



Suruhanjaya Sekuriti
Securities Commission
Malaysia

MALAYSIAN CODE ON CORPORATE GOVERNANCE

(AS AT 28 APRIL 2021)

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WHY CORPORATE GOVERNANCE MATTERS

- 1.1 Corporate governance is defined as *the process and structure used to direct and manage the business and affairs of the company towards promoting business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value while taking into account the interest of other stakeholders*¹.

Corporate governance provides a framework of control mechanisms that support the company in achieving its goals, while preventing unwanted conflicts. The pillars of corporate governance such as ethical behavior, accountability, transparency and sustainability are important to the governance of companies and stewardship of investors' capital. Companies that embrace these principles are more likely to produce long-term value than those that are lacking in one or all.

- 1.2 Proper corporate governance identifies the distribution of rights and responsibilities among different participants in the company and outlines among others the rules and procedures for decision-making, internal control and risk management. Corporate governance is not only concerned with shareholder interests but requires balancing the needs of other stakeholders such as employees, customers, suppliers, society and the communities in which the companies conduct their business.

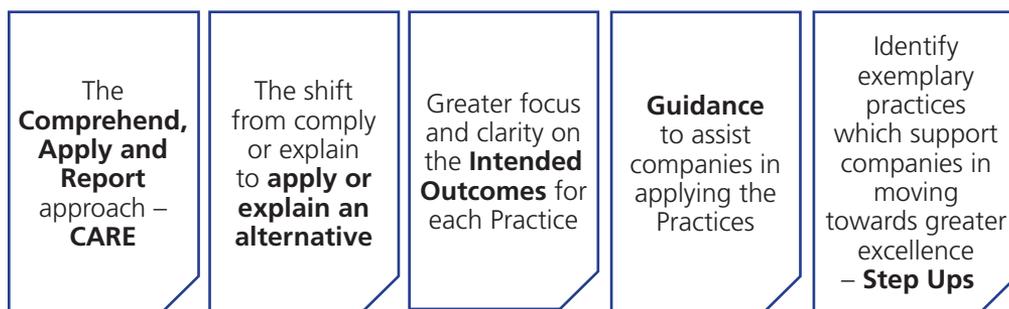
¹ Corporate governance as defined in the *High Level Finance Committee Report (1999)*.

THE MALAYSIAN CODE ON CORPORATE GOVERNANCE

- 2.1 The *Malaysian Code on Corporate Governance* (MCCG) introduced in 2000 has been a significant tool for corporate governance reform and has influenced corporate governance practices of companies positively.
- 2.2 The MCCG reflects global principles and internationally recognised practices of corporate governance which are above and beyond the minimum required by statute, regulations or those prescribed by Bursa Malaysia.
- 2.3 The MCCG permits a more constructive and flexible response to raise standards of corporate governance. It recognises that there are aspects of corporate governance where statutory regulation is necessary and others where self-regulation complemented by market regulation is more appropriate.
- 2.4 The MCCG was reviewed and updated in 2007, 2012, 2017 and 2021 to ensure that it remains relevant and is aligned with globally recognised best practices and standards.
- 2.5 The 2017 edition of the MCCG, which supercedes the 2012 edition, took on a new approach to promote greater internalisation of corporate governance culture. Key features of the approach are listed in Diagram 1.

Diagram 1

Key features of the MCCG



2.6 The 2021 update of the MCCG introduces best practices and guidance to–

- improve board policies and processes including those related to director selection, nomination and appointment;
- strengthen board oversight and the integration of sustainability considerations in the strategy and operations of companies; and
- encourage the adoption of the best practices, particularly those found to have relatively lower levels of adoption, as highlighted in the SC's *Corporate Governance Monitor* report.

2.7 As listed companies are not a homogeneous group, it is necessary to provide flexibility and proportionality in the application of certain best practices. Certain practices are applicable only to **Large Companies**.

Large Companies are:

- Companies on the FTSE Bursa Malaysia Top 100 Index; or
- Companies with market capitalisation of RM2 billion and above,

at the start of the companies' financial year.

Once a company is under the category of **Large Companies**, it will remain as one for the entire financial year regardless of the change in its status during the financial year.

These companies should continue applying the practices even if they fall out of the FTSE Bursa Malaysia Top 100 Index or their market capitalisation decreases below the prescribed threshold. Other listed companies may consider adopting the practices identified for **Large Companies** if they aspire to achieve greater excellence in corporate governance.

- 2.8 While the MCCG is targeted at listed companies, non-listed entities including state-owned enterprises, public companies, small and medium enterprises (SMEs) and capital market intermediaries are encouraged to embrace this code on corporate governance. Non-listed entities should consider applying the practices in the MCCG to enhance their accountability, transparency and sustainability.

COMPREHEND, APPLY AND REPORT

Why CARE?

- 3.1 Comprehend, Apply and Report or **CARE** encourages companies to clearly identify the thought processes involved in practising good corporate governance, including providing fair and meaningful explanation of how the company has applied the practices.

COMPREHEND	Understand and internalise the spirit and intention behind the Principles and Practices including its intended outcomes.
APPLY	Implement the practices in substance to achieve the intended outcomes of building and supporting a strong corporate governance culture throughout the company.
REPORT	Provide fair and meaningful disclosure on the company's corporate governance practices.

- 3.2 **CARE** aims to reinforce mutual trust between companies and their stakeholders by promoting fair and meaningful disclosures that will be relied upon by stakeholders to have effective engagements with the company. It also promotes a culture of openness and mutual respect that benefits both the company and its stakeholders.
- 3.3 **CARE** will help generate greater interest in corporate governance best practices, facilitate assessments and stimulate conversations on corporate governance. Collectively, these outcomes will raise the standard of corporate governance culture of the market overall.

'Comprehend'

- 4.1 Appreciating the spirit of MCCG requires a clear understanding of the following:
 - 4.1.1 The business case for embracing good corporate governance; and
 - 4.1.2 The principles of the MCCG and the intended outcomes of the practices.

4.1.1 THE BUSINESS CASE FOR GOOD CORPORATE GOVERNANCE

Good corporate governance practices instill in companies the required vision, processes and structures that ensure long-term sustainability. It is also critical to support good corporate citizenship, which is a commitment to ethical behaviour in business strategy, operations and culture. In today's globalised and interconnected world, investors, creditors and other stakeholders are increasingly recognising that environmental, social and governance considerations are integral to the company's performance and long-term sustainability.

Boards should therefore understand and incorporate these dimensions into their core decision-making processes to ensure that companies operate successfully and sustain growth.

The board should understand that the key principles of corporate governance such as effective controls, corporate culture grounded on ethical behaviour and transparency, can reduce risk, corruption and mismanagement.

4.1.2 UNDERSTANDING THE PRINCIPLES OF MCCG AND DESIRED OUTCOMES

To facilitate understanding of the principles and practices, the MCCG articulates the intended outcomes of each principle and its related practices. Guidance is also provided to assist in the application of the practices.

The board and management should play their part by, among others:

- Reading and understanding the MCCG, the *Bursa Malaysia Corporate Governance Guide*, the *CG Monitor report* and other supporting documents²;
- Seeking assistance if further guidance is required to understand the MCCG;
- Attending continuous professional development programmes to keep abreast with corporate governance developments; and
- Ensuring employees fully understand and appreciate the value of good corporate governance processes and procedures through training, awareness programmes and robust communication.

