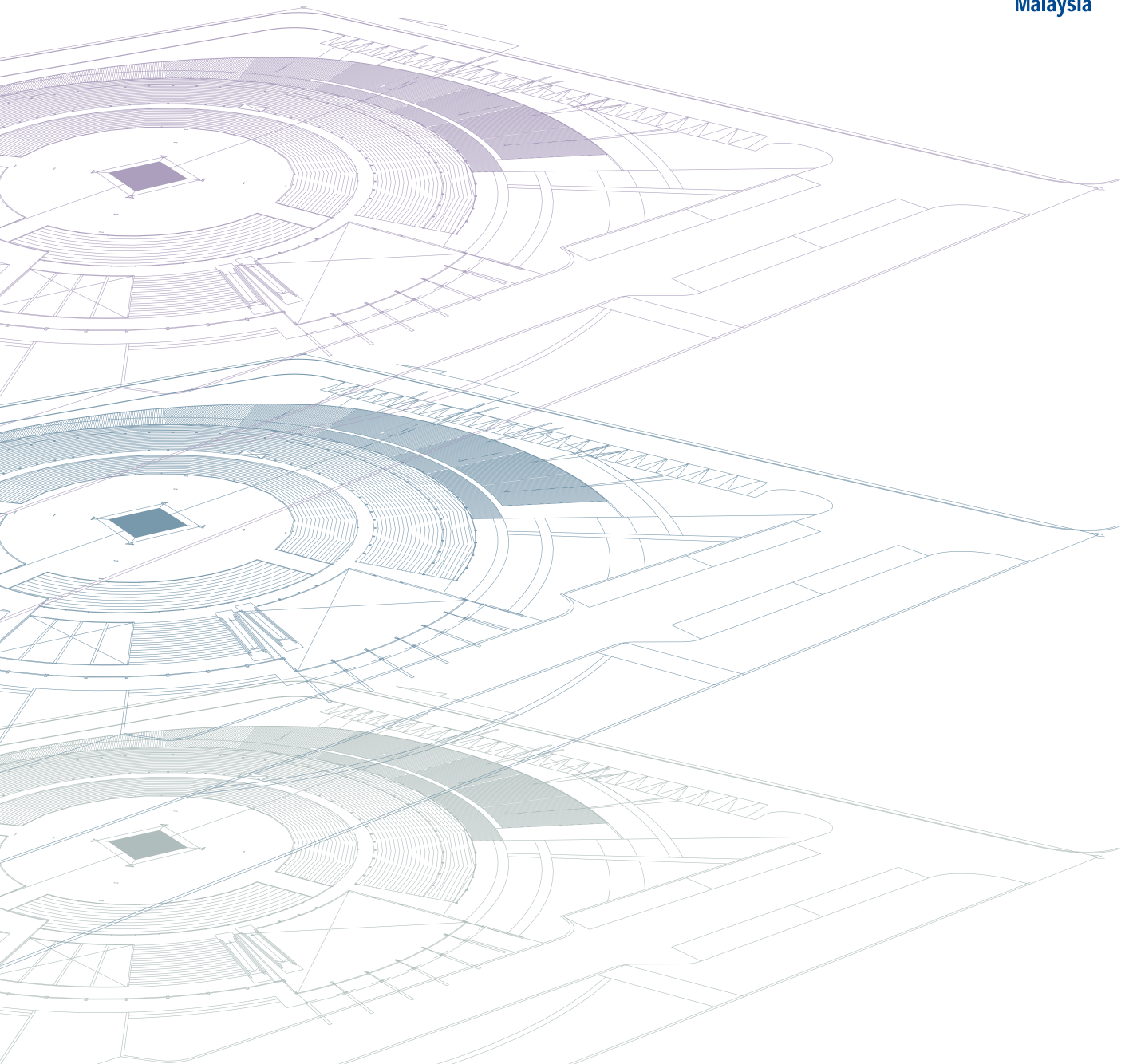




Suruhanjaya Sekuriti
Securities Commission
Malaysia



CORPORATE GOVERNANCE STRATEGIC PRIORITIES 2021 – 2023

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DISCLAIMER

This book aims to provide a general understanding of the subject and is not an exhaustive write-up. It is not intended to be a substitute for legal advice nor does it diminish any duty (statutory or otherwise) that may be applicable to any person under existing laws.

