



MINORITY SHAREHOLDER WATCHDOG GROUP
Shareholder Activism and Protection of Minority Interest
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia • Company No : 524989-M)

PRESENTATION OF FINDINGS

BY PN RITA BENOY BUSHON

MSWG- ASEAN CORPORATE GOVERNANCE

TRANSPARENCY INDEX, FINDINGS & RECOGNITION 2015

10 December 2015 (Thursday)

Sime Darby Convention Centre, Kuala Lumpur

Thank you Dato' MC.

- **Yang Berbahagia Tan Sri Dr Sulaiman Mahbob,
*Chairman, Minority Shareholder Watchdog Group***
- **Industry Captains & Distinguished guests,**
- **Members of the Media,**
- **Ladies and gentlemen.**

A very good evening and salam sejahtera.

Title Page [Slide No.1]

1. It is my pleasure to welcome all of you to this year's edition of the **MSWG-ASEAN CG Transparency Index, Findings & Recognition 2015**. I am delighted to see such an encouraging turnout tonight, and I thank you for your continuous support.
2. As in the past, tonight's event will recognise and showcase the top PLCs with outstanding achievements in corporate governance practices based on assessment using the ASEAN CG Scorecard as well as individuals who are proponents and advocates of good CG. The awards to be accorded tonight are a testament to the significant role of listed companies in Malaysia as well as corporate leaders and movers in raising the corporate CG bar.

ASEAN-CG Scorecard [Slide No.2]

Ladies & Gentlemen,

3. I believe many of you here tonight are already familiar with the ASEAN CG Scorecard, but do indulge me to reiterate a quick background for those who are not familiar.

4. The ASEAN CG Scorecard is an initiative by the ASEAN Capital Markets Forum. This regional collaboration, led by Securities Commission Malaysia (SC) and supported by the Asian Development Bank (ADB), was introduced in 2011 to raise the corporate governance standards and practices of ASEAN PLCs and profile well-governed listed companies for greater international visibility. MSWG is the domestic ranking body for the Malaysian Chapter and a committee member in the ASEAN working group.

5. The main aims of this initiative are to:
 - Showcase well governed ASEAN PLCs;
 - Raise CG standards and practices of ASEAN PLCs; and
 - Promote ASEAN companies as an asset class

Six countries involved : Malaysia, Thailand, Indonesia, Singapore, Philippines and Vietnam.

6. The scorecard assesses parameters under the five (5) OECD Principles which are Rights of Shareholders, Equitable Treatment of Shareholders, Role of Stakeholders, Disclosure & Transparency and Responsibilities of the Board.

7. A total **870 listed companies** were assessed this year. Essentially, the assessment was mainly based on disclosures in the **annual reports and company websites**. Other sources of information included company announcements, circulars, M&A, minutes of shareholders' meeting, corporate governance policies, codes of conduct and sustainability reports. All of which must have been disclosed in the public domain. The cut-off date for Annual Report was **31 July 2015** but assessments were done based on the latest website information until end October 2015.

8. Peer review were conducted for the Top 100 PLCs between ASEAN countries to validate the scores.

Regional Recognition [Slide no. 3]

9. Just to share with the audience, six (6) Malaysian public listed companies were recently awarded among the “**Asean Top-50 Public Listed Companies**” for CG disclosures and practices at the inaugural ASEAN Corporate Governance Conference Awards which was held in Manila in November 2015.

10. The six (6) companies in alphabetical order are:

Bursa Malaysia Berhad, CIMB Group Holdings Bhd, IJM Corporation Bhd, Malayan Banking Bhd, RHB Capital Bhd and Telekom Malaysia Bhd.

11. We hope that more of our companies will make it to the Top 50 list next year.

12. For the Malaysian chapter, a 15% weightage is given to performance relating to Return on Equity and Total Shareholder Return. Any company with ROE of less than 3% were eliminated from the list of the Top 100 PLCs.

13. The shortlisted companies were then presented to the Adjudication Committee for further deliberation before the list of Top 100 companies were finalised. On that note, I would like to take the opportunity to thank the adjudicators for their time, input and robust discussions in the adjudication process.

