



# Malaysian Code on Corporate Governance

2021 Revision

Released on 28 April 2021

Adapted from Securities Commission's Media Briefing Deck

# Corporate Governance Ecosystem



As a capital market regulator, the SC's functions include **promoting** and **regulating** corporate governance standards\*

- The SC works closely with the Corporate Governance Council to promote good corporate governance practices in the capital market.
- Members of the CG Council –
  1. SC Malaysia (Chair)
  2. Bursa Malaysia
  3. Institutional Investors Council Malaysia
  4. Institute of Corporate Directors Malaysia
  5. Minority Shareholder Watch Group
  6. Malaysian Institute of Corporate Governance

## Corporate Governance Policies and Guidelines

### 1. Capital Market Services Act 2007

- Section 317A – Prohibited conduct of directors or officers in causing wrongful loss to the company

### 2. Guidelines on Conduct of Directors of Listed Corporations and their Subsidiaries

- Conduct of directors, maintaining proper records and accounts and group governance

### 3. Bursa Malaysia Listing Requirements

- Governance structure, transactions and reporting requirements

### 4. Malaysian Code on Corporate Governance

- Best practices of corporate governance on board leadership & effectiveness, effective audit and risk management and relationship with stakeholders

\* Section 15(1)(q) of Securities Commission Act 1993

# Policy considerations for the 2021 update

## Global focus on issues relating to sustainability and board composition

Global move to promote wider adoption of sustainability practices among companies and increase in scrutiny on selection and appointment of directors

## Align with OECD's focus on strengthening group governance & the role of boards in company groups

The OECD issued a paper on the global landscape of company groups and the regulatory approaches adopted in different jurisdictions



## Promote greater use of technology to facilitate shareholders activism

With the ongoing pandemic, companies must adapt to technology to continue protecting the rights of shareholders and facilitate meaningful engagement with stakeholders

## Address gaps identified in adopting MCCG practices

The gaps are identified through the SC's annual assessment on the level of MCCG adoption and quality of disclosure.

# Malaysian Code on Corporate Governance (MCCG)



- MCCG first introduced in 2000
- Revised in 2007, 2012, 2017 and 2021
- The MCCG is underpinned by 3 main principles:
  - Board leadership and effectiveness;
  - Effective audit and risk management; and
  - Integrity in corporate reporting and meaningful relationship with stakeholders.
- While the MCCG is targeted at listed companies, non-listed entities should consider applying the practices in the MCCG to enhance their accountability, transparency and sustainability.



State-owned enterprises



Small and medium enterprises (SMEs)



Public companies



Licensed intermediaries

# Key features of the MCCG

Positioned as the Malaysian Code on Corporate Governance

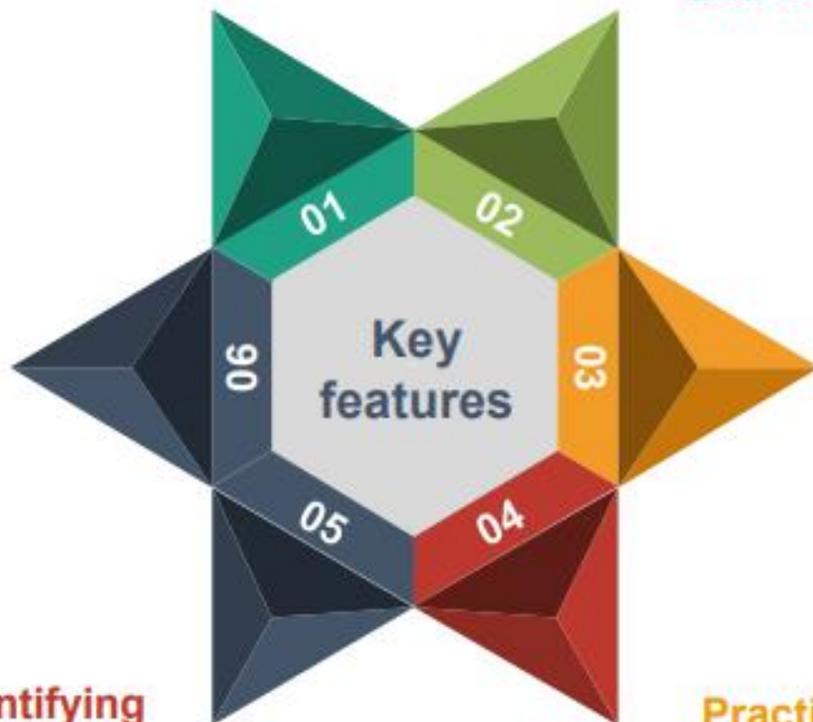
Adopts the Comprehend, Apply and Report approach (CARE)

Step Up practices to encourage companies to achieve CG excellence

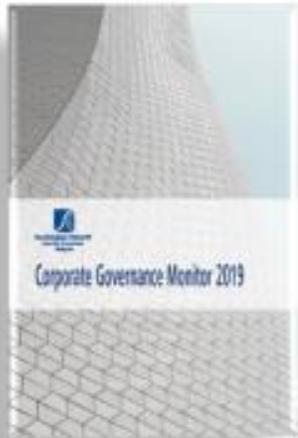
Intended Outcomes are placed up-front to provide users with line of sight