4.2 To build an environment that facilitates the comprehension of the MCCG, it is critical for stakeholders in the ecosystem, such as shareholders, professional bodies, corporate advisers, corporate governance advocates, media and the public, to appreciate the spirit and intention of the MCCG.

² *Corporate Disclosure Guide, Sustainability Reporting Guide, Statement on Risk Management and Internal Controls – Guidelines for Directors and Listed Issuers*, and other related documents.

'Apply'

- 5.1 Applying the principles and practices of the MCCG is not merely a matter of compliance *in form* with a set of rules. It is about meaningful application *in substance* of good corporate governance practices. This involves a mindset and culture change, moving away from a box-ticking approach to corporate governance.

Stakeholder confidence can only be strengthened if companies think seriously about the reasons for their existence, how they deliver on their purpose, and then explain, in their own words, how the company applies the principle and practices of the MCCG. Such transparency and honesty will support companies in building the trust of its stakeholders and potential investors.

*Updated
28/4/2021*

- 5.2 The MCCG adopts the **'apply or explain an alternative' approach** to promote a more meaningful application of good corporate governance practices.

- 5.3 Under this new approach, boards should apply the practices by taking into account the environment that their companies operate in, size and complexity of the business, and the nature of risks and challenges faced.

- 5.4 Where applicable, a listed company should advocate the adoption of the best practices in the MCCG by its subsidiaries, in order to promote a holistic adoption of corporate governance practices and culture within the group (a listed company and its subsidiaries).

*New
28/4/2021*

- 5.5 If the board finds that it is unable to implement any of the MCCG practices, the board should apply a suitable alternative practice to meet the **Intended Outcome**. For **Large Companies**, the board is also expected to disclose the measures they have taken or intend to take to enable them to adopt the MCCG practice(s), and the timeframe required.

- 5.6 The **Guidance** in the MCCG explains how the practices may be applied to achieve the **Intended Outcome**. The board should do its best to adhere to the **Guidance** when implementing the MCCG practices.
- 5.7 Companies are strongly encouraged to adopt the **Step Up** practice(s) and when they do, to disclose the application of these practices, to demonstrate their commitment to higher standards of corporate governance. The Step Up practices encourage companies to go further in achieving corporate governance excellence. All listed companies, irrespective of size are encouraged to adopt these practices in particular **Large Companies**.

*New
28/4/2021*

'Report'

- 6.1 Companies should view corporate governance disclosures as an opportunity to demonstrate to stakeholders that they have holistic and effective corporate governance arrangements. They should provide informative disclosure on their application of the MCCG practices.
- 6.2 Shareholders and potential investors require access to regular, reliable, comparable and integrated information for them to assess the stewardship of management, valuation of the company and the ownership structure. Thus, good corporate governance disclosure can, in the long run, help attract capital and maintain confidence in the capital market.

- 6.3 Companies must provide meaningful explanation on how it has applied each practice. Where there is a departure from a practice, the company must–
- provide an explanation for the departure; and
 - disclose the alternative practice it has adopted and how the alternative practice achieves the Intended Outcome.

In addition to the above, where Large Companies depart from a practice, they are also required to disclose–

- actions which they have taken or intend to take; and
- the timeframe required.

for them to achieve application of the prescribed practice.

In doing the above, companies must carefully consider and be closely guided by the **Guidance**.

- 6.4 Large Companies that depart from any of the practices are required to identify and disclose a reasonable timeframe for the adoption of the practice(s). A short timeframe will signify the commitment and seriousness of the board in adopting good corporate governance practices. A timeframe of three years or less would be considered as reasonable. Non-large companies with departures are also encouraged to adopt the practices within three years or less.

*Updated
28/4/2021*

Boards should disclose the justification for the identified timeframe and actions that it has or will take to adopt the said practice. Shareholders should also hold boards accountable to these commitments and seek explanation if these commitments are not met.

- 6.5 The standard for meaningful disclosure should not solely be what the board or management considers meaningful but what stakeholders, including shareholders consider informative and useful. Companies should carefully consider whether the disclosures would enable stakeholders to evaluate **how** the principles and practices of the MCCG have been applied.

*New
28/4/2021*

STRUCTURE

The structure of the MCCG is as follows:

Principles

The MCCG is based on three key principles of good corporate governance, which are–

- board leadership and effectiveness;
- effective audit and risk management; and
- integrity in corporate reporting and meaningful relationship with stakeholders.

Intended Outcome

The **Intended Outcome** provides companies with the line of sight on what they will achieve through the practices.

Practices

Practices are actions, procedures, or processes which companies are expected to adopt to achieve the **Intended Outcome**.

The **Practices** in the MCCG were crafted, taking into consideration the existing requirements in the law, *Bursa Malaysia Listing Requirements*, different sizes and complexities of Malaysian companies and global developments in corporate governance best practices.

The MCCG identifies practices for **Large Companies** in recognition of the size, business complexities as well as capacity of these companies to adopt the practices. While the practices were identified for Large Companies, mid-cap and small-cap companies are also encouraged to adopt them.

The introduction of the **Step Up** practices is meant to encourage all companies to go a step further in strengthening the corporate governance practices. All listed companies should aspire to achieve excellence in corporate governance, and are encouraged to adopt the **Step Up** practices, particularly **Large Companies**.

Guidance

The **Guidance** that follows each **Practice** serves to assist companies in applying the **Practice** to achieve the **Intended Outcome**.

PRINCIPLE A

BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

The board is collectively responsible for the long-term success of a company and the delivery of sustainable value to its stakeholders. In discharging its fiduciary duties and leadership functions, it is imperative for the board to govern and set the strategic direction of the company while exercising oversight on management. The board plays a critical role in setting the appropriate tone at the top, providing thought leadership and championing good governance and ethical practices throughout the company.

While the general roles and responsibilities of boards are well founded, the expectations on directors have evolved significantly owing to changes in the corporate, economic and social landscape. Directors are now expected to exercise greater vigilance and professional scepticism in understanding and shaping the strategic direction of the company.

Effective board leadership and oversight also require the integration of sustainability considerations in corporate strategy, governance and decision-making, as sustainability and its underlying environmental, social as well as governance (ESG) issues become increasingly material to the ability of companies to create durable and sustainable value and maintain confidence of their stakeholders. For companies to be resilient, boards need to take a much more holistic view of the business coupled with proactive and effective measures to anticipate and address material ESG risks and opportunities.

*Updated
28/4/2021*

Companies with a well-articulated long-term strategy, and a clear plan on sustainability including supporting the global transition to a net-zero economy, will distinguish themselves by building the confidence of their stakeholders, for example, consumers, investors, policymakers and regulators. However, boards and companies that are not prepared may see their businesses suffer, as these same stakeholders lose confidence in the ability of the company to adapt to shifts and changes in the global landscape.

Intended Outcome

1.0 Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice

- 1.1 The board should set the company's strategic aims, ensure that the necessary resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards, and ensure that its obligations to its shareholders and other stakeholders are understood and met.
- 1.2 A Chairman of the board who is responsible for instilling good corporate governance practices, leadership and effectiveness of the board is appointed.
- 1.3 The positions of Chairman and Chief Executive Officer (CEO) are held by different individuals.
- 1.4 The Chairman of the board should not be a member of the Audit Committee, Nomination Committee or Remuneration Committee.

