

# Malaysian Code on Corporate Governance



**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia

**MALAYSIAN CODE ON  
CORPORATE GOVERNANCE**



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# CONTENTS

WHY GOVERNANCE MATTERS	1
THE MALAYSIAN CODE ON CORPORATE GOVERNANCE	2
COMPREHEND, APPLY AND REPORT	4
STRUCTURE	10
<b>PRINCIPLE A</b>	12
<b>Board Leadership and Effectiveness</b>	
• Board Responsibilities	12
• Board Composition	22
• Remuneration	30
<b>PRINCIPLE B</b>	34
<b>Effective Audit and Risk Management</b>	
• Audit Committee	34
• Risk Management and Internal Control Framework	39
<b>PRINCIPLE C</b>	44
<b>Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders</b>	
• Communication with Stakeholders	44
• Conduct of General Meetings	47



## WHY GOVERNANCE MATTERS

- 1.1 Corporate governance is defined as *the process and structure used to direct and manage the business and affairs of the company towards promoting business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value while taking into account the interest of other stakeholders*<sup>1</sup>.

Corporate governance provides a framework of control mechanisms that support the company in achieving its goals, while preventing unwanted conflicts. The pillars of corporate governance such as ethical behaviour, accountability, transparency and sustainability are important to the governance of companies and stewardship of investors' capital. Companies that embrace these principles are more likely to produce long-term value than those that are lacking in one or all.

- 1.2 Proper governance identifies the distribution of rights and responsibilities among different participants in the company and outlines among others the rules and procedures for decision-making, internal control and risk management. Corporate governance is not only concerned with shareholder interests but requires balancing the needs of other stakeholders such as employees, customers, suppliers, society and the communities in which the companies conduct their business.

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<sup>1</sup> Corporate governance as defined in the *High Level Finance Committee Report (1999)*.

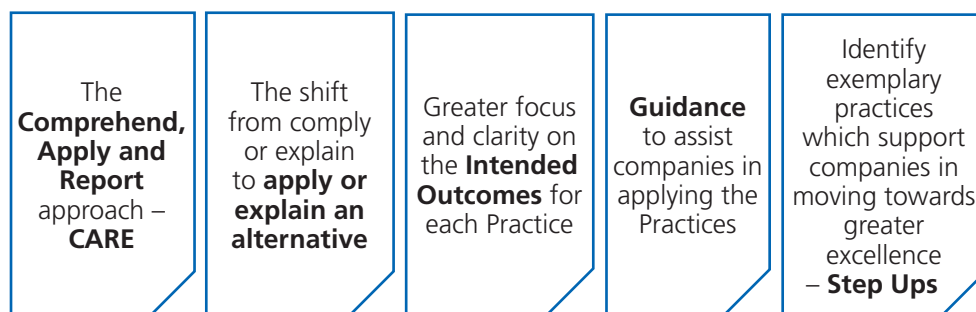


# THE MALAYSIAN CODE ON CORPORATE GOVERNANCE

- 2.1 The *Malaysian Code on Corporate Governance* (MCCG) introduced in 2000 has been a significant tool for corporate governance reform, and has influenced corporate governance practices of companies positively.
- 2.2 The MCCG reflects global principles and internationally recognised practices of corporate governance which are above and beyond the minimum required by statute, regulations or those prescribed by Bursa Malaysia.
- 2.3 The MCCG permits a more constructive and flexible response to raise standards of corporate governance. It recognises that there are aspects of corporate governance where statutory regulation is necessary and others where self-regulation complemented by market regulation is more appropriate.
- 2.4 The MCCG was reviewed in 2007 and 2012 to ensure that it remains relevant and is aligned with globally recognised best practices and standards.
- 2.5 In 2017, the MCCG, which supercedes its earlier edition, takes on a new approach to promote greater internalisation of corporate governance culture. Key features of the new approach are listed in Diagram 1.

Diagram 1

## Key features of the new approach



- 2.6 As listed companies are not a homogeneous group, it is necessary to provide flexibility and proportionality in the application of certain best practices. Certain practices are applicable only to **Large Companies**.

**Large Companies** are:

- Companies 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.

Once a company is under the category of **Large Companies**, it will remain as one for the entire financial year regardless of the change in its status during the financial year.

These companies should continue applying the practices even if they fall out of the FTSE Bursa Malaysia Top 100 Index or their market capitalisation decreases below the prescribed threshold. Other listed companies may consider adopting the practices identified for **Large Companies** if they aspire to achieve greater excellence in corporate governance.

- 2.7 While the MCCG is targeted at listed companies, non-listed entities including state-owned enterprises, small and medium enterprises (SMEs) and licensed intermediaries are encouraged to embrace this code on corporate governance. These non-listed entities should consider applying the practices in the MCCG to enhance their accountability, transparency and sustainability.

