

**MINORITY SHAREHOLDERS WATCH GROUP**  
**BADAN PENGAJAWAS PEMEGANG SAHAM MINORITI BERHAD**  
 (Incorporated in Malaysia – Registration No.: 200001022382 (524989-M))

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# SC: Shareholders must insist on meaningful disclosures

BY **CINDY YEAP**

Shareholders want to know how the salaries of directors and key executives are linked to the company's performance, they "should demand that this information be forthcoming", officials at the Securities Commission of Malaysia (SC) said at a technical briefing marking the release of its second annual Corporate Governance Monitor 2020 (CG Monitor 2020) last week.

As it is, companies are required to disclose only pay in bands of RM50,000 but not on a named basis — meaning it is not compulsory for companies to disclose who exactly is being paid what amount. The need to make guesses makes from aggregates naturally impeded other stakeholders' ability to independently evaluate whether a pay package is commensurate with the individual's performance in the light of how the company is doing.

Of the 937 public-listed companies in Malaysia, only 13%, or 122, disclosed remuneration of the top five senior management in bands of RM50,000 on a named basis in 2019 — 10 more than the year before.

"However, a number of companies which made such disclosures in 2018 opted not to do so in 2019. This is largely because the remuneration disclosures in 2017 were of the company's executive directors. Under the Listing Requirements, detailed disclosure of directors' remuneration is mandatory. In 2019, these companies continued to disclose the senior management remuneration in bands, however, not on a named basis," the CG Monitor 2020 read, without naming the drop-outs.

Only 37, or 3.9%, public-listed companies adopted the enhanced or "step-up" practice of disclosing the detailed remuneration of each member of senior management on a named basis — marginally above the 32, or 3.4%, in 2018. Of the 37, eight were large companies, two were mid-cap companies and 27 were small-cap companies, according to data in the CG Monitor 2020.

SC reckons that the increase "may have been driven by the report on CEO pay in CG Monitor 2019 and ensuing media coverage" that subsequently saw a number of CEOs taking pay cuts in 2019. "There was also keen focus on pay and performance by some shareholders at annual general meetings (AGMs)," it added.

A total of 121 companies are considered large cap (FBM100 members and those with a market cap of more than RM2 billion at the start of the companies' financial year), 51 mid cap (RM1 billion to RM2 billion market cap) and 765 small cap in 2020 compared with 106 (large cap), 54 (mid cap) and 770 (small cap) in 2018.

It is no surprise that Practice 7.2 in the 2017 Malaysian Code of Corporate Governance (MCCG) — 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 — is the best practice with the lowest level of adoption, by far, in 2018 as well as 2019. "The adoption of this practice remains a challenge, and SC would like to emphasise that the disclosure of board and senior management remuneration is important to facilitate stakeholders in understanding how those tasked with leadership and management of the company is being compensated, whether the current incentives structures are commensurate with company and individual performance, aligned with the long-term strategies of the company and promote responsible business conduct by the board and members of senior management ... The required information on remuneration must be forthcoming to enable stakeholders, particularly shareholders, to have an informed view on pay and performance,

and alignment with long-term strategies of the company," SC said in the report, without elaborating whether it will take measures to significantly raise adoption.

With the Covid-19 pandemic affecting the financial position of many companies, SC expects "to see a re-evaluation of the remuneration policies and packages", noting that, in the US, at least 634 companies listed on the Russell 3000 "have made pay adjustments for the board and senior management, largely as they can no longer afford to maintain the pre-pandemic remuneration packages".

According to the CG Monitor 2020, five of the top 10 highest paid boards in 2018 recorded a decline in total board remuneration in 2019, the largest being 23%. The five that recorded a decline year-on-year were Genting Bhd, Genting Malaysia Bhd, YTL Corp Bhd, Public Bank Bhd and VS Industry Bhd. Despite the decline, Genting Bhd still has the highest total board remuneration at RM172.24 million, followed by Genting Malaysia (RM177.8 million), YTL Corp (RM76.098 million), IHH Healthcare (RM63.03 million), Public Bank (RM62.5 million) and Airasia Group (RM60.5 million).

## Directors' Independence

Minority shareholders can also better protect their interest by paying more attention to the appointment of independent directors, insisting on and participating in the two-tier voting process recommended since 2019 for independent directors with tenures over 12 years.

"On average, the total votes cast for the two-tier resolutions accounted for only 53% of total shareholdings of listed companies. This indicates that on average, only half of shareholders exercised their votes to decide on the retention of long-serving independent directors... The participation of non-large shareholders in Tier 2 was also low. On average, only 40% of non-large shareholders cast their votes," the SC said, noting that some minority shareholders may have thought their small shareholding would not affect the outcome.

"While the percentage of individual shareholdings may be relatively small, non-large shareholders should be mindful that collectively they could account for more than 50% of total shareholdings. Thus, their votes can affect the outcome of the resolution... As shareholders are aware, the board plays a critical role in ensuring the long-term success of a company. Thus, shareholders should carefully review and exercise their rights to decide on board appointments as the directors who they appoint to the board will have an impact on the long-term success of the company," the SC said.

