure that directors continue to stay updated with developments and emerging trends in relation to sustainability. Some companies have also engaged consultants and sustainability experts to support the training needs of the board and senior management. Frequent internal updates by management on sustainability issues relevant to the company was commonly cited as one of the methods to ensure the board stayed informed of key developments.

PLCs continued to use two-tier voting.

As of 31 December 2021, a total of 95 companies have used the two-tier voting approach to decide on the retention of independent directors with tenure of more than 12 years (Practice 5.3), compared to 161 companies in 2018 when the approach was first introduced. While this might appear as a decrease in the use of two-tier voting, the SC's review found that the drop was mainly due to the voluntary resignations of independent directors, where 81 long-serving independent directors resigned before the general meeting. In addition, there were also 18 companies which did not use the two-tier voting process, opting instead to vote using a simple majority in 2021.

If a board intends to retain an independent director beyond nine years, the MCCG 2021 recommends that the board provides justification and seeks shareholders' approval using the two-tier voting process for the retention of said director. However, based on the SC's review of general meeting resolutions, boards tend to provide broad statements to support the reappointment of a long-serving independent director. The standard statement was that the director remained objective and independent despite the long tenure.

To support the periodic refresh of board composition, the Listing Requirements were amended on 19 January 2022 to set a 12-year tenure limit for independent directors. A long-serving independent director affected by this amendment must resign or be redesignated as a non-independent director by 1 June 2023. In addition, Bursa Malaysia strongly encourages companies with independent directors serving more than 20 years to expedite the replacement of the director or redesignate the director before 1 June 2023. However, should a company decide to retain a long-serving independent director, it must disclose in its annual report, the justification for the retention and explanation why there was no other candidate who could be appointed as an independent director.[10]

Transparency on senior management remuneration remained poor.

The recommendation for companies to disclose senior management remuneration either in bands of RM50,000 for the top five senior management positions (Practice 8.2) or the exact amount for each member of senior management (Step Up Practice 8.3) was introduced in MCCG 2017.

However, the adoption of Practice 8.2 and Step Up Practice 8.3 remained low at only 16% and 6% respectively. Stakeholders, particularly shareholders, require this information to determine among others, whether senior management was remunerated fairly and whether the remuneration commensurates with the company's performance and goals. There is also an increasing expectation from investors to understand how sustainability is considered in determining remuneration.

The SC and Bursa Malaysia will review the state of this practice and identify the next steps to improve transparency on senior management remuneration.

The revised *Malaysian Code for Institutional Investors* (MCII), released on 23 September 2022, strongly encourages detailed disclosures of senior management remuneration on a named basis and identified senior management remuneration as a priority issue for engagements with investee companies. The MCII recommends institutional investors abstain or vote against the re-election of members of the Remuneration Committee (RC) if the remuneration paid to Executive Directors and/or CEOs is deemed excessive and is not commensurate with the performance of the company.

[10] Refer to Bursa Malaysia's letter dated 19 January 2022 to all listed companies on amendments to the Listing Requirements in relation to the tenure of independent directors.

In the MCCG 2021, a total of 12 new practices were introduced to among others, strengthen board effectiveness, enhance board composition and improve the conduct of general meetings, particularly those conducted virtually. Below are data and observations on selected new practices.

