

Consider making best practices in CG Code as rules

THE Minority Shareholders Watch Group (MSWG) recently argued why two-tier voting for independent directors in listed companies should be made a rule under the listing requirements.

Two-tier voting has been a practice under the Malaysian Code on Corporate Governance (MCCG) since 2017. But many companies do not adopt it, especially when voting for independent directors beyond a 12-year tenure.

There are many excuses for not complying, according to the MSWG. One excuse is that they need to change their constitution. This begs the question – why don't they just change it?

Another excuse is that it is against the Companies Act (CA) 2016. This is despite the Securities Commission explaining that two-tier voting does not offend the CA.

Under two-tier voting, Tier 1 is by large shareholders and Tier 2 by minority shareholders. Both tiers must vote in favour of the independent directors for the vote to carry.

The MCCG had introduced this two-tier process for independent directors who want to continue serving beyond 12 years. Previously, it was nine years.

Listed companies should take heed of the MCCG if they want to be

seen adopting best practices in governance. In fact, why wouldn't they want to do so unless they have ulterior motives?

Under two-tier voting, minority shareholders will be able to reject the major shareholder's choice. Hence, listed companies give all sorts of excuses not to introduce two-tier voting.

After all, the issue of whether independent directors are truly independent is becoming a growing concern. This is because the major or controlling shareholders continue to appoint independent directors who are friendly to them.

A board needs to have independent directors who are willing to speak out without fear or favour and protect the interest of minorities.

But most of the time, independent directors who are vocal and critical are not reappointed by the controlling shareholder. Hence, the need to make two-tier voting a rule.

The MCCG is essentially a set of corporate governance best practices. Listed companies must ensure their boards provide, in their annual reports, an overview of the application of the principles set out in the MCCG.

The question is, why are their excuses for not doing so still being entertained? **FocusM**