



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

MALAYSIA-ASEAN CORPORATE GOVERNANCE INDEX 2013

PRESENTATION OF FINDINGS FOR THE TOP 100 PLCs

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Thank You Datuk MC.

Yang Berbahagia Tan Sri Dr Sulaiman Mahbob

Chairman, Minority Shareholder Watchdog Group

Mr. Goh Ching Yin, *Executive Director, Strategy & Development, Securities Commission,*

Dato' Tajuddin Atan, *Chief Executive Officer, Bursa Malaysia Berhad,*

Distinguished guests who had contributed to the success of MSWG,

My Foreign Guests,

Industry Captains, Members of the Media,

Ladies and gentlemen.

Malaysia-ASEAN Corporate Governance Index 2013 [Slide no. 1]

A very good evening, salam sejahtera and thank you very much for your presence here tonight.

1. Before I present the findings of the **Malaysia-Asean CG Index 2013**, allow me to spend a few minutes to give a brief overview of the key corporate governance developments in Malaysia over the last 3 years from 2011 to 2013 to provide the settings.
2. One of the major causes of the global financial crisis that was identified was the breakdown and poor CG structure and practices, hence we witnessed many drastic changes in the CG landscape globally with reforms to laws, rules and regulations as well as increased emphasis in various CG areas.
3. Our region too had similarly seen such slews and emphasised the importance of good corporate governance.

The Changing Regional CG Landscape [Slide no.2]

4. The changing CG landscape included :
 - Greater demand for accountability & transparency by shareholders
 - Higher push for ESG agenda
 - Higher expectations from institutional investors to raising the CG standards
 - Convergence of the CG standards

5. While no economies had been totally spared from the onslaught of the global financial crisis, Malaysia's economy had demonstrated some resilience which we believe has been a direct result of the continuous efforts and reforms undertaken to strengthen the governance ecosystem of the country. Reforms are still ongoing, as CG is a journey and recalibration is needed from time to time to keep CG current and relevant.

Key CG Developments in Malaysia 2011 – 2012 [Slide no.3]

6. As you can see from the chart, many key events took place in years 2011 and 2012. Just running through quickly, among the key developments which took place were:

- the launch of CMP2 aptly themed “**Growth with Governance**”, which outlined the growth strategies that is expected to transform the competitive dynamics of Malaysia’s capital market over the next 10 years.
- **CG Blueprint 2011**, a 5-year plan provided recommendations to raise the CG standards in Malaysia taking into consideration the changing CG landscape not just in the region, but global developments as well.
- The Revised **Malaysian Code on Corporate Governance** 2012 where higher expectations of CG practices was set in the new Code.

7. As at to-date, many of the Blueprint’s recommendations had been implemented through changes in the **Bursa Listing Requirements** or applied through the **CG Code** which is further explained through the **Bursa Corporate Disclosure Guidelines**. All these were important as it gave a headstart to our corporates in line with the aspirations of the **ASEAN CG standards**.

Key CG Developments in Malaysia 2013 [Slide no.4]

8. 2013 is a follow-through year, with continuation of the roadmap outlined in the recommendations under the CG Blueprint.
9. Another important development which I wish to mention is **Malaysia's push towards socially responsible investment.**
10. In the recent Budget 2014 tabled by our Prime Minister, it was announced that,
 - efforts would be intensified towards promoting Malaysia as a market for **Social Responsible Investments (SRI)**; and
 - A SRI Fund will be established to be invested in listed companies which demonstrate high transparency and sustainability, including inclusiveness in diversity encompassing gender, age and ethnicity.
11. Thus, corporates should take the opportunity to endeavour to meet the parameter set to be in the radar of institutional investors and funders which finally means that they will be able to get the benefit of competitive rates.

Initial Public Offerings & Privatisations [Slide no.5]

12. While not as exciting as the bumper IPO year last year, 2013 also saw **17 new listings** on Bursa Securities. There was however, almost equal number of companies which were privatised with a net outflow from Bursa Securities of RM16 billion. This time many privatisation had gone through rigorous exercises where minority shareholders were more vocal especially on the offer price and some were rejected and did not go through.