PRACTICES	ADOPTION LEVEL (%)	OBSERVATIONS
Practice 4.4 Performance evaluation of the board and senior management in relation to sustainability.	62%	62% of companies reported the adoption of this practice. However, based on the disclosures, a few of these companies only considered sustainability-related factors in the performance evaluation of the board and not for senior management. Nevertheless, some of these companies have stated that they will begin to incorporate sustainability-related considerations in the performance evaluation of senior management in 2022.
Step Up Practice 4.5 Identification of a designated person within management to provide dedicated focus on the management of sustainability.	58%	58% of companies reported adoption of this practice. Based on the disclosures, over half of these companies have established a committee responsible for managing sustainability while the remaining have identified a designated person within management, of which the position was usually assumed by the Chief Operating Officer (COO) and Chief Risk Officer (CRO). Only 6% of companies had a dedicated Chief Sustainability Officer (CSO).
Practice 5.5 Criteria for the selection and appointment of directors.	98%	As required under the Listing Requirements, companies have a general criteria to guide the selection and nomination of directors. The MCCG 2021 recommends that the board evaluates among others, whether a director can provide the time required to serve the company and the board effectively. Some companies have included evaluation of time commitment when nominating board candidates, considering whether candidates were 'overstretched' with existing commitments. The Guidance to Practice 5.5 also highlights the recommendation in the *Organisation for Economic Co-operation and Development (OECD) Guidelines on Corporate Governance of State-Owned Enterprises* that persons linked directly with executive powers such as heads of state, heads of government, and ministries should not serve on boards as this would cast serious doubt on the independence of their judgement. The MCCG thus discourages a company from appointing an active politician[11] as a director on the board. The SC's review found that in relation to Practice 5.5, some companies have incorporated clauses in their board charters stating that they will not appoint an active politician as a director on their boards. The review also found that in relation to listed government-linked companies (GLCs), only six GLCs have active politicians serving on their boards (10 board positions), with three serving as Chairmen[12]. Most of these boards comprise a majority of independent directors, which may to a certain extent mitigate concerns that objectivity or independence of the board may be impaired with the participation of an active politician as a board member.

[11] A person is considered politically active if he is a Member of Parliament, State Assemblyman or holds a position at the Supreme Council, or division level in a political party.
[12] Data based on board positions as at 31 October 2022.

PRACTICES	ADOPTION LEVEL (%)	OBSERVATIONS
Practice 5.9 and 5.10 Participation of women on the board and having a gender diversity policy for board and senior management.	62%[13]	As of 1 October 2022, there were 224 companies which had at least 30% women on board. This was an increase of 27% from December 2021. The SC's review also found that 80% of the women that were appointed to boards in 2022 were designated as independent directors and majority of these appointments were to boards of small-cap companies. Given the prevalence of family owned companies in this segment of listed companies, it is encouraging that the women directors appointed to the board are not related individuals, but independent directors which should further strengthen the effectiveness and leadership of these boards.
Practice 13.4 Conduct of virtual general meeting.	86%	Based on the SC's review, 71% of general meetings conducted in 2022 (as of 1 October 2022) were fully virtual, despite the easing and subsequent lifting of movement and gathering restrictions. The MCCG emphasises that the Chairman of the board should ensure the engagement with shareholders is meaningful regardless of the mode of the meeting (Practice 13.4). Particularly in fully virtual meetings, the Chairman must ensure that shareholders are able to pose questions and that these questions are meaningfully responded to at the meeting itself. The required functions or tools must be available for shareholders to pose questions and in turn, shareholders should pose and prioritise questions relevant to the discussion and the company. Sufficient time must be allocated for 'Questions and Answers'. In the CG Report, companies should disclose whether the engagement at the general meeting is meaningful, with relevant information to support their assessments. The SC also strongly encourages companies to disclose the reasons for opting to conduct general meetings virtually, and how the board ensures the required tools and infrastructure for the virtual general meeting are reliable as recommended in the MCCG.