Transparency Index & Overall Base Score [Slide no. 4]

Ladies & Gentlemen,

14. The Transparency Index for the Top 100 PLCs has trended upward for the past 4 years from 68.2 points in 2012, to 76.82 points last year and has gained to **80.41 points** in 2015. Meanwhile for all 870 PLCs assessed, the findings also showed a similar upward trend.
15. This does show that companies had taken the effort to improve their disclosures and practices on CG not only in Top 100 PLCs but also in the remaining 770 companies.
16. The key statistics of the findings have already been uploaded on MSWG website. Nevertheless, let me highlight a few key areas where further improvement can be made.

Board Independence – All PLCs [Slide No.5]

17. One of the key CG practices is for the company to have a well-structured board with well-defined roles. The composition include the EDs and NEDs, together with independent directors; separation of roles between the Chairman & CEO; board diversity in terms of skill set, experience, gender, age and ethnicity. The elements of tenure of independent directors; succession planning; board nomination process too are important. These elements are expected to lead to a dynamic and well-functioning board providing leadership and effective oversight function with good check and balance mechanism leading towards long-term sustainability of the company which is a business imperative.

18. In Malaysia, we see that majority of PLCs separated the roles between Chairman and CEOs and balanced composition is not an issue in form. The issue is to get more board members to choose from and thus widening of the pool must be looked at. Where the Chairman is not an INED, the Code recommends for the Board to be majority independent directors. This is also not an issue here in Malaysia.

Tenureship of INEDS > 9 years

19. On the issue of tenureship, I wish to provide some clarification on recommendation 3.3 of the Code, which states that 'the board must justify and seek shareholders' approval in the event it retains as an independent director, a person who has served in that capacity for more than nine years.' Many jurisdictions in ASEAN region too have adopted this practice.

20. In over 300 AGMs which MSWG attended this year, there were some companies which were either confused or did not want to observe the recommendation and thus, did not table the resolution to re-appoint INEDs who had served for more than nine years for shareholders approval. And neither did they be redesignated to a non-independent director. I wish to reiterate that companies should put up for their shareholders approval INEDs who have served for 9 years or more for them to still be regarded as an independent director by their shareholders, otherwise to redesignate to non-independent director or for the INED to retire from the board.

21. This is separate from companies which have fixed a term limit for their INEDs in their board protocol, say 6-year, 9-year or 12-year limit. This is a highly encouraged practice as it provides fresh blood into the Board in terms of succession planning.

Directors' Remuneration [Slide no. 6]

22. On directors' remuneration, it was brought to our attention this year that a few companies were paying exorbitant directors' remuneration which did not commensurate with either the company's performance or the dividends paid to shareholders.

23. We are thus pleased with the efforts taken in the financial institutions to conduct a study of its Directors' Remuneration, in recognition of the important roles that they play in the oversight of these institutions. One of the outcomes of the report is a workable framework that can guide boards in the director selection process and in the design of remuneration policies that are directed towards meeting the objective of sustaining high level board performance. We hope similar studies can be conducted for other sectors in the market to ensure that companies remunerate directors' fairly and responsibly.

24. According to Bank Negara, the importance of appropriate independent directors' compensation will help bank boards to perform to the best of their ability. The independent judgment of the boards must always be preserved. Thus, I wish to add that the compensation must not be too high to impede independence neither too low to attract the right candidate. It must be according to the level of responsibilities. [We, however, seldom see that Board members are held accountable whereas the company suffers including minority shareholders].

25. As a matter of interest, we have also collated the average remuneration of EDs and NEDs as can be seen from the slides.

- The average ED remuneration is RM3.4 million for Top 100 PLCs
- IOI Corp Bhd has the highest total remuneration for EDs at RM126.7 million
- The average NED remuneration is RM228k for Top 100 PLCs
- Public Bank Bhd has the highest total remuneration for NEDs at RM26.5 million

AGM Minutes [Slide no. 7]

26. An area where Malaysian listed companies lost out to their ASEAN counterparts relates to the publication of AGM minutes. This is still not the norm in Malaysia with only **45 companies (or 5%)** out of the 870 companies assessed disclosed the AGM minutes. Nevertheless, the figures are increasing when compared to last year's figures but perhaps not good enough. I would also like to point out that this practice is a norm in some other ASEAN countries such as in Thailand, and done voluntarily.