*New
28/4/2021*

- 1.5 The board is supported by a suitably qualified and competent company secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.
- 1.6 Directors receive meeting materials, which are complete and accurate within a reasonable period prior to the meeting. Upon conclusion of the meeting, the minutes are circulated in a timely manner.

Guidance

- G1.1 All directors should objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the company. All directors must act with integrity, lead by example, keep abreast of his responsibilities as a director and of the conduct, business activities and development of the company.

*Updated
28/4/2021*

To enable the board to discharge its responsibilities in meeting the goals and objectives of the company, the board should–

- together with senior management, promote good corporate governance culture within the company which reinforces ethical, prudent and professional behaviour;
- review, challenge and decide on management’s proposals for the company, and monitor its implementation by management;
- ensure that the strategic plan of the company supports long-term value creation and includes strategies on economic, environmental and social considerations underpinning sustainability;
- supervise and assess management performance to determine whether the business is being properly managed;
- ensure there is a sound framework for internal controls and risk management;

- understand the principal risks of the company's business and recognise that business decisions involve the taking of appropriate risks;
- set the risk appetite within which the board expects management to operate and ensure that there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks;
- ensure that senior management has the necessary skills and experience, and there are measures in place to provide for the orderly succession of board and senior management;
- ensure that the company has in place procedures to enable effective communication with stakeholders;
- ensure that all its directors are able to understand financial statements and form a view on the information presented; and
- ensure the integrity of the company's financial and non-financial reporting. Courts have held that it is the duty of every director to read the financial statement of the company and carefully consider whether what they disclose is consistent with the director's own knowledge of the company's affairs.

G1.2 Key responsibilities of the Chairman include–

- providing leadership for the board so that the board can perform its responsibilities effectively;
- leading the board in the adoption and implementation of good corporate governance practices in the company.
- setting the board agenda and ensuring that directors receive complete and accurate information in a timely manner;

*Updated
28/4/2021*

- leading board meetings and discussions;
- encouraging active participation and allowing dissenting views to be freely expressed;
- managing the interface between board and management; and
- ensuring appropriate steps are taken to provide effective communication with stakeholders and that their views are communicated to the board as a whole.

Where the CEO or executive directors form part of the board, the non-executive directors are encouraged to meet among themselves at least annually to discuss among others strategic, governance and operational issues.

The SC has also found prolonged vacancy in the position of Chairman in several boards of listed companies, and for some, the chairperson of the board meeting is appointed at each meeting and the role is assumed by different directors. Such prolonged vacancy and inconsistency in the leadership of the board is against the principles of good corporate governance. The Chairman plays a critical role and one should be appointed to ensure there is accountability on the execution of the Chairman's role and the role of the board.

G1.3 Separation of the positions of the Chairman and CEO promotes accountability and facilitates the division of responsibilities between them. In this regard, no one individual can influence the board's discussions and decision-making. The responsibilities of the Chairman should include leading the board in its collective oversight of management, while the CEO focuses on the business and day-to-day management of the company. This division should be clearly defined in the board charter.

G1.4 Having the same person assume the positions of Chairman of the board, and Chairman of the Audit Committee, Nomination Committee or Remuneration Committee gives rise to the risk of self-review and may impair the objectivity of the Chairman and the board when deliberating on the observations and

*New
28/4/2021*

recommendations put forth by the board committees. Thus, the Chairman of the board should not be involved in these committees to ensure there is check and balance as well as objective review by the board.

G1.5 The responsibility of the company secretary has evolved from merely advising on administrative matters to advising boards on governance matters. The company secretary through the Chairman, plays an important role in good governance by helping the board and its committees function effectively and in accordance with their terms of reference and best practices.

The roles and responsibilities of a company secretary include, but are not limited to the following:

- Manage all board and committee meeting logistics, attend and record minutes of all board and committee meetings and facilitate board communications;
- Advise the board on its roles and responsibilities;
- Facilitate the orientation of new directors and assist in director training and development;
- Advise the board on corporate disclosures and compliance with company and securities regulations and listing requirements;
- Manage processes pertaining to the annual shareholder meeting;
- Monitor corporate governance developments and assist the board in applying corporate governance practices to meet the board's needs and stakeholders' expectations; and
- Serve as a focal point for stakeholders' communication and engagement on corporate governance issues.

A suitably qualified company secretary possesses the knowledge and experience to carry out his functions. These may include knowledge in company and securities law, finance, governance and other areas of compliance such as the listing requirements. The company secretary should undertake continuous professional development.

- G1.6 The Chairman should set the board meeting agenda, and ensure adequate time is allocated for discussion of issues tabled to the board for deliberation. Directors should receive information and materials required for the meeting at least five business days in advance of the board meeting. All directors should ensure that the minutes of meetings accurately reflect the deliberations and decisions of the board, including any dissenting views and if any director had abstained from voting or deliberating on a particular matter.

*Updated
28/4/2021*

The Chairman should also ensure that board committee meetings are not combined with the main board meeting. It has come to the SC's attention that certain companies have convened both the board meeting and the audit committee meeting together and thereafter prepared the minutes separately to give the impression that the meetings were held at different times.

Board committee meetings should be conducted separately from the board meeting to enable objective and independent discussion during the meeting. Particularly the Audit Committee under the Listing Requirements, must comprise non-executive directors, majority of whom are independent. Further, to form a quorum of an Audit Committee meeting, the majority of members present must be independent directors. The latter requirement may not be met, if the Audit Committee meeting is combined with the main board meeting, where there may executive directors present.

Intended Outcome

2.0 There is demarcation of responsibilities between the board, board committees and management.

There is clarity in the authority of the board, its committees and individual directors.

Practice

- 2.1 The board has a board charter which is periodically reviewed and published on the company's website. The board charter clearly identifies–
- the respective roles and responsibilities of the board, board committees, individual directors and management; and
 - issues and decisions reserved for the board.

Guidance

G2.1 In establishing a board charter, it is important for the board to set out the key values, principles and ethos of the company, as policies and strategy development are based on these considerations. The board charter should set out among others the governance structure, authority and terms of reference of the board, its committees and management.

While the board may appropriately delegate its authority to board committees or management, it should not abdicate its responsibility and should at all times exercise collective oversight of the board committees and management. The board should not delegate matters to a committee or management to an extent that would significantly hinder or reduce the board's ability to discharge its functions. Where the board delegates any of its responsibilities

it is encouraged to disclose the delegation of authority. Regular review of the division of responsibilities should be conducted to ensure that the company is able to adapt to changing business circumstances.

For individual directors, the board charter should outline what is expected from them in terms of their commitment, roles and responsibilities as directors. The charter also assists the board in the assessment of its own performance and that of its individual directors.

Where the board appoints a Senior Independent Director (SID), the role of the SID should also be explained in the board charter. This may include the SID acting as—

- a sounding board for the Chairman;
- an intermediary for other directors when necessary; and
- the point of contact for shareholders and other stakeholders.