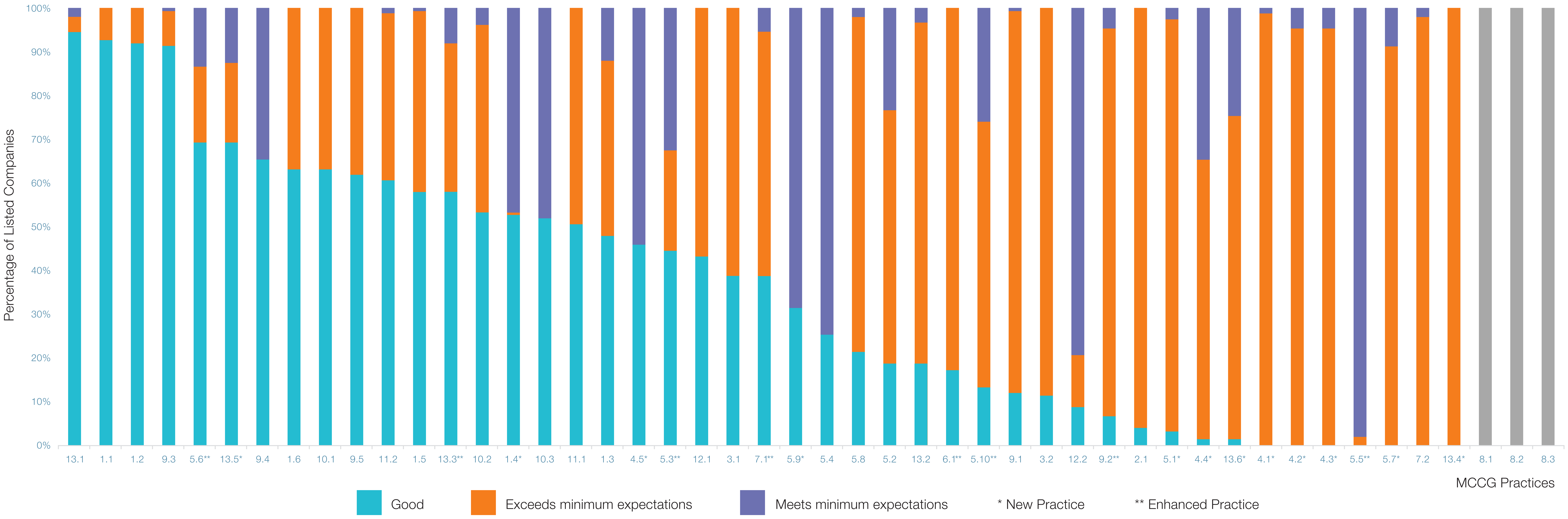
- The *Guidelines on Corporate Governance for Capital Market Intermediaries*, issued on 31 December 2021, prohibits the appointment of active politicians[14] on the boards of Capital Market Services License (CMSL) holders.
- The MCII recommends institutional investors to either abstain or vote against the election or re-election of active politicians as directors.

[13] The number reflects the adoption level for Practice 5.10. The adoption of Practice 5.9 is measured using directors data as of 1 October 2022.
[14] A person is considered politically active if he is a Member of Parliament, State Assemblyman or holds a position at the Supreme Council, or division level in a political party.

5 QUALITY OF DISCLOSURES

Chart 2 presents a mapping of the disclosure scores across all best practices, including the new and enhanced practices. Scores are not assigned for three practices, namely detailed disclosure of directors' remuneration (Practice 8.1), disclosure on the remuneration component of the top five senior management in bands of RM50,000 (Practice 8.2), and detailed disclosure of senior management remuneration on a named basis (Step Up Practice 8.3), as these are purely disclosure of numbers. In addition, there is no comparison in the quality of disclosures from the previous years due to the revision of the assessment parameters for both the new and enhanced practices in MCCG 2021.

Chart 2 – Quality of disclosures in 2021



Some observations on the quality of disclosures are provided below:

Quality of disclosures remained satisfactory.

The SC observed that for majority of practices in relation to Board Leadership and Effectiveness (Principle A), the quality of disclosures remained satisfactory. These include disclosures on the board's responsibilities (Practice 1.1). It was also encouraging to observe that selected practices under other principles were also satisfactory such as Practice 9.3 which recommends that the Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor. Taking Practice 9.3 as an example, apart from providing detailed explanations on the relevant policies and procedures such as the criteria to assess the suitability, objectivity, performance and independence of external auditors, most companies continued to disclose details on the performance assessment of the said external auditors. Companies also disclosed whether recommendations from the Audit Committee and the board were obtained prior to acquiring shareholders' approval on the appointment or reappointment of external auditors along with the actual resolutions tabled at general meetings.

Better explanation required for departures.