# COMPREHEND, APPLY AND REPORT

## Why CARE?

- 3.1 Comprehend, Apply and Report or **CARE** encourages companies to clearly identify the thought processes involved in practising good corporate governance including providing fair and meaningful explanation of how the company has applied the practices.

<b>COMPREHEND</b>	Understand and internalise the spirit and intention behind the principles and practices including its intended outcomes.
<b>APPLY</b>	Implement the practices in substance to achieve the intended outcomes of building and supporting a strong corporate governance culture throughout the company.
<b>REPORT</b>	Provide a fair and meaningful disclosure on the company's corporate governance practices.

- 3.2 **CARE** aims to reinforce mutual trust between companies and their stakeholders by promoting meaningful disclosures that will be relied upon by stakeholders to have effective engagements with the company. It also promotes a culture of openness and mutual respect that benefits both the company and its stakeholders.
- 3.3 **CARE** will help generate greater interest in corporate governance best practices, facilitate assessments and stimulate conversations on corporate governance. Collectively, these outcomes will raise the standard of corporate governance culture of the market overall.

## 'Comprehend'

- 4.1 Appreciating the spirit of MCCG requires a clear understanding of the following:
  - 4.1.1 The business case for embracing good corporate governance; and
  - 4.1.2 The principles of the MCCG and the intended outcomes of the practices.

### 4.1.1 THE BUSINESS CASE FOR GOOD CORPORATE GOVERNANCE

Good corporate governance practices instil in companies the required vision, processes and structures that ensure long-term sustainability. It is also critical to support good corporate citizenship, which is a commitment to ethical behaviour in business strategy, operations and culture. In today's globalised and interconnected world, investors, creditors and other stakeholders are increasingly recognising that economic, environmental and social responsibilities are integral to the company's performance and long-term sustainability.

Boards should therefore understand and incorporate these new dimensions into their core decision-making processes to ensure that companies operate successfully and sustain growth.

The board should understand that the key principles of corporate governance such as effective controls, corporate culture grounded on ethical behaviour and transparency can reduce risk, corruption and mismanagement.

## 4.1.2 UNDERSTANDING THE PRINCIPLES OF MCCG AND DESIRED OUTCOMES

To facilitate understanding of the Principles and Practices, the MCCG articulates clearly the Intended Outcomes of each Principle and its related Practices. Guidance is also provided to assist in the application of the Practices.

The board and management should play their part by, among others:

- reading and understanding the MCCG, the *Bursa Malaysia Corporate Governance Guide* and other supporting documents<sup>2</sup>;
- seeking assistance if further guidance is required to understand the MCCG;
- attending continuous professional development programmes to keep abreast with corporate governance developments; and
- ensuring employees fully understand and appreciate the value of good corporate governance processes and procedures through training, awareness programmes and robust communication.

4.2 To build an environment that facilitates comprehension of the MCCG, it is critical for stakeholders in the ecosystem such as shareholders, professional bodies, corporate advisers, corporate governance advocates, media and the public to appreciate the spirit and intention of the MCCG.

<sup>2</sup> *Corporate Disclosure Guide, Sustainability Reporting Guide, Statement on Risk Management and Internal Controls – Guidelines for Directors and Listed Issuers*, and other related documents.

## 'Apply'

- 5.1 Applying the principles and practices of the MCCG is not merely a matter of compliance *in form* with a set of rules. It is about meaningful application *in substance* of good corporate governance practices. This involves a mindset and culture change, moving away from a box-ticking approach to corporate governance.
- 5.2 To facilitate this change, the MCCG adopts the **apply or explain an alternative approach**, which is meant to promote a more meaningful application of good corporate governance practices.
- 5.3 Under this new approach, boards should apply the practices by taking into account the environment that their companies operate in, size and complexity, and the nature of risks and challenges faced.
- 5.4 If the board finds that it is unable to implement any of the MCCG practices, the board should apply a suitable alternative practice to meet the **Intended Outcome**. For **Large Companies**, the board is also expected to disclose the measures they have taken or intend to take to enable them to adopt the MCCG Practice(s), and the timeframe required.
- 5.5 The **Guidance** in the MCCG explains how the practices may be applied to achieve the **Intended Outcome**. The board should do its best to adhere to the **Guidance** when implementing the MCCG practices.

## 'Report'

6.1 Companies should view corporate governance disclosures as an opportunity to demonstrate to stakeholders that they have holistic and effective corporate governance arrangements. They should provide informative disclosure on their application of the MCCG practices.

6.2 Shareholders and potential investors require access to regular, reliable, comparable and integrated information for them to assess the stewardship of management, valuation of the company and the ownership structure. Thus, good corporate governance disclosure can in the long run help attract capital and maintain confidence in the capital market.

6.3 Companies must provide meaningful explanation on how it has applied each Practice. Where there is a departure from a Practice, the company must–

- provide an explanation for the departure; and
- disclose the alternative practice it has adopted and how the alternative practice achieves the Intended Outcome.