As a gauge of the significance of these resolutions, institutional investors such as the Employee Provident Fund (EPF) and Retirement Fund Inc (KWAP) have set a policy to abstain from voting on the reappointment of independent directors with tenure between nine and 12 years. Both EPF and KWAP will vote against the reappointment of an independent director with tenure of more than 12 years on the same board. According to the SC, there are 498 independent directors who have served at least 13 years — 416 or 83.5% of whom have sat on the same board for between 13 and 20 years and another 77 or 15.5% for between 21 and 30 years. Three have served between 31 and 40 years and two have served more than 40 years, the CG Monitor 2020 said, without naming them or the companies.

In 2019, 181 public-listed companies adopted this voluntary "two-tier voting" process for the first time, up from 164 in 2018, and 86% or 263 of the 284 resolutions tabled in 2019 were passed. There were no dissenting votes for 206 of the resolutions from the minority (Tier 2) shareholders.

## Top 20 FBM100 companies with the highest board remuneration (FY2019)

COMPANY	SECTOR	MARKET CAP (RM BIL)	TOTAL BOARD REMUNERATION (RM MIL)	NON-EXECUTIVE DIRECTOR REMUNERATION (RM MIL)	EXECUTIVE DIRECTOR REMUNERATION (RM MIL)
GENTING BHD	CONSUMER PRODUCTS & SERVICES	23.46	172.24	1.81	170.43
GENTING MALAYSIA BHD	CONSUMER PRODUCTS & SERVICES	19.54	77.80	0.96	76.85
YTL CORPORATION BHD	UTILITIES	10.80	76.09	1.80	74.29
IHH HEALTHCARE BHD	HEALTH CARE	47.99	63.03	14.60	48.44
PUBLIC BANK BHD	FINANCIAL SERVICES	75.47	62.77	27.13	35.64
AIRASIA GROUP BHD	CONSUMER PRODUCTS & SERVICES	5.68	60.50	1.70	58.80
SUNWAY BHD	INDUSTRIAL PRODUCTS & SERVICES	8.88	46.83	0.97	45.86
BERJAYA CORPORATION BHD	INDUSTRIAL PRODUCTS & SERVICES	1.30	39.50	1.16	38.34
LEONG HUP INTERNATIONAL BHD	CONSUMER PRODUCTS & SERVICES	3.21	32.56	0.93	31.64
VS. INDUSTRY BHD	INDUSTRIAL PRODUCTS & SERVICES	2.50	23.68	0.78	22.90
IOI CORPORATION BHD	PLANTATION	28.97	22.64	1.08	21.55
MATRIX CONCEPTS HOLDINGS BHD	PROPERTY	1.57	22.06	2.57	19.50
GUAN CHONG BHD	CONSUMER PRODUCTS & SERVICES	3.11	20.56	0.20	20.36
MALAVAN BANKING BHD	FINANCIAL SERVICES	97.13	20.29	11.86	8.43
IOI PROPERTIES GROUP BHD	PROPERTY	6.83	19.16	1.00	18.16
DIALOG GROUP BHD	ENERGY	19.46	19.09	1.09	18.00
GAMUDA BHD	CONSTRUCTION	9.66	17.49	1.04	16.44
TIME DOTCOM BHD	TELECOMMUNICATIONS & MEDIA	5.40	17.48	1.15	16.33
SAPURA ENERGY BHD	ENERGY	4.31	17.29	4.26	13.03
AXIATA GROUP BHD	TELECOMMUNICATIONS & MEDIA	37.94	15.15	5.02	10.13

Note: The amount received by the executive director of Genting Bhd includes remuneration received from Genting Malaysia Bhd and Genting Plantations Bhd

## Adoption of step-up practices low for Practice 4.3 and 7.3

	TOTAL NO OF COMPANIES	LARGE COMPANIES	MID-CAP COMPANIES	SMALL-CAP COMPANIES
4.3 – 9 year tenure limit for independent directors, without further extension	2018	84	28	5
	2019	90	33	7
7.3 – Disclosure of detailed senior management remuneration on a named basis	2018	32	6	1
	2019	37	8	2
8.4 – Audit Committee comprises solely of independent directors	2018	604	82	36
	2019	603	71	39
9.3 – Board establishes a Risk Management Committee	2018	209	47	14
	2019	210	46	17

TABLES BY SC, CG MONITOR 2020

Companies that used the two-tier voting process and saw over 90% approvals by shareholders to reappoint directors with tenures of over 25 years were Advanced Packaging Technology Bhd, Central Industrial Corp Bhd, FACB Industries Inc Bhd, GUH Holdings Bhd, Jasa Kita Bhd, KKB Engineering Bhd, Kumplan Jetson Bhd, Master-Pack Group Bhd, Mintye Bhd, Spritzer Bhd and Yee Lee Corp Bhd, the SC said.

Only five tier-two resolutions, tabled by three listed companies, were defeated in 2019, SC said, noting that three of the directors were subsequently redesignated as non-independent directors and two others resigned.

"As highlighted in the MCCG, stakeholders are increasingly concerned about the potential negative impact that long tenure may have on a director's independence. Familiarity brought about by long tenure may erode the objectivity of the directors and board. Owing to long or close relationship with board and management, an independent director may be too sympathetic to management's interests or too accepting of

their work. Independent directors may also become "dependent" directors, owing to, among others, prolonged insular recruitment processes, attractive remuneration packages and material benefits ... It is also a matter of board refreshment. As a company and its strategy changes, there must be a mechanism to bring in fresh perspectives to the board, and provide the opportunity to improve diversity on the board," SC said, urging minority shareholders to exercise their rights.

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