

New Straits Times, Business Times – Thursday - 17 November 2022

MSWG-ASEAN CORPORATE GOVERNANCE ASSESSMENT

# SCORES RISING OVERALL



DEVANESAN  
EVANSON

**T**HE annual MSWG-Asean Corporate Governance (CG) assessment recognises excellence in CG disclosure among Malaysian public-listed companies (PLCs).

PLCs do not choose to participate in this assessment. The annual assessment appraises all Malaysian PLCs, excluding companies listed on the LEAP Market and Practice Note 17 and Guidance Note 3 companies.

A total of 864 PLCs were assessed.

The assessment was performed in accordance with the Asean CG Scorecard used in the regional assessment of Asean PLCs. This regional biennial assessment comes under the auspices of the Asean Capital Markets Forum in partnership with Asian Development Bank.

The scorecard was developed based on a systematic methodology to assess the CG disclosures and best practices of PLCs in six participating Asean member countries – Malaysia, Indonesia, the Philippines, Singapore, Thailand and Vietnam. As such, the questions in the scorecard are regionally accepted and agreed upon.

The regional assessment results are expected to be released on Dec 1. We can then see how Malaysian PLCs fare compared to regional PLCs. This regional assessment aims to create an asset class of investable securities.

MSWG is able to maintain its independence when conducting these assessments as the assessments are entirely funded by the Capital Markets Development Fund (CMDP). To top it all, a trophy is awarded to those recognised for their CG disclosure excellence. The 2021 results and rankings were released on Nov 5 and are available on MSWG's website. There is also a report on

the findings and observations arising from the 2021 assessment, which may be purchased through order forms at the MSWG website.

## DOMESTIC ASSESSMENT RESULTS

The 2021 assessments are based on PLCs' disclosures in their latest annual report, CG report and sustainability report for the financial year ended April 30, 2020 to March 31, 2021. Other sources of information are from corporate websites, announcements through the stock exchange and publicly available information, including media reports.

For 2021, the PLCs recorded a commendable increase of 5.4 per cent in the overall CG scores to 83.58 points from 79.28 points in the 2020 assessment (PLCs are graded on an available 130 points).

Meanwhile, the upward trend is also observed in the Top 100 PLCs (based on CG ranking) and ACE Market PLCs, which recorded 2.82 per cent and 4.79 per cent increases in their average scores to 104.6 points and 79.7 points, respectively.

## DISCLOSURE OF DIRECTORS' REMUNERATION

For the Top 100 PLCs and all PLCs, the percentage of companies that disclosed their directors' remuneration individually was constant at 100 per cent and 91 per cent, respectively. However, a slight drop was recorded in the disclosure of directors' remuneration among ACE Market PLCs. The percentage has declined from 91 to 88 per cent.

Despite the mandatory requirement to disclose the exact remuneration of each director on a named basis, including the breakdown of the remuneration (as per Para 11, Part A of Appendix

9C, Main Market Listing Requirements), 74 companies still disclosed their directors' remuneration on a lump-sum basis or in bands.

In addition to the listing requirements, Practice 8.1 of the Malaysian Code on Corporate Governance (MCCG) encourages the good CG practice of providing detailed disclosure of directors' remuneration on a named basis.

## TENURE OF INDEPENDENT DIRECTORS

Issues relating to the re-appointment of long-serving independent directors have always been a concern among shareholders.

Of the 6,086 director positions, 49 per cent of them are independent directors.

Practice 5.3 of MCCG recommends that 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 through a two-tier voting process.

Nevertheless, come June 1, 2023, the tenure of an independent director on the boards of Bursa Malaysia-listed companies will be limited to 12 years, following amendments to the Main Market and ACE Market Listing Requirements.

By then, all long-serving independent directors impacted by this enhancement must resign or be re-designated as non-independent directors.

On another note, it is encouraging to see the number of companies that have adopted a strict

tenure limit of nine years for independent directors has leapt 85 per cent to 148, compared to 80 in the 2020 assessment.

## DIVIDEND PAYMENT AND POLICY

While shareholders can plead for dividends, PLCs are not obliged to pay dividends.

Of the 864 companies assessed, 458, or 53 per cent, paid dividends during the period under review.

The number of companies that paid dividends was three per cent higher than the 445 companies in 2020. In comparison, there were 460 and 499 dividend-paying companies in the 2019 and 2018, respectively.

While it is encouraging to see more PLCs distributing dividends to shareholders, only 145 companies, or 17 per cent, disclosed their dividend policy in their annual reports.

Shareholders typically view dividends as a sign of a PLC's cash flow sustainability and the board's positive expectations of its future earnings.

As such, a dividend policy provides shareholders with a certain degree of certainty and assurance concerning the amount and timing of dividend payments.

Overall, the CG scores of Malaysian PLCs have been on a gradual rise over the last five years. But it is not CG practices alone that determine a company's success. There is a need to strike a balance between conformance and performance.

After all, CG is merely a means to an end and not an end in itself. As such, shareholders should remember to consider a broader spectrum of things before making their investment decisions.

The writer is chief executive officer of Minority Shareholders Watch Group

**The regional assessment results are expected to be released on Dec 1. We can then see how Malaysian PLCs fare compared to regional PLCs. This regional assessment aims to create an asset class of investable securities.**