Differentiated approach identifying practices and reporting expectations for Large Companies

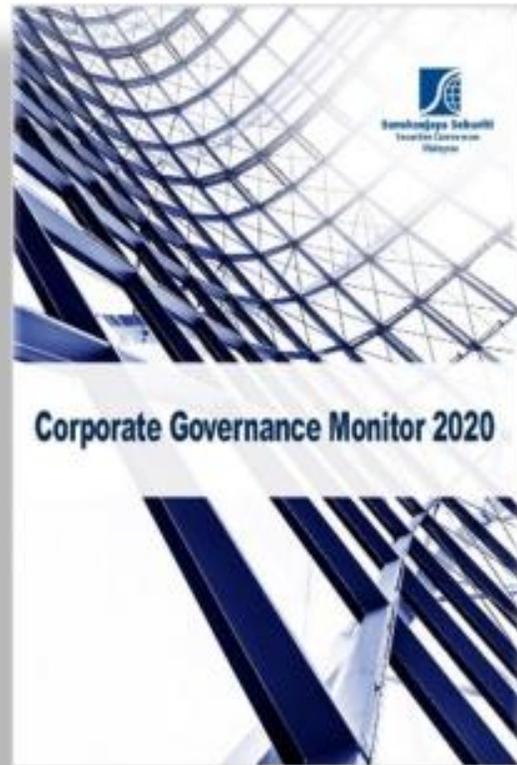
Practices are supported by Guidance to aid implementation and better disclosure



# Monitoring and enhancing transparency on MCCG adoption and disclosures



*CG Monitor 2019*



*CG Monitor 2020*

- Listed companies are required to report annually on the adoption of MCCG practices in the CG Report.
- The SC leverages advanced analytics to monitor adoption and quality of CG disclosures in CG Reports of listed companies.
- Outcome of the observation (level of adoption and quality of disclosure) are published annually in the '*Corporate Governance Monitor*' report.
- Thematic reviews in the Corporate Governance Monitor -
  -  Long serving independent directors
  -  Two-tier voting
  -  Gender diversity
  -  Fully virtual general meeting
  -  CEO remuneration
  -  Director remuneration

## 2021 Update

	Focus areas	Highlights of the update
<b>1</b>	Improve board policies and practices	<p><b>1a</b> Selection, nomination and appointment of directors</p> <p><b>1b</b> Improve the effectiveness and functions of the Audit Committee</p>
<b>2</b>	Strengthen oversight of sustainability risks and opportunities	<b>2a</b> Introduction of a new section on sustainability with 5 best practices.
<b>3</b>	Promote meaningful engagement between the company and its stakeholders	<b>3a</b> Introduction of new practices on conduct of general meetings including e-AGMs.
<b>4</b>	Improve adoption of best practices with low levels of adoption and quality CG Report disclosures	<p><b>4a</b> Strengthened guidance in relation to disclosure of gender diversity policies and targets &amp; communication on board evaluation outcomes.</p> <p><b>4b</b> CARE approach</p> <ul style="list-style-type: none"> <li>- 'Apply' extended to encourage adoption of MCCG by subsidiaries of listed companies (group governance)</li> <li>- 'Report' clarify expectation in relation to departures and timeline for adoption</li> </ul>

## 1a - Selection, nomination and appointment of directors

Practice	Status	Details
1.4	New	<ul style="list-style-type: none"> <li>Chairman of the board is not a member of Audit Committee, Nomination Committee or Remuneration Committee.</li> <li><i>Guidance in Practice 1.6 emphasizes that board and audit committee meetings are not held together.</i></li> </ul>
5.3	Enhanced	<ul style="list-style-type: none"> <li>Companies to seek shareholders approval using the two-tier voting approach to retain independent directors with tenure of more than <b>9 years</b> (MCCG - 2017: 12 years).</li> <li>A <b>12 year tenure limit</b> for independent directors without further extension will be introduced in the Listing Requirements, targeted issuance in Q4 2021.</li> </ul>
G5.5	Enhanced	<ul style="list-style-type: none"> <li>State-owned enterprises (SOEs) should be guided by the <i>OECD Guidelines on Corporate Governance of SOEs</i> on board appointments – all board members including public officials should be nominated based on qualifications and have equivalent legal responsibilities. The Guidelines recommend that persons linked to executive powers should not serve on boards as this would cast serious doubt on the independence of their judgment.</li> <li>A listed company is discouraged from appointing active politicians on the board.</li> </ul>
5.9	New	<ul style="list-style-type: none"> <li>The board comprises of at least <b>30% women directors</b> to apply to <b>all listed companies</b> (currently only applies to Large Companies).</li> </ul>
5.10	Enhanced	<ul style="list-style-type: none"> <li>The board discloses in its annual report the company's policy on gender diversity for the board and <b>senior management</b> (currently senior management not included).</li> </ul>