Intended Outcome

3.0 The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

Practice

3.1 The board establishes a *Code of Conduct and Ethics* for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.

The *Code of Conduct and Ethics* is published on the company's website.

3.2 The board establishes, reviews and together with management implements policies and procedures on whistleblowing³.

Guidance

3.1 The board has the responsibility to set the tone and standards of the company through the *Code of Conduct and Ethics*. The *Code of Conduct and Ethics* should articulate acceptable practices and guide the behaviour of directors, management and employees. The policies of the *Code of Conduct and Ethics* should be integrated into company-wide management practices and be periodically reviewed.

³ Listed issuers are required under the Listing Requirements to establish policies and procedures on whistleblowing and anti-corruption.

The *Code of Conduct and Ethics* should describe measures put in place to–

- handle actual or potential conflict of interest;
- prevent corrupt practices which include the offering and acceptance of gifts and other form of benefits;
- encourage the reporting of unlawful or unethical behaviour;
- protect and ensure the proper use of the company's assets; and
- ensure compliance with laws, rules and regulations.

G3.2 The board should encourage employees to report genuine concerns in relation to breach of a legal obligation (including negligence, criminal activity, breach of contract and breach of law), miscarriage of justice, danger to health and safety or to the environment and the cover-up of any of these in the workplace.

The board should ensure that its whistleblowing policies set out avenues where legitimate concerns can be objectively investigated and addressed. Individuals should be able to raise concerns about illegal, unethical or questionable practices in confidence and without the risk of reprisal.

Intended Outcome

4.0 The company addresses sustainability risks and opportunities in an integrated and strategic manner to support its long-term strategy and success.

*New
28/4/2021*

Practice

4.1 The board together with management takes responsibility for the governance of sustainability in the company including setting the company's sustainability strategies, priorities and targets.

*New
28/4/2021*

The board takes into account sustainability considerations when exercising its duties including among others the development and implementation of company strategies, business plans, major plans of action and risk management.

Strategic management of material sustainability matters should be driven by senior management.

4.2 The board ensures that the company's sustainability strategies, priorities and targets as well as performance against these targets are communicated to its internal and external stakeholders.

*New
28/4/2021*

4.3 The board takes appropriate action to ensure they stay abreast with and understand the sustainability issues relevant to the company and its business, including climate-related risks and opportunities.

*New
28/4/2021*

4.4 Performance evaluations of the board and senior management include a review of the performance of the board and senior management in addressing the company's material sustainability risks and opportunities.

*New
28/4/2021*

Step Up

- 4.5 The board identifies a designated person within management, to provide dedicated focus to manage sustainability strategically, including the integration of sustainability considerations in the operations of the company.

New
28/4/2021

Guidance

- G4.1 The board should proactively consider sustainability issues when it oversees the planning, performance and long-term strategy of the company, to ensure the company remains resilient, is able to deliver durable and sustainable value as well as maintain the confidence of its stakeholders. The role of senior management is also critical, in integrating sustainability considerations in the day-to-day operations of the company and ensuring the effective implementation of the company's sustainability strategies and plans.

New
28/4/2021

The board and management should continuously engage and consider the views of its internal and external stakeholders to better understand and manage the company's sustainability risks and opportunities. Sustainability is increasingly being recognised as a material issue to the decision-making considerations of a company's stakeholders. Many institutional investors consider the integration of ESG factors in their investment decision-making process as part of their fiduciary responsibility and several have committed to using their votes to hold boards and senior management accountable for the management and oversight of sustainability.

Stakeholder expectations are heightening across various sustainability issues such as health and safety, data governance and privacy as well as climate action.

The global commitment and acceleration of efforts to transition to a net zero economy has also resulted in demand for greater action on the part of corporates. Thus, listed companies are also encouraged to evaluate their operations and set science based emissions reductions target to support cleaner and sustainable growth.

- G4.2 The company's sustainability strategies, priorities as well as targets and performance against these targets should be communicated to the internal and external stakeholders of the company. Employee awareness and understanding of the company's approach to sustainability ('what we do and why we do it') will keep them engaged on sustainability issues and support actions on sustainability across the company.

*New
28/4/2021*

External stakeholders should also remain informed through the appropriate means such as engagements and company disclosures. In preparing the latter, the board and senior management should consider, among others, the information which stakeholders require to assess the company's sustainability risks and opportunities, and ensure the information are disclosed, focusing on substance and not merely form. This includes how close (or far) is the company from achieving its targets, and actions the company has or will take to address any gaps.

- G4.3 The boards should have sufficient understanding and knowledge of sustainability issues that are relevant to the company and its business, to discharge its role effectively. A measure of whether a board has the required capacity and competency is its ability to tackle questions and deliberate on sustainability, as well as evaluate the sustainability risks and opportunities, and make informed decisions on the matter. To ensure the board is equipped and ready to execute its role, the board should identify its professional development needs concerning sustainability and ensure these are addressed. The board should also consider whether a change in its composition or of its skills matrix is required to strengthen board leadership and oversight of sustainability issues.

*New
28/4/2021*

G4.4 As addressing material sustainability risks and opportunities is the responsibility of the board and senior management, the performance evaluation of the board and senior management should consider how well the board and senior management have performed their respective roles. This may include, where applicable, progress against the achievement of sustainability targets. The performance evaluation should be conducted to promote accountability and identify issues that may require intervention by the board and/or senior management. Outcomes from the evaluations and next steps should also be shared with the company's shareholders.

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PRINCIPLE A

BOARD LEADERSHIP AND EFFECTIVENESS

II. Board Composition

Board composition influences the ability of the board to fulfil its oversight responsibilities. An effective board should include the right group of people, with an appropriate mix of skills, knowledge, experience and independent elements that fit the company's objectives and strategic goals. The right board composition will ensure sufficient diversity and independence to avert 'groupthink' or 'blind spots' in the decision-making process. It also enables the board to be better equipped to respond to challenges that may arise and deliver value.

Intended Outcome

5.0 Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice

- 5.1 The Nomination Committee should ensure that the composition of the board is refreshed periodically. The tenure of each director should be reviewed by the Nomination Committee and annual re-election of a director should be contingent on satisfactory evaluation of the director's performance and contribution to the board.
- 5.2 At least half of the board comprises independent directors. For **Large Companies**, the board comprises a majority independent directors.

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28/4/2021*

- 5.3 The tenure of an independent director does not exceed a 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.