Companies need to provide clearer and stronger justification for departures and identify alternative practices that meet the intended outcome of the best practices. For example, in relation to Practice 9.2 on the cooling-off period for former audit partners to be appointed into an Audit Committee, companies stated that none of the members were former audit partners and there was no need to establish such a policy presently. As an alternative to this practice, companies merely stated that they would consider adopting the policy in the near future. In instances where a company is unable to implement any of the best practices, the company should provide strong justification for its departure, i.e. by elaborating on the factors taken into consideration when assessing the suitability of the best practices in the context of the company. As for alternative practices, companies are expected to ensure that the alternative measures provided meet the intended outcome of the relevant best practices.

Disclosures were mere replications of the MCCG Guidance or Bursa CG Guide.

The SC noted that a few companies in their disclosures had replicated paragraphs from the MCCG Guidance or Bursa CG Guide without linking it back to the company's context. For example, in relation to the roles of a Company Secretary (Practice 1.5), companies merely extracted the roles and responsibilities of a Company Secretary from the MCCG Guidance without explaining how the Company Secretary has executed his/her role in supporting the board throughout the year. Similarly, with regards to the board and management's role in the governance of sustainability in a company (Practice 4.1), there were disclosures confined to the roles and responsibilities outlined in the MCCG Guidance, with minimal details on how those roles and responsibilities catered to a company and the corresponding impact on a company's long-term strategy and success. Companies must not merely replicate narratives from other documents without drawing their relevance to the company. Information provided in the disclosure should represent the circumstances of the company for it to be relevant and decision-useful.

Lengthy but irrelevant disclosures.

Some companies provided lengthy explanations that did not address the intended outcomes of the best practices. For instance, in relation to Practice 5.1 which recommends that the Nomination Committee ensures the composition of the board is refreshed periodically, and that it reviews the tenure of each director. The practice also recommends that the annual re-election should be contingent on satisfactory evaluation of the director's performance and contribution to the board. The intended outcome of the practice is for board refreshment to ensure board decisions are made objectively in the best interest of the company, taking into account diverse perspectives and insights. However, most explanations focused on gender diversity. While gender diversity and board refreshment are both related to board composition, they are two different considerations. Similarly, on the disclosure of a company's risk management and internal control framework (Practice 10.2), a majority of companies elaborated on the features of their framework at length but stopped short at explaining whether such frameworks and measures were effective in mitigating and managing potential and current risks of the company.

More details needed to make disclosures decision-useful.

Clarity and transparency are key to effective reporting. The SC observed that the quality of disclosures can be improved further if companies provide more supporting information and emphasise its relevance to the company. For instance, in relation to the need for meaningful engagement between the board, senior management and shareholders during general meetings (Practice 13.4), some companies stated that participation from shareholders at general meetings was encouraging. This explanation can be improved further if the company shares the basis for the assessment e.g. if there was positive feedback from shareholders and how the interactions were managed.

6 THEMATIC REVIEW 1

REVIEW OF SUSTAINABILITY DISCLOSURES OF 50 COMPANIES IN SECTORS WHICH ARE EMISSIONS, FOREIGN LABOUR, AND EXPORT INTENSIVE (S50 REVIEW)

The SC reviewed 50 companies operating in sectors that are greenhouse gas or **GHG-intensive, foreign labour-intensive and export-intensive.** These sectors include energy, consumer products and services, industrial products and services, plantation, healthcare, utilities, and transportation.The review covered large, mid-cap and small-cap companies which collectively account for 19% of the market capitalisation on Bursa Malaysia. The data for this review was collected from various sources including the Department of Statistics Malaysia and the United Kingdom Office for National Statistics, for data on sector emissions intensity. The selection methodology is as described below.