In addition to the above, where Large Companies depart from a Practice, they are also required to disclose–

- actions which they have taken or intend to take; and
- the timeframe required

for them to achieve application of the prescribed Practice.

In doing the above, companies must carefully consider and be closely guided by the **Guidance**.

6.4 Companies are strongly encouraged to adopt the **Step Up** practice(s) and when they do, to disclose the application of these practices to demonstrate their commitment to the higher standards of corporate governance.



# STRUCTURE

The structure of the MCCG is as follows:

## Principles

The MCCG is based on three key principles of good corporate governance, which are–

- board leadership and effectiveness;
- effective audit and risk management; and
- integrity in corporate reporting and meaningful relationship with stakeholders.

## Intended Outcome

The **Intended Outcome** provides companies with the line of sight on what they will achieve through the practices.

## Practices

**Practices** are actions, procedures, or processes which companies are expected to adopt to achieve the **Intended Outcome**.

The **Practices** in the MCCG were crafted taking into consideration the existing requirement in the law, *Bursa Malaysia Listing Requirements*, different sizes and complexities of Malaysian companies and global developments in corporate governance best practices.

The introduction of the **Step-up** practices is meant to encourage companies to go a step further in strengthening their governance practices and processes. Companies that aspire to achieve excellence in corporate governance in particular, **Large Companies**, should consider the adoption of **Step-ups**.

## Guidance

The **Guidance** that follows each **Practice** serves to assist companies in applying the **Practice** to achieve the **Intended Outcome**.

## PRINCIPLE A

# BOARD LEADERSHIP AND EFFECTIVENESS

### I. Board Responsibilities

The board is collectively responsible for the long-term success of a company and the delivery of sustainable value to its stakeholders. In discharging its fiduciary duties and leadership functions, it is imperative for the board to govern and set the strategic direction of the company while exercising oversight on management. The board plays a critical role in setting the appropriate tone at the top, providing thought leadership and championing good governance and ethical practices throughout the company.

While the general roles and responsibilities of boards are well founded, the expectations on directors have evolved significantly owing to changes in the corporate landscape. Directors are now expected to exercise greater vigilance and professional scepticism in understanding and shaping the strategic direction of the company.

## Intended Outcome

**1.0** Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

## Practice

- 1.1 The board should set the company's strategic aims, ensure that the necessary resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards, and ensure that its obligations to its shareholders and other stakeholders are understood and met.
- 1.2 A Chairman of the board who is responsible for instilling good corporate governance practices, leadership and effectiveness of the board is appointed.
- 1.3 The positions of Chairman and CEO are held by different individuals.
- 1.4 The board is supported by a suitably qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.
- 1.5 Directors receive meeting materials, which are complete and accurate within a reasonable period prior to the meeting. Upon conclusion of the meeting, the minutes are circulated in a timely manner.

## Guidance

- 1.1 All directors should objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the company. Every director is required to keep abreast of his responsibilities as a director and of the conduct, business activities and development of the company.

To enable the board to discharge its responsibilities in meeting the goals and objectives of the company, the board should, among others–

- together with senior management, promote good corporate governance culture within the company which reinforces ethical, prudent and professional behaviour;
- review, challenge and decide on management’s proposals for the company, and monitor its implementation by management;
- ensure that the strategic plan of the company supports long-term value creation and includes strategies on economic, environmental and social considerations underpinning sustainability;
- supervise and assess management performance to determine whether the business is being properly managed;
- ensure there is a sound framework for internal controls and risk management;
- understand the principal risks of the company’s business and recognise that business decisions involve the taking of appropriate risks;
- set the risk appetite within which the board expects management to operate and ensure that there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks;

- ensure that senior management has the necessary skills and experience, and there are measures in place to provide for the orderly succession of board and senior management;
- ensure that the company has in place procedures to enable effective communication with stakeholders; and
- ensure the integrity of the company's financial and non-financial reporting.

1.2 Key responsibilities of the Chairman include–

- providing leadership for the board so that the board can perform its responsibilities effectively;
- setting the board agenda and ensuring that board members receive complete and accurate information in a timely manner;
- leading board meetings and discussions;
- encouraging active participation and allowing dissenting views to be freely expressed;
- managing the interface between board and management;
- ensuring appropriate steps are taken to provide effective communication with stakeholders and that their views are communicated to the board as a whole; and
- leading the board in establishing and monitoring good corporate governance practices in the company.

- 1.3 Separation of the positions of the Chairman and CEO promotes accountability and facilitates division of responsibilities between them. In this regard, no one individual can influence board's discussions and decision-making. The responsibilities of the Chairman should include leading the board in its collective oversight of management, while the CEO focuses on the business and day-to-day management of the company. This division should be clearly defined in the board charter.
- 1.4 The responsibility of the modern day Company Secretary has evolved from merely advising on administrative matters to now advising boards on governance matters. The Company Secretary through the Chairman plays an important role in good governance by helping the board and its committees function effectively and in accordance with their terms of reference and best practices.