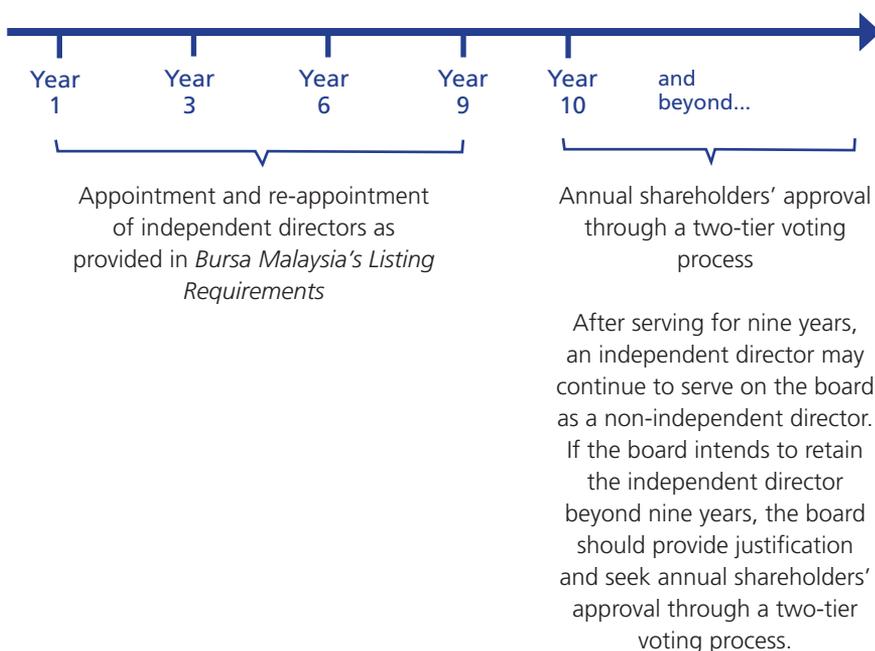
Updated
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If the board intends to retain an independent director beyond nine years, it should provide justification and seek annual shareholders' approval through a two-tier voting process.

Step Up

- 5.4 The board has a policy which limits the tenure of its independent directors to nine years without further extension.

APPOINTMENT OF AN INDEPENDENT DIRECTOR



- 5.5 Appointment of board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender⁴.

*Updated
28/4/2021*

Directors appointed should be able to devote the required time to serve the board effectively. The board should consider the existing board positions held by a director, including on boards of non-listed companies. Any appointment that may cast doubt on the integrity and governance of the company should be avoided.

- 5.6 In identifying candidates for appointment of directors, the board does not solely rely on recommendations from existing directors, management or major shareholders. The board utilises independent sources to identify suitably qualified candidates.

*Updated
28/4/2021*

If the selection of candidates was based on recommendations made by existing directors, management or major shareholders, the Nominating Committee should explain why these source(s) suffice and other sources were not used.

- 5.7 The board should ensure shareholders have the information they require to make an informed decision on the appointment and reappointment of a director⁵. This includes details of any interest, position or relationship that might influence, or reasonably be perceived to influence, in a material respect their capacity to bring an independent judgement to bear on issues before the board and to act in the best interests of the listed company as a whole. The board should also provide a statement as to whether it supports the appointment or reappointment of the candidate and the reasons why.

*New
28/4/2021*

⁴ Listed companies are required under the Listing Requirements to ensure that each of its directors have the character, experience, integrity, competence and time to discharge their role effectively.

⁵ Listed companies are required under the Listing Requirements to provide a statement accompanying notices of general meetings on details of individuals who are standing for election as directors. The information includes the name, age, gender, working experience and any conflict of interest as well as directorship in other companies.

- 5.8 The Nominating Committee is chaired by an independent director or the Senior Independent Director.
- 5.9 The board comprises at least 30% women directors. *New
28/4/2021*
- 5.10 The board discloses in its annual report the company's policy on gender diversity for the board and senior management. *Updated
28/4/2021*

Guidance

- G5.1 In appointing or reappointing a board member, the board should consider the current composition of the board and the tenure of each director on the board. The SC's review show that there are long serving independent non-executive directors, including Chairmen who have been in the same position for more than 40 years⁶. The board should review its composition and evaluate the need to bring new skills and perspective to the boardroom. *New
28/4/2021*
- G5.2 Board composition should support objective and independent deliberation, review and decision-making. A board comprising a majority of independent directors allows for more effective oversight of management.
- G5.3 In considering independence, it is necessary to focus not only on whether a director's background and current activities qualify him or her as independent but also whether the director can act independently of management.

Stakeholders are increasingly concerned about the potential negative impact that directors' long tenure may have on their independence. The long tenures of independent directors and familiarity may erode the board's objectivity. Due to long or close relationship with board and management, an independent director may be too sympathetic to their interests or too accepting of their work. There could also be occasions where an independent director may become a 'dependent' director due to prolonged insular recruitment processes and attractive remuneration packages and material benefits.

⁶ Source: SC. Data is as at 31 December 2020.

Large Companies are not encouraged to retain an independent director for a period of more than nine years.

To justify retaining an independent director beyond the term limit of nine years, the board should undertake a rigorous review to determine whether the 'independence' of the director has been impaired. Findings from the review should be disclosed to the shareholders for them to make an informed decision.

Two-tier Voting Process

For Practice 5.3, companies should use the two-tier voting process in seeking annual shareholders' approval to retain an independent director beyond nine years.

Under the two-tier voting process, shareholders' votes will be cast in the following manner at the same shareholders meeting:

- Tier 1: Only the **Large Shareholder(s)** of the company votes; and
- Tier 2: Shareholders other than **Large Shareholders** votes.

For the purposes of Practice 5.3, **Large Shareholder** means a person who–

- is entitled to exercise, or control the exercise of, not less than 33% of the voting shares in the company;
- is the largest shareholder of voting shares in the company;
- has the power to appoint or cause to be appointed a majority of the directors of the company; or
- has the power to make or cause to be made, decisions in respect of the business or administration of the company, and to give effect to such decisions or cause them to be given effect to.

The decision for the above resolution is determined based on the vote of Tier 1 and a simple majority of Tier 2. If there is more than one Large Shareholder, a simple majority of votes determine the outcome of the Tier 1 vote.

The resolution is deemed successful if both Tier 1 and Tier 2 votes support the resolution.

However, the resolution is deemed to be defeated where the vote between the two tiers differs or where Tier 1 voter(s) abstained from voting.

G5.5 There should be a formal, rigorous and transparent process for the appointment of directors (including reappointments) and senior management. The candidate selection process should be guided by clear criteria as required under the Listing Requirement⁷ and guidance in this Code. In evaluating the ability of a director to perform his role effectively, the board should consider among others whether a director is 'over stretched' in terms of his commitments to the board commitments, to meet the demands and expectations of the role.

*Updated
28/4/2021*

The board must also be mindful of the recommended best practices in relation to board appointments. In the case of State-owned Enterprises (SOE), the *OECD Guidelines on Corporate Governance of State Owned Enterprises* recommend that the SOE board composition should allow the exercise of objective and independent judgment. All board members including public officials, should be nominated based on qualifications and have equivalent legal responsibilities (Principle VII.C). Further, the Guidelines recommend that persons linked directly with the executive powers such as heads of state, heads of government and ministers, should not serve on boards as this would cast serious doubt on the independence of their judgment. Additionally, a listed company is discouraged from appointing an active politician⁸ as a director on its board.

⁷ Under the Listing Requirements, the board, CEO and Chief Financial Officer (CFO) must possess the character, experience, integrity, competence and time to effectively discharge their role effectively.

⁸ A person is considered politically active if he is a Member of Parliament, State Assemblyman or holds a position at the Supreme Council, or division level in a political party.

G5.6 The board should use a variety of approaches and sources to ensure that it is able to identify the most suitable candidates for board position. This may include sourcing from a directors' registry and open advertisements or the use of independent search firms.

Updated
28/4/2021

The company should disclose in its *Corporate Governance Report* (CG Report) how candidates for board positions were sourced, including, whether such candidates were recommended by the existing directors, members of senior management or major shareholders.