Methodology

1. 975 companies were filtered to see if they fall into any one of the following categories:
   a) GHG-intensive[15];
   b) Foreign labour-intensive[16]; and
   c) Export-intensive (more than 50% of sales value derived from export)[16].
2. The samples for the S50 Review were selected based on the following basis:
   a) The top 25 largest companies by market capitalisation that fall under all three categories; and
   b) A random selection of 25 small-cap and medium-cap companies that fall under at least one of the categories.
3. The S50 Review focused on the companies' disclosures in relation to the following:
   a) Materiality assessment process - how companies identified their material sustainability matters;
   b) Emissions - whether the company has set emissions targets and the types of emissions data disclosed; and
   c) Labour - how companies addressed labour-related issues.

It is encouraging that based on the disclosures, companies are taking steps to manage material sustainability risks, but there is a need to accelerate efforts given how material the risks are to the long-term performance and resilience of the company.

KEY HIGHLIGHTS

28 companies have started disclosing emissions data, with a majority covering Scope 1 and Scope 2 emissions. Only eight companies disclosed Scope 3 emissions data. The companies started to disclose emissions data before the Listing Requirements mandated the disclosure of emissions data.[17]

Most companies highlighted measures related to labour rights, health and safety as well as data on workplace fatalities and accidents.

46 companies disclosed their materiality assessment process.

25 companies have set targets or commitments in relation to emissions, out of which 18 companies have set a timeline to achieve their targets i.e. net zero by 2050 (nine companies), carbon neutral by 2030 (two companies) / 2050 (two companies), and emissions reduction by specific percentages (five companies).

[15] Source: United Kingdom Office for National Statistics.
[16] Source: Department of Statistics Malaysia.
[17] The Listing Requirements was amended in September 2022 to introduce among others, a requirement for companies to disclose emissions related data. The requirement comes into effect for annual reports with financial year ending 31 December 2024 for companies on the Main Market and 31 December 2026 for companies on the ACE Market.

The findings from the S50 Review are categorised into two main buckets, namely Materiality Assessment and Material Sustainability Matters. These buckets were selected in line with Paragraph 6.2 *Practice Note 9* of *Listing Requirements* where companies, in making their Sustainability Statements, are expected to disclose among others, their material sustainability matters including how such matters are identified.

BUCKET 1 – MATERIALITY ASSESSMENT

Methodology	Material Matters	Discussion on Risks
46 companies disclosed their materiality assessment process. The most common steps undertaken in the materiality assessment process were identification and prioritisation of material matters through stakeholder engagements and internal reviews, as well as consultation and validation with senior management and the board.	All 50 companies identified staple issues such as occupational safety and health, supply chain management and customer satisfaction as material matters. 34 companies disclosed their material matters using a matrix, which was commonly presented in the form of importance to stakeholders vs importance to the businesses or impact of risks vs likelihood of risks.	There is room to provide more decision-useful information including discussions on relevant risks and the potential impact of these risks to the companies if they are not mitigated. Variations were observed in terms of the depth of disclosures, with some material matters having more detailed discussions than others.

BUCKET 2 – MATERIAL SUSTAINABILITY MATTERS

Emissions		Labour
44 companies identified emissions as a material matter, out of which only 28 companies disclosed their emissions data. Eight companies disclosed Scope 1, 2 and 3 emissions data, 13 companies disclosed emissions data covering Scope 1 and 2 only, while seven companies did not specify the scope of the emissions data. Scope 1 disclosures mainly covered direct emissions from fuel consumption of company's vehicles, machinery and equipment. Scope 2 mainly covered indirect emissions from companies' electricity consumption.	Most disclosures on Scope 3 emissions covered business travel (Category 6 of GHG Protocol). One company started disclosing employee commuting (Category 7 of GHG Protocol). Three companies have disclosed plans to start tracking and reporting Scope 3 emissions in the next few years. 25 companies have set targets or commitments in relation to emissions, of which 18 companies have set a timeline for their targets, one has set targets with no timeline while six have only set commitments to reduce emissions with no concrete targets nor timeline. Two companies disclosed the list of grievances (e.g. allegations and reports made towards the company on sustainability issues) – showing a good sense of transparency.	Occupational health, safety and human rights were the most commonly identified material matters in relation to labour. Health and safety – all companies identified it as a material matter, with 31 companies disclosed data on accidents and fatalities over a period ranging from two to eight years. One company disclosed having zero Loss Time Injury (LTI) throughout its 25 years of operation. Human rights – 44 companies identified it as a material matter, and have indicated their commitment to treat employees fairly with respect, provide equal opportunity as well as their stance against the abuse of human rights.

