

MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia – Company No. 524989-M)

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SC: Play your role

Independent directors told to be responsible and effective

By **YAP LENG KUEN**
and **C.S. TAN**
starbiz@thestar.com.my

KUALA LUMPUR: The Securities Commission (SC) expects independent directors to play their roles responsibly and effectively, especially at a time of investor anxiety and following the Satyam scandal in India.

Chairman Datuk Seri Zarinah Anwar said the SC had stepped up its surveillance activities and continued to engage the listed companies and their directors.

Among them, independent directors must understand their roles. "We want independent directors to discharge their responsibilities, and to provide constructive challenge and enquiry," she told *StarBiz*.

Every market participant has a role to play. There was a need for Bursa Malaysia and professional advisers to also be on their toes "and to alert us should there be any questionable transactions," she added.

To a question as to the impact of financial scandals, she said: "Naturally, a Satyam-like incident will shatter market confidence."

Satyam Computer Services' share price plunged 78% on Jan 7 after the



Datuk Seri Zarinah Anwar

company said in a statement it had US\$1.04bil of "inflated" cash on its balance sheet. That dragged the Bombay Stock Exchange's Sensitive Index 7.3% lower the same day.

Zarinah said she could not comment on Satyam as it was being investigated by Indian authorities.

"In our market, we have seen shortcomings on the part of independent directors. They have to be more vigilant when issues are pre-

sented to them for decision, and to require information from the companies. They have the right to ask for information and they should do so," she added.

She noted that in a recent survey carried out by Bursa Malaysia to ascertain the extent to which directors understand the responsibilities and are carrying out their duties, 50% of the directors said they did not understand the explicit responsibilities of the board. If they don't fully understand the scope of their responsibilities, it's difficult for them to effectively discharge their functions.

For this reason, she wants directors to take seriously their obligations for their continuing education on the roles and responsibilities of directors.

Zarinah observed that most companies complied with the requirement to have a third of their boards formed by independent directors but she questioned their degree of independence in some cases.

There were occasions where independent directors were beholden to the major shareholders and as a result, "they do not raise the level of challenge and enquiry that is expected of them," she said.

While independent directors must

have a major role to play, it should be noted that corporate governance was the responsibility of the entire board of directors.

The chairman must cultivate a culture of challenge and enquiry among directors, she said, or it could develop into a culture of deference to management.

She emphasised the importance of ethics in their conduct. "The law can prescribe standards, the law can prescribe penalties, but it is ethical conduct that underlies good governance. Of course, if all else fails, the regulators have to step in and ensure the laws are enforced."

The regulators are principally the SC, Companies Commission of Malaysia and the police, depending on the laws that are breached by directors.

Zarinah pointed out that governance did not only entail compliance with the letter of the law but also its spirit and substance. There have been many instances where companies ignored the spirit and substance of the Code of Corporate Governance.

Directors and management must act with conscience and in the best interests of the companies and minority shareholders.