



Suruhanjaya Sekuriti
Securities Commission
Malaysia



CORPORATE GOVERNANCE MONITOR 2021

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This report should be read together with the 2017 and 2021 editions of the *Malaysian Code on Corporate Governance* (MCCG).

Data and observations on the adoption of the MCCG and the quality of corporate governance disclosures are based on the disclosures in the Corporate Governance Reports (CG Reports) of listed companies for financial year ending 2020 on the adoption of the 2017 edition of the MCCG.

DATA COVERAGE

A total of 892 listed companies were scheduled to issue their CG Reports for financial year ending 2020. Only 864 CG Reports were eventually issued between March 2020 and July 2021. The remaining 28 CG reports were not issued due to either, a change in the companies' financial year, delisting or suspension. Seven companies that were newly listed in 2020 also issued their CG Reports in the same year.

GLOSSARY

Corporate Governance Report	Under Paragraph 15.25(2) of the Bursa Malaysia Listing Requirements, a listed issuer is required to disclose the application of each practice set out in the MCCG during the financial year. The report must be announced together with the announcement of the company's annual report.
Independent director	means a director who is independent of the management and free from any business or other relationship, which could interfere with the exercise of independent judgement or the ability to act in the best interests of the listed company. (Refer to Chapter 1 and <i>Practice Note 13 of the Bursa Malaysia Main Market Listing Requirements</i>).
Institutional investors	refers to the definition of institutional investors in the <i>Malaysian Code for Institutional Investors</i> .
Large companies/issuers	companies or issuers 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.
Large shareholder	means a person who – <ul style="list-style-type: none">• 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.
Listed company/PLC	refers to a public-listed company (PLC) listed on the Main Market and ACE Market of Bursa Malaysia Bhd.
Listing Requirements	refers to <i>Bursa Malaysia Listing Requirements</i> .
Mid-cap companies/issuers	companies or issuers with market capitalisation of between RM1 billion to RM2 billion.
Small-cap companies/issuers	companies or issuers with market capitalisation of below RM1 billion.

Step Up practice

A Step Up practice is meant to encourage companies to go a step further in strengthening their corporate governance practices. For example, the MCCG recommends boards to disclose the top five senior management remuneration in bands of RM50,000 (Practice 8.2) but if companies would like to excel further, the MCCG also recommends Step Up practice 8.3 which encourages companies to fully disclose the detailed remuneration of each member of senior management on a named basis.

Two-tier voting

refers to a voting process to decide on the retention of a long-serving independent director with tenure of more than 9 years. Under the two-tier voting process, shareholders' votes will be cast in two tiers; Tier 1 where only the Large Shareholder(s) of the company votes, and Tier 2 where shareholders other than Large Shareholders. The outcome of the 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 will determine the outcome of the Tier 1 vote. The resolution is passed if both Tier 1 and Tier 2 votes support the resolution. However, the resolution is deemed to be defeated if the vote between the two tiers differs or where Tier 1 voter(s) abstained from voting.

EXECUTIVE SUMMARY

The *Corporate Governance Monitor 2021* (CG Monitor 2021) presents an update on the adoption of 2017 edition of the MCCG and the quality of corporate governance disclosures. This year's edition of the report also features findings from the SC's inaugural Chairman Survey 2021, as well as thematic reviews on the sustainability disclosures of listed companies and the demographics of Audit Committees by the SC's Audit Oversight Board (AOB).

In 2020, improvements were recorded in the overall adoption of the MCCG. Out of the 36 best practices, 24 had the adoption levels of at least 90%, i.e. at least 90% of listed companies have adopted the practice (2019: 23 best practices). However, the adoption levels of the Step Up practices remained among the lowest compared to other best practices in the MCCG. Some of the observations on the adoption of the MCCG in 2020 are:

New Adopters of Step Up Practices

- 79% of listed companies have adopted at least one Step Up practice (2019: 78%)
- 66 listed companies adopted their first Step Up practice in 2020 (2019: 112 listed companies)
- All of the best practices under Principle C on Effective Audit and Risk Management have adoption levels of at least 90%, except for the following Step Up practices under Principle C:
 - Step Up practice 8.4 – that the Audit Committee should comprise solely of independent directors; and
 - Step Up practice 9.3 – that the board should establish a Risk Management Committee.

The above practices have adoption levels of 70% and 29% respectively. While the adoption level for Step Up practice 9.3 is relatively low compared to other practices in the MCCG, it recorded the highest number of new adopters, with 63 listed companies in 2020 compared to the other Step Up practices (see Chapter 1: Adoption).

Gender Diversity on Boards¹

- There is marginal improvement in relation to gender diversity on boards. Women hold 17.7% of board positions across all listed companies (2020: 17.5%), and on the top 100 listed companies, 25.5% (2020: 25.1%).
- Data shows that there is a risk of progress plateauing. Since 2019 the percentage of board positions held by women have hovered around 17% overall and 25% for the top 100 listed companies.
- 162 listed companies (2020: 165) have 30% or more women on the boards, out of which, 37 are among the top 100 listed companies.

¹ Data as of 1 October 2021.

Disclosure of Senior Management Remuneration

- An additional 44 listed companies disclosed the top five senior management remuneration in bands of RM50,000 on a named basis (Step Up practice 7.2), out of which, 34 are small-cap companies. This brings the total listed companies that adopted the practice to 146 listed companies (2019: 122 listed companies).
- However, the detailed disclosure of senior management remuneration on a named basis (Step Up practice 7.3) remained the lowest among the practices in the MCCG, with only 5% of listed companies adopting the practice. Only nine new adopters were recorded in 2020.

New Adopters of the Two-Tier Voting Process in 2020

- 36 listed companies used the two-tier voting process for the first time in 2020 (2019: 41 listed companies).
- 24 listed companies used the two-tier voting process² to decide on the retention of independent directors with tenure between 9 and 11 years (2019: 4 listed companies).

Thematic Review 1 – Board Priorities 2022 and Board Dynamics

In August 2021, the SC, in collaboration with the ICDM, conducted the inaugural Chairman Survey to gain insights on board priorities in 2022 and the state of board dynamics from the perspective of the Chairman. The survey gathered responses from 325 Chairmen of listed companies. Among the highlights from the responses include:

- Ensuring business continuity and resilience, managing COVID-19 related risks as well as people management and well-being are the top three priorities for boards in 2022.
- A refresh or change of current board composition is required to strengthen board skills related to innovation and technology, as well as sustainability.
- Majority of the Chairmen highlighted that the boards, which they lead set a strong and positive tone from the top in relation to good corporate governance.
- 58% of respondents rated themselves as 'Good' when asked to self-evaluate their effectiveness as a Chairman (23 respondents rated themselves as 'exceptional', 23 as 'Average', and nine as 'Below Average'). Most Chairmen highlighted that they would like to be more efficient and effective in leading board meetings and ensuring the meetings are productive.

² In the 2017 edition of the MCCG, the two-tier voting process was recommended to decide on the retention of independent directors with tenure of more than 12 years. The practice was updated in 2021, recommending companies that the voting process is used to decide on the retention of independent directors with tenure of more than 9 years.

Thematic Review 2 – Observations on Sustainability Disclosures of Listed Companies

In early 2021, the SC reviewed the sustainability reports of 30 large listed companies and 10 mid and small-cap companies that collectively represented 59.5% of the total market capitalisation on Bursa Malaysia (as of 4 January 2021). Among the findings from the review include:

- Out of the 40 companies, 12 issued standalone sustainability reports, while the remaining companies incorporated information on sustainability in the annual report itself.
- More than half of the companies (23 listed companies) disclosed that the companies' sustainability report was prepared based on the Global Reporting Initiative Framework. Some listed companies were also guided by the International Integrated Reporting Framework.
- A common observation for the reports was the opportunity to improve readers' experience, including ease of navigating through the disclosure.
- Occupational safety and health is the most common matter identified as material by companies, which is expected given the challenges arising from the COVID-19 pandemic.

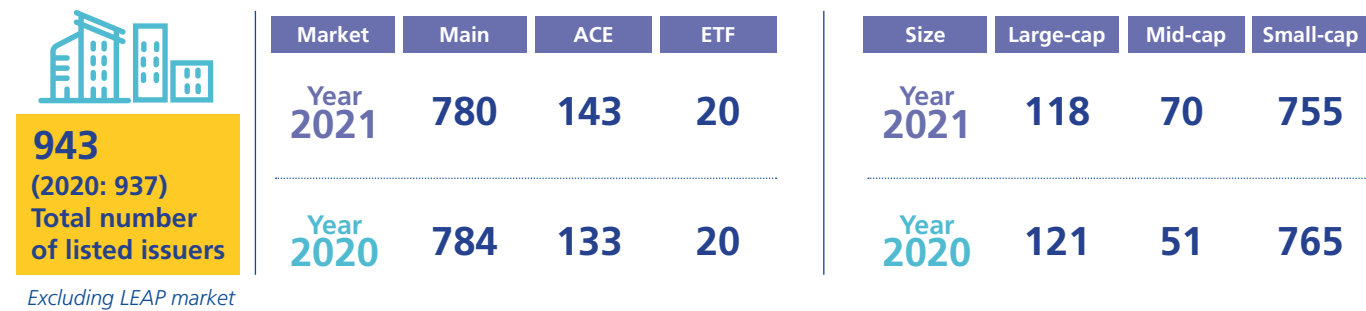
Thematic Review 3 – Demographics of Audit Committees of Listed Companies

This thematic review presents observations on the demographics of Audit Committees of listed companies on Bursa Malaysia, in terms of board composition, diversity, tenure, as well as technical and capabilities of Audit Committee members. Among the information highlighted in the review include:

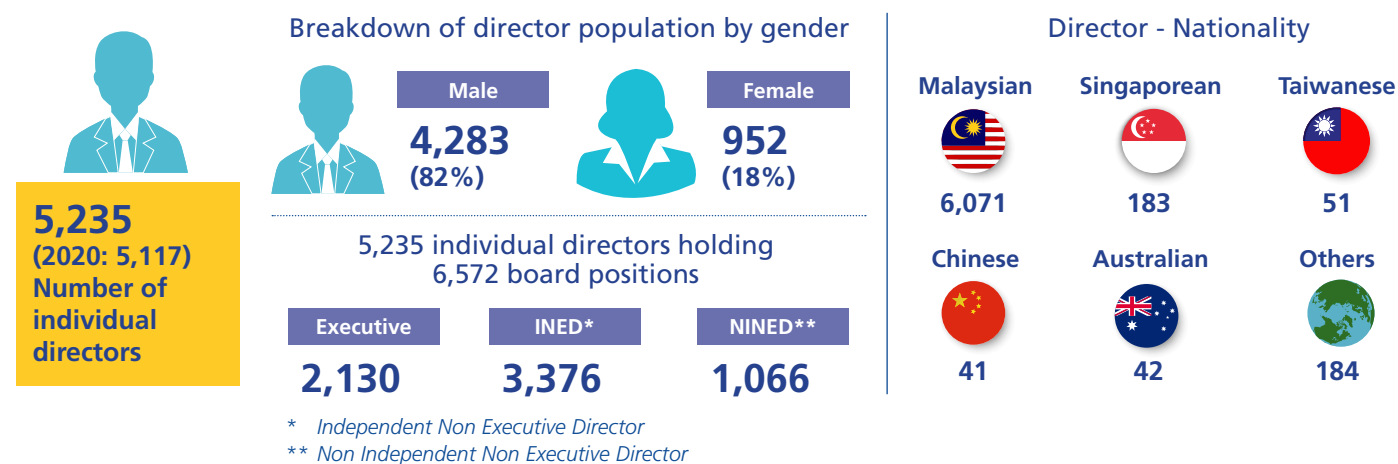
- Typically at least half of the directors on the board of a listed company are also members of the Audit Committee. The average size of an Audit Committee is four directors.
- The longest tenure of an independent director is currently 34 years. On average, a relatively shorter committee tenure is recorded for a member of the Audit Committee, at three years, with the majority of Audit Committee members serving less than nine years.
- Currently, the longest-serving Audit Committee Chair has been in the position for 21 years.
- Only 15.9% of Audit Committee members are women.

01 KEY HIGHLIGHTS

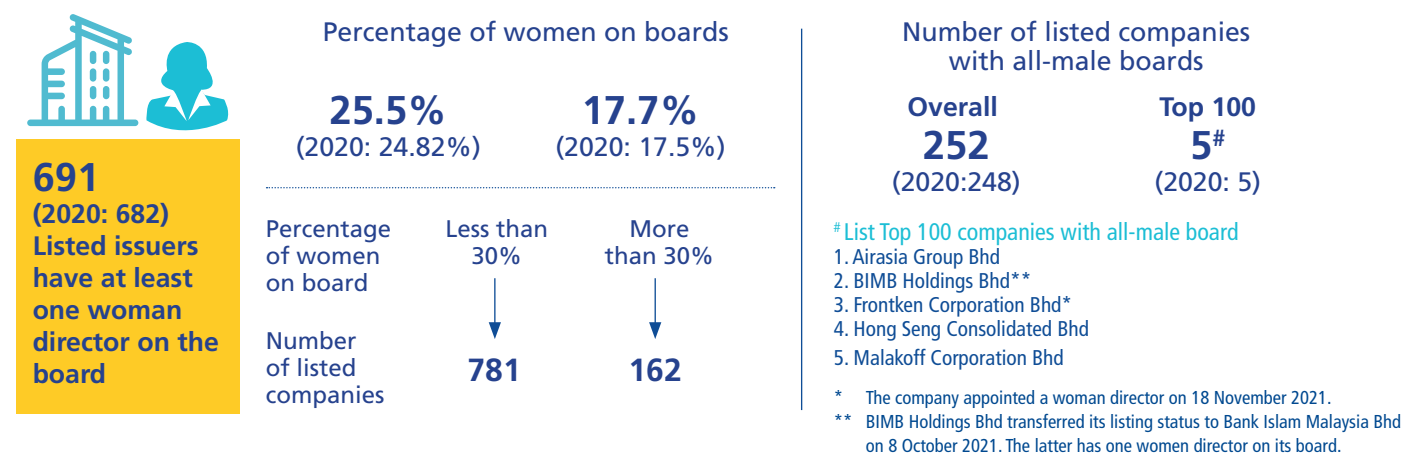
Landscape of listed issuers¹



Landscape of boards and directors¹



Gender diversity on boards¹



¹ As of 1 October 2021

MCCG adoption

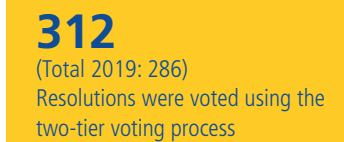
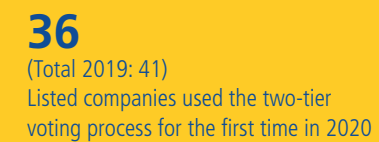