INTRODUCTION

The *Corporate Governance Strategic Priorities 2021 – 2023* (CG Strategic Priorities) is a critical component of the *Capital Market Masterplan 3* (CMP3), anchored on six key development and regulatory priorities. The strategic thrusts of the CMP3 focus on catalysing competitive growth, empowering investors for a better future, and shaping a stakeholder economy, while simultaneously embedding shared accountability, prioritising efficiency and outcomes, as well as embracing technology.

The CG Strategic Priorities focus on supporting listed companies in responding to the rise of the stakeholder economy that calls for businesses to create value for a wider spectrum of stakeholders, including the society, and to have conscious consideration for their impact on the environment and vice versa.

The CG Strategic Priorities implemented from 2021 to 2023 will focus on five thrusts and 11 strategic initiatives to among others, strengthen board capacity in addressing sustainability, scale up investor stewardship, enhance availability of corporate governance (CG) data through the use of digital tools, and further develop the collaboration with universities to deepen engagement with youth on corporate governance.

OUTCOMES OF THE CORPORATE GOVERNANCE STRATEGIC PRIORITIES 2017-2020

PRIORITY 1 ENHANCE THE CG REGULATORY FRAMEWORK

Issued:

- An update of the *Malaysian Code on Corporate Governance* (MCCG) in 2017.
- The *Guidelines on Conduct of Directors of Listed Corporations and their Subsidiaries* in 2020.

PRIORITY 2 STRENGTHEN THE CG ECOSYSTEM

- Established:
 - The Institute of Corporate Directors Malaysia (ICDM) in 2018.
 - The Corporate Governance Council in 2019.
- Introduced the *Annual General Meeting (AGM) Shareholders Checklist* in 2019.
- Collaborated with the Integrated Reporting Steering Committee to review the adoption of integrated reporting by listed companies in 2020.

PRIORITY 3 PROMOTE GREATER GENDER DIVERSITY ON BOARDS

- Annual reporting of gender diversity statistics through the SC's *Corporate Governance Monitor* (CG Monitor) report.

PRIORITY 4 EMBED CG EARLY IN THE LIFE CYCLE OF COMPANIES AND AMONG YOUTH

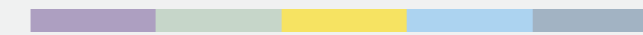
- Engaged universities and formalised a collaborative agreement with Monash University Malaysia.

PRIORITY 5 LEVERAGE TECHNOLOGY TO ENHANCE MONITORING OF CG PRACTICES AND SHAREHOLDER ACTIVISM

- Began leveraging artificial intelligence (AI) to monitor and evaluate the adoption as well as quality of corporate governance disclosures in 2018.
- Issued the guidance note¹ on the conduct of virtual meetings in 2020.

KEY THRUSTS AND INITIATIVES

Corporate Governance Strategic Priorities 2021–2023



STRENGTHEN BOARD LEADERSHIP FOR AGILE AND RESPONSIBLE BUSINESS

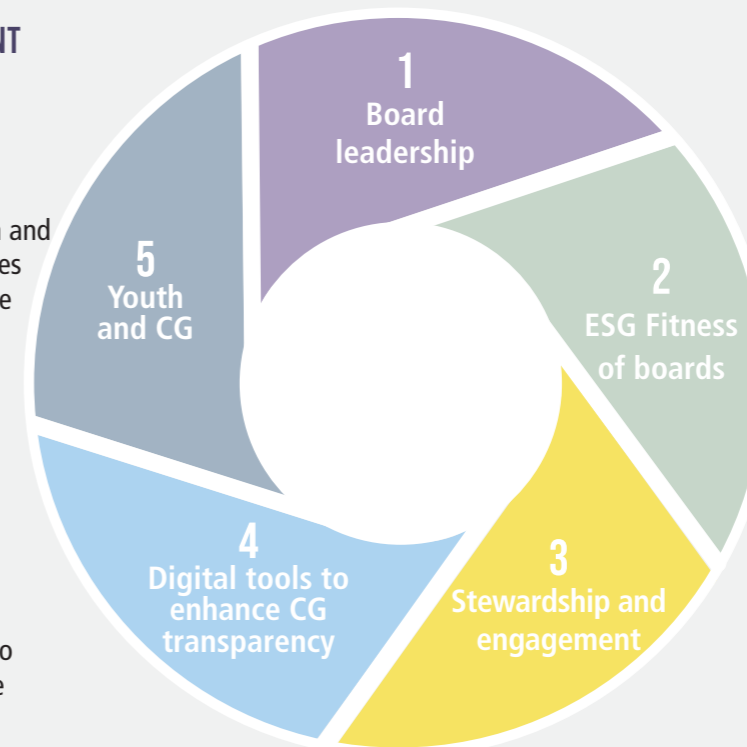
Emphasise on board refreshment, accelerate the participation of women on boards and enhance the professional development framework for boards.

DEEPEN ENGAGEMENT WITH YOUTH ON CG

Develop further collaboration with universities, including through joint research and enrich academic studies as well youth exposure to current corporate governance issues.

LEVERAGE DIGITAL TOOLS TO ENHANCE CG TRANSPARENCY

Widen public access to corporate governance data.



STRENGTHEN ENVIRONMENTAL, SOCIAL AND GOVERNANCE FITNESS OF BOARDS

Provide capacity-building support for boards on sustainability. Widen the availability of sustainability information through an enhanced reporting framework and annual progress report in the SC's CG Monitor report.

SUPPORT INVESTOR STEWARDSHIP AND ENGAGEMENT

Enhance retail shareholder-board engagement on corporate governance and sustainability through investor education, and support institutional investor stewardship and engagement.

¹ *Guidance and FAQs on the Conduct of General Meetings for Listed Issuers, SC, 2020.*

STRENGTHEN BOARD LEADERSHIP FOR AGILE AND RESPONSIBLE BUSINESS

The composition of the board is a critical determinant of board leadership. Responding effectively to emerging imperatives and disruptive forces requires board diversity in terms of skills, gender, age, and nationality, among others.

For companies to survive and thrive, boards must also learn to adapt. Boards that adopt a proactive and forward-thinking approach to board refreshment and continuous professional development will be more resilient, innovative, and in a stronger position to implement new strategies and methods in response to changing market conditions.

Thus, in the next three years, the SC will focus on encouraging boards to review and refresh their composition to ensure there is diversity and the right mix of expertise on the board, as well as enhance the continuous professional development framework for boards.

STRATEGIC
INITIATIVE

1.1



Emphasise on board refreshment

The SC will work closely with the Institutional Investors Council (IIC) and the Minority Shareholders Watch Group (MSWG) to engage boards on their refreshment policies and practices. This is to ensure that boards have the right mix of directors to respond to present challenges and anticipate future risks as well as opportunities.

A change in the skills profile and composition of the board is required to meet the growing demand for businesses to evolve beyond the traditional emphasis on shareholders and profit maximisation towards greater consideration of broader stakeholders interest.

STRATEGIC
INITIATIVE

1.2



Introduction of a mandatory 12 years tenure limit for independent directors

As of 31 October 2021, 46% of listed companies have at least one long-serving independent director on the board (tenure of 9 years or more), with 500 board positions held by the same independent director for more than 12 years, out of which, 89 are for more than 20 years. On some boards, the challenge is more acute as they have two or three independent directors with tenure as long as 30 years.

The SC has taken progressive steps to address this issue, including the introduction of the two-tier voting process¹ in 2017. The take up was positive with 164 listed companies using two-tier process within the first year of it being introduced. However, based on the SC's review, 98% of the two-tier resolutions were passed, raising concerns that shareholders may not fully appreciate the issues related to long tenure and the need for board refreshment. As the latter is an urgent imperative, a mandatory 12 years tenure limit for independent directors will be introduced in *The Listing Requirements* in 2022.

STRATEGIC INITIATIVE
1.3

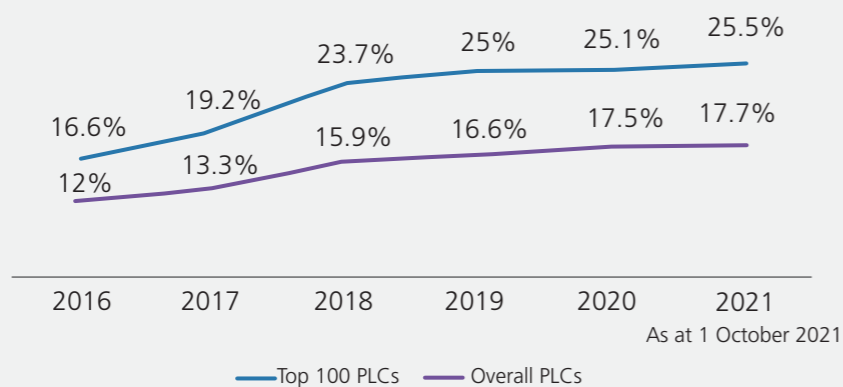
Accelerate the participation of women on boards through a Public-Private Partnership



The SC has been a long proponent of gender diversity on boards and implemented several measures to drive this agenda. There is progress in the level of participation of women on boards of listed companies. As of 1 October 2021, women hold 17.7% of board positions, which is an increase compared to 10 years ago when the level of women participation on boards was only 7.7%.

However, progress has been marginal over the past three years, hovering around 25% for the top 100 listed companies and 17% overall (all listed companies). Furthermore, only 162 listed companies (18%) have achieved the 30% target. There also appears to be inertia that keeps gender diversity in the 'nice to have category' for 252 listed companies which still have all-male boards.

Chart 1
PARTICIPATION OF WOMEN ON BOARDS OF PUBLIC-LISTED COMPANIES



¹ The two-tier voting process is recommended in the MCCG 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 Shareholder votes. 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 differ or where Tier 1 voter(s) abstained from voting.

The SC will pursue the establishment of a Public-Private Partnership (PPP) to support the implementation of the requirement for boards of listed companies to comprise at least one woman director², and accelerate progress in achieving the 30% target. The PPP will facilitate collective action between the public and private sector to expand the existing talent pool with the inclusion of more qualified women, as well as periodic progress reporting on of the 30% target, among others.

STRATEGIC INITIATIVE
1.4



Enhance the Mandatory Accreditation Programme

The Mandatory Accreditation Programme (MAP) is an onboarding programme for newly appointed directors of listed companies on Bursa Malaysia. Directors are required to complete the MAP within four months of being appointed to the board or from the company's listing date (for a newly listed company).

The existing MAP will be enhanced to incorporate content on emerging issues such as the shift to a stakeholder economy as well as reputation and crisis management. The MAP 2.0 will be delivered by the ICDM.

² Recognising the role of women in decision-making process and to strengthen the governance and effectiveness of boards, the Government, through the SC, will make it mandatory to have at least one woman Board member for all public-listed companies. This initiative will take effect from 1 September 2022 for large-cap companies and from 1 June 2023 for the remaining listed companies. *Paragraph 96, Budget 2022 Speech, 29 October 2021.*

STRENGTHEN ESG FITNESS OF BOARDS

Sustainability covers a broad and deep set of issues across the environmental, social and governance (ESG) spectrum. However, climate-related matters would be at the front and center as the new wave of climate action has begun to reshape the fundamentals of finance and climate considerations become increasingly material in business and investment decisions. Various countries have established emissions reduction targets and transition pathways, which demand companies to take concrete and measurable climate action.

The SC will focus on capacity building for boards to strengthen ESG leadership, and enhance the availability of information on the sustainability practices of listed companies via the SC's annual CG Monitor report.

STRATEGIC
INITIATIVE

2.1



Introduce the Leading for Impact Programme for board capacity building on sustainability

A new onboarding programme focusing on sustainability, the *Leading for Impact Programme* (LIP) will be introduced for directors of listed companies. The LIP will complement MAP by providing directors with the foundational knowledge and practices to address sustainability effectively, with a focus on climate action and transition.

STRATEGIC
INITIATIVE

2.2



Capacity building on sustainability for boards of mid and small-cap companies

A prerequisite for ESG leadership is the board's capacity to understand and address issues across the ESG spectrum. Today, the ESG fitness of boards differs, with some boards being relatively more advanced than others.

To support continuous capacity building on sustainability, in particular for boards of mid and small-cap companies, deep dive programmes on priority ESG issues will be developed. These programmes will be elective extensions of the LIP.