The roles and responsibilities of a Company Secretary include, but are not limited to the following:

- Manage all board and committee meeting logistics, attend and record minutes of all board and committee meetings and facilitate board communications;
- Advise the board on its roles and responsibilities;
- Facilitate the orientation of new directors and assist in director training and development;
- Advise the board on corporate disclosures and compliance with company and securities regulations and listing requirements;
- Manage processes pertaining to the annual shareholder meeting;

- Monitor corporate governance developments and assist the board in applying governance practices to meet the board's needs and stakeholders' expectations; and
- Serve as a focal point for stakeholders' communication and engagement on corporate governance issues.

A suitably qualified Company Secretary possesses the knowledge and experience to carry out his functions. These may include knowledge in company and securities law, finance, governance, company secretaryship and other areas of compliance such as the listing requirements. The Company Secretary should undertake continuous professional development.

- 1.5 To facilitate robust board discussions, the Chairman together with the Company Secretary should ensure that directors are provided with sufficient information and time to prepare for board meetings. The meeting materials should be circulated at least five business days in advance of the board meeting.

All board members should ensure that the minutes of meetings accurately reflect the deliberations and decisions of the board, including whether any director abstained from voting or deliberating on a particular matter.



## Intended Outcome

**2.0** There is demarcation of responsibilities between the board, board committees and management.

There is clarity in the authority of the board, its committees and individual directors.

## Practice

2.1 The board has a board charter which is periodically reviewed and published on the company's website. The board charter clearly identifies–

- the respective roles and responsibilities of the board, board committees, individual directors and management; and
- issues and decisions reserved for the board.

## Guidance

2.1 In establishing a board charter, it is important for the board to set out the key values, principles and ethos of the company, as policies and strategy development are based on these considerations. The board charter should set out among others the governance structure, authority and terms of reference of the board, its committees and management.

While the board may appropriately delegate its authority to board committees or management, it should not abdicate its responsibility and should at all times exercise collective oversight of the board committees and management. The board should not delegate matters to a committee or management to an extent that would significantly hinder or reduce the board's ability to discharge its functions. Where the board delegates any of its responsibilities, it is encouraged to disclose the delegation of authority. Regular review of the division of responsibilities should be conducted to ensure that the company is able to adapt to changing business circumstances.

For individual directors, the board charter should outline what is expected from them in terms of their commitment, roles and responsibilities as board members. The charter also assists the board in the assessment of its own performance and that of its individual directors. Where the board appoints a Senior Independent Director (SID), the role of the SID should also be explained in the board charter. This may include the SID acting as–

- a sounding board for the Chairman;
- an intermediary for other directors when necessary; and
- the point of contact for shareholders and other stakeholders.

## Intended Outcome

**3.0** The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

## Practice

3.1 The board establishes a *Code of Conduct and Ethics* for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.

The *Code of Conduct and Ethics* is published on the company's website.

3.2 The board establishes, reviews and together with management implements policies and procedures on whistleblowing.

## Guidance

3.1 The board has the responsibility to set the tone and standards of the company through the *Code of Conduct and Ethics*. The *Code of Conduct and Ethics* should articulate acceptable practices and guide the behaviour of directors, management and employees. The policies of the *Code of Conduct and Ethics* should be integrated into company-wide management practices and be periodically reviewed.

The *Code of Conduct and Ethics* should describe measures put in place to—

- handle actual or potential conflict of interest;
- prevent corrupt practices which include the offering and acceptance of gifts and other form of benefits;
- encourage the reporting of unlawful or unethical behaviour;
- protect and ensure the proper use of the company's assets; and
- ensure compliance with laws, rules and regulations.

3.2 The board should encourage employees to report genuine concerns in relation to breach of a legal obligation (including negligence, criminal activity, breach of contract and breach of law), miscarriage of justice, danger to health and safety or to the environment and the cover-up of any of these in the workplace.

The board should ensure that its whistleblowing policies set out avenues where legitimate concerns can be objectively investigated and addressed. Individuals should be able to raise concerns about illegal, unethical or questionable practices in confidence and without the risk of reprisal.

## PRINCIPLE A

# BOARD LEADERSHIP AND EFFECTIVENESS

## II. Board Composition

Board composition influences the ability of the board to fulfil its oversight responsibilities. An effective board should include the right group of people, with an appropriate mix of skills, knowledge, experience and independent elements that fit the company's objectives and strategic goals. The right board composition will ensure sufficient diversity and independence to avert 'groupthink' or 'blind spots' in the decision-making process. It also enables the board to be better equipped to respond to challenges that may arise and deliver value.