Call to Action

Practices with low adoption levels and require action by boards and shareholders



Two-tier voting



THEMATIC REVIEW - HIGHLIGHTS

Chairman survey 2021

Total respondents - 325 Chairmen of listed companies

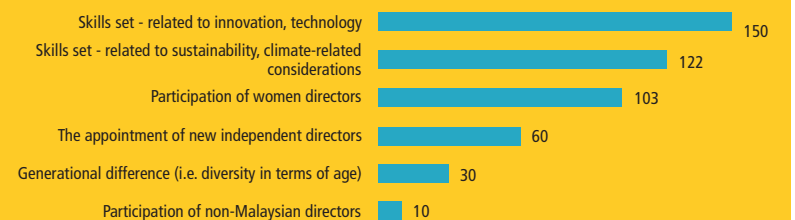


The Chairman Survey 2021 was conducted by the SC in collaboration with the ICDM

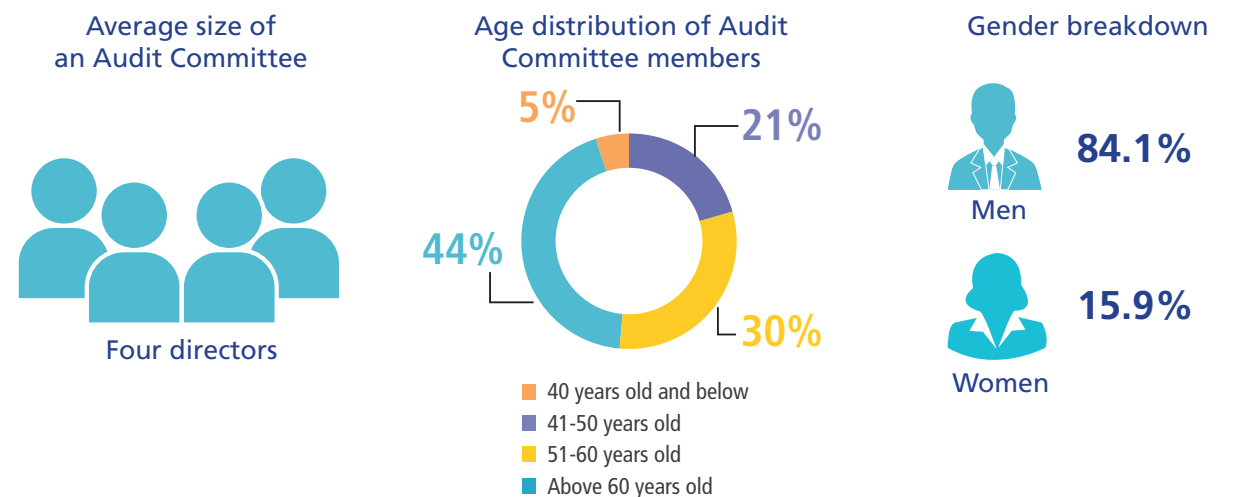
91%

Chairmen are of the view that current board composition is optimal.

Which aspects of the current board composition can be improved?



Demographics of Audit Committees



The statistics and observations on the adoption of the MCCG (2017 edition) are based on disclosures in 871 CG Reports 2020 that were issued by listed companies for financial year ending 2020. Out of the 36 best practices in the MCCG, 24 practices (2019: 23 practices) have adoption levels of at least 90%, i.e. at least 90% listed companies have adopted the practice.

All of the best practices under Principle C on Effective Audit and Risk Management have adoption levels of at least 90%, except for the following Step Up practices under Principle C:

- Step Up practice 8.4 – that the Audit Committee comprises solely of independent directors; and
- Step Up practice 9.3 – that the board should establish a Risk Management Committee.

These practices have adoption levels of 70% and 29% respectively. While the adoption level for Step Up practice 9.3 is relatively low, it recorded the highest number of new adopters in 2020 compared to the other Step Up practices (see Table 1).

Call to Action

The SC would like to highlight the **disclosure of senior management remuneration and the setting of board gender diversity policies and targets** as a 'call to action' for listed companies that have yet to adopt these practices to take the necessary action. The SC also strongly encourages shareholders to engage boards on the adoption of these practices, which continue to have among the lowest levels of adoption compared to other practices in the MCCG.

Boards should provide information on senior management remuneration to enable among others, evaluation of whether the remuneration is fair and commensurates with the performance of the individual as well as the company. In markets such as the UK, company disclosures have gone beyond the remuneration amount to also include information such as the financial as well as non-financial KPIs which are used to determine the remuneration as well as discussion on how the KPIs and remuneration are aligned with the company's purpose, strategies and goals.

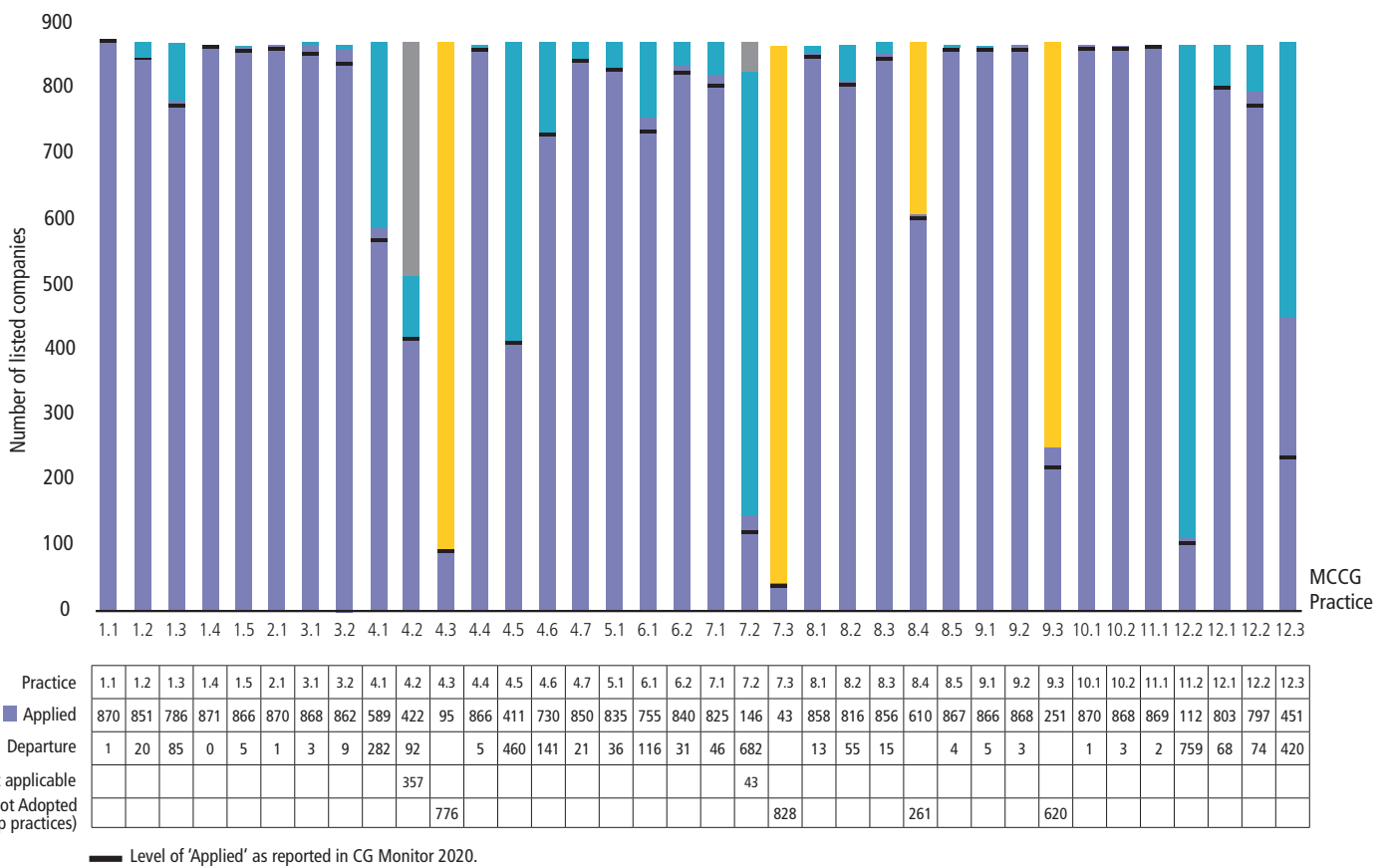
There also appears to be inertia on some boards which still consider gender diversity as a 'nice to have' while some have maintained all-male boards. These issues should be on the agenda of shareholders-board engagements, with a view to drive the adoption of these practices and improve board diversity with regards to the participation of women on boards.

Further observations on these practices are provided in the following sections of this Chapter.

A OVERALL LEVEL OF ADOPTION

The adoption and departure levels across all MCCG best practices in 2020 are presented in Chart 1. The bars reflect the adoption and departure levels as of 31 December 2020, while the black indicators in each bar mark the level of adoption as of 31 December 2019 (reported in CG Monitor 2020). Majority of the practices recorded an increase in the adoption level, however, as reflected by the yellow bars, which represent the departures for Step Up practices, there is still much room for improvement.

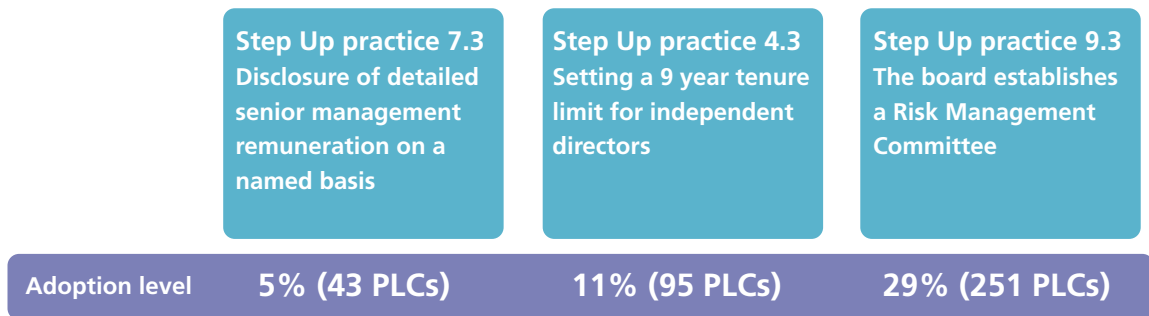
Chart 1
Status of MCCG adoption (2020 and 2019)



B

BEST PRACTICES WITH THE LOWEST ADOPTION LEVELS

Overall, the following Step Up practices continue to record the lowest adoption levels as low as only 5% by listed companies. Section B of this Chapter highlights the adoption of Step Up practices, observations, and the imperatives for adoption.



Apart from the Step Up practices, two other practices in the MCCG, i.e. Practice 4.5¹ (gender diversity on boards) and Practice 7.2² (disclosure of top five senior management remuneration on a named basis and in bands of RM50,000) recorded adoption levels of less than 50% of listed companies. Observations on these practices are highlighted in the following sections.

Practice 4.5

It is disappointing to find that a large number of listed companies still depart from Practice 4.5 which recommends that the board discloses in its annual report, the company's policies on gender diversity, its targets and measures to meet those targets. A number of the companies that reported departure from Practice 4.5 explained that the company appoints directors based on merit, and does not discriminate based on gender.

The SC would like to emphasise that boards are expected to ensure that any individual appointed to the board (regardless of gender) is appointed based on merit and possesses the skills and experience required for the position. **Setting a gender diversity policy and target does not dilute this expectation.** Moreover, boards should recognise that gender is a critical aspect of board diversity, alongside other factors such as skills, experience, age, and nationality.

Listed companies are reminded that it is mandatory to disclose the company's policy on board composition having regard to the mix of skills, independence and diversity (including gender diversity) required to meet the needs of listed companies³. Failure to consider gender diversity and disclose company policy in relation to it may constitute a breach of the Listing Requirements.

¹ Practice 4.5 – The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

² Practice 7.2 – The board discloses on a named basis, the top five senior management's remuneration components, including salary, bonus, benefits-in-kind, and other emoluments in bands of RM50,000.

³ Paragraph 15.08A (3)(a), *Bursa Malaysia Main Market Listing Requirements*.

Practice 7.2

It is encouraging that in 2020, an additional 44 listed companies disclosed the top five senior management remuneration in bands of RM50,000 (Practice 7.2), out of which, 34 are small cap companies. This is an improvement as there were only 10 new adopters recorded in 2019. The total number of listed companies that adopted Step Up practice 7.2 is 146 (2019: 122 listed companies). From the 122 listed companies that reported adoption in 2019; three have been delisted, four changed the company's financial year-end and did not issue a CG Report in 2020. The following six companies that adopted the practice in previous years, did not continue to do so in 2020:

1. Eco World International Bhd
2. Sime Darby Plantation Bhd
3. G3 Global Bhd
4. Tien Wah Press Holdings Bhd
5. Majuperak Holdings Bhd
6. Eco World Development Group Bhd

The common justification provided for the departure is to maintain the privacy of senior management personnel, concerns on talent retention and poaching in a competitive market for talent as well as personnel safety and security. A few of these companies provided an alternative practice to disclose the remuneration of the top five senior management personnel in bands of RM50,000 but not on a named basis, e.g. RM50,000 – RM100,000 (two individuals) with one company adopting the same approach but using a higher band of RM250,000.

While the SC acknowledges the concerns highlighted by these companies, boards should strive to enhance transparency on the remuneration of senior management to facilitate, among others, stakeholders' assessment of whether remuneration received by these individuals is fair, taking into consideration the individual's responsibilities, performance against set targets, the company's financial and non-financial performance. A few companies attempted to justify their departure by arguing that the non-disclosure of senior management remuneration would not affect stakeholders' evaluation on the governance of the company. On the contrary, transparency and clear explanation on the link between pay and performance promotes accountability on the part of the company. It also enables stakeholders, in particular, shareholders to evaluate whether the incentive structures encourage the right behaviour and are aligned with the company's strategic direction.