Global Rise of Investors' Voice [Slide no.6]

13. The global rise of shareholders' voice dubbed as the "Shareholder Spring" mainly in the US and the UK had put the spotlight on the role of institutional investors and the greater stewardship role which they should be playing in monitoring their investee companies.

Responsible Investment [Slide no.7]

14. As a result, global CG trend showed a growing emphasis on shareholder responsibilities for sustainable value creation. In particular, institutional investors have been singled out as the biggest shareholder group to lead the way as they can exert influence and pressure changes towards good governance and sustainability of the company.
15. Thus, the past few years have seen the development of responsible investment principles or codes by international CG organisations, global fund managers to provide guidance for responsible investment by institutional investors. The UK became the first nation to publish the UK Stewardship Code in 2010; with a revised version already published in 2012.
16. Many countries are already taking this cue including Malaysia , which is taking proactive steps to develop such a code. It is also in line with one of the recommendations of the CG Blueprint **to further bring responsible ownership to the forefront in Malaysia**. In this regard MSWG is currently spearheading the formulation and development of the Code with key institutional investor institutions such as the **EPF, PNB, LTAT, LTH, KWAP, SOCSO, MAAM, MTA and PPA** which we expect to be launched by the second quarter of next year. This would further be expected to galvanise the CG ecosystem.

Country Assessment: World Bank ROSC Report July 2012 [Slide no.8]

17. The efforts taken by Malaysia had not gone unnoticed – Malaysia had been recognised as a **regional leader** by the World Bank in the latest **World Bank ROSC Report** issued in July 2012.

Country Assessment: ACGA-CLSA CG Watch 2012 [Slide no.9]

18. In the **ACGA-CLSA CG Watch 2012**, Malaysia climbed from 6th spot in rankings in 2010 to share the 4th spot with Japan in 2012.
19. Comments on the trend of CG reform in Malaysia stated that ***“Culture at last showing signs of openness”***. The report also singled out Malaysia as ***“one of the few markets in Asia that undertook major overhaul of its code of CG”***.

Country Assessment: ASEAN CG Scorecard Country Reports by ACMF-ADB [Slide no.10]

20. Meanwhile the findings of the inaugural **ASEAN CG Country Reports & Assessments 2012**, ranked Malaysia 2nd.

Country Assessment: Doing Business Report 2014 [Slide no.11]

21. In the **World Bank Doing Business Report 2014** Malaysia surged six spots to **rank 6th** in terms of ease doing business out of 189 countries surveyed.

22. We believe this is a testament of the continuous economic and government's transformation programmes as well as governance reforms to maintain investors' confidence in the country. This is also evidenced by the high ranking of 4th spot in Protecting Investors.

Overview & Findings for Top 100 PLCs

Ladies & Gentlemen,

23. I now move on to the main focus of tonight's presentation which is the findings for the **Top 100 companies** under the **Malaysia-ASEAN CG Index 2013**.

Background [Slide no.13]

24. The ASEAN CG Scorecard is an initiative by the ASEAN Capital Markets Forum which was:

- Funded by Asian Development Bank;
- Supported by country regulators; and
- Domestic ranking bodies were appointed by country regulators. MSWG is the domestic ranking body for the Malaysian Chapter.

Objectives of which were to:

- raise CG standards and practices of ASEAN PLCs;
- have standardise parameters ensure uniformity and understanding;
- showcase and enhance visibility of well governed ASEAN PLCs; and
- promote ASEAN companies as an asset class

Countries involved

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

Development of Scorecard [Slide no.14]

25. In the development of the CG Scorecard:

- the parameters were reflective of global CG principles and practices as well as domestic CG codes
- Adoption of higher standards (HCF) and not the lowest common denominator as it is an aspirational standard
- There is robust quality control processes through peer reviews

Components of ASEAN CG Scorecard [Slide no.15]

Methodology

26. Essentially, the ASEAN CG Scorecard was mainly based on disclosures in the **annual reports and company websites**. Other sources of information included company announcements, circulars, articles of association, minutes of shareholders' meeting, corporate governance policies, codes of conduct and sustainability reports. All of which must have been disclosed in the public domain.
27. The cut-off date for Annual Report was **31 July 2013** but assessments were done based on the latest website information as at date of assessment.
28. The scorecard comprises two parts which are referred to as **Level 1 & Level 2**.
29. **Level 1** comprises 179 parameters and are divided into five (5) parts corresponding with the **OECD Principles of Corporate Governance** which were used as the main benchmark for the Scorecard given their global acceptance by policy makers, investors and other stakeholders.
30. The total 'bonus' and 'penalty points' in **Level 2** are added or subtracted from the total score in **Level 1** to give the final score of the company.