### Intended Outcome

**4.0** Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice

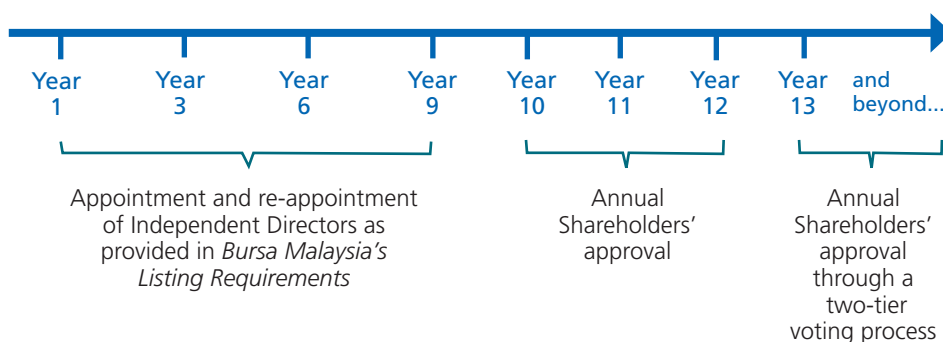
- 4.1 At least half of the board comprises independent directors. For **Large Companies**, the board comprises a majority independent directors.
- 4.2 The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director.

If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.

## Step Up

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

### APPOINTMENT OF AN INDEPENDENT DIRECTOR



Appointment and re-appointment of Independent Directors as provided in *Bursa Malaysia's Listing Requirements*

Annual Shareholders' approval

Annual Shareholders' approval through a two-tier voting process

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

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

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

- 4.4 Appointment of board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.
- 4.5 The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For **Large Companies**, the board must have at least 30% women directors.
- 4.6 In identifying candidates for appointment of directors, the board does not solely rely on recommendations from existing board members, management or major shareholders. The board utilises independent sources to identify suitably qualified candidates.
- 4.7 The Nominating Committee is chaired by an Independent Director or the Senior Independent Director.

## Guidance

- 4.1 Board composition should support objective and independent deliberation, review and decision-making. A board comprising a majority of Independent Directors allows for more effective oversight of management.
- 4.2 In considering independence, it is necessary to focus not only on whether a director's background and current activities qualify him or her as independent but also whether the director can act independently of management.

Stakeholders are increasingly concerned about the potential negative impact that directors' long tenure may have on their independence. The long tenures of independent directors and familiarity may erode the board's objectivity. Due to long or close relationship with board and management, an Independent

Director may be too sympathetic to their interests or too accepting of their work. There could also be occasions where an Independent Director may become a 'dependent' director due to prolonged insular recruitment processes and attractive remuneration packages and material benefits.

**Large Companies** are not encouraged to retain an independent director for a period of more than 12 years.

To justify retaining an Independent Director beyond the cumulative term limit of nine years, the board should undertake a rigorous review to determine whether the 'independence' of the director has been impaired. Findings from the review should be disclosed to the shareholders for them to make an informed decision.

## Two-tier Voting Process

For Practice 4.2, companies should use the two-tier voting process in seeking annual shareholders' approval to retain an Independent Director beyond 12 years.

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

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

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

- is entitled to exercise, or control the exercise of, not less than 33% of the voting shares in the company;



- is the largest shareholder of voting shares in the company;
- has the power to appoint or cause to be appointed a majority of the directors of the company; or
- has the power to make or cause to be made, decisions in respect of the business or administration of the company, and to give effect to such decisions or cause them to be given effect to.

The decision for the above 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 of votes determine the outcome of the Tier 1 vote.

The resolution is deemed successful if both Tier 1 and Tier 2 votes support the resolution.

However, the resolution is deemed to be defeated where the vote between the two tiers differs or where Tier 1 voter(s) abstained from voting.

- 4.4 A diverse board can offer greater depth and breadth compared to non-diverse boards. As such, director candidates should be sourced from a diverse pool.

Diversity at senior management level will also provide constructive debates, which lead to better decisions. It enables the discussion of the same ideas in differing ways and equips the company to face challenges in an ever-changing environment.

In pursuing its gender diversity agenda, each company should take steps to ensure that women candidates are sought in its recruitment exercise for board and senior management positions.

- 4.5 While large companies are required to have 30% women directors, other boards should also work towards achieving this target. Women's participation in decision-making positions should not be focused on board positions alone but also be broadened to include women in senior management, as the same benefits apply. Diversity, when extended to senior management, will also serve as a talent pipeline for board candidacy.
- 4.6 The board should use a variety of approaches and sources to ensure that it is able to identify the most suitable candidates. This may include sourcing from a directors' registry and open advertisements or the use of independent search firms.

The company should disclose in its annual report how candidates for non-executive director positions were sourced including whether such candidates were recommended by the existing board members, management or major shareholders.

If the selection of candidates was solely based on recommendations made by existing board members, management or major shareholders, the Nominating Committee should explain why other sources were not used.

- 4.7 As chair of the Nominating Committee, the Independent Director or a Senior Independent Director shall–
- lead the succession planning and appointment of board members, including the future Chairman and CEO; and
  - lead the annual review of board effectiveness, ensuring that the performance of each individual director is independently assessed.