C STEP UP PRACTICES

The following table presents the adoption levels of Step Up practices, including the number of listed companies identified as new adopters in 2020. While the overall level of adoption remains low, it is encouraging that we continue to see small-cap companies going the extra mile and adopting these practices.

The final adoption level reported for the year may not be a direct summation of the total adoption in the previous year (2019) and the new adopters. In 2020, there were listed companies that were either delisted, had changed their company's financial year-end or their practice from Adopted to Departure. The SC's observations on the latter are highlighted in the following sections.

Table 1
Adoption of Step Up practices

Step Up practice	Total/New	PLCs	Large companies	Mid-cap companies	Small-cap companies
4.3 – 9 year tenure limit for independent directors	Total	95 (2019: 90)	33 (2019: 33)	16 (2019: 7)	46 (2019: 4)
	New adopters	27	7	4	16
7.3 – Detailed disclosure of senior management remuneration on a named basis	Total	43 (2019: 37)	8 (2019: 8)	5 (2019: 2)	30 (2019: 27)
	New adopters	9	2	2	5
8.4 – Audit Committee comprises solely of independent directors	Total	610 (2019: 603)	73 (2019: 71)	47 (2019: 39)	490 (2019: 493)
	New adopters	30	2	4	24
9.3 – Board establishes a Risk Management Committee	Total	251 (2019: 210)	53 (2019: 46)	28 (2019: 17)	170 (2019: 147)
	New adopters	62	11	5	46

**Step Up
practice 4.3**

**Setting a 9-year
tenure limit for
independent
directors**

It is encouraging that an additional 27 listed companies adopted the 9-year tenure limit in 2020 (total: 95 listed companies), out of which, 16 are small-cap companies. It is a step in the right direction as the policy supports board refreshment and the injection of new talent on the board.

However, in 2020, the following three companies that previously adopted the 9-year tenure limit amended the policy to allow the retention of an independent director beyond nine years, subject to obtaining shareholders' approval:

1. Nova Wellness Group Bhd
2. AEON Credit Service (M) Bhd
3. Acme Holdings Bhd

The SC advises companies to not regress from the best practices as it reflects poorly on the board's commitment to good corporate governance.

Stakeholders, particularly, institutional investors are expecting boards to have a more rigorous process around the direction of selection and nomination. Boards will need to navigate a rapidly changing and challenging business environment, and maintaining optimal board composition is key to ensure the company not only survives but thrives.

As of 1 January 2020, there were 775 (2019: 800) independent directors with tenure of 10 years or more on the boards of 545 listed companies (2019: 438). Throughout 2020, 28 of these directors resigned from the board and one director was redesignated as a non-independent director.

A total of 312 resolutions were tabled by 225 listed companies to decide on the retention of long-serving independent directors, using the two-tier voting process. Out of these companies, 36 were first-time adopters of the voting process.

Out of the 312 resolutions tabled using the two-tier voting process, 285 decided on the retention of independent directors with tenure of 13 years or more, while 27 resolutions decided on the retention of independent directors with tenure of less than 13 years. Table 2 presents the voting methods used in 2019 and 2020.

**Table 2
Application of voting methods in 2019 and 2020**

	2019	2020
Retention of Independent directors with tenure between 9 and 12 years through annual shareholders' approval (simple majority)	351	207
Retention of Independent directors with tenure of 13 years or more through annual shareholders' approval (simple majority)	172	156
Retention of Independent directors with tenure of 13 years or more through the two-tier voting process	268	285

**Step Up
practice 7.3**

**Detailed disclosure
on senior
management
remuneration**

Step Up practice 7.3 is among the practices in the MCCG with the lowest adoption level. In 2020, nine companies adopted this practice, including seven mid and small-cap companies. Providing stakeholders with information on the remuneration of senior management enables them to evaluate if the remuneration is fair, able to attract as well as retain talent, and review the link between pay and performance. In 2020, one company, NextGreen Global Bhd which previously disclosed the detailed remuneration of senior management did not continue to do so in 2020, but disclosed the remuneration of senior management in bands of RM100,000 instead.

**Step Up
practice 8.4**

**Audit
Committee
comprises solely
of independent
directors**

The adoption of this practice by a company may be affected by changes in the composition of the board. Thus, several listed companies that adopted the practice in the previous year (2019) reported departures in 2020 while an additional 39 listed companies reported adoption.

Further observations on the independence of the Audit Committee are provided in Thematic Review 2 of this report, *Demographics of Audit Committees of Listed Companies*. The review highlights among others that the tenure of Audit Committee members should also be considered when reviewing the effectiveness and independence of the committee. This includes the tenure of the Chair of the Audit Committee. Data shows that the Chair of Audit Committees of 145 listed companies have assumed the role for more than 9 years.

**Step Up
practice 9.3**

**Board
establishes a Risk
Management
Committee**

A total of 251 companies have established a standalone board level Risk Management Committee (2019: 210 companies). A further 171 companies have combined committees instead. The most common is to have a combined Audit and Risk Committee. For companies which have combined committees, the board must ensure that sufficient time is allocated for deliberation on matters under the purview of the committee.

Practices Identified for Large Companies

Listed companies are not a homogeneous group, therefore, the MCCG recommends three best practices the Large Companies to adopt namely –

- Practice 4.1⁴ - the board comprises majority independent directors;
- Practice 4.5⁵ - the board has at least 30% women on the board; and
- Practice 11.2⁶ - adoption of integrated reporting based on a globally recognised framework.

The improvements in the adoption levels of these practices as highlighted in Table 3 are marginal. However, we do expect a more significant increase in the number of boards that comprise at least 30% women directors, driven by the requirement to have at least one woman on the board and the continued effort by stakeholders to accelerate progress in the participation of women on boards and achieving the 30% target. The adoption of integrated reporting may also see an increase as companies undertake measures to improve the quality of their annual reports and address the information needs of stakeholders, particularly in relation to sustainability.

We anticipate that there will be reductions in the number of boards with majority independent directors as boards adjust to complying with the incoming amendments to the Listing Requirements that will mandate a tenure limit of 12 years for independent directors.

Table 3
Level of adoption for practices identified for large companies

Practice	Year	Number of large companies
Practice 4.1 – The board comprises a majority of independent directors	351	207
Practice 4.5 – The board has 30% or more women directors	172	156
Practice 11.2 – Adoption of integrated reporting based on a globally recognised framework	268	285

⁴ At least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent directors.
⁵ The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.
⁶ Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

03

QUALITY OF DISCLOSURE

The SC’s review of the disclosure quality in CG reports of listed companies aims to improve the quality of corporate governance reporting to ensure stakeholders have access to clear and meaningful explanation of the corporate governance policies and practices of companies. Shareholders, in particular, can use the information to evaluate whether they agree with the approach adopted by the company.

The review is conducted with the use of artificial intelligence (AI) that is guided by an evaluation matrix developed by the SC, that considers among others, the information disclosed, depth of explanation, strength of alternative practice and the timeframe for adoption (in the case of departures).

A OVERALL QUALITY OF DISCLOSURES

A mapping of the disclosure scores across all the MCGG practices is presented in Chart 1. The bar reflects the disclosure quality in CG Reports 2020 and are scored from ‘Meets Minimum Expectations’, ‘Exceeds Minimum Expectations’ to the highest rating of ‘Good’. The black indicators in each bar mark the number of disclosures which were scored ‘Good’ in CG Monitor 2019.

The disclosures for the following practices are excluded as they entail disclosure of remuneration amounts only.

- Practice 7.1 on the detailed disclosure of directors remuneration;
- Practice 7.2 on the disclosure of the top five senior management in bands of RM50,000; and
- Step Up practice 7.3 on the detailed disclosure of senior management remuneration.

In 2020, marginal improvements were recorded in the disclosure scores for majority of the practices in the MCGG, with an average increase of 5% (year on year). The exception is for disclosures on Practice 6.2 on the Remuneration Committee, Practice 4.6 on the process of identifying board candidates and Practice 3.1 on the *Code of Conduct and Ethics* of the company, where the number of disclosures categorised as ‘Good’ in 2020 increased by more than 10% (refer to Table 1).

Chart 1
Quality of disclosures in CG Reports 2020

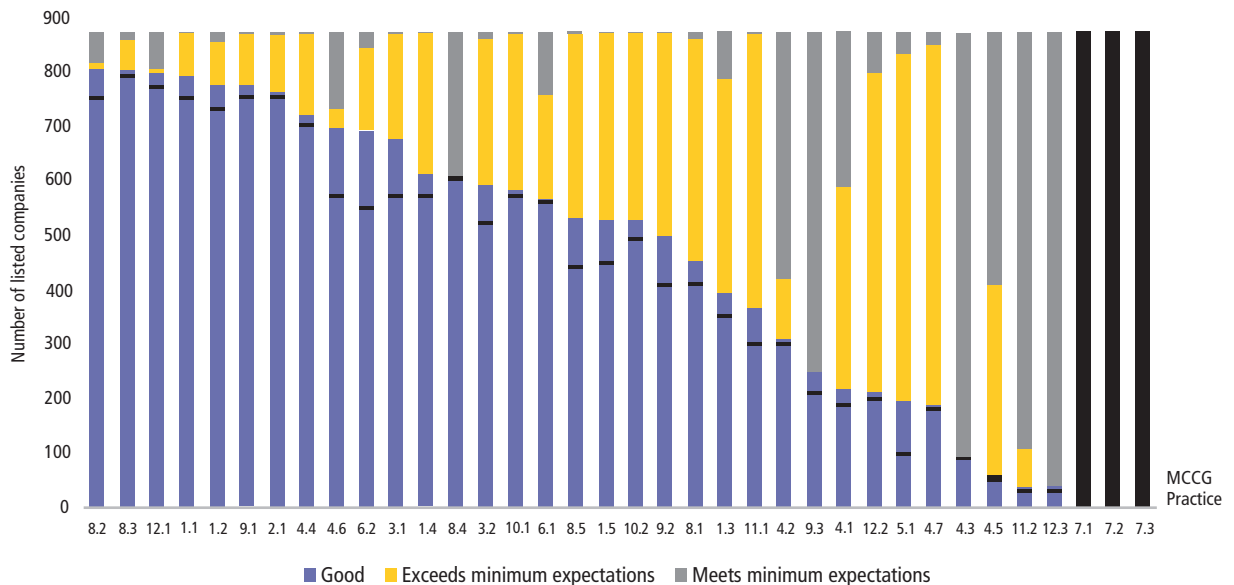


Table 1

Practices with significant improvements in disclosure quality

Practice	Improvement ¹	Observations
6.2 – board establishes a Remuneration Committee to implement policies and procedures relating to the remuneration of board and senior management.	↑16%	<p>Apart from providing an affirmative statement that the company has a Remuneration Committee, more companies provided additional information including a description of how the remuneration of the board and senior management were determined. This included specific considerations in determining the remuneration of executive directors, for example, financial targets, leadership competencies and people development. A number of companies also disclosed the activities of the Remuneration Committee during the year.</p> <p>A total of 840 companies reported the adoption of Practice 6.2, out of which, 645 companies established a standalone Remuneration Committee to provide dedicated focus on the review and determination of board and senior management remuneration. The remaining 195 companies combined the Remuneration Committee with other board committee(s) such as the Nomination Committee.</p>
4.6 – the board does not solely rely on recommendations from existing board members, management and major shareholders in identifying board candidates.	↑14%	<p>The disclosure quality for Step Up practice 4.6 continues to improve with companies providing more information on among others, the number of board vacancies, whether the director appointed was identified through an independent source (i.e. not through recommendations from existing board members, management or major shareholders) and the parties which were engaged to identify board candidates. On the latter, companies shared that they utilised among others, the directors registry of the ICDM, professional search firms and the use of advertisement on board vacancies.</p> <p>Some companies also added an explanation on their policy relating to the appointment of a nominee director by a controlling shareholder where the Nominating Committee is responsible for reviewing and providing feedback on such appointments. This is to avoid ‘parachuting’ of directors on the board without an assessment by the Nomination Committee.</p>
3.1 – board establishes a Code of Conduct and Ethics and together with management implements policies and procedures in managing conflict of interest, prevention of abuse of power, corruption, insider trading and money laundering.	↑12%	<p>In 2020, companies provided more details on their anti-corruption measures, likely driven by the corporate liability provision² which came into force on 1 June 2020. Among the measures included, providing guidance to employees on identifying and dealing with ethical issues, establishing mechanisms to report unethical conduct and declaration on conflict of interest.</p> <p>There was also more information in relation to anti-money laundering measures including updating the company’s <i>Code of Conduct and Ethics</i> to incorporate policies on Anti-Money Laundering and Countering Financing of Terrorism (AMLCFT) to ensure the business activities as well as conduct of directors and employees are not against AMLCFT legislations and regulations.</p>

¹ Increase in the percentage of companies which had disclosures categorised as ‘Good’.

² Corporate liability provision in section 17A of the *Malaysian Anti-Corruption Commission Act 2009* (MACC Act 2009) which came into force on 1 June 2020 states that a commercial organisation shall be deemed to have committed an offence if a person associated with the commercial organisation corruptly offers or gives any gratification to any person with an intent to obtain or retain business or advantage in the conduct of the business of the commercial organisation.

This section highlights observations on the disclosure quality of selected best practices under each principle of the MCCG:

Principle A: Board leadership and effectiveness

Principle B: Effective audit and risk management

Principle C: Integrity in corporate reporting and meaningful relationship with stakeholders

Examples of 'What Good Looks Like' in terms of a meaningful explanation and 'Unsatisfactory Disclosure' are also provided for each practice highlighted in this section. These examples are original extracts from the selected companies' CG Reports. The names of the companies were removed.

Principle A – Board Leadership and Effectiveness

For Principle A, we highlight observations in relation to the disclosure quality for:

- Practice 1.2³ on the role of the board's Chairman. This is in conjunction with the SC's inaugural Chairman Survey conducted in April 2021 to gain insights from Chairmen of listed companies, on the board's top priorities in 2022 and the state of board dynamics. Observations from the survey are highlighted in Thematic Review 1 of this report.
- Practice 1.4⁴ on the role of the company secretary. This is to review the information provided to stakeholders on the execution of this role, which is a critical one, as the company secretary is an internal gatekeeper for corporate governance.
- Practice 4.5⁵ on the company's policy and measure(s) in relation to board gender diversity
- Practice 5.1⁶ on board evaluation outcomes as a follow-up from the observations, which were highlighted on these practices in last year's edition of the CG Monitor.