7 THEMATIC REVIEW 2

DEMOGRAPHY OF SENIOR MANAGEMENT OF THE TOP 100 LISTED COMPANIES

The SC reviewed the demographics of senior management of the top 100 companies by market capitalisation on Bursa Malaysia, recognising that the need for diversity is not exclusive to the board but rather across the company, including senior management.

For this review and consistent with Appendix 9C of the Listing Requirements, key senior management refers to a person who in the opinion of the company is a member of the key senior management of the group and must include a person who is primarily responsible for the business operations of the company's core business and principal subsidiaries.

Data for this review was obtained from the companies' annual reports as well as the information published on their corporate websites as of 31 December 2021.

KEY HIGHLIGHTS

- Women hold 23% of senior management roles.
  - Male - 228 (77%)
  - Female - 67 (23%)
- Average tenure of senior management is six years.
- 24 companies (24%) have an all-male senior management team.
  - One woman ▸ 30 companies
  - At least 30% women ▸ 30 companies
- CEOs have on average, served longer compared to other roles in senior management, while for CROs, none have served more than nine years.

DIVERSITY IN SENIOR MANAGEMENT

In addition to recommending for the board to comprise at least 30% women directors, the MCCG also encourages companies to consider the participation of women in senior management positions as companies would equally benefit from having a diverse management team. A diverse senior management minimises the risk of groupthink and promotes more robust discussions and decision-making at the management and operational levels, which in turn improves company performance. Research shows that the correlation between diversity and financial outperformance has strengthened over time, where the most diverse companies are now more likely than ever to outperform their less diverse peers on profitability.[18]

1

Women hold 23% of senior management positions in the top 100 companies.

Most key management positions such as CEOs, Chief Financial Officers (CFOs), COOs and CROs were held by men.

2

Only two women are CEOs in the top 100 companies.

This review was confined to the senior management composition of the top 100 companies. There may be more women CEOs at the subsidiary level, as there are currently 8 women CEOs of subsidiaries who are also in the senior management of the top 100 companies.

3

24 companies have an all-male senior management team.

Companies with an all-male senior management team were mainly from the financial services, healthcare, and industrial products and services sectors.

4

Women participation varies across sectors.

Women assumed senior management positions even in sectors that are commonly perceived as male-dominated such as the construction and properties sectors. Among the positions assumed by women in these sectors are CFOs, COOs and Chief Human Resource Officers (CHROs).

5

Most senior management are in their 50s.

Irrespective of gender, nearly half of senior management were in their 50s. Very few in senior management were from the 20s and 30s age group.

6

Very few women in senior management are above the age of 60.

Most women in senior management positions were below the age of 50.

[18] *Diversity Wins: How Inclusion Matters,* 2020, McKinsey & Company

Table 1 provides the breakdown of women participation in senior management of the top 100 companies, by position (the most common). Other positions not included in the table are among others, Chief Technology Officer, Chief Compliance Officer and Chief Sales/Marketing Officer, where no more than 20 companies have such positions in their senior management.

TABLE 1: BREAKDOWN OF WOMEN PARTICIPATION BY SENIOR MANAGEMENT POSITIONS

	Number of PLCs with the position	Male	Female	Total	Male (%)	Female (%)
CEO[19]	100	100	2	102	98	2
CFO	67	44	23	67	66	34
CHRO	49	21	28	49	43	57
COO[20]	40	50	5	55	91	9
CRO	22	13	9	22	59	41

[19] Two companies have two Managing Directors.
[20] Some companies have more than one COO.

While commitment is important, companies should go beyond merely disclosing their commitment towards diversity, to defining plans or actions and act on them.