## Intended Outcome

**5.0** Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors.

## Practice

5.1 The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome.

For **Large Companies**, the board engages independent<sup>3</sup> experts periodically to facilitate objective and candid board evaluations.

## Guidance

5.1 An objective and well-managed board evaluation process can lead to substantial improvement in board effectiveness, bringing significant benefits to the company. There are many ways in which board evaluations can be carried out such as through self-assessment, peer review or facilitated by the Company Secretary. Given that every board is different and their needs, roles, priorities and capacities vary depending on the company's size and stage in its life cycle, a box-ticking approach to evaluation is ineffective and unacceptable.

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<sup>3</sup> Independence in this context means no connection with the company, directors or major shareholders.

A board evaluation which is periodically facilitated by a professional, experienced and independent party will lend greater objectivity to the assessment by providing an unbiased perspective on a director's performance and his ability to contribute effectively to the board. When an independent third party is used to carry out board evaluation, the Board should disclose the identity of the third party.

The annual assessment on individual directors should include an evaluation of their:

- Will and ability to critically challenge and ask the right questions;
- Character and integrity in dealing with potential conflict of interest situations;
- Commitment to serve the company, due diligence and integrity; and
- Confidence to stand up for a point of view.

In disclosing the evaluation carried out on effectiveness of the board, its committees and individual directors, the Nominating Committee of **Large Companies** should disclose the following information in its Annual Report:

- How the evaluation was conducted, the criteria used such as the assessment of fit and properness, contribution and performance, calibre and personality of directors<sup>4</sup>;
- Whether an independent expert was engaged, or was it internally facilitated;
- Key strengths and/or weaknesses that were identified from the evaluation; and
- Steps or enhancements proposed to be undertaken to mitigate or address the weaknesses identified.

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<sup>4</sup> Refer to *Bursa Malaysia's Corporate Governance Guide*.

## PRINCIPLE A

# BOARD LEADERSHIP AND EFFECTIVENESS

## III. Remuneration

Directors' remuneration, which is well structured, clearly linked to the strategic objectives of a company, and which rewards contribution to the long-term success of the company is important in promoting business stability and growth. However, pay policies which do not appropriately link directors' remuneration to company strategy and performance can diminish shareholders' returns, weaken corporate governance and reduce public confidence in business.

### Intended Outcome

**6.0** The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

### Practice

6.1 The board has in place policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The policies and procedures are periodically reviewed and made available on the company's website.

- 6.2 The board has a Remuneration Committee to implement its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of board and senior management.

The Committee has written Terms of Reference which deals with its authority and duties and these Terms are disclosed on the company's website.

## Guidance

- 6.1 Fair remuneration is critical to attract, retain and motivate directors and senior management. The remuneration package should take into account the complexity of the company's business and the individual's responsibilities. In addition, the remuneration should also be aligned with the business strategy and long-term objectives of the company.

The board should also ensure that the remuneration and incentives for Independent Directors do not conflict with their obligation to bring objectivity and independent judgment on matters discussed at board meetings.

- 6.2 Establishing a Committee to assist the board in developing and administering a fair and transparent procedure for setting policy on remuneration of directors and senior management is important because this would ensure that remuneration packages are determined on the basis of the directors' and senior management's merit, qualification and competence, having regard to the company's operating results, individual performance and comparable market statistics.

The Committee should only consist of non-executive directors and a majority of them must be Independent Directors, drawing advice from experts, if necessary. Directors who are shareholders should abstain from voting at general meetings to approve their fees. Similarly, Executive Directors should not be involved in deciding their own remuneration.

## Intended Outcome

**7.0 Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.**

## Practice

- 7.1 There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.
- 7.2 The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

## *Step Up*

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

## Guidance

- 7.1 The detailed disclosure allows shareholders to make an informed decision when voting on the approval of directors' remuneration and to consider the appropriate remuneration package taking into account the responsibilities of the directors.
- 7.2 The disclosure of how the remuneration is measured allows stakeholders to understand the link between senior management remuneration and the company's performance. This will also enable stakeholders to determine whether the remuneration is fair and able to attract and retain talent.



## PRINCIPLE B

# EFFECTIVE AUDIT AND RISK MANAGEMENT

### I. Audit Committee

An effective Audit Committee can bring transparency, focus and independent judgment needed to oversee the financial reporting process. However, the ultimate responsibility for a company's financial reporting process rests with the full board.

The Audit Committee plays a key role in a company's governance structure. An independent Audit Committee is better positioned to rigorously challenge and ask probing questions on the company's financial reporting process, internal controls, risk management and governance.

The appropriate level of knowledge, skills, experience and commitment of its members is critical to the Audit Committee's ability to discharge its responsibilities effectively. A strong understanding of financial reporting process complemented with a wide range of diverse perspectives can significantly strengthen the quality of Audit Committee deliberations.