Practice 1.2 - Role of the chairman

Based on the SC's review, 95% of companies scored 'Good' for their disclosures for Practice 1.2. Companies generally explained how the Chairman leads the board and promotes good corporate governance culture. This included the Chairman's role in actively encouraging board members to express their opinions, including dissenting ones and ensuring there is effective communication with the shareholders and other stakeholders of the company.

³ A Chairman who is responsible for instilling good corporate governance practices, leadership and effectiveness of the board is appointed.

⁴ 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 the adoption of corporate governance best practices.

⁵ The board discloses in its annual report, the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

⁶ 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 and its outcomes. For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.

There is a stark contrast between the better disclosures and those which are considered poor. The example of 'Unsatisfactory Disclosure' presented below is one that the SC considers unacceptable. The responsibilities of the three identified roles (Non-Executive Chairman, Independent Non-Executive Co-Chairman and Non-Executive Vice Chairman) were not explained in the company's disclosure. Furthermore, the company only disclosed that these individuals 'claimed' to have discharged their duties. Such explanation raised many questions about the leadership of the board and the company's corporate governance practices.

'WHAT GOOD LOOKS LIKE'

The profiles of Chairman and Deputy Chairman are set out in the Board of Directors' profile in the Company's Annual Report 2020. The Chairman is responsible for representing the Board to shareholders and ensuring the integrity and effectiveness of the governance process of the Board. The Chairman maintains regular dialogue with the Group Chief Executive Officer and the Executive Committee over all operational matters. In addition, the Chairman also acts as the facilitator at Board meetings to ensure that no Board member dominates discussion and healthy discussions take place by fostering free expression of opinions of the Board members to achieve thorough discussions and optimum decisions.

The roles and responsibilities of the Chairman of the Board have been clearly specified in the Board Charter. The responsibilities of the Chairman include, among others;

- *Providing leadership to the Board;*
- *Chairing meetings of the Board in such a manner that will stimulate debate on issues before the Board and encourage the most effective contribution from each Board member;*
- *Organising the agenda for Board meetings based on input from other Directors and the Company Secretary;*
- *Acting as the liaison between the Board and management;*
- *The point of contact for shareholders and other stakeholders on any queries and concerns regarding the company and its group of companies;*
- *Leading the Board in establishing and monitoring good corporate governance practices in the Group.*

UNSATISFACTORY DISCLOSURE

The Non-Executive Chairman, Independent Non-Executive Co-Chairman and Non-Executive Vice Chairman have claimed that they have discharged their duties and responsibilities as stated in Practice 1.2 of MCCG 2017.

Practice 1.4 - Company secretary

Improvement was recorded in companies' explanation on the role of the company secretary. More companies explained how their company secretaries undertook their role. A number of companies also provided affirmative statements that the company secretary ensured the virtual board meetings were conducted without any glitches during the pandemic. There were also more information on the training attended by company secretaries to ensure they stay abreast of the latest developments and enhance their skills.

The 'What Good Looks Like' example on page 18 highlights useful information, which the company provided to explain the role of the company secretary such as how the company supported the board and managed to shareholders' questions and feedback. The company also provided a statement on the performance evaluation of the company secretary.

However, some companies failed to provide useful explanation and instead disclosed basic information such as the name of the company secretary and their license numbers or a mere statement that the company secretary meets the requirements as outlined in the *Companies Act 2016*. Such poor disclosures are of no utility to stakeholders in evaluating whether the company secretary is fit for the role and is undertaking their functions effectively.

'WHAT GOOD LOOKS LIKE'

The Company Secretaries have legal qualifications, and are qualified to act as company secretaries under Section 235(2) of the Companies Act (CA) 2016. Both are registered with the Companies Commission of Malaysia (CCM) under Section 241 of the CA 2016 and are issued with practising certificates by the Registrar of Companies. The Company Secretaries manage the logistics of all Board and Board Committee meetings. Attendance and minutes of all Board and Board Committee meetings are properly recorded and kept by the Company Secretaries.

- (1) The Company Secretaries ensure that deliberations at Board and Board Committee meetings are well documented, and subsequently communicated to the relevant Management personnel for appropriate actions. The Board is updated by the Company Secretaries on the follow-up of its decisions and recommendations by the Management. Action items would stay as matters arising in the minutes of meetings until they are resolved or completed.*
- (2) The Company Secretaries provide support to the Board in fulfilling its fiduciary duties and leadership role in shaping the corporate governance (CG) of the Group. In this respect, they play an advisory role to the Board, particularly with regards to the Company's constitution, Board policies and procedures, CG best practices and its compliance with regulatory requirements, codes, guidelines and legislations. The Company Secretaries also support the Board in managing the Group's Governance Model to ensure its relevance and effectiveness.*
- (3) The Company Secretaries organise induction programmes for new Directors/Committee members. In these programmes, the Company Secretaries provide new Directors with background on the Governance Model of the organization and the Directors' fiduciary duties, and other regulatory obligations.*
- (4) As the Board of Directors must on a continuous basis, evaluate and determine the training needs of its members [in accordance with Paragraph 15.08(2) of the MMLR of Bursa Securities], the Board through the GNC had considered the areas/topics of training relating to business operations or capital market development as part of the Directors' continuing education programmes.*
- (5) The Company Secretaries constantly keep themselves abreast of the evolving capital market environment, regulatory changes and developments in CG by attending the relevant training programmes for continuous professional development as required by the CCM and MAICSA.*
- (6) For the Annual General Meeting, it was successfully conducted fully virtual during the Movement Control Order period. The Company Secretaries play an important role in ensuring that the due processes and proceedings are in place and properly managed. During the meeting, the Group Company Secretary assisted the Chairman and the Board in the conduct of the general meeting at the Broadcast Venue, and thereafter to ensure that the minutes are properly recorded, particularly the questions raised by the shareholders. After the meeting, the Company Secretary reverted to each shareholder with the answer(s) to his/her question(s) via e-mail.*
- (7) The Company Secretaries also monitor the developments in CG and assist the Board in applying best practices to meet the Board's needs and stakeholders' expectations. The Company Secretaries continue to facilitate the Board in ensuring compliance with all 36 practices as envisaged in the Malaysian Code on Corporate Governance (MCCG) and ASEAN CG Scorecard.*

(8) While the Investor Relations unit is generally involved in communication and engagement with stakeholders, the Company Secretaries play an important role in advising the Board on principles and best practices in CG and ultimately serving as the focal point for stakeholders' communication or engagement on CG issues affecting Bursa Malaysia as an Exchange Holding Company and a listed entity. The Board is satisfied with the performance and support rendered by the Company Secretaries to the Board in discharging its functions. This was reflected in the customer satisfaction score of 4.6 on a 5-scale rating.

UNSATISFACTORY DISCLOSURE

Our Company is being supported by 2 (two) qualified and competent Company Secretaries namely Madam XXX (CCM PC NO. XXX) and MADAM YYY (CCM PC NO. YYY) and they are capable of carrying out their duties attached to their post.

Practice 4.5 - Board gender diversity policies and measures

The adoption level of Practice 4.5 remains among the lowest compared to other practices in the MCCG. Similarly, in relation to the disclosure quality, there were no improvements recorded in the disclosure score from 2019 to 2020. We would like to draw attention to the example of 'What Good Looks Like' provided below, and strongly encourage listed companies to follow suit. The explanation covers the board's policy in relation to board diversity and measures that are in place to implement these policies. There is also a clear commitment to maintain the participation of at least 30% of women on the board.

Boards are reminded that the Listing Requirements will be amended to require all boards of listed companies to comprise at least one woman director effective 1 September 2022 for boards of Large Companies and 1 June 2023 for the remaining listed companies. While the mandatory minimum is set at one, boards should continue undertaking measures to have boards comprising at least 30% women directors as recommended in the MCCG.

A review undertaken by the ICDM on board diversity found that boards comprising at least one-third women directors, had on average, 38% higher return on equity, compared to all male boards. The Credit Suisse's 2021 *Gender 3000 Report* also highlighted positive correlation between increased participation of women in leadership positions and superior returns on capital, environmental, social and governance (ESG), and stock performance. The more pervasive diversity is within an organisation; the stronger the relationship. These findings add to the body of research that presents evidence on the positive impact of women participation on boards.

'WHAT GOOD LOOKS LIKE'

The Board has its Diversity Policy, as set out below [in accordance with Paragraph .08A(3) of the MMLR of Bursa Securities]:- Board Diversity Policy is to ensure that the mix and profiles of our Board members in terms of age, ethnicity and gender, provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship and management. We believe that a truly diverse and inclusive Board will leverage differences in thought, perspective, knowledge, skill, regional and industry experience, cultural and geographical background, age, ethnicity and gender, which will ensure that the company retains its competitive advantage. In this regard, the GNC is responsible for reviewing and assessing the composition and performance of the Board, as well as identifying appropriately qualified persons to occupy Board positions. In reviewing the composition of the Board, the GNC will consider the benefits of diversity in order to maintain an optimum mix of skills, knowledge and experience on the Board. Diversity and its benefits underpinned by meritocracy will continue to be the focus of the GNC when identifying and recommending new candidates for Board memberships, as well as evaluating the performance of the Board and its individual members. In connection with its efforts to create and maintain a diverse Board, the GNC will:

- Assess the appropriate mix of diversity (including gender, ethnicity and age), skills, experience and expertise required on the Board and address gaps if any;
- Develop recruitment protocols that seek to include diverse candidates in any director search;
- Make recommendations to the Board in relation to appointments, and maintain an appropriate mix of diversity, skills, experience, and expertise on the Board, etc;
- Periodically review and report to the Board on requirements in relation to diversity on the Board, if any. The GNC will discuss and agree annually on all measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly. The Board shall maintain at least 30% representation of women on boards. The Board has maintained at least 30% women directors, represented by 4 women directors out of 11 Directors as at 31 December 2020. Various steps have been undertaken by the Governance and Nomination Committee (GNC) to ensure that suitable women candidates are sought from various sources as part of its recruitment exercise. Apart from the nominations which the GNC may receive from Directors and Committee members for the pool, potential candidates may also be sourced from relevant professional and advocacy bodies, as well as other independent sources, to complement the Board's Skill Matrix. Invitations were sent to the potential candidates to participate in the pool by providing their particulars and confirming certain personal information which would be relevant for the GNC's reference in the process. Due diligence is also conducted on the identified candidates to ensure that they satisfy the independence test and conflict of interest assessment as envisaged under the MMLR as well as the other prescribed requirements. The company has also maintained at least 30% women i.e. 2 out of 6 key senior management positions in the organisation are held by women as at 31 December 2020.

UNSATISFACTORY DISCLOSURE

The Board is presently of the view that there is no necessity to fix a specific gender diversity policy.

Practice 5.1 - Board evaluations and outcomes

In last year's edition of the CG Monitor, the SC included a feature article by the ICDM titled *Communicating Board Evaluation Outcomes – Best Practices*. The article highlighted recommendations on communicating board evaluation outcomes meaningfully, for example, stating clearly the purpose of the evaluation, disclosing how evaluation outcomes are addressed and including forward-looking considerations such as mapping of the current board competence against those required to drive the company's future strategies.

The SC observed improvements in companies' explanation on board evaluations and their outcomes. This included more details on the evaluation approach as well as the follow up actions undertaken post-evaluation. In the example of 'What good looks like' below, the company explains in detail the board and director evaluation process and criteria, as well as the outcomes from the exercise. Such detailed disclosure demonstrates the board's commitment to rigorously evaluate and follow-up action to drive performance of the board.

However, some companies continued to provide brief statements and in the example of 'Unsatisfactory Disclosure' below, not only is the quality of disclosure poor, the company also failed to meet the requirement in relation to board evaluations. Under the Listing Requirements⁷, listed companies are required to disclose the assessments undertaken by the Nominating Committee in respect of the performance of the board, committees and individual directors together with the criteria used for such assessments. This is to ensure the performance evaluation is holistic and gaps (if any) are addressed accordingly.

'WHAT GOOD LOOKS LIKE'

The BEE for FY2018 and FY2019 had been carried out internally by the NRC, with the assistance of the Group Corporate Secretarial team. Given that the last independent evaluation exercise was undertaken in 2017, the NRC had in September 2020, appointed an independent firm of consultants to assist them in conducting the said exercise. The independent firm has no other connection or conflict of interest with Maybank and its group of companies or any individual director. The BEE FY2020 is aimed at assisting the Board to further enhance its overall performance moving forward, by focusing on the following:

- (i) Discharging the Board's principal roles and responsibilities effectively;*
- (ii) Improving Board infrastructure and supporting processes;*
- (iii) Examining Board dynamics and relationships;*
- (iv) Identifying key areas for improvement; and*
- (v) Continuing to build upon strengths.*

To achieve the abovementioned objective, the effectiveness of the Board and Board Committees for FY2020 were assessed through one-on-one sessions with individual directors in the following key areas:-

- (i) Overall Board effectiveness;*
- (ii) Key priorities and areas of focus of the Board;*
- (iii) Board responsibilities;*
- (iv) Board Composition;*
- (v) Board Committees;*
- (vi) Board Conduct;*
- (vii) Board Interaction and Communication;*
- (viii) Board Chair; and*
- (ix) Board Administration and Process.*

⁷ Paragraph 15.08A (3)(c), Bursa Malaysia, Main Market Listing Requirements.

For Individual Director Evaluation, a questionnaire was specifically designed to evaluate the effectiveness of performance, personality and quality aspects of individual directors in the following areas: -

- (i) Board dynamics and participation;
- (ii) Leadership, integrity and objectivity; and
- (iii) Knowledge and expertise.

As part of the BEE FY2020, a 360 Degree Assessment was carried out where the feedback from the selected members of the senior management was sought on the effectiveness of Board and Board Committees based on their interactions and engagements with the members of the Board. The results of the BEE FY2020 were generally positive, with all areas evaluated either rated as "Satisfactory" or "Strong". The results were similar compared to the previous year (across all areas), reflecting strong and consistent performance by the Board and Board Committees.