31. For top overall CG companies and award winners, an additional performance parameter was included where **85%** weightage is given to the transparency aspects and **15%** to performance relating to **ROE and TSR**.

Part A: Rights of Shareholders [Slide no.16]

32. **Part A** comprised 25 parameters relating to **Rights of Shareholders** where one main component was whether there was **publication of AGM minutes**.
33. One major improvement that can be made in future is in this area, where Malaysian listed companies lost out to their ASEAN counterparts.
34. The scorecard directly related to the publication of AGM minutes comprised many 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.
35. For 2013 only **7 companies** published their minutes in the website. We hope to see more Malaysian listed companies adopting this best practice of publishing a summary of AGM notes. I would also like to point out that this practice is a norm in other ASEAN countries, and **done voluntarily**.

Part B: Equitable Treatment of Shareholders [Slide no.17]

36. The corporate governance framework should ensure the equitable treatment of all shareholders.
37. Examples of areas assessed include voting rights and timely information for effective decision making by shareholders.
38. In this area **poll voting** as opposed to voting by show of hands is highly encouraged which is aligned to the principle of '*one share one vote*'. Many Malaysian companies did not fare well in this area, whereas, countries such as Thailand has mandated poll voting for all resolutions and recently Singapore too has taken that route.
39. Though there may be certain downside on poll voting method especially in countries with bulky shareholding structure such as ours the principle still remains. These issues can be addressed through having certain voting guidelines like done recently in UK where in the event a company has one major shareholder owning more than 30%, then both the minority and majority need to agree on the resolutions for it to go through.

Part C: Role of Stakeholders [Slide no.18]

40. **Part C** of the scorecard examines a company's role in safeguarding the interests of the broader stakeholders, including customers, employees, and the society at large. All these could be gleaned from the company's disclosure in its Corporate Responsibility Statement in the Annual Report; or specific Sustainability Policies or Sustainability Report in the company's website.
41. **ESG**, is the catch-all term to reflect the sustainability agenda which I have mentioned earlier.

Part D & E [Slide no.19]

42. **Part E** relating to **Responsibilities of the Board** of the scorecard forms the bulk of the parameters of the scorecard with a total of **76 parameters** out of the total of 179. It is also given the highest weightage at 40% given its high importance.
43. Board leadership with the right mix, skillsets and experience is important to create a highly effective and dynamic board that can fulfill its oversight roles in today's competitive business environment. This is where the Chair plays a crucial role in delivering the right balanced board to spur the company and its reputation whilst at the same time provide a crucial check and balance role in the company.

44. The CEO being the primary driving force behind the company's success could be the single most important person that could effectively champion CG issues such as the ESG agenda, gender diversity on boards and other areas of CG best practices.

The Assessment Process [Slide no.20]

45. Briefly the assessment process involved the following:-

- A total **870 listed companies** were assessed in 2013.
- Briefings sessions on the ASEAN CG Scorecard for **BODs and Chairmen of PLCs**, as well as for **Company Secretaries** were conducted at various intervals during the year.
- The information on the scorecard, including the parameters of the scorecard were also posted on MSWG's website for ease of access since end 2012.
- About 40% of the Top 100 PLCs were reviewed by peers in the region and the final 100 were presented to the **Adjudication Committee** for further deliberation before the list of Top 100 companies were finalised.

Top 100 PLCs [Slide no.21]

Ladies & Gentlemen,

46. Findings this year showed that the average base score for the Top 100 PLCs had increased to **75.3 points** from 68.2points last year. The highest base score also increased from 91.49 points in 2012 to **102.77 points** in 2013.
47. The increase reflected **rising CG awareness among the listed companies.**
48. I wish to however caution that it is by no means a guarantee that these companies will not engage in questionable CG practices in the future nor are Big names a guarantee of good corporate governance. But good CG structure in place should mitigate and minimise potential misgovernance.