## Intended Outcome

### 8.0 There is an effective and independent Audit Committee.

**The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.**

## Practice

- 8.1 The Chairman of the Audit Committee is not the Chairman of the board.
- 8.2 The Audit Committee has a policy that requires a former key audit partner<sup>5</sup> to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee.
- 8.3 The Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor.

## Step Up

- 8.4 The Audit Committee should comprise solely of Independent Directors.

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<sup>5</sup> The engagement partner, the individual responsible for the engagement of quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the auditor will express an opinion.

- 8.5 Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate and are able to understand matters under the purview of the Audit Committee including the financial reporting process.

All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

## Guidance

- 8.1 The Chairman of the Audit Committee is responsible for ensuring the overall effectiveness and independence of the Committee. Having the positions of Chairman of the board and Chairman of the Audit Committee assumed by the same person may impair objectivity of the board's review of the Audit Committee's findings and recommendations.

The Chairman of the Audit Committee together with other members of the Audit Committee should ensure among others that–

- the Audit Committee is fully informed about significant matters related to the company's audit and its financial statements and addresses these matters;
- the Audit Committee appropriately communicates its insights, views and concerns about relevant transactions and events to internal and external auditors;
- Audit Committee's concerns on matters that may have an effect on the financial or audit of the company are communicated to the external auditor; and
- there is co-ordination between internal and external auditors.

- 8.2 The cooling off period safeguards the independence of the audit by avoiding the potential threats which may arise when a former key audit partner is in a position to exert significant influence over the audit and preparation of the company's financial statements.
- 8.3 In assessing the suitability, objectivity and independence of the external auditor, the Audit Committee establishes policies and procedures that consider among others–
- the competence, audit quality and resource capacity of the external auditor in relation to the audit;
  - the nature and extent of the non-audit services rendered and the appropriateness of the level of fees; and
  - obtaining written assurance from the external auditors confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.

The assessment on the suitability, objectivity and independence of the external audit firm should be conducted annually.

- 8.5 The Audit Committee members are expected to be financially literate and have sufficient understanding of the company's business. This would enable them to continuously apply a critical and probing view on the company's financial reporting process, transactions and other financial information, and effectively challenge management's assertions on the company's financials.

The Audit Committee should demonstrate an appropriate level of vigilance and scepticism towards, among others, detection of any financial anomalies or irregularities in the financial statements.

Where there are significant matters requiring judgement, the Audit Committee should ask probing questions to ascertain whether the financial statements are consistent with operational and other information known.

The Audit Committee should review and provide advice on whether the financial statements taken as a whole provide a true and fair view of the company's financial position and performance.

## PRINCIPLE B

EFFECTIVE AUDIT  
AND RISK MANAGEMENT

## II. Risk Management and Internal Control Framework

Proper risk management and internal control are important aspects of a company's governance, management and operations. Risk management focuses on identifying threats and opportunities while internal control helps counter threats and takes advantage of opportunities. Proper risk management and internal control assist companies in making informed decisions about the level of risk that they want to take and implement the necessary controls to effectively pursue their objectives. Successful companies integrate effective governance structures and processes with performance-focused risk management and internal control at every level of the company and across all operations.

The board of directors is responsible for the company's risk management and internal control systems. It should set appropriate policies on internal control and seek assurance that the systems are functioning effectively. The board must also ensure that the system of internal control manages risks and forms part of its corporate culture.

### Intended Outcome

**9.0 Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.**

**The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.**

## Practice

- 9.1 The board should establish an effective risk management and internal control framework.<sup>6</sup>
- 9.2 The board should disclose the features of its risk management and internal control framework, and the adequacy and effectiveness of this framework.

### *Step Up*

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

## Guidance

- 9.1 The board should determine the company's level of risk tolerance and actively identify, assess and monitor key business risks to safeguard shareholders' investments and the company's assets. Internal controls are important for risk management and the board should be committed to articulating, implementing and reviewing the company's internal control framework.

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<sup>6</sup> See also Guidance 1.1.

- 9.2 The board should, in its disclosure include a discussion on how key risk areas such as finance, operations, regulatory compliance, reputation, cyber security and sustainability were evaluated and the controls in place to mitigate or manage those risks. In addition, it should state if the risk management framework adopted by the company is based on an internationally recognised risk management framework.

The board should also disclose whether it has conducted an annual review and periodic testing of the company's internal control and risk management framework. This should include any insights it has gained from the review and any changes made to its internal control and risk management framework arising from the review. Where information is commercially sensitive and may give rise to competitive risk, disclosure in general terms is acceptable.



## Intended Outcome

**10.0 Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.**

## Practice

10.1 The Audit Committee should ensure that the internal audit function is effective and able to function independently.

10.2 The board should disclose–

- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- the number of resources in the internal audit department;
- name and qualification of the person responsible for internal audit; and
- whether the internal audit function is carried out in accordance with a recognised framework.