27. The scorecard directly related to the publication of AGM minutes comprised twelve (12) parameters. This area is regarded as very important as it provides insights on the processes and conduct of AGMs as well as the detailed results of each resolutions that were passed – and whether shareholders were given adequate opportunity to raise questions. Attendance of directors at the AGM would also be reflected. We hope to see more Malaysian listed companies adopting this best practice next year.

Conduct of AGM [Slide no.8]

28. Since we are on AGM minutes, I would also like to touch a bit on the Conduct of AGM. MSWG attended over 300 AGMs in 2015 and we have assessed companies in terms of their conduct of AGMs. Having observed the AGM conduct, we have published our findings which I hope will provide a useful insight to boards, shareholders, regulators on conduct of AGMs in Malaysia.
29. The full findings can be found in the Report which is to be launched tonight – nevertheless I would like to take this opportunity to share some of my recommendations based on the findings.
30. Before that, just to share some AGM trivia: It was found that the busiest AGM month is in June with 317 AGMs, and June 25th this year was the busiest date with 47 AGMs held on that date. Thus the clustering of AGMs become a problem attributed to the FYE closing of December and companies need to hold their AGM within 6 months after closing of year end. One of our recommendations would be to have limits of AGM per day to say not more than 20 per session to allow shareholders to attend them effectively.
31. The report also provide a list of Do's and Don't's for both shareholders and companies – among a big No is singing during AGMs – this is a serious annual gathering of shareholders and Chairmen of meetings must be able to effectively control the crowd to ensure that the meeting is fully utilised to engage with their shareholders in an effective manner.

32. Based on our assessment of AGM conduct, we offered six (6) sensible action that could be taken towards a quality AGM.

***sensible six actions
towards quality AGM***



Women on Board – Top 100 PLCs [Slide no. 9]

33. As you can see from the slides women directors make up only approximately **13.4% of the board composition in 2014**, a marginal 1.7% increase from 11.7% in the previous year. There is still a huge gap to met the target of 30% set by the government by 2016.

34. Gender diversity on board is about good governance and I think this has been debated and talked about for a few years. It is a business imperative which is important for the long-term competitiveness of the companies and economy. Chairmen of PLCs must now take heed and really make serious efforts to boost the number of women directors on their boards, especially in the Top 100 PLCs.

ESG Disclosures [Slide no. 10]

35. Sustainability, including environmental, social and governance (ESG) has become a business imperative and not just a buzz-word. Companies were assessed on policies and activities in addressing community, environment, market place, health, safety and various stakeholders such as employees, customers, suppliers, etc.
36. Quality of disclosures needs to be improved in this regard. Thus we are pleased to noted that in October 2015, the Exchange launched **The Sustainability Reporting Guide and Toolkits** to provide PLCs with an in-depth guide and practical methods to embed sustainable business strategies, assess the impact of material economic, environmental and social risks and opportunities on their business and their stakeholders, and report on them.
37. The ESG factors are also embedded in one of the principles of the Malaysian Code for Institutional Investors, whereby institutional investors also need to push on sustainability issues during engagement with their investee companies.
38. The Malaysian Code for Institutional Investors also advocates the ESG agenda where signatories are encouraged to incorporate sustainability and ESG considerations into their investment decision-making process.
39. We hope to see companies step up their efforts to address ESG in a more comprehensive manner.

Ladies and Gentlemen,

40. The full findings will be made available in the MSWG-ASEAN CG Index Report 2015 which will be published in the **first quarter of 2016**. However key statistics of the findings can already be obtained from MSWG website tonight.

41. Before I end, I would like to take this opportunity to congratulate the **Top 100 PLCs and also the Winners of the Awards** which will be presented later tonight.

42. Thank you again for your continuous support, and I wish all of you a pleasant evening ahead.