

MSWG to facilitate formation of Institutional Investors' Council

Group wants to influence better CG practices via the MCII

BY LEVINA LIM

KUALA LUMPUR: The Minority Shareholder Watchdog Group (MSWG) is facilitating the establishment of an umbrella body for institutional investors to help influence better corporate governance (CG) practices via the Malaysian Code for Institutional Investors 2014 (MCII).

"This body will be governed by an Institutional Investors' Council, comprising representatives from the institutional investors' fraternity who are signatories, in addition to other relevant stakeholders and professionals," Rita Benoy Bushon, chief executive officer of MSWG, told *The Edge Financial Daily* in an email interview.

The voluntary code, one of the deliverables of the Corporate Governance Blueprint 2011, requires institutional investors to explain how CG has been adopted as an investment criteria and the measures they have taken to influence, guide and monitor investee companies.

As institutional investors in Malaysia exert significant influence over their investee companies due to the substantial stakes they hold, this would mean they have the clout to encourage good CG practices.

Currently, the Employees Provident Fund, Permodalan Nasional Berhad (PNB), Kumpulan Wang Persaraan, Social Security Organisation (Socso), Lembaga Tabung Angkatan Tentera and Lembaga Tabung Haji are promoters of MCII and are expected to become official signatories when the code comes into effect by 2016.

"We have, to date, two large foreign institutional investors, Hermes Fund Managers and Legal & General who have become signatories to the code," said Bushon.

Hermes has assets under management (AUM) of about RM150 billion and its engagement team, Hermes Equity Ownership Services, advises over 30 clients in 10 countries with RM562 billion assets under its advice. Legal & General's AUM surpasses RM2.47 trillion.

Bushon said the application of the code by institutional investors will create stronger pressure for companies to raise their CG standards through active monitoring, by institutional investors, of their adherence to the Malaysian Code on Corporate Governance (MCCG).

"In addition, any departure from the MCCG best practices may also be scrutinised by institutional investors, and companies may need to provide explanations if necessary," she said.



Bushon: We have, to date, two large foreign institutional investors. *The Edge file photo*

Bushon said this is possible as institutional investors are better resourced than individual shareholders and can undertake higher quality engagements with their investees.

But concerns have been raised that overly rigorous "enforcement" of the code, will cause smaller companies to be sidelined by institutional investors in comparison to

big caps, as large companies have greater resources to commit to CG initiatives to begin with.

"I don't know how they will assess [who has good CG and who hasn't]. Will they categorise companies and come up with a [strict] list of stocks they will invest in and those they will not?" asked an industry observer.

"It might also mean more cost to the business," he said, adding that this might result in fewer companies qualifying to receive institutional investor funds.

Yet Philip Rao, Ernst & Young Malaysia Advisory partner and president of the Institute of Internal Auditors Malaysia, thinks this should not be an issue.

"There is no one size fits all when it comes to CG matters, hence small-cap companies can promote good governance in their own unique ways and means, and yet uphold the principles of good governance.

"In fact, smaller companies may have less difficulties due to perhaps fewer stakeholders and less conflict of interest to manage. Small-cap companies should see this as a good opportunity to showcase their agility and ability to meet similar expectations of larger players, in their own ways, means and scale," he said.