Board Composition [Slide no.22]

49. As can be seen on the slide the board composition comprising EDs, NEDs and IDs remained fairly consistent in 2012 and 2013.

Key Board Statistics – Top 100 PLCs [Slide no.23]

Separation of Chairman & CEO

50. One of the desirable CG practices is for the separation of the roles of Chairman and the CEO to be held by different individuals. Separation of the positions of the chairman and CEO promotes accountability and facilitates division of responsibilities between them.
51. The statistics showed that most of the companies had this practice, albeit a slight decline from 94% in 2012 to **92% in 2013**.

Independent Chairman

52. Also of importance is the independence of the Chairman, to provide leadership and an element of check and balance where both minority and majority shareholders can see that their voices are represented in the board in a more objective manner for the interest of the company.
53. This year **43%** of the top 100 PLCs has independent Chairmen, a slight improvement from 40% in 2012.

>50% IDs

54. Slightly more than one-third of the boards (**35%**) comprised more than 50% of independent directors – an increase from 33% in 2012. Perhaps the increase was also correlated to the requirement of the Code whereby the boards need to be majority IDs if the chairman of the Board is not an independent director.

Board assessments

55. Principle 2 of the Code on strengthening composition of the Board states that *“The board should have transparent policies and procedures that will assist in the selection of board members. The board should comprise members who bring value to board deliberations.”*
56. These annual board assessments are important to assess contributions of each director. In this regard, **slightly above three-quarters (77%)** of the top 100 companies conducted such assessments. We hope that this situation could be improved further given the director’s competence, commitment, contribution and performance is crucial to the company’s success.

Key Board Statistics – Top 100 PLCs [Slide no.24]

Tenureship of Independent Non-Executive Directors

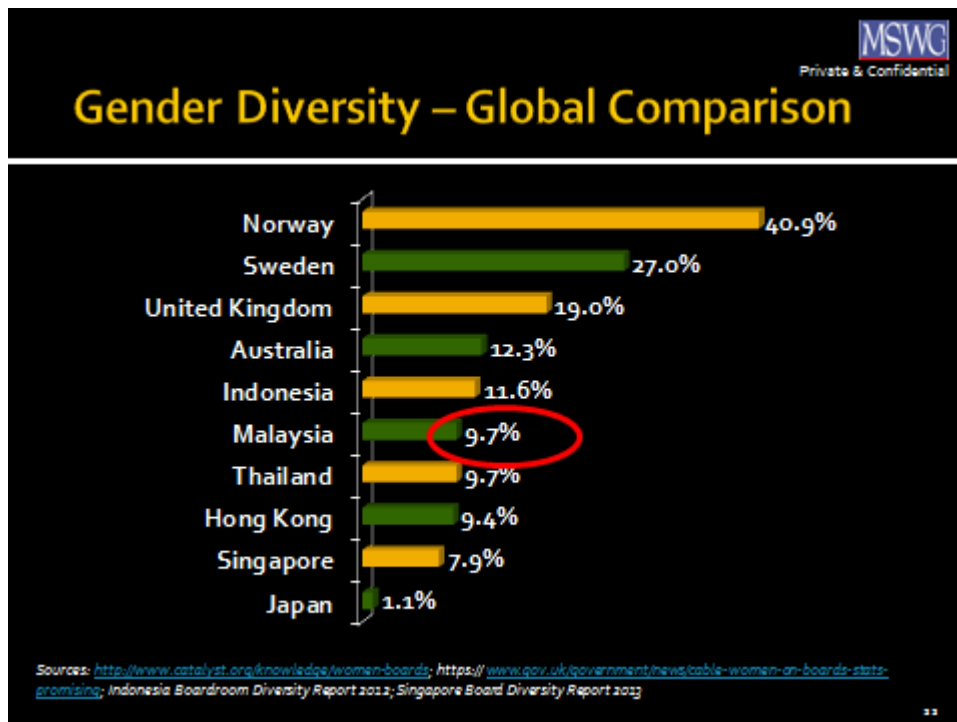
57. One of the recommendations in the Code which received mixed signals from companies was in relation to the tenureship of IDs. Principle 3 of the Code had put much emphasis on reinforcing the independence of IDs.
58. Recommendation 3.2 of the Code states that *“The tenure of an independent director should not exceed a cumulative term of nine years. Upon completion of the nine years, an independent director may continue to serve on the board subject to the director’s re-designation as a non-independent director.”*
59. The ASEAN Scorecard penalises any ID beyond 9 years. Some of the ASEAN countries have embedded this in their codes and strictly adheres to this.
60. The findings for the top 100 companies showed that IDs with **tenure of 9 years or more** had increased from 16% in 2012 to **17% in 2013**; IDs with **tenure of 12 years or more** had declined from 18% in 2012 to **15% in 2013**, while the average tenure is at **6 years**.