Individuals standing for election should also be transparent and make the necessary declaration to the board and shareholders on any existing or potential conflict of interest including whether they have a business, family or other special relationship within or outside of the company that could affect the execution of their role as directors on the board.

G5.7 The appointment and re-appointment of directors is a critical aspect of corporate governance, which has an impact on the leadership of companies. As such, shareholders should have the information they require to make an informed decision on these appointments. The information should be included in the notes accompanying the notice of the general meeting.

New
28/4/2021

G5.8 As chair of the Nominating Committee, the independent director or a Senior Independent Director shall–

Updated
28/4/2021

- lead the succession planning and appointment of directors, and oversee the development of a diverse pipeline for board and management succession, including the future Chairman, Executive Directors and CEO; and
- lead the annual review of board effectiveness, ensuring that the performance of each individual director and Chairman of the board are independently assessed.

G5.9 All boards should comprise at least 30% women directors. Numerous studies have proven the business case for board diversity, in particular the participation of women on boards. If the composition of women on a board is less than 30%, the board should disclose the action it has or will be taking to achieve 30% or more and the timeframe to achieve this. A reasonable timeframe is one that is three years or less.

New
28/4/2021

The board should also review the participation of women in senior management to ensure there is a healthy talent pipeline.

G5.10 The participation of women in decision-making positions should not be focused on board positions alone but should be broadened to include members of senior management as the same benefits apply. Thus, the board should establish gender diversity policies to support the participation of women on the board as well as senior management.

New
28/4/2021

The SC's review of corporate governance disclosures shows that gender diversity policies and disclosures relating thereto remain poor and vague. Boilerplate and generic statements are often used to describe the board's approach on diversity. Disclosing 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 concrete action numerical targets and a mechanism to track performance against these targets.

Intended Outcome

6.0 Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors.

Practice

6.1 The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out its outcome, actions taken and how it has or will influence board composition.

*Updated
28/4/2021*

For **Large Companies**, the board engages independent experts⁹ at least every three years, to facilitate objective and candid board evaluations

Guidance

G6.1 An objective and well-managed board evaluation process can lead to substantial improvement in board effectiveness, bringing significant benefits to the company. There are many ways in which board evaluations can be carried out such as through self-assessment, peer review, facilitated by the company secretary or an external facilitated independent board evaluation, with oversight of the entire process and methodology by the Nominating Committee. Given that every board is different and their needs, roles, priorities and capacities vary depending on the company's size and stage in its life cycle, a box-ticking approach to evaluation is ineffective and unacceptable.

*Updated
28/4/2021*

⁹ Independence in this context means no connection with the company, directors or major shareholders.

Further board evaluations should not focus entirely on historical assessment of directors' performance but also include forward looking considerations, such as mapping current board competencies against those required, to drive the company's future strategies. The board evaluation should also help determine the upskilling or development needs of individual directors or the board, collectively.

A board evaluation which is periodically facilitated by a professional, experienced and independent party will lend greater objectivity to the assessment by providing an unbiased perspective on a director's performance and his ability to contribute effectively to the board.

The annual assessment on individual directors should include an evaluation of their:

- Will and ability to critically challenge and ask the right questions;
- Character and integrity in dealing with potential conflict of interest situations;
- Commitment to serve the company, due diligence and integrity; and
- Confidence to stand up for a point of view.

In disclosing the evaluation carried out on effectiveness of the board, its committees and individual directors, the Nominating Committee should disclose the following information in its CG Report:

- How the evaluation was conducted, the criteria used such as the assessment of fit and properness, contribution and performance, calibre and personality of directors;
- Whether an independent expert was engaged, or was it internally facilitated;
- Key strengths and/or weaknesses that were identified from the evaluation;
- Steps or enhancements proposed to be undertaken to mitigate or address the weaknesses identified; and
- impact of the evaluation on board composition (if any).

Sparse and/or vague disclosures on the evaluation methodology and outcomes should be avoided.

PRINCIPLE A

BOARD LEADERSHIP AND EFFECTIVENESS

III. Remuneration

Directors' remuneration, which is well structured, clearly linked to the strategic objectives of a company, and which rewards contribution to the long-term success of the company is important in promoting business stability and growth. However, pay policies which do not appropriately link directors' remuneration to company strategy and performance can diminish shareholders' returns, weaken corporate governance and reduce public confidence in business.

Intended Outcome

7.0 The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

Practice

7.1 The board has remuneration policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The remuneration policies and practices should appropriately reflect the different roles and responsibilities of non-executive

*Updated
28/4/2021*

directors, executive directors and senior management. The policies and procedures are periodically reviewed and made available on the company's website.

- 7.2 The board has a Remuneration Committee to implement its remuneration policies and procedures including reviewing and recommending matters relating to the remuneration of board and senior management.

The Remuneration Committee has written Terms of Reference which deals with its authority and duties and these Terms are disclosed on the company's website.

Guidance

- G7.1 Fair remuneration is critical to attract, retain and motivate directors and senior management. The remuneration package should take into account the complexity of the company's business and the individual's responsibilities. In addition, the remuneration should also be aligned with the business strategy and long-term objectives of the company.

*Updated
28/4/2021*

In determining the appropriate level of remuneration for directors and senior management, the board should also take into consideration the company's performance in managing material sustainability risks and opportunities.

The remuneration and incentives for independent directors should not conflict with their obligation in bringing objectivity and independent judgment on matters discussed.

- G7.2 Establishing a Committee to assist the board in developing and administering a fair and transparent procedure for setting policy on remuneration of directors and senior management is important because this would ensure that remuneration packages are determined on the basis of the directors' and

*Updated
28/4/2021*

senior management's merit, qualification and competence, while having regard to the company's operating results, individual performance and comparable market statistics.

The Committee should only consist of non-executive directors and a majority of them must be independent directors, drawing advice from experts, if necessary.

Executive directors should not be involved in discussions to decide on their remuneration. Directors who are shareholders and controlling shareholders with a nominee or connected director on the board should also abstain from voting on the resolution to approve directors' fees at the general meeting.

For example, where an institutional investor is the controlling shareholder of the company and have a nominee director on the board, the institutional investor should voluntarily abstain from voting on the resolution to approve the remuneration of the director at the general meeting.

Listed companies are encouraged to table separate resolutions on the approval of the fees of each non-executive director.

Intended Outcome

8.0 Stakeholders are able to assess whether the remuneration of directors and senior management commensurates with their individual performance, taking into consideration the company's performance.

Practice

- 8.1 There is detailed disclosure on named basis of the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments¹⁰.
- 8.2 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.

Step Up

- 8.3 Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

¹⁰ Listed companies are required under the Listing Requirements to disclose annually the remuneration of all directors of the listed company (including the remuneration for services rendered to the listed company as a group) for the financial year on a named basis, stating the amount received or to be received from the listed company and on a group basis respectively. The disclosure must include the amount in each component of the remuneration (e.g. directors' fees, salaries, percentages, bonuses, commission, compensation for loss of office and benefits in kind based on an estimated money value) for each director.