TENURE OF SENIOR MANAGEMENT

Over the years, the MCCG has emphasised the need for companies to periodically review the composition of its boards, in particular independent directors. This is in line with efforts to mitigate the risk of impaired independence and objectivity of boards from long tenure, and bring new skills and perspectives into the boardroom. While the MCCG did not specifically highlight the need to review the tenure of senior management, companies are strongly encouraged to do so. It is imperative for companies to maintain a healthy balance between reaping the benefits of institutional memory from long service and the need for new perspectives.

1

Majority of senior management served for less than nine years, with the longest serving 48 years as Managing Director.

On average, senior management (both men and women) serve in the same position for six years.

2

CEOs tend to have longer tenure compared to other positions.

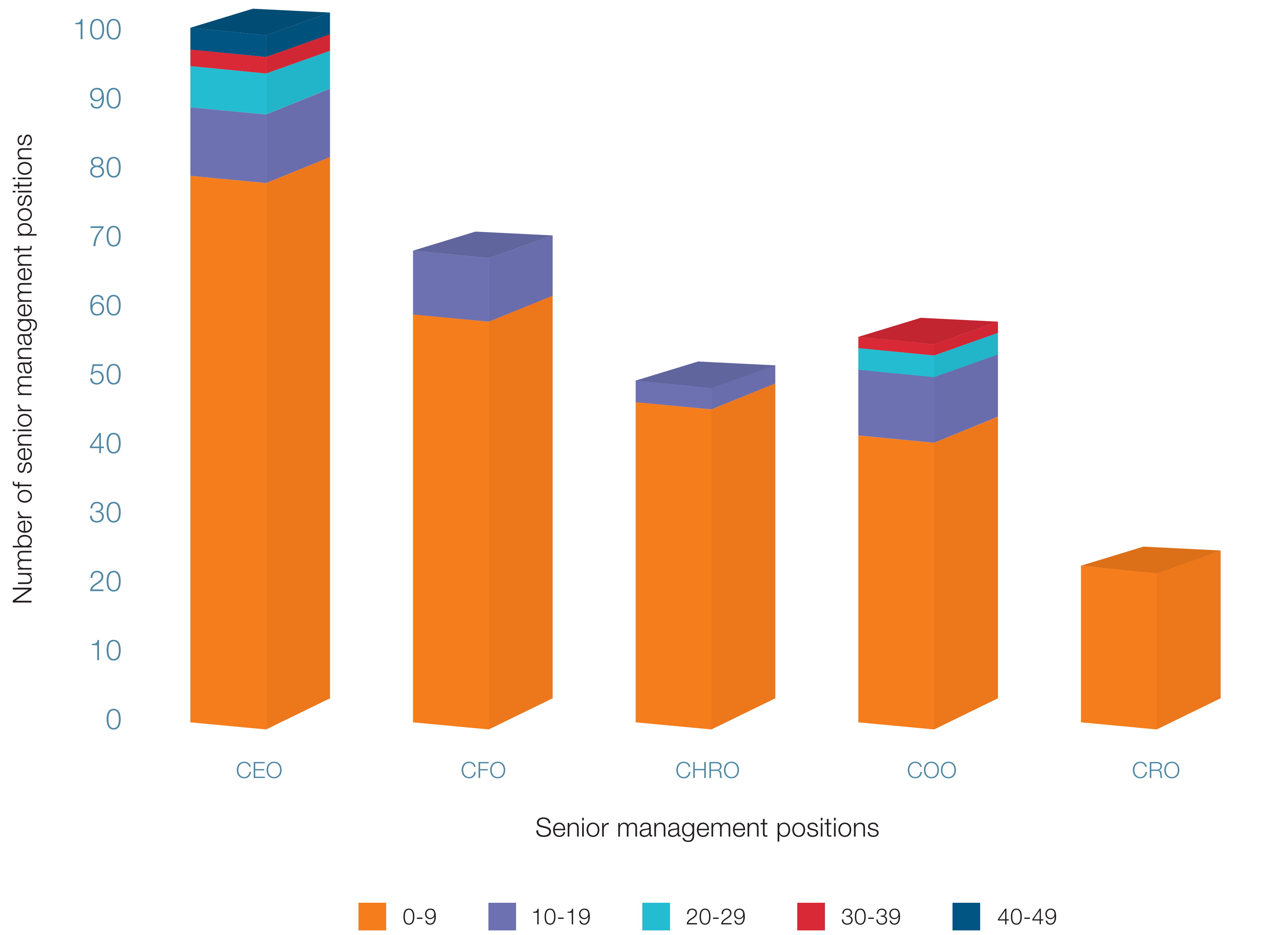
10 CEOs are currently serving between 10 to 19 years, while 11 are serving for 20 years and counting. Research shows that there is a risk of CEOs falling into a complacency trap before entering their golden years i.e. Year 11 to Year 15[21].