## 1b - Cooling-off period and functions of the Audit Committee

Practice	Status	Details
9.2	Enhanced	<ul style="list-style-type: none"> <li>A <b>former partner</b> of the external audit firm* of the listed issuer to observe a cooling-off period of at least <b>3 years</b> before being appointed as a member of the Audit Committee. (currently applies to only key audit partner with cooling off period of 2 years).</li> </ul> <p><i>* This applies to all partners of the audit firm and/or the affiliate firm (including those providing advisory services, tax consulting etc.).</i></p>
G9.3	Enhanced	<ul style="list-style-type: none"> <li>In assessing the suitability, objectivity and independence of the external audit firm, the Audit Committee should consider the information presented in the <b>Annual Transparency Report</b> of the audit firm.</li> </ul> <p><i>Note: Audit firms registered with the Audit Oversight Board (AOB) with more than 50 public interest entity (PIE) audit clients; and total market capitalisation of the audit firm's PIE clients above RM10 billion at the end of the calendar year for two consecutive years are required to issue an Annual Transparency Report beginning 2020. For other AOB-registered audit firms that do not meet the above criteria, they are encouraged to issue an Annual Transparency Report.</i></p>

## 2a - Introduced a new section on sustainability with 5 best practices.

Practice	Status	Details
4.1	New	<ul style="list-style-type: none"> <li>The board together with management takes responsibility for the <b>governance of sustainability</b> in the company including setting the company's sustainability strategy, priorities and targets.</li> <li>Strategic management of material sustainability matters should be driven by senior management.</li> </ul>
4.2	New	<ul style="list-style-type: none"> <li>Company's sustainability strategies, priorities and targets as well as performance are <b>communicated to its internal and external stakeholders</b>.</li> </ul>
4.3	New	<ul style="list-style-type: none"> <li>Board takes appropriate steps to ensure they <b>stay abreast with and understand sustainability issues</b>, including climate-related risks relevant to the company.</li> </ul>
4.4	New	<ul style="list-style-type: none"> <li><b>Performance evaluations</b> of board and senior management include review on their performance in addressing company's material sustainability risks and opportunities.</li> </ul>
4.5 (Step Up)	New	<ul style="list-style-type: none"> <li>Board identify a <b>designated person within management</b> to provide dedicated focus to manage sustainability strategically.</li> </ul>

## 3a – new practices on conduct of general meeting including e-AGM

Practice	Status	Details
13.3	Enhanced	<p>(MCCG 2017 - recommended companies with <b>large number of shareholders</b> or which have meetings in <b>remote location</b> to leverage technology).</p> <ul style="list-style-type: none"> <li>Listed companies should <b>leverage technology</b> to facilitate–           <ul style="list-style-type: none"> <li>➢ voting including voting in absentia; and</li> <li>➢ remote shareholders' participation at General Meetings.</li> </ul> </li> <li>Listed companies should also take the necessary steps to ensure <b>good cyber hygiene</b> practices are in place including data privacy and security to prevent cyber threats.</li> </ul>
13.4	New	<ul style="list-style-type: none"> <li>Chairman should ensure that <b>general meetings support meaningful engagement</b>, including on matters relating to company's financial and non-financial performance between board, senior management and shareholders.</li> <li>Shareholders should be given the <b>opportunity to ask questions</b> during general meeting and <b>all questions should received meaningful response</b>.</li> </ul>
13.5	New	<ul style="list-style-type: none"> <li>The board must ensure the conduct of virtual general meeting (fully virtual and hybrid) support meaningful engagement. <b>Questions by shareholders must be made visible to all meeting participants</b>.</li> </ul>
13.6	New	<ul style="list-style-type: none"> <li>Minutes of general meeting should be circulated to shareholders <b>no later than 30 business days</b> after the meeting.</li> </ul>

## Improve adoption of best practices with low levels of adoption and quality CG Report disclosures

Practice	Status	Details
G5.10	Enhanced	<ul style="list-style-type: none"> <li>Non-numerical objectives such as “introducing a diversity policy” and aspirational statements such as “achieving a culture of inclusivity”, while worthwhile, are unlikely to be effective in improving gender diversity unless they are supported by appropriate measures and numerical targets.</li> </ul>
6.1	Enhanced	<ul style="list-style-type: none"> <li>For large companies, it is highly recommended that the board engages independent experts to conduct board evaluation <b>at least every three years</b>.</li> <li>Board evaluations should not focus entirely on historical assessment of directors’ performance but include <b>forward looking considerations</b> such as mapping current board competencies against those required to drive the company’s future strategies.</li> <li>Sparse and or vague disclosures on the <b>evaluation methodology and outcomes</b> should be avoided, to ensure stakeholders, in particular shareholders are able to understand appreciate the board evaluation process, its outcomes and steps taken by the board in response to the outcomes.</li> </ul>

## Application of MCCG



- MCCG and Frequently Asked Questions (FAQs) will be available on SC's website for download.
- Bahasa Malaysia and Mandarin version of the MCCG will be available on SC's website by Q3, 2021.
- Public queries on the MCCG can be sent to [mccg@seccom.com.my](mailto:mccg@seccom.com.my)

**Thank You**