Guidance

- G8.1 The detailed disclosure allows shareholders to make an informed decision when voting on the approval of directors' remuneration and to consider the appropriate remuneration package taking into account the responsibilities of the directors.
- G8.2 The disclosure of how the remuneration is measured allows stakeholders to understand the link between senior management remuneration and the company's performance. This will also enable stakeholders to determine whether the remuneration is fair and able to attract and retain talent.

PRINCIPLE B

EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Audit Committee

An effective Audit Committee can bring transparency, focus and independent judgment needed to oversee the financial reporting process. However, the ultimate responsibility for a company's financial reporting process rests with the full board.

The Audit Committee plays a key role in a company's governance structure. An independent Audit Committee is better positioned to rigorously challenge and ask probing questions on the company's financial reporting process, internal controls, risk management and governance.

The appropriate level of knowledge, skills, experience and commitment of its members is critical to the Audit Committee's ability to discharge its responsibilities effectively. A strong understanding of financial reporting process complemented with a wide range of diverse perspectives can significantly strengthen the quality of Audit Committee deliberations.

Intended Outcome

9.0 There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.

The company's financial statement is a reliable source of information.

Practice

- 9.1 The Chairman of the Audit Committee is not the Chairman of the board.
- 9.2 The Audit Committee has a policy that requires a former partner of the external audit firm of the listed company¹¹ to observe a cooling-off period of at least three years before being appointed as a member of the Audit Committee.
- 9.3 The Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor to safeguard the quality and reliability of audited financial statements.

*Updated
28/4/2021*

Step Up

- 9.4 The Audit Committee should comprise solely of independent directors.

¹¹ This applies to all former partners of the audit firm and/or the affiliate firm (including those providing advisory services, tax consulting etc.)

9.5 Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate, competent and are able to understand matters under the purview of the Audit Committee including the financial reporting process.

All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

Guidance

G9.1 The Chairman of the Audit Committee is responsible for ensuring the overall effectiveness and independence of the Committee. Having the positions of Chairman of the board and Chairman of the Audit Committee assumed by the same person may impair objectivity of the board's review of the Audit Committee's findings and recommendations.

The Chairman of the Audit Committee together with other members of the Audit Committee should ensure among others that–

- the Audit Committee is fully informed about significant matters related to the company's audit and its financial statements and addresses these matters;
- the Audit Committee appropriately communicates its insights, views and concerns about relevant transactions and events to internal and external auditors;
- Audit Committee's concerns on matters that may have an effect on the financial or audit of the company are communicated to the external auditor; and
- there is co-ordination between internal and external auditors.

G9.2 The cooling off period safeguards the independence of the audit by avoiding the potential threats which may arise when a former partner of the external audit firm is in a position to exert significant influence over the audit and preparation of the company's financial statements.

G9.3 In assessing the suitability, objectivity and independence of the external auditor the Audit Committee establishes policies and procedures that address among others:

Updated
28/4/2021

- The criteria to guide decisions on the appointment and re-appointment of the external auditor. The criteria should include an assessment of the competence, audit quality and resource capacity of the external auditor in relation to the audit. The assessment should also consider information presented in the *Annual Transparency Report* of the audit firm. If the audit firm is not required to issue an *Annual Transparency Report*¹², the Audit Committee is encouraged to engage the audit firm on matters typically covered in an *Annual Transparency Report* including the audit firm's governance and leadership structure as well as measures undertaken by the firm to uphold audit quality and manage risks;
- The appropriateness of audit fees to support a quality audit;
- Requirement for non-audit services to be approved by the Audit Committee before they are rendered by the external auditor and its affiliates while taking into account the nature and extent of the non-audit services and the appropriateness of the level of fees. The Audit Committee should avoid situations where the audit firm inadvertently assumes the responsibilities of management in the course of providing non-audit services. Such a situation may be a breach of the independence requirements on the part of the audit firm; and

¹² 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*. For other AOB-registered audit firms that do not meet the above criteria, they are encouraged to issue an *Annual Transparency Report*.

- Requirement to obtain written assurance from the external auditor confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements; and
- The conduct of an annual evaluation on the performance of the external auditor and undertaking follow-up measures, where required.

G9.5 The Audit Committee members are expected to be financially literate and have sufficient understanding of the company's business. This would enable them to continuously apply a critical and probing view on the company's financial reporting process, transactions and other financial information, and effectively challenge management's assertions on the company's financials.

The Audit Committee should demonstrate an appropriate level of vigilance and scepticism towards, among others, detection of any financial anomalies or irregularities in the financial statements.

Where there are significant matters requiring judgement, the Audit Committee should ask probing questions to ascertain whether the financial statements are consistent with operational and other information known.

The Audit Committee should review and provide advice on whether the financial statements taken as a whole provide a true and fair view of the company's financial position and performance.

PRINCIPLE B

EFFECTIVE AUDIT AND RISK MANAGEMENT

II. Risk Management and Internal Control Framework

Proper risk management and internal control are important aspects of a company's governance, management and operations. Risk management focuses on identifying threats and opportunities while internal control helps counter threats and takes advantage of opportunities. Proper risk management and internal control assist companies in making informed decisions about the level of risk that they want to take and implement the necessary controls to effectively pursue their objectives. Successful companies integrate effective governance structures and processes with performance-focused risk management and internal control at every level of the company and across all operations.

The board of directors is responsible for the company's risk management and internal control systems. It should set appropriate policies on internal control and seek assurance that the systems are functioning effectively. The board must also ensure that the system of internal control manages risks and forms part of its corporate culture.

Intended Outcome

10.0 Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice

- 10.1 The board should establish an effective risk management and internal control framework.¹³
- 10.2 The board should disclose the features of its risk management and internal control framework, and the adequacy and effectiveness of this framework.

Step Up

- 10.3 The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.

Guidance

- G10.1 The board should determine the company's level of risk tolerance and actively identify, assess and monitor key business risks to safeguard shareholders' investments and the company's assets. Internal controls are important for risk management and the board should be committed to articulating, implementing and reviewing the company's internal control framework.

¹³ See also Guidance 1.1.

G10.2 The board should, in its disclosure, include a discussion on how key risk areas such as finance, operations, regulatory compliance, reputation, cyber security and sustainability were evaluated and the controls in place to mitigate or manage those risks. In addition, it should state if the risk management framework adopted by the company is based on an internationally recognised risk management framework.

The board should also disclose whether it has conducted an annual review and periodic testing of the company's internal control and risk management framework. This should include any insights it has gained from the review and any changes made to its internal control and risk management framework arising from the review. Where information is commercially sensitive and may give rise to competitive risk, disclosure in general terms is acceptable.

Intended Outcome

11.0 Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

Practice

- 11.1 The Audit Committee should ensure that the internal audit function is effective and able to function independently.
- 11.2 The board should disclose–
- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
 - the number of resources in the internal audit department;
 - name and qualification of the person responsible for internal audit; and
 - whether the internal audit function is carried out in accordance with a recognised framework.

Guidance

- G11.1 An internal audit function helps a company to accomplish its goals by bringing an objective and disciplined approach to evaluate and improve the effectiveness of risk management, internal control, anti-corruption, whistleblowing and governance processes. This function serves as an important source of advice for the Audit Committee and the board concerning areas of weaknesses or deficiencies in internal processes to facilitate appropriate remedial measures by the company.