## Guidance

10.1 An internal audit function helps a company to accomplish its goals by bringing an objective and disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes. This function serves as an important source of advice for the Audit Committee concerning areas of weaknesses or deficiencies in internal processes to facilitate appropriate remedial measures by the company.

Internal audit should be carried out objectively and is independent from the management of the company and the functions which it audits. Thus, it is essential that the person responsible for internal audit reports directly to the Audit Committee.

The Audit Committee should also decide on among others the–

- appointment and removal;
- scope of work;
- performance evaluation; and
- budget;

for the internal audit function.

In developing the scope of the internal audit function, the Audit Committee should satisfy itself that–

- the person responsible for internal audit has relevant experience, sufficient standing and authority to enable him to discharge his functions effectively;
- internal audit has sufficient resources and is able to access information to enable it to carry out its role effectively; and
- the personnel assigned to undertake internal audit have the necessary competency, experience and resources to carry out the function effectively.

It is expected that the role of internal auditors will evolve and expand to include providing advisory support on strategy. This requires internal auditors to go beyond the execution of the internal audit plan and undertake root-cause analysis to provide proactive strategic advice and suggest meaningful business improvements. As such, internal auditors should continuously keep abreast with developments in the profession, relevant industry and regulations.

## PRINCIPLE C

# INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

### I. Communication with Stakeholders

Ongoing engagement and communication with stakeholders builds trust and understanding between the company and its stakeholders. It provides stakeholders a better appreciation of the company's objectives and the quality of its management. This in turn will assist stakeholders in evaluating the company and facilitate shareholders to determine how their votes should be exercised. From the company's perspective, it provides an avenue for invaluable feedback that can be used to understand stakeholders' expectations and develop business strategies.

## Intended Outcome

**11.0 There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.**

**Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.**

## Practice

- 11.1 The board ensures there is effective, transparent and regular communication with its stakeholders.
- 11.2 **Large companies** are encouraged to adopt integrated reporting based on a globally recognised framework.

## Guidance

- 11.1 Dialogue with stakeholders is a necessary and beneficial process as it enables companies to understand stakeholders' concerns and to take these concerns into account when making decisions.

Communication with stakeholders can be achieved through various means. This includes–

- establishing an investor relations function;
- conducting engagement forums;
- organising investor, analyst and media briefings; and
- use of electronic means (website, social media, etc).

- 11.2 An integrated report is the main report from which all other detailed information flows; such as annual financial statements, governance and sustainability reports. It is concise communication about how a company's strategy, performance, governance and prospects lead to value creation. An integrated report improves the quality of information available to investors and promotes greater transparency and accountability on the part of the company.

The preparation of this report requires integrated thinking of the relationship between its various operating and functional units, thus breaking down internal silos and reducing duplication.

## PRINCIPLE C

INTEGRITY IN CORPORATE  
REPORTING AND MEANINGFUL  
RELATIONSHIP WITH STAKEHOLDERS

## II. Conduct of General Meetings

General meetings are important platforms for directors and senior management to engage shareholders to facilitate greater understanding of the company's business, governance and performance. This supports shareholders in exercising their ownership rights and expressing their views to the board and senior management on any areas of concerns.

Shareholders should exercise their rights to ask questions, provide views and vote at general meetings. The company should also leverage technology to facilitate greater shareholder's participation and enhance the proceedings of General Meetings.

### Intended Outcome

**12.0 Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.**

### Practice

- 12.1 Notice for an Annual General Meeting should be given to the shareholders at least 28 days prior to the meeting.
- 12.2 All directors attend General Meetings. The Chair of the Audit, Nominating, Risk Management and other committees provide meaningful response to questions addressed to them.

12.3 Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate–

- voting including voting in absentia<sup>7</sup>; and
- remote shareholders' participation at General Meetings.

## Guidance

12.1 The board should ensure that shareholders are given sufficient notice and time to consider the resolutions that will be discussed and decided at the General Meeting. The notice should provide further explanation beyond the minimum content stipulated in the listing requirements for the resolution proposed to enable shareholders to make an informed decision in exercising their voting rights. The notice should include details of the resolutions proposed along with any background information and reports or recommendations that are relevant.

12.2 Presence of all directors will provide opportunity for shareholders to effectively engage each director. Having the chair of board subcommittees present facilitates these conversations and allows shareholders to raise questions and concerns directly to those responsible.

12.3 The board should take proactive measures to ensure that shareholders are able to participate at General Meetings. In facilitating greater shareholder participation, it is important for the company to consider leveraging technology to facilitate electronic voting and remote shareholder participation.

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<sup>7</sup> Shareholders exercising their voting rights without being physically present at General Meetings.

Companies that utilise electronic voting stand to gain from–

- more accurate and transparent voting results;
- shorter turnaround time for declaration of results;
- making voting more accessible even for the disabled;
- reduce administrative cost and paper work; and
- remove the need for physical ballot papers.





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