Key Board Statistics – Top 100 PLCs [Slide no.25]

Women on Boards in 2013


61. As part of strengthening board composition, the Code recommends for the board to establish a formal policy on board diversity, including **gender diversity**. NC should take steps to ensure that targets are set and the measures taken are disclosed in the annual report.
62. Some of the companies here tonight may have been commented upon by MSWG on the gender diversity aspect of your board. I can assure you that we have good reasons for it.
63. As you can see from the slides women directors make up only approximately **10% of the board composition in 2013**, a marginal 1% increase from 9% in the previous year. There is still a huge gap to meet the target of 30% set by the government by 2016.
64. Further scrutiny of female directors on boards also revealed that only 5% are IDs; with majority being executive directors or NEDs. The ASEAN scorecard encourages and gives bonus points to female IDs
65. Companies, more so the bigger cap companies must take serious efforts to boost the number of women directors on their boards – not for the sake of meeting ‘targets’, but because it is about good CG. Of course merit consideration is a given.

Gender Diversity – Global Comparison [Slide no.26]




Directors' Remuneration [Slide no.27]

66. On the disclosure of remuneration by individual directors, **39%** of the top 100 companies made this disclosure compared to 34% last year.
67. As a matter of interest, we have also collated the average remuneration of EDs and NEDs as follows:-


Private & Confidential

Directors' Remuneration – Top 100 PLCs

| | 2013 | 2012 |
|------------------------------------|--|------|
| Disclosure by individual directors |  39% | 34% |

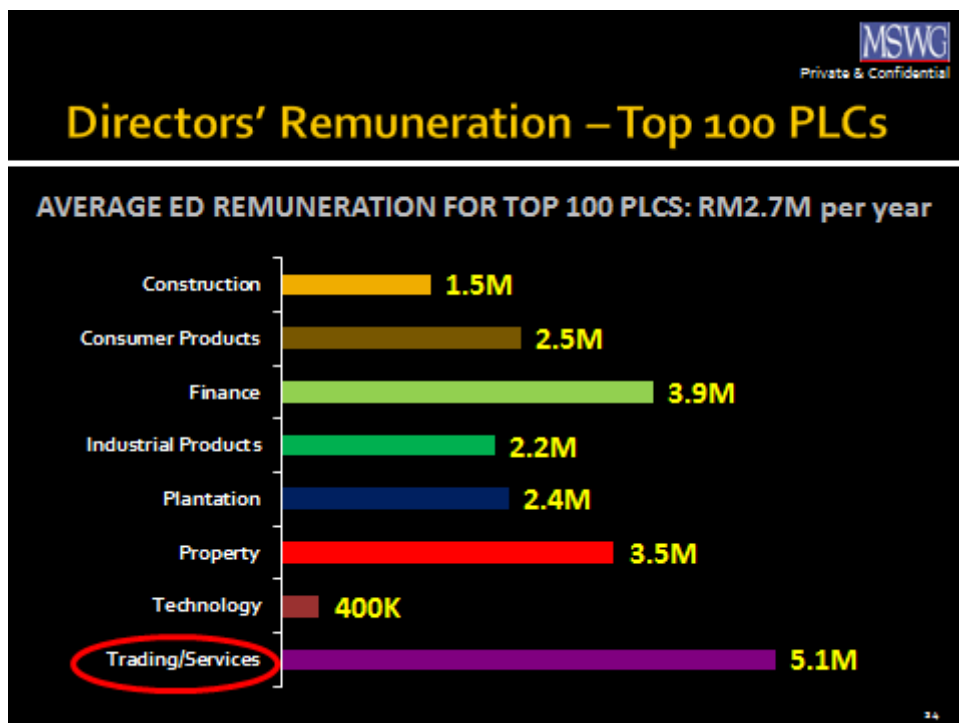
| Remuneration | Average (RM) | Min (RM) | Max (RM) |
|--------------------------|--------------|----------|----------|
| Executive Directors | 2.7m | 400k | 5.1m |
| Non- Executive Directors | 161k | 61k | 445k |