*Updated
28/4/2021*

Internal audit should be carried out objectively and is independent from the management of the company and the functions which it audits. Thus, the person responsible for the internal audit reports must directly to the Audit Committee.

The Audit Committee should also decide on among others the–

- appointment and removal;
- scope of work;
- performance evaluation; and
- budget;

for the internal audit function.

In developing the scope of the internal audit function, the Audit Committee should satisfy itself that–

- the person responsible for internal audit has relevant experience, sufficient standing and authority to enable him to discharge his functions effectively;
- internal audit has sufficient resources and is able to access information to enable it to carry out its role effectively; and
- the personnel assigned to undertake internal audit have the necessary competency, experience and resources to carry out the function effectively.

Internal auditors should continuously keep abreast with developments in the profession, relevant industry and regulations to ensure they are able to perform their role effectively including undertaking root-cause analysis to provide strategic advice and suggest meaningful business improvements.

PRINCIPLE C

INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

I. Engagement with Stakeholders

Ongoing engagement and communication with stakeholders build trust and understanding between the company and its stakeholders. It provides stakeholders a better appreciation of the company's objectives and the quality of its management. This in turn will assist stakeholders in evaluating the company and facilitate shareholders to determine how their votes should be exercised. From the company's perspective, it provides an avenue for invaluable feedback that can be used to understand stakeholders' expectations and develop business strategies.

Intended Outcome

12.0 There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

Practice

- 12.1 The board ensures there is effective, transparent and regular communication with its stakeholders.
- 12.2 Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

Guidance

- G12.1 Dialogue with stakeholders is a necessary and beneficial process as it enables companies to understand and address stakeholders' concerns when making decisions.

*Updated
28/4/2021*

The board should undertake active engagements with the relevant stakeholders for example employees, shareholders, potential investors, and consumers to gain a better understanding of the expectations and concerns (if any) of these stakeholders and the company's impact on them.

Communication with stakeholders can be achieved through various means, including–

- establishing an investor relations function;
- conducting engagement forums;
- organising investor, analyst and media briefings; and
- use of electronic means (website, social media, mobile applications etc).

Companies should also establish channels for stakeholders to provide their views and feedback including complaints. The communication channel should be available at all times and companies should acknowledge and address stakeholders' views, feedback or complaints appropriately.

G12.2 An integrated report is the main report from which all other detailed information flows, such as annual financial statements, governance and sustainability reports. It is a concise communication about how a company's strategy, performance, governance and prospects lead to value creation. An integrated report improves the quality of information available to investors and promotes greater transparency and accountability on the part of the company.

The preparation of this report requires integrated thinking of the relationship between its various operating and functional units, thus breaking down internal silos and reducing duplication.

PRINCIPLE C

INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

II. Conduct of General Meetings

General meetings are important platforms for directors and senior management to engage shareholders to facilitate greater understanding of the company's business, governance and performance. General meetings enable and support shareholders in exercising their ownership rights and expressing their views to the board and senior management on any areas of concerns.

Shareholders should exercise their rights to ask questions, provide views and vote at general meetings. The company should also leverage technology to facilitate greater shareholder's participation and enhance the proceedings of general meetings.

Intended Outcome

13.0 Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at general meetings.

Practice

- 13.1 Notice for an Annual General Meeting should be given to the shareholders at least 28 days prior to the meeting.
- 13.2 All directors attend general meetings. The Chair of the Audit, Nominating, Risk Management and other committees provide meaningful response to questions addressed to them.

- 13.3 Listed companies should leverage technology to facilitate– *Updated
28/4/2021*
- voting including voting in absentia¹⁴; and
 - remote shareholders’ participation at general meetings.
- Listed companies should also take the necessary steps to ensure good cyber hygiene practices are in place including data privacy and security to prevent cyber threats.
- 13.4 The Chairman of the board should ensure that general meetings support meaningful engagement between the board, senior management and shareholders. The engagement should be interactive and include robust discussion on among others the company’s financial and non-financial performance as well as the company’s long-term strategies. Shareholders should also be provided with sufficient opportunity to pose questions during the general meeting and all the questions should receive a meaningful response. *New
28/4/2021*
- 13.5 The board must ensure that the conduct of a virtual general meeting (fully virtual or hybrid) support meaningful engagement between the board, senior management and shareholders. This includes having in place the required infrastructure and tools to support among others, a smooth broadcast of the general meeting and interactive participation by shareholders. Questions posed by shareholders should be made visible to all meeting participants during the meeting itself. *New
28/4/2021*
- 13.6 Minutes of the general meeting should be circulated to shareholders no later than 30 business days after the general meeting. *New
28/4/2021*

¹⁴ Shareholders exercising their voting rights without being physically present at the general meeting.

Guidance

G13.1 The board should ensure that shareholders are given sufficient notice and time to consider the resolutions that will be discussed and decided at the General Meeting. The notice should provide further explanation beyond the minimum content stipulated in the Listing Requirements for the resolution proposed to enable shareholders to make an informed decision when exercising their voting rights. The notice should include details of the resolutions proposed along with any background information and reports or recommendations that are relevant.

G13.2 Presence of all directors will provide opportunity for shareholders to effectively engage each director. Having the chair of board committees present facilitates these conversations and allows shareholders to raise questions and concerns directly to those responsible.

G13.3 The board should take proactive measures to ensure that shareholders are able to participate at general meetings effectively. In facilitating greater shareholder participation, it is important for the company to consider leveraging technology to facilitate electronic voting and remote shareholder participation.

*Updated
28/4/2021*

Companies that utilise electronic voting stand to gain from–

- more accurate and transparent voting results;
- shorter turnaround time for declaration of results;
- making voting more accessible even for the disabled;
- reduce administrative cost and paper work; and
- remove the need for physical ballot papers.

G13.4 A general meeting is an important platform for interaction between a company and its shareholders. The board, particularly the Chairman should ensure that shareholders have the opportunity to participate in these meetings effectively; including having access to information they require to participate in discussions and cast informed votes. Sufficient opportunity should be provided for shareholders to pose questions during the general meeting and the responses to these questions should be provided during the meeting to

*New
28/4/2021*

enable all meeting participants to stay informed. The board should also establish a channel where shareholders can continue to share feedback and questions outside of the general meeting and receive the appropriate response. If time does not permit for further discussions during the general meeting, the board should leverage such channel to communicate with the shareholders.

G13.5 The board and the Chairman should ensure that the conduct of a virtual general meeting supports meaningful engagement between the board, senior management and shareholders. The required preparation and measures should be taken to ensure a seamless experience for shareholders, with those participating remotely (online) feeling as much as possible like they are in a physical meeting – a one-way monologue by the board should be avoided. Thus, it is important to provide the opportunity for shareholders to have real-time interaction with the board and senior management, including responses to any questions or remarks posed.

*New
28/4/2021*

G13.6 Listed companies should circulate to shareholders the complete minutes of the general meeting detailing the meeting proceedings including issues or concerns raised by shareholders and responses by the company¹⁵ no later than 30 business days after the completion of the general meeting.

*New
28/4/2021*

¹⁵ Listed companies are required by the Listing Requirements to publish a summary of the key matters discussed at the annual general meeting, as soon as practicable after the conclusion of the annual general meeting.

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