3

No CRO served for more than nine years.

While there was high demand in the market for CROs, only 22 companies have this position in their senior management. The average tenure of these CROs is four years.

FIGURE 1: TENURE OF SENIOR MANAGEMENT BY POSITIONS



[21] *The CEO Life Cycle,* 2019, Harvard Business Review

8 CALL FOR ACTION

1

Change departures to adoption

Where there are departures from the MCCG, companies should take immediate steps to change this and adopt the best practices. Shareholders should also engage and hold boards accountable in relation to the company's adoption of the MCCG.

2

Stay on track – do not regress from the best practices

Companies that have previously adopted the best practices should not regress from adopting them. For example, companies that have adopted the two-tier voting approach to retain long-serving independent directors at previous annual general meetings should continue to do so annually and not regress by adopting a simple majority approach, likewise for those which have disclosed senior management remuneration. Companies should remain committed and steadfast in adopting best practices.

3

Provide decision-useful information

Companies should provide decision-useful information in their disclosures, including clear justification for departures and disclosure on an alternative practice and how it meets the intended outcome.

9 GLOSSARY

Corporate Governance Report
Under Paragraph 15.25(2) of the *Bursa Malaysia Listing Requirements,* a listed issuer is required to disclose the application of each practice set out in the MCCG during the financial year. The report must be announced together with the announcement of the company's annual report.

Independent director
Means a director who is independent of the management and free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interests of the listed company (Refer to Chapter 1 and *Practice Note 13 of the Bursa Malaysia Main Market Listing Requirements*).

Large companies / Issuers
Companies or issuers 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.

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.

Company / Public-listed company (PLC)
Refers to a listed issuer on the Main Market and ACE Market of Bursa Malaysia.

Listing Requirements
Refers to *Bursa Malaysia Listing Requirements*.

Mid-cap companies / Issuers
Companies or issuers with market capitalisation of between RM1 billion to RM2 billion.

Small-cap companies / Issuers
Companies or issuers with market capitalisation of below RM1 billion.

Step Up practice
A Step Up practice is meant to encourage companies to go a step further in strengthening their corporate governance practices. For example, the MCCG recommends boards to disclose the top five senior management remuneration in bands of RM50,000 (Practice 8.2) but if companies would like to excel further, the MCCG also recommends Step Up Practice 8.3 which encourages companies to fully disclose the detailed remuneration of each member of senior management on a named basis.

Two-tier voting
Refers to a voting process to decide on the retention of a long-serving independent director with tenure of more than nine years. Under the two-tier voting process, shareholders' votes will be cast in two tiers: Tier 1 where only the Large Shareholder(s) of the company vote, and Tier 2 where shareholders other than Large Shareholders vote. The outcome of the resolution is determined based on the vote of Tier 1 and a simple majority of Tier 2. If there is more than one Large Shareholder, a simple majority will determine the outcome of the Tier 1 vote. The resolution is passed if both Tier 1 and Tier 2 votes support the resolution. However, the resolution is deemed to be defeated if the vote between the two tiers differs or where Tier 1 voter(s) abstained from voting.

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