Pursuant to the analysis on the results of BEE FY2020 including feedback obtained from the individual Directors and senior management, the key strengths of the Board are visible in the following areas: -

- (a) Positive Board culture and dynamic where there is active debate, questioning and participation;
- (b) Highly diverse and knowledgeable Directors due to current composition having a diverse mix of experience and expertise;
- (c) Effective demonstration of leadership by Board Chair, particularly when managing discussions and encouraging contributions from Directors;
- (d) Board Committees have provided strong support to the Board, and the respective Chairs have been effective in encouraging active debate; and
- (e) Effective oversight in key areas of responsibility, notably in the areas of risk management, governance, compliance, crisis management and communication with regulators. As the rating of all areas under evaluation for Board and its Committees were generally satisfactory, no apparent shortcoming had been identified. However, in order to further elevate Board and Board Committees' effectiveness and performance, the NRC had focused on some feedback raised by the Directors and senior management during the course of the BEE FY2020 exercise, to identify key areas for improvements moving forward.

The results of BEE FY2020 together with these key areas were tabled to the Board in January 2021, whereby the Board agreed with the NRC that the following areas be designated as the subject of the Board and Management's focus during FY2021: -

- (i) Group Operating Model/Group Corporate Governance (CG) Framework;
- (ii) Strategy with regard to digital, Environmental, Social and Governance (ESG) and international business; and
- (iii) Succession plan for the Board and senior management across the Group. The action plans on the above focus areas will be developed and tabled to the Board for consideration and inclusion in the Board's Actionable Improvement Programme (AIP) to be undertaken during FY2021. The individual results of the Directors' Self and Peer Assessment were provided to the Chairman of the Board for the latter to discuss at one-to-one engagements between the Chairman and individual Directors.

UNSATISFACTORY DISCLOSURE

Although an assessment was carried out, it was focused on those Directors retiring by rotation, i.e. to consider their suitability for re-election before the Board proposes to shareholders for decision. The current process does not serve as an alternative practice. As such, the Board will formalise an assessment process to cover the effectiveness of the Board, the Board Committees and individual Directors, including the independence of Independent Non-Executive Directors. The assessment process will consider the Corporate Governance Guide 3rd Edition issued by Bursa Malaysia Bhd.

Principle B – Effective Audit and Risk Management

For Principle B, we highlight observations on the disclosure quality of two practices.

- Practice 8.5⁸ on the need for the Audit Committee to collectively possess the right skills to carry out its functions effectively and for members to undertake continuous professional development and stay abreast of relevant developments; and
- Practice 10.1⁹ on the role of the Audit Committee to ensure that the internal audit function is effective and able to function independently.

These practices were selected to complement this year's thematic review by the SC's Audit Oversight Board (AOB) on the demographics of Audit Committees of listed companies. The SC would also like to highlight the quality of explanation on the skills mix of Audit Committee members, the continuous professional development measures for the Audit Committee and how the committee undertakes its role in providing an independent review of the company's internal audit function and control framework.

Practice 8.5 – Collective skills of the Audit Committee and continuous professional development measures

For Practice 8.5, the SC focused on disclosures in relation to the continuous professional development measures for Audit Committee members. It is important for Audit Committee members to sharpen their skills and stay abreast of the latest developments particularly on matters relating to financial reporting and auditing. Most companies disclosed that members of the Audit Committee were qualified individuals and had attended the necessary trainings related to financial reporting. However, more details should be provided on the nature, content and intended objectives of these trainings for stakeholders to understand and appreciate their significance.

Nevertheless, the SC observed that some companies were silent on their trainings or continuous professional development measures for members of the Audit Committee. A number of companies also stated that the board will review their training needs for for the Audit Committee. Assessing the continuous professional development needs of Audit Committee members is an important step, and boards should ensure that the assessment informs the selection of training programmes for the Audit Committee members and that the directors participate in these programmes.

The Audit Committee is a critical component of a company's corporate governance framework. This is also captured in the court's decision in the case of *PP v Chin Keem Feung and Shukri Abdul Tawab*¹⁰ where the learned judge stated that an Audit Committee is not a decorative piece of a company. They are vital organs of a company, in particular when it comes to corporate governance.

⁸ Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate 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.

⁹ The Audit Committee should ensure that the internal audit function is effective and able to function independently.

¹⁰ [2014] 4 CLJ 62.

Boards are reminded that all the Audit Committee members must be financially literate in order to discharge their duties effectively. In the example of 'Unsatisfactory Disclosure' below, the company acknowledges that not all of its Audit Committee members are financially literate. Step Up practice 1.1 of the MCCG highlights that all directors should be able to understand financial statements and form a view on the information presented provide critical and probing views on the financial reporting process, transactions, audits, and other financial information of the company.

'WHAT GOOD LOOKS LIKE'

The Board reviews the terms of office of the AC members and assesses the performance of the AC and its members through an annual Board Committee effectiveness evaluation. The AC members are expected to devote sufficient time to update their knowledge and enhance their skills through appropriate continuing education programmes, so as to enable them to sustain their active participation during deliberations. The Chairman and members of the AC are financially literate. Based on the outcome of the AC effectiveness assessment of the Board Effectiveness Evaluation 2020, the Board was satisfied with the AC's performance as its Chairman and members possess the necessary knowledge, experience, expertise and skills which contributed to the overall effectiveness of the AC and have carried out their duties in accordance with the TOR of the AC.

The AC was involved in the following: -

Financial Reporting – In overseeing the Company's financial reporting, the AC reviewed the following prior to recommending them for approval by the Board and issuance to the shareholders: -

the quarterly financial statements; and

- *the annual financial statements with the presence of the External Auditors*

- The Managing Director/President/CEO/CFO provided assurance to the AC on a quarterly basis that appropriate accounting policies had been adopted and applied consistently; that the going concern basis applied in the Annual Financial Statements and Condensed Consolidated Financial Statements was appropriate; that prudent judgements and reasonable estimates had been made in accordance with the requirements set out in the MFRSs; that adequate processes and controls were in place for effective and efficient financial reporting and disclosures under the MFRSs, IASs and Main LR; and that the Annual Financial Statements and quarterly Condensed Consolidated Financial Statements did not contain material misstatements and gave a true and fair view of the financial position of the Group and the respective companies within the Group for 2020.*
- The External Auditors, also confirmed to the AC that it has complied with the ethical requirements regarding independence, with respect to the audit of the Group in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards); has not, up to the date of 18 February 2021, identified any significant internal control issues during the course of audit.*
- The External Auditors presented their Independent Auditors' Report on the Annual Financial Statements for the FYE2020 together with the key audit matters.*

Continuous Education: The AC members were invited to various training programmes to keep abreast of relevant industry developments including accounting and auditing standards, business practices and rules, to address any skills or knowledge gaps according to their needs. The details training attended stated in the annual report under list of directors training.

UNSATISFACTORY DISCLOSURE

Not all members of the Company's Audit Committee are financially literate but they are able to understand matters under the purview of the Audit Committee and possess the necessary skills to discharge their duties effectively. The qualification and experience of the individual ARMC members are disclosed in the Board of Directors' Profile in the Company's Annual Report.

Practice 10.1 - The Audit Committee ensures that the internal audit function is effective and independent

In explaining the role of the Audit Committee *vis-a-vis* the internal audit function, majority of companies only provided information on whether the internal audit function was outsourced, and if so, which service providers were engaged. In contrast, companies that provided meaningful explanation shared details on, among others, the reporting structure between the internal audit function and the Audit Committee, and description of the annual review conducted by the Audit Committee on the internal auditors and steps taken following the review. A thorough assessment on the effectiveness and independence of the internal audit function is critical to test the state of the company's internal controls framework and address the identified gaps.

'WHAT GOOD LOOKS LIKE'

The appointment of the Internal Auditors requires endorsement by the Audit Committee before they are officially appointed by the Board. The Internal Auditors act independently and report directly to the Audit Committee. The internal audit function is independent of the operations of the Group and provides reasonable assurance that the Group's system of internal control is satisfactory and operating effectively. The Internal Auditors' risk-based approach towards the planning and conduct of internal audit, are consistent with the Group's framework in designing, implementing and monitoring its internal control system. The principal responsibility of the Internal Audit is to undertake assessment on the effectiveness and efficiency of the Group's system of internal control and its compliance with the group policies and procedures over its business processes based on the risk and internal audit plan.

The risk-based internal audit plan outlines the audit timetable for auditable business processes and follow up visit are tabled for Audit Committee's review and approval. The Audit Committee would consider the level of the risks to determine the priority of the auditable areas. The Audit Committee may authorise changes on the Audit Plan from time to time if the need arises. The comprehensive report on the approaches of internal audit reviews, findings and the recommendation action plans are tabled for Audit Committee's review and endorsement. The status of implementation of the action plans are highlighted to the Audit Committee after Internal Auditors' follow up reviews. During the financial year ended 31 December 2020, the outsourced internal audit function carried out audits in accordance with the risk-based internal audit plan reviewed and approved by the Audit Committee in November 2019. The results of their review presented in the Internal Audit Report, which include a summary of internal audit findings and management's responses, were discussed with Senior Management and subsequently presented to the Audit Committee.

Follow up visits were also conducted by Internal Auditors to ensure that management's action plans in respect of the matters highlighted in the internal audit reports have been adequately addressed. None of the internal control weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Annual Report.

To ensure effectiveness of the Group Internal Audit function, the Audit Committee assessed the following in respect of internal audit amongst others, the terms of engagements, scope of works, Company's financial budget, Internal Audit Reports and quality of deliverables :- a) the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work; and b) the internal audit plan, processes, the results of the internal audit assessments, processes or undertakings and whether or not appropriate action is taken on the recommendations of the internal audit function. In developing the scope of the internal audit function, the Audit Committee was satisfied that – a) the person responsible for the internal audit has relevant experience, sufficient standing and authority to enable him to discharge his functions effectively; b) internal audit has sufficient resources and is able to access information to enable it to carry out its role effectively; and c) the personnel assigned to undertake internal audit have the necessary competency, experience and resources to carry out the function effectively.

UNSATISFACTORY DISCLOSURE

The Group outsourced its internal audit function to an independent professional firm. The roles and responsibilities of the outsourced Internal Auditors is to provide the Audit Committee with independent and objective assurances on the adequacy and effectiveness of the system of internal control and recommending ways to rectify shortfalls (if any) in order to improve the existing control environment in relation to the Group's operations.

Principle C: Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders

For Principle C, we highlight observations on the disclosure quality for Step Up practice 12.3 on companies leveraging technology to facilitate voting and remote shareholders' participation. This is in light of the increase in the conduct of fully virtual and virtual general meetings¹¹ due to the movement and gathering restrictions.

Practice 12.3¹² - Leveraging technology to support shareholders' participation at general meetings

Despite the increase in the number of companies leveraging technology to conduct general meetings, the SC observed that most companies provided minimal information in their disclosures for Step Up practice 12.3. Some companies only disclosed a statement that the company's general meeting was conducted using an online platform without any further details. Among the details that should be included are the type of platform used for the meeting, how voting was conducted, observations on the use of the platform and the board and shareholders' meeting experience. It would add to the quality of the disclosure if there is also discussion on the board's views or assessments on the use of technology; whether it improved the overall conduct of the meeting or otherwise. Companies should also share the overall feedback from shareholders (if any) on the conduct and quality of the virtual meeting.

UNSATISFACTORY DISCLOSURE

The Company's 9th AGM, which was convened on 4 August 2020, was held fully virtual with a broadcast venue arranged in accordance with Securities Commission's Guidance and FAQs on the Conduct of General Meetings for Listed Issuers. Shareholders participated remotely via live streaming and casted their votes remotely using Remote Participation and Voting (RPV) facilities provided by the appointed Poll Administrator. The vote results were verified by the Independent Scrutineer. Administrative Guide of the 9th AGM was also provided to guide shareholders on the RPV procedures. Moving forward, the Company shall continue to leverage technology to enhance shareholders' engagement and participation in the general meetings of the Company.

The SC through Bursa Malaysia will engage the listed companies that have breached the disclosure requirements under the Listing Requirements and concerns in relation to the companies' disclosure and corporate governance practices.

¹¹ Under the SC's *Guidance Note on the Conduct of General Meetings for Listed Issuers*, a fully virtual meeting refers to a general meeting where all participants including the Chairperson, board members, senior management and shareholders participate online. A virtual meeting refers to a general meeting that is conducted from a broadcast venue, where only essential individuals are physically present to conduct the meeting while all shareholders participate online.

¹² Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate voting, including voting in absentia, and remote.

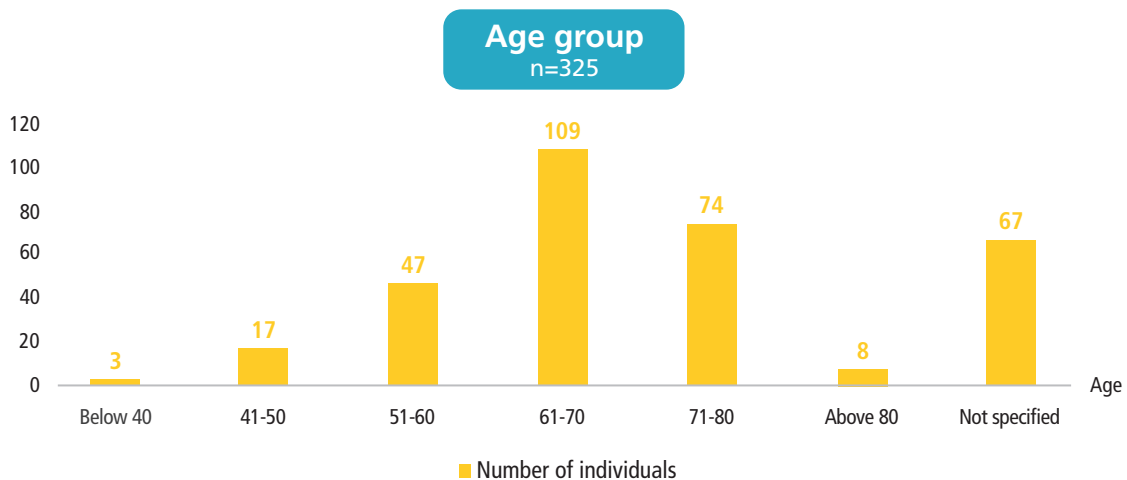
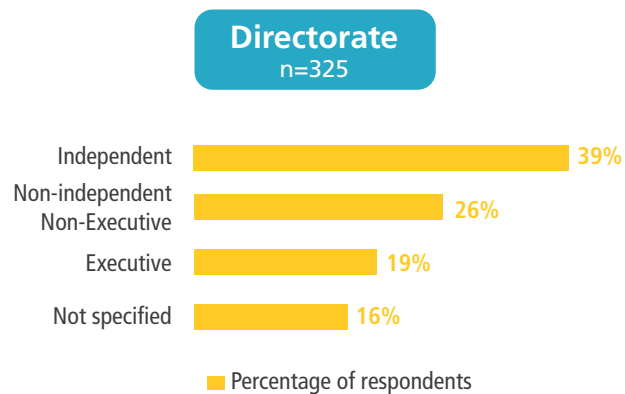
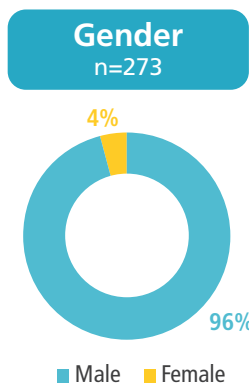
THEMATIC REVIEW 1

Board Priorities 2022 and Board Dynamics

Findings from The Chairman Survey 2021

In August 2021, the SC collaborated with ICDM to conduct the inaugural Chairman Survey to gain insights on board priorities in 2022 and the state of board dynamics from the perspectives of the Chairman. The survey gathered responses from 325 Chairmen of listed companies. The total number of responses is indicated for each question. Some Chairmen did not respond to all questions in the survey.

DEMOGRAPHICS OF RESPONDENTS



HIGHLIGHTS FROM THE SURVEY



Ensuring business continuity and resilience as well as managing COVID-19 related risks, people management and well-being are the top three priorities for boards in 2022.



A refresh or change in board composition is required to strengthen board skills related to sustainability and innovation.



Quality training and professional development programmes are critical, particularly those which target the development of leadership and engagement skills.

Board Priorities for 2022

Ensuring business continuity and resilience and managing COVID-19 related risks, as well as people management and well-being are the top three priorities for boards in 2022.

▶ 70% of boards have started discussing these priority issues and the implementation of the necessary measures are underway. A few of boards have also engaged external experts for advice.

Please select the top three issues on the board's agenda in 2022

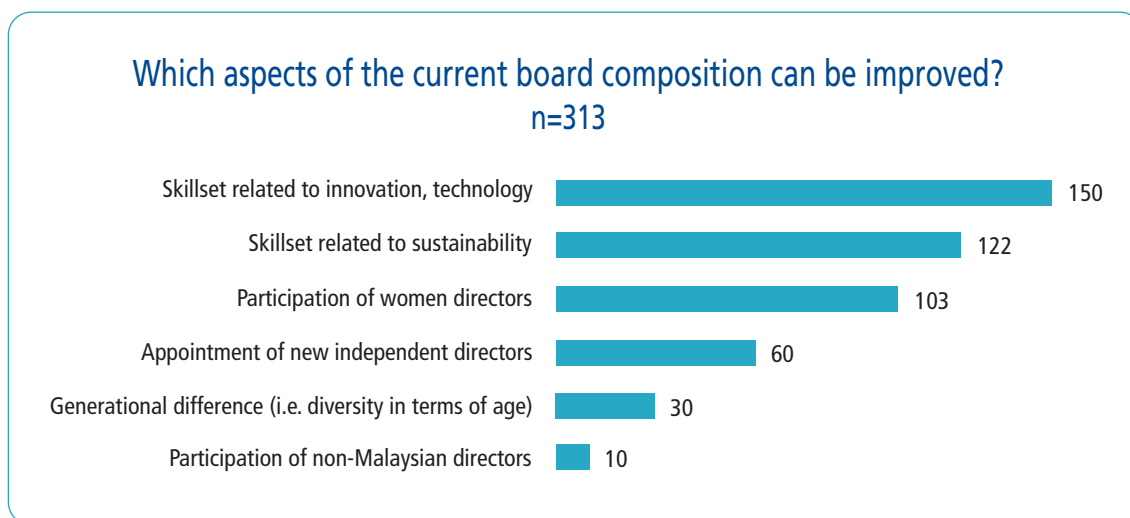
n=321



Improvement to Current Board Composition

A refresh or change of current board composition is required to strengthen board skills related to innovation and technology, as well as sustainability.

- ▶ The need to strengthen board capacity to address sustainability-related issues were among the top board priorities in 2022. Most Chairmen would like to see changes in the current board composition to enhance board skills related to sustainability.
- ▶ 48% of Chairmen would also like to bring skills and expertise related to innovation and technology to the board, likely driven by the accelerated digitisation of business and communication due to the COVID-19 pandemic.
- ▶ Increasing the participation of women on boards was also among the top priority for board improvements. It is also encouraging that some Chairmen of boards which comprised 30% women directors, responded that they would like to further increase women participation on the board.



Attributes that Best Describe the Board

Majority of the Chairmen highlighted that the boards which they lead, set a strong and positive tone from the top in relation to corporate governance.

- ▶ Majority of the Chairmen selected a combination of attributes to describe the board, which include possessing the collective courage to do the right thing, willingness to constructively challenge management as well as being open to new ideas and ways of doing things.

Which of the following best describe the board that you Chair? Select up to three
n=309



Some Chairmen highlighted that the board can be occasionally hostile with a handful of the Chairmen stating that there are a few difficult personalities on the board.

- ▶ Forty-six Chairmen responded that board discussions are dominated by a few board members, but the board is still able to function. Out of which, two of the Chairmen highlighted that the board can be occasionally hostile as some of the board members do not get along.
- ▶ Several Chairmen who highlighted these challenges on the board would like board members to be more respectful to each other, especially during board discussions and debates. Directors also need to stick to with the meeting agenda instead of deviating from and disrupting the flow of the meeting.

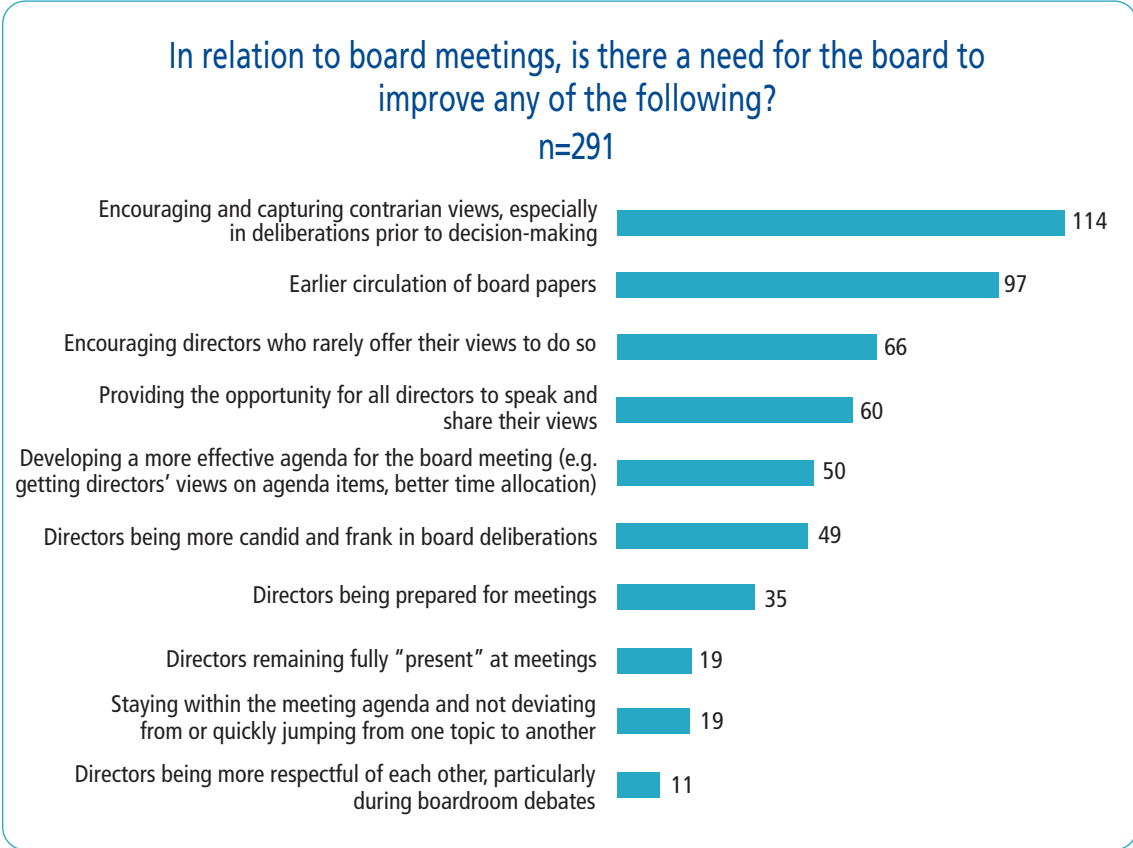
Board Meetings and Discussions

60% of Chairmen responded that all board members actively participated in board discussions.

▶ The remaining 40% highlighted that one or two directors rarely share their views, while a handful of boards stated that a few directors dominated board discussions.



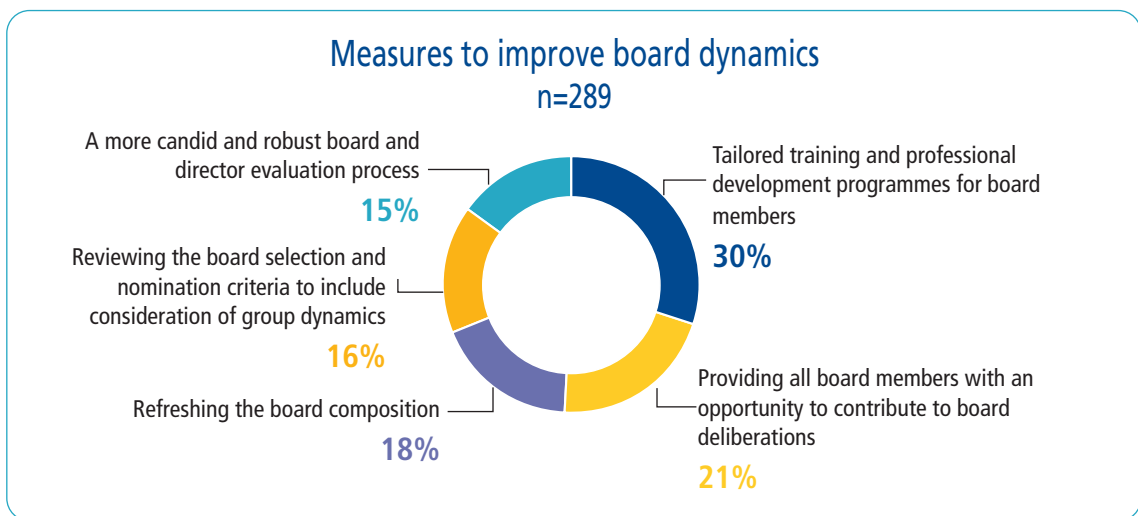
To improve board discussions, the Chairmen would like to capture contrarian views in discussions, to circulate board papers earlier and encourage directors who rarely offer their views to do so.



Improving Board Dynamics and Effectiveness

Tailored professional development programme for boards is a key measure to improve board dynamics.

- ▶ A number of Chairmen also highlighted the need to provide the opportunity for all board members to participate in board deliberations. This ties in with the earlier finding that on some boards, discussions are dominated by a few board members.
- ▶ A refresh of the current board composition may also be required, with 16% of Chairmen also recognising that the board selection and nomination criteria need to be reviewed to consider board dynamics. Clear and strategic selection criteria will support effective refresh of the board and ensure the board benefits from the right mix of individuals.



Strengthening Effectiveness as Chairman

58% of respondents rated themselves as 'Good' when asked to self-evaluate their effectiveness as a Chairman (23 respondents rated themselves as 'exceptional', 23 as 'Average' and nine as 'Below Average').

- ▶ The nine 'Below Average' Chairmen responded that they would like to improve their ability to communicate effectively with other board members as well as other stakeholders.
- ▶ 37% of the Chairmen would like to refocus the board on future strategy and ensure discussions on strategy are not confined to the 'strategy away day'.
- ▶ Findings from the survey also showed that improving the quality of board discussions is critical. Most Chairmen highlighted that they would like to be more efficient and effective in leading board meetings and ensuring these meetings are productive.



THEMATIC REVIEW 2

Observations on Sustainability Disclosures of Listed Companies

There is growing recognition and demand for organisations, including corporations, to adopt a more holistic view of business that is conscious and responsible for its impact on society and the environment. Climate change is at the front and centre of discussion with world leaders galvanising efforts to address emissions, and major economies committed to taking concrete measures to decarbonise and transition to a low carbon economy. This has led to the demand for corporations to strategically address climate risks and leverage opportunities for innovation in order to remain agile and transition into a low carbon economy.

In 2015, Bursa Malaysia introduced the Sustainability Reporting Framework for listed issuers. This is a progression from the requirements introduced in 2006 for listed issuers to disclose their corporate social responsibility (CSR) activities or practices in the annual report. The Sustainability Reporting Framework is intended to support the development of a foundation for continuous oversight and concrete action to address sustainability risks and opportunities. Under the framework, listed issuers are required to disclose–

- their governance structure for the oversight of sustainability;
- material sustainability matters including how they were identified;
- why they are important; measures or actions taken to deal with these matters; and
- relevant indicators to demonstrate how the listed issuers have performed in managing these sustainability matters.

The disclosure necessitates that the appropriate framework, policies, and processes are in place to identify and address material sustainability matters.

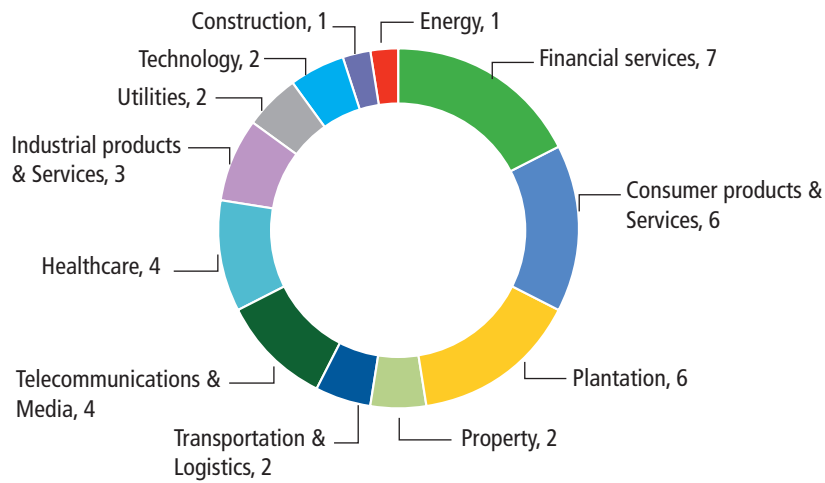
A review by Bursa Malaysia showed that the level of compliance with the sustainability disclosure requirements is high. However, there is significant room to improve the quality of these disclosures. Feedback from the users of disclosed sustainability information including fund managers highlighted the same need to improve the quality, reliability, and comparability of sustainability information.

Review of Sustainability Disclosures of Selected Listed Companies

In early 2021, the SC reviewed the sustainability statements and reports (for financial year 2020) of 30 large listed companies and 10 mid and small-cap companies that collectively represented 59.5% of the total market capitalisation of Bursa Malaysia. The breakdown of the companies by sector is as follows:

Chart 1

Breakdown of companies by sector



Findings from the Review

Disclosure approach

Out of the 40 companies, 12 issued standalone sustainability reports, while the remaining companies incorporated information on sustainability in the annual report itself. In relation to the length of these disclosures, it varied from several pages in the annual report to a standalone report of more than 300 pages. While the page count is not a sole determinant of the quality of disclosures, care should be given to ensure the disclosures are meaningful. Among the information that are expected include the governance structure for the oversight of sustainability, the material sustainability risks and opportunities of the company and how these are being addressed. Balance is also required to avoid an overload of information.

More than half of the companies disclosed that the companies' sustainability report was prepared based on the Global Reporting Initiative Framework. Some listed companies were also guided by the International Integrated Reporting Framework¹.

A common observation on the reports, which the SC reviewed was the opportunity to improve readers' experience, including ease of navigating through the disclosure. Clear context setting and outline of the information presented are useful and necessary, particularly when the disclosure is voluminous.

Governance of sustainability

All of the companies had established a governance structure for the oversight of sustainability, with the board having the ultimate responsibility, supported by either a board committee comprising representatives from the board and senior management, a management level committee, or a dedicated role in the senior management. Boards have also identified leads on the boards to drive the sustainability agenda on the board throughout the company.

¹ The International Integrated Reporting Committee (IIRC) merged with the Sustainability Accounting Standards Board on 19 June 2021 to form the Value Reporting Foundation.

It is expected that the Chief Executive Officer (CEO) has a role in the implementation of sustainability strategies and measures. Companies also have measures to ensure the oversight of sustainability across the group, for example, by requiring the Head of Risk of each business division or subsidiary to report to the Chief Risk Officer or Head of Risk at the group level.

The revised MCCG, which was released in 2021 highlights that the board together with management should take responsibility for the governance of sustainability including setting the company's sustainability strategies, priorities, and targets. In addition, strategic management of material sustainability matters should be led by senior management. The MCCG recommends as a Step Up practice that the board identifies a designated person within the management to provide a dedicated focus to manage sustainability strategically, including the integration of sustainability considerations in the company's operations.

Materiality assessment and matters

The nature, extent, and materiality of sustainability risks vary across companies. Under the Listing Requirements, sustainability matters are considered material if they reflect the companies significant economic, environmental and social impacts or substantively influence the assessment and decisions of the company's stakeholders.

The review found that most companies adopted a similar approach in undertaking the materiality assessment, which includes engaging the companies' stakeholders for input to identify sustainability matters which are material to the company.

In the sustainability disclosures, several companies disclosed a plot of the ESG matters based on severity and likelihood of occurrence. The list of matters identified as material by companies ranged from five to as many as 24. Some of the ESG matters were common across most companies. The top three most common matters are highlighted in Figure 1.

Figure 1
Top three common matters identified as material



Occupational safety and health is the most common matter identified as material by companies which is expected given the challenges arising from the COVID-19 pandemic. Companies that disclosed their response to the pandemic commonly described the changes made to the operating procedures of the company to implement health and safety requirements in compliance with the Government's standard operating procedures.

Less than half of the 40 listed companies identified climate-related considerations as material. We expect significant acceleration in the short and medium term in relation to companies' focus and actions on climate considerations, in particular decarbonisation efforts, driven by the global effort and target to transition to a low carbon economy. Efforts are underway including by the Joint Committee on Climate Change (JC3), an initiative co-led by Bank Negara Malaysia (BNM) and the SC to improve climate-related disclosures, and advocates the likes of the Climate Governance Malaysia (CGM) that provides companies, in particular non-executive directors with practical tools to develop an effective climate transition strategy. The following feature article by CGM highlights some of the fundamental considerations for effective board stewardship on climate-related issues and disclosures.



LEADING TRANSFORMATIVE ACTION ON CLIMATE CHANGE BY CGM

Debate on the science behind climate change is over.

Change is already happening and the pace is accelerating. Capital markets are forward looking and have started to pull this risk forward. The decarbonisation and energy transition, which the world has committed to, is being mirrored by a global business movement where almost 2,000 businesses have committed to the rigorous Science-Based Targets², resulting in industries undergoing deep transitions across economies.

Any business which is resource or carbon intensive, heavily reliant on extracting from the environment is likely to be a stranded asset in the near future. If the cost of pollutants or environmental destruction which critically impairs resilience is not priced, then corporate earnings are over-stated or in the least, mis-stated. The full cost of natural resources is more than the cost of extracting, transporting and refining.

In some ways, the entire approach of the climate transition is predicated on the concept of a social license to operate, which used to be applied to extractive industries. Individuals are significantly more aware of the environmental costs of business practices while the global community is attentive to consumption patterns and the sustainability of their supply chain.

Businesses in Malaysia need to continuously ensure they qualify for and are entitled to this social license to operate, failing which a backlash could be triggered from multiple stakeholders. As an exporting nation, where exports represent 70% of GDP, Malaysia's position in the global supply chain is affected by our sustainability credentials. Many of Malaysia's trading partners have declared climate ambitions. Global surveys of multinational corporations reveal that businesses which lack climate and sustainability ambitions will fall off the global supply chain.

The ASEAN region will be disproportionately affected by the climate crisis in multiple ways but conversely, this region is also young and entrepreneurial. It stands to reason that if this is an existential crisis, there is also tremendous opportunity to generate value for those businesses which contribute solutions. Many companies are already intelligently pivoting nimbly to take advantage of this crisis.

We are faced with an opportunity, not just of our lifetime or our generation, but in all likelihood, as the last generation to be able to change the trajectory the world is currently on.

How boards can lead and drive transformative action on climate change?

1. **Implement the World Economic Forum's Climate Governance Principles**

Ensuring that companies are braced for these changes, requires clear and collective sustainability ownership and accountability. It is the responsibility of the board of directors to ensure climate governance is adopted throughout the entire organisation.

Directors are long-term stewards and ultimately accountable for ensuring the resilience and sustainability of the company. The board is collectively responsible for identifying and managing risks; increasing sustainability and climate ambitions, which increases the company's climate resilience; as well as seizing opportunities which arise in the transition.

It is not the purview of one director or one board committee or one person in the C-Suite but climate governance needs to be acculturated throughout the organisation and the World Economic Forum's Climate Governance Principles³ are a useful framework for this purpose.

² The Science Based Targets initiative (SBTi) drives ambitious climate action in the private sector by enabling companies to set science-based emissions reduction targets. The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF).

³ *How to Set Up Effective Climate Governance on Boards, Guiding Principles and Questions*, World Economic Forum, 2019.

2. Clear and informative reporting is needed

Allocators of capital such as investors and bankers are under tremendous pressure to identify legacy assets or industries. They, in turn, are demanding better reporting and disclosure from businesses.

Declarations of sustainability with insufficient details will not enable investors to make informed decisions. Reporting entities need to clearly demonstrate a credible transition pathway.

3. Be ready to be accountable

Shareholder activists are lobbying for mandatory disclosure and in some jurisdictions, advocating for a vote on the company's climate plan. Institutional investors are mounting pressure on PLCs to provide an accountability mechanism and are prepared to vote against directors that do not direct enough attention to ESG criteria.

To satisfy the increasing scrutiny by investors, companies need to demonstrate very clearly how sustainability and climate ambitions are embedded into business strategy to improve business resilience, competitiveness and financial performance.

4. Climate resilience is a close proxy to the quality of management and board thinking

Capital needs to be allocated to those businesses, management teams and boards who understand this.

Beyond investors, stakeholders such as scientists, economists, regulators, and rating agencies, are demanding for reporting and disclosure too because they recognise the tremendous scale of decarbonisation needed.

Naturally, this conversation is also being used by investors as a proxy to the quality of management thinking.

5. Invest in climate literacy

ESG issues are dynamic. What is material for society and the environment is likely to become financially material for the company. This is also reflected in the extended concept of dynamic materiality, beyond the traditional measure of materiality as a measure of revenue, profits and net assets.

Hence, directors need to invest in climate literacy so that they can identify and anticipate ESG indicators that will impact the performance of their companies.

6. Future proofing your business against climate change-related risks

Board leadership and oversight is required to ensure the long-term strategies of the company are aligned with the stakeholders' expectations for responsible and sustainable business conduct. Forward-looking companies are imposing internal (or shadow) carbon pricing in anticipation of governments imposing an ever-increasing price on CO₂ emissions.

There are also opportunities to invest in sustainable products and solutions which are cheaper, more efficient and environmentally friendly. Today's investment decisions will directly impact the survival rates of businesses.

Boards need to be very clear if, as long-term stewards of the company, they are overseeing the inevitable necessary investment in the future or are blindly continuing to invest in the past.

References:

1. <http://weforum.org/whitepapers/how-to-set-up-effective-climate-governance-on-corporate-boards-guiding-principles-and-questions>
2. <https://www.sc.com/en/feature/future-proofing-supply-chains-for-the-new-global-economy/>
3. <https://sciencebasedtargets.org/companies-taking-action>
4. <https://www.iea.org/articles/global-energy-review-co2-emissions-in-2020>.

THEMATIC REVIEW 3

Demographics of Audit Committees of Listed Companies

by the SC's Audit Oversight Board

This thematic review presents observations on the demographics of Audit Committees of listed companies on Bursa Malaysia, in terms of board composition, diversity, tenure, as well as technical and capabilities of Audit Committee members.

The Audit Committee plays an important role in a company's governance structure to rigorously challenge and pose probing questions on the company's financial reporting process, internal controls and risk management.

The Audit Committees also supports the board through the exercise of professional scepticism in reviewing and challenging significant financial reporting issues and judgements made in connection with the preparation of the company's financial statements, interim reports, preliminary announcements, and related formal statements, in consultation with the external auditors, where necessary. This includes evaluating whether management has performed and discharged their responsibilities in adopting appropriate accounting policies, estimates and judgements, as well as made the required disclosures in the preparation of the financial information. Additionally, drawing on the expertise and experience of members of the Audit Committee, they should be able to probe irregular or dubious transactions that may not be as easily identified otherwise.

Requirements related to the Audit Committee under the Bursa Malaysia Listing Requirements (Part C, Chapter 15)

All listed companies on Bursa Malaysia are required to establish an Audit Committee that is responsible to among others–

- (a) with the external auditor, review the audit plan, audit report, and external auditor's evaluation of the system of internal controls,
- (b) review the internal audit plan, processes, the results of the internal audit assessments, investigation undertaken, and whether or not appropriate action will be taken on the recommendations;
- (c) review the quarterly results and year-end financial statements before the approval by the board of directors; and
- (d) review any related-party transactions and conflicts of interests' situation that may arise within the listed issuer or group.

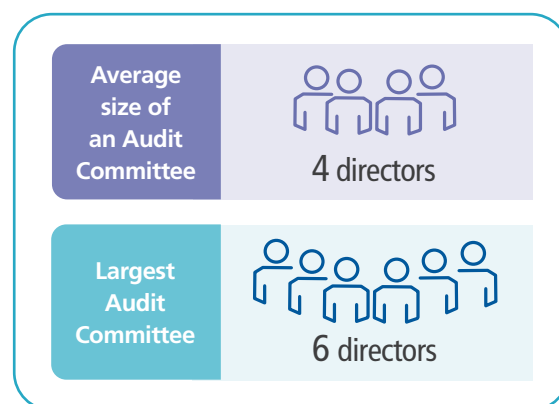
The Audit Committee must comprise of not fewer than three members, all of whom must be non-executive directors, with a majority of them being independent directors.

Demographics of the Audit Committee

Size

Under the Listing Requirements, a listed company must establish an Audit Committee from among its directors. The Audit Committee must comprise no fewer than three members.

As of 31 August 2021, the average board size of listed companies on Bursa Malaysia is seven directors. While the average size of an Audit Committee is four directors, and typically at least half of the directors on the board of a listed company are also members of the Audit Committee. The largest Audit Committee comprises six members.



Composition

Audit Committees are required under the Listing Requirements to comprise only of non-executive directors, the majority of whom are independent. Subsequently, to form a quorum for an Audit Committee meeting, the directors present must comprise majority independent directors. This is to ensure that the deliberations of the Audit Committee are objective and independent from the influence of management and/or the controlling shareholders.

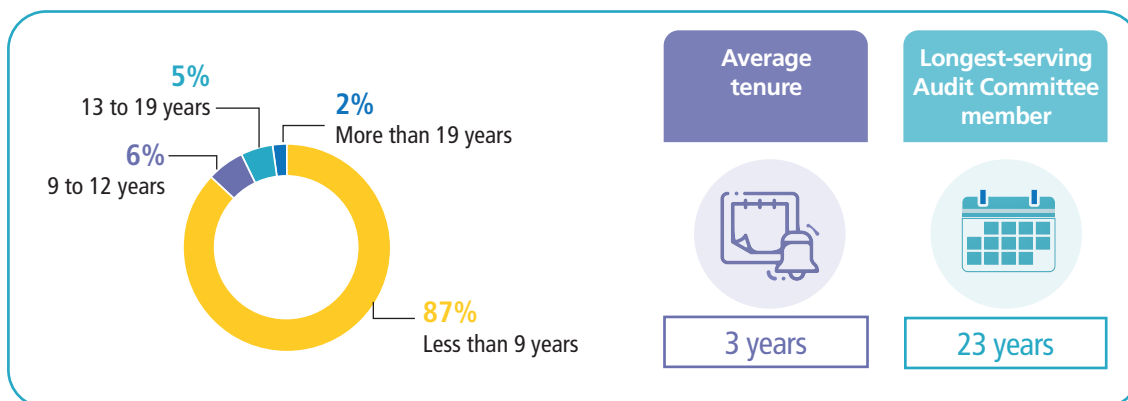
To strengthen the independence and effectiveness of the Audit Committee, Step Up practice 8.4 of the MCCG recommends that an Audit Committee should comprise solely of independent directors. As of 31 August 2021, a total of 618 (65.3%) listed companies have adopted this practice.

Tenure of Audit Committee members

As of 1 September 2021, the average tenure of an independent director on the board of a listed company on Bursa Malaysia is six years. The longest tenure of an independent director is currently 34 years. On average, a relatively shorter committee tenure is recorded for a member of the Audit Committee, at three years, with the majority of Audit Committee members serving less than nine years.

Out of 3,248 Audit Committee members, only 395 directors (12%) have served on the committee for more than nine years, out of which, 292 (8.9%) have served more than 11 years. The longest-serving member of an Audit Committee has been on the committee for 23 years.

Figure 1
Tenure of Audit Committee members

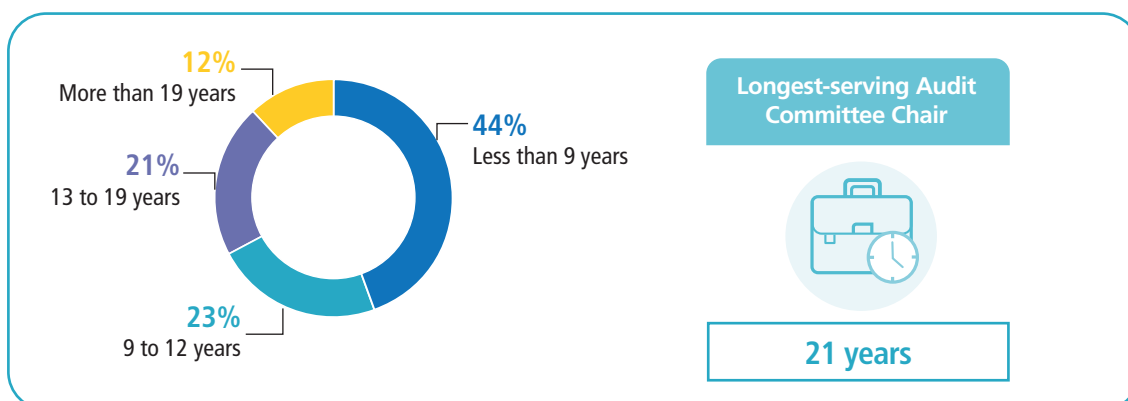


The concerns with long-serving independent directors on boards also apply to the committee-tenure of Audit Committee members. Long tenure gives rise to among others, familiarity that can impair the objectivity and independence of the Audit Committee. The expectations for the Audit Committee to provide professional scepticism, and independent unbiased views may be eroded due to familiarity with the board and management. The *International Code of Ethics for Professional Accountants* takes a stricter stance compared to the 9-year consideration in the MCCG. It highlights that a continuous service tenure of seven years by a key audit partner for the same listed company would substantially threaten the audit partner’s independence by virtue of the continued familiarity with the listed company.

Tenure of the Chair of Audit Committees

The leadership of the Audit Committee Chair is critical in determining the effectiveness and accountability of the Audit Committee. Data show that most Audit Committee Chairs have held the position and role for less than nine years. However, the Audit Committee Chair of 145 listed companies has assumed the role for much longer as reflected in Figure 2.

Figure 2
Tenure of the Chair of the Audit Committees



Currently, the longest-serving Audit Committee Chair has assumed the role for 21 years. The role as an Audit Committee member is a demanding one, which requires willingness to ask tough questions of management and others to exercise oversight of the company's financial reporting process. The board should evaluate whether the committee is able to undertake its function effectively, having considered among others, how long the directors have served on the committee, and whether there is a need for a refreshment of the composition.

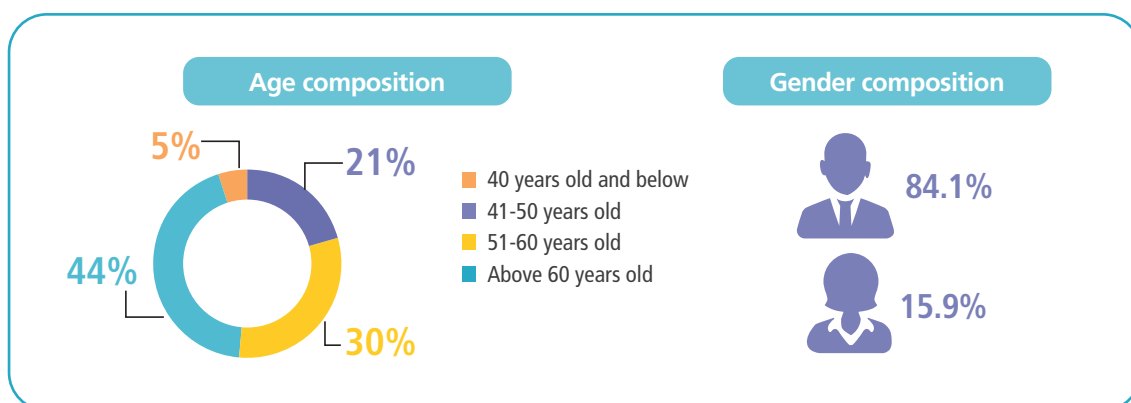
Boards may also want to consider rotating the membership of the Audit Committee among the directors on the board, with consideration of the skillset required to mitigate the risk of familiarity or complacency impairing the objective judgment of the Audit Committee. The rotation would also facilitate a periodic refresh of the Audit Committee and provide the committee with a fresh pair of eyes and perspectives.

Diversity

Diversity covers several aspects including skills, experience, ethnicity and nationality. However, this thematic review will highlight observations on two aspects, diversity with regards to age and the participation of women in Audit Committees.

In terms of age, there is almost an equal split in the age of Audit Committee members, where 44% of them are above 60 years old, 30% are between 51 to 60 years old, 21% are between the age of 41 to 50 years old, and another 5% are 40 years old and below. The youngest Audit Committee member is currently 26 years old, and the most senior is 87 years old.

On the participation of women directors in the Audit Committee, as of 1 September 2021, only 15.9% of Audit Committee members are women. Based on the statistics gathered by the Malaysian Institute of Accountants, 54% of Chartered Accountants in Malaysia are women, which reflects an untapped pool of skilled women as directors and members of the Audit Committee.



Diversity promotes the consideration of various perspectives that in turn facilitates robust discussions and effective decision-making. Data on the demographics of the Audit Committees with respect to age and gender indicate that boards need to appreciate that the case for diversity is not confined to the board, but extends to the board committees and across the company.

Technical competency and capabilities

Audit Committee members between them should collectively possess the required understanding of the financial reporting and audit process, and knowledge of the industry in which the company operates. As listed companies in Malaysia continue to grow and expand their horizon beyond the domestic trade environment, business transactions are expected to be increasingly complex and voluminous. These may include multiple trading layers and geographical locations that may be unfamiliar to the business that are likely to bring increased inherent risks.

With the continuous development in the financial reporting ecosystem, periodic training for Audit Committees in areas such as financial reporting, audit and regulatory framework important to ensure Audit Committees remain skilled and competent in undertaking their functions.

In January 2019, the International Organization of Securities Commission (IOSCO) issued a report on ways that the Audit Committee can help support and promote audit quality. Excerpts from this report are:

IOSCO REPORT ON GOOD PRACTICES FOR AUDIT COMMITTEES IN SUPPORTING AUDIT QUALITY – EXCERPTS

1. Recommending the appointment of auditors

The Audit Committee should make their independent recommendation on auditor selection based on clear criteria **that focus on audit quality and not on fee reduction**. The criteria should include consideration of the skills, expertise, technical competence, industry knowledge, the resource capacity of the auditor and the ability of the auditor to comply with relevant independence requirements and standards.

In assessing the auditor's commitment to uphold audit quality, the Audit Committee should:

- Engage with the auditor to obtain an understanding on its systems of quality controls; and
- Consider any other relevant information including those contained in the audit firm's annual transparency report.

2. Assessing potential and continuing auditors

The Audit Committee should assess the adequacy and appropriateness of audit resources. In this regard, the Audit Committee should consider:

- The auditor's **knowledge** of the listed company's **business and industry**,
- The **extent** of senior audit team members' **involvement**,
- The use of **other** auditors and **specialist expertise** and;
- The ability of the auditor to effectively conduct audits in different geographical locations in which components of the company's group operate.

3. Setting of audit fees

The Audit Committee should ensure that the setting of audit fees reflects the amount of resources and work effort required by the auditor to carry out a quality audit. The Audit Committee should not place undue focus on lower audit fees over audit quality as any audit failure arising from inadequate fees would be highly detrimental to the reputation of the company and create distrust over the reliability of the company's financial report.

4. Facilitating the audit process

The Audit Committee can support the audit process by ensuring the following:

- **The company management has extended adequate cooperation** to the auditor;
- The planning of the audit would allow a quality audit within the reporting deadlines. Any anticipated challenges to meet the reporting deadlines should be addressed early; and
- The management appropriately addresses any concerns raised by the auditor.

The Audit Committee should also review and **challenge management's assumptions, accounting treatments and estimates**. The Audit Committee can even consider consulting with an external party when necessary particularly when faced with newer or more complex areas.

5. Assessing auditor independence

The Audit Committee should oversee the establishment of policies on auditor independence and undertake procedures to be satisfied with the independence of the auditor.

At least annually, the Audit Committee should have a discussion with the auditors on matters relating to their independence. This includes obtaining a confirmation on whether the auditor is aware of any matters affecting their independence and how any identified threats have been addressed.

6. Communicating with the auditor

The Audit Committee should have an **open and timely communication** with the auditor about risks and matters of concern to enable both parties to perform their respective roles effectively.

While the Audit Committee typically meets with the auditor at least twice a year to discuss the audit plan and the auditor's report at the conclusion of the audit, more frequent meetings may be necessary to communicate any concerns or emerging issues such as:

- Complex new transactions which may affect the accounting treatment, or uncertain accounting estimates; and
- Communications from the regulators relating to inquiries or concerns raised over the company's accounting policies, material disclosures or any matter that could affect financial reporting.

7. Assessing audit quality

In evaluating the performance of the company's auditor, the Audit Committee should consider the following:

- Whether there is any indication that the auditor is not committed to audit quality and the application of high ethical standards;
- Whether the auditor has demonstrated sufficient understanding of the business and responded appropriately to assessed risks;
- Whether the auditor has exercised sufficient professional scepticism in challenging accounting policies and accounting estimates;
- The timeliness of the auditor's communication on issues affecting the financial reports
- Whether the auditor has provided useful feedback in their management letters;
- Whether the auditor has taken timely action to improve audit quality which includes addressing findings by the audit oversight regulator; and
- Any other relevant information including those contained in the audit firm's annual transparency report.

As companies continue to navigate an uncertain and challenging business environment, the Audit Committee will need to remain flexible to address issues and challenges as they arise. Audit Committees play a critical role in overseeing financial reporting and internal controls, as well as the appointment of external auditors. As recommended in the MCCG, the Audit Committee should consider the information presented in the Annual Transparency Reports of audit firms when reviewing the appointment of an external auditor.

ANNUAL TRANSPARENCY REPORTING FOR AUDIT FIRMS




Commencing from 2021, audit firms registered with the AOB that meet the following criteria at the end of the calendar year for two consecutive years are required to produce an *Annual Transparency Report* based on the audit firm's fiscal year-end:

- Audit firms with more than 50 public-interest entities (PIE) audit clients; and
- The total market capitalisation of the audit firm's PIE clients is above RM10 billion.

As part of a two-phase implementation approach in 2021, the audit firms that meet the above criteria are required to share their Annual Transparency Reports with the Audit Committee of their PIE audit clients. In subsequent years, these audit firms are required to publish their Annual Transparency Reports on their websites within four months after the respective audit firm's fiscal year-end.

For the other AOB-registered audit firms that do not meet the criteria for reporting, voluntary adoption of Annual Transparency Reporting is encouraged.

In order to facilitate comparability across audit firms, the minimum information that should be disclosed in the audit firms' Annual Transparency Reports has been mandated as below:

 Legal and governance structure	 Measures taken by the audit firms to uphold audit quality and manage risks	 Information on the firm's measurement of indicators for audit quality
<ul style="list-style-type: none"> • Legal and ownership structure • Governance and leadership structure • Network and structural arrangements • Disclosure on partners with substantial equity in the partnership • Disclosure on family relationship between partners undertaking leadership role or holding substantial equity in the partnership with other partners of the audit firm 	<ul style="list-style-type: none"> • Firm's system of quality controls • Accountability framework for partners • Compliance monitoring • Risk management process 	<ul style="list-style-type: none"> • Comprises of 15 Audit Quality Indicators (AQIs) to be disclosed relating to: <ul style="list-style-type: none"> ▶ Audit partner workload ▶ Auditor independence ▶ Capacity and competence of the firm ▶ Audit engagement supervision ▶ Firm's investments to uphold quality ▶ Monitoring reviews on quality

Continued uncertainty in the business environment, combined with increasing complexities and risk, will demand a high degree of oversight by the Audit Committee in relation to the reliability of the financial reporting process, statements, and the state of internal controls and risk management of a company. Boards should review whether the Audit Committee is well-positioned to deal with these challenges and consider among others improvements in relation to the skills and knowledge as well as in the composition of the Audit Committee. Any need to improve the effectiveness of the Audit Committee should be addressed appropriately and urgently.