21

Directors' Remuneration [Slide no.28]

Average ED Remuneration

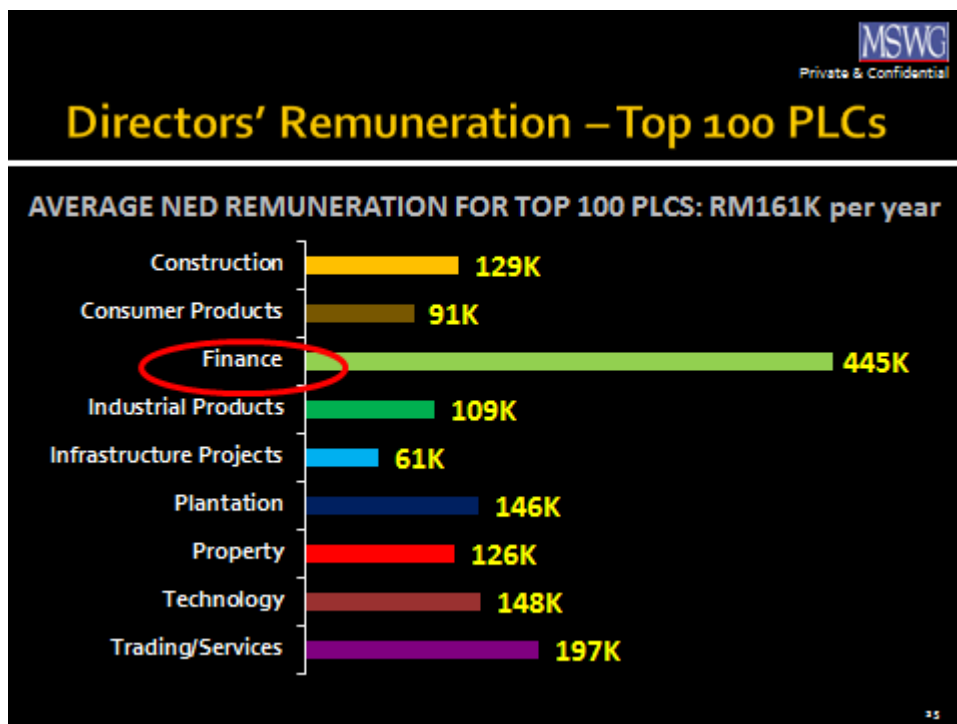
68. The average ED remuneration for Top 100 companies is **RM2.7 million** or **RM225K per month**, with Trading/Services sector having the highest at **RM5.1M per annum**.



Directors' Remuneration [Slide no.29]

Average NED Remuneration

69. The average NED remuneration for Top 100 companies is **RM161K per year** or **RM13.4K per month**, with Finance sector having the highest NED remuneration at RM445K per year.



Disclosures – Top 100 PLCs [Slide no.31]

AGM Minutes

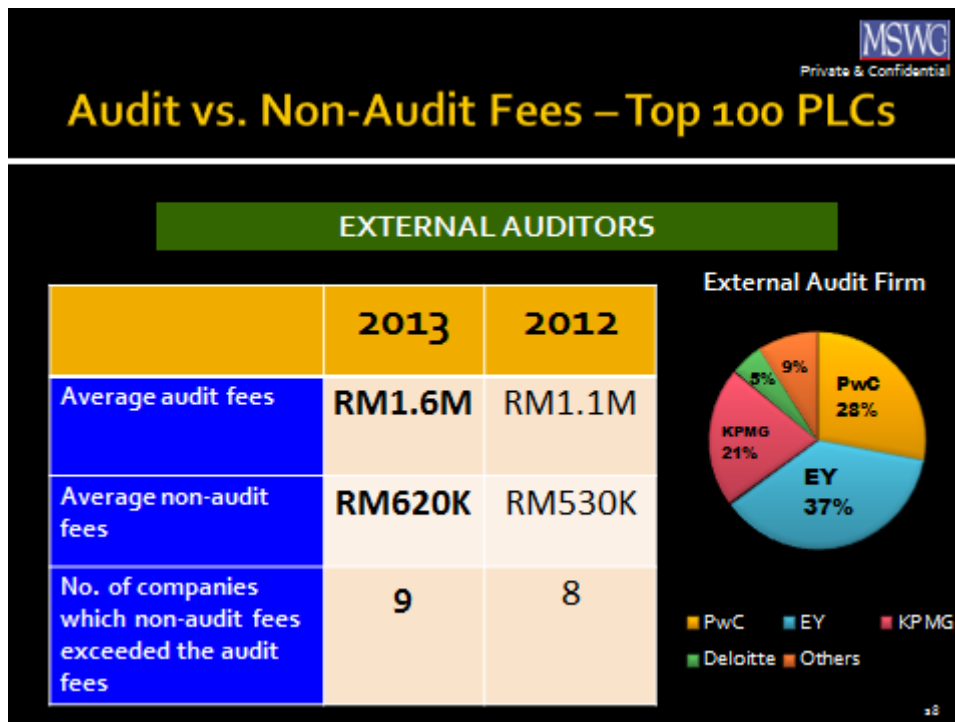
70. I reiterate that publishing AGM minutes on the company's website is a rare occurrence in Malaysian with only 7 companies making such disclosure. namely **Bursa Malaysia Bhd, Telekom Malaysia Bhd, Axiata Group Bhd, CIMB Group Holdings Bhd, IJM Corporation Bhd, IJM Land Bhd and IJM Plantations Bhd.**

Corporate Responsibility Statement

71. Majority of the companies (94%) disclosed their Corporate Responsibility Statement or CSR Statement in the Annual Report, but more need to be done in terms of having detailed policy , budget allocation and assesment.
72. We hope to see companies step up their efforts to address ESG in a more comprehensive manner.

Audit vs Non-Audit Fees – Top 100 PLCs [Slide no.32]

73. The slides show the statistics for the average audit and non-audit fees for 2013 and 2012.



74. Auditors are the only outside party that can provide assurance to shareholders on the state of financial preparation whether the financial statement reflected a true and fair view of the company. In this regard, we see a red flag when non-audit fee is much higher than audit fees conducted by the same audit firm as this may mean that independence could be compromised. As reflected in the statistic, this does not seem to be a worry in Malaysia.

Risk Management – Top 100 PLCs [Slide no.33]

75. Risk management is also a key area being assessed in the scorecard as the board should establish a sound risk management framework and internal control system to safeguard the shareholders' investments and company assets.
76. The findings revealed that **80%** of the companies clearly disclosed that its board had conducted a review of the material internal controls and risk management systems, compared to only 70% in 2012.
77. There was lesser disclosure of how key risks are being managed, with only **60%** of the top 100 companies making such disclosures compared to 68% in 2012. This needs to be looked into promptly as such disclosures are important to help shareholders better understand the risks involved, thus helping them in their decision-making process.

Closing the Gaps [Slide no.34]

78. While overall the average base score indicated improvements in the CG practices of the top 100 companies, there are still areas which warrant further improvements and we need to **close these gaps**.

79. Five key areas identified are:

- **ESG practises**

- **Sourcing IDs from independent pool**

- **Publishing AGM minutes**

- **Gender diversity on board**

- **Board assessment**

Final [Slide no.35]

Ladies and Gentlemen,

80. The full findings will be made available in the Malaysia-ASEAN CG Index Report which will be published in the **first quarter of 2014**.
81. Moving forward, we will continue to refine the methodology together with the other regional CG experts, taking into consideration feedback received as well as our experiences during the assessments conducted this year.
82. 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.
83. The cream of the crop will also be published in the regional ASEAN list after stringent peer review process and we hope that many Malaysian listed companies will make it to the top 50 regional list.
84. Thank you again for your continuous support, and I wish all of you a pleasant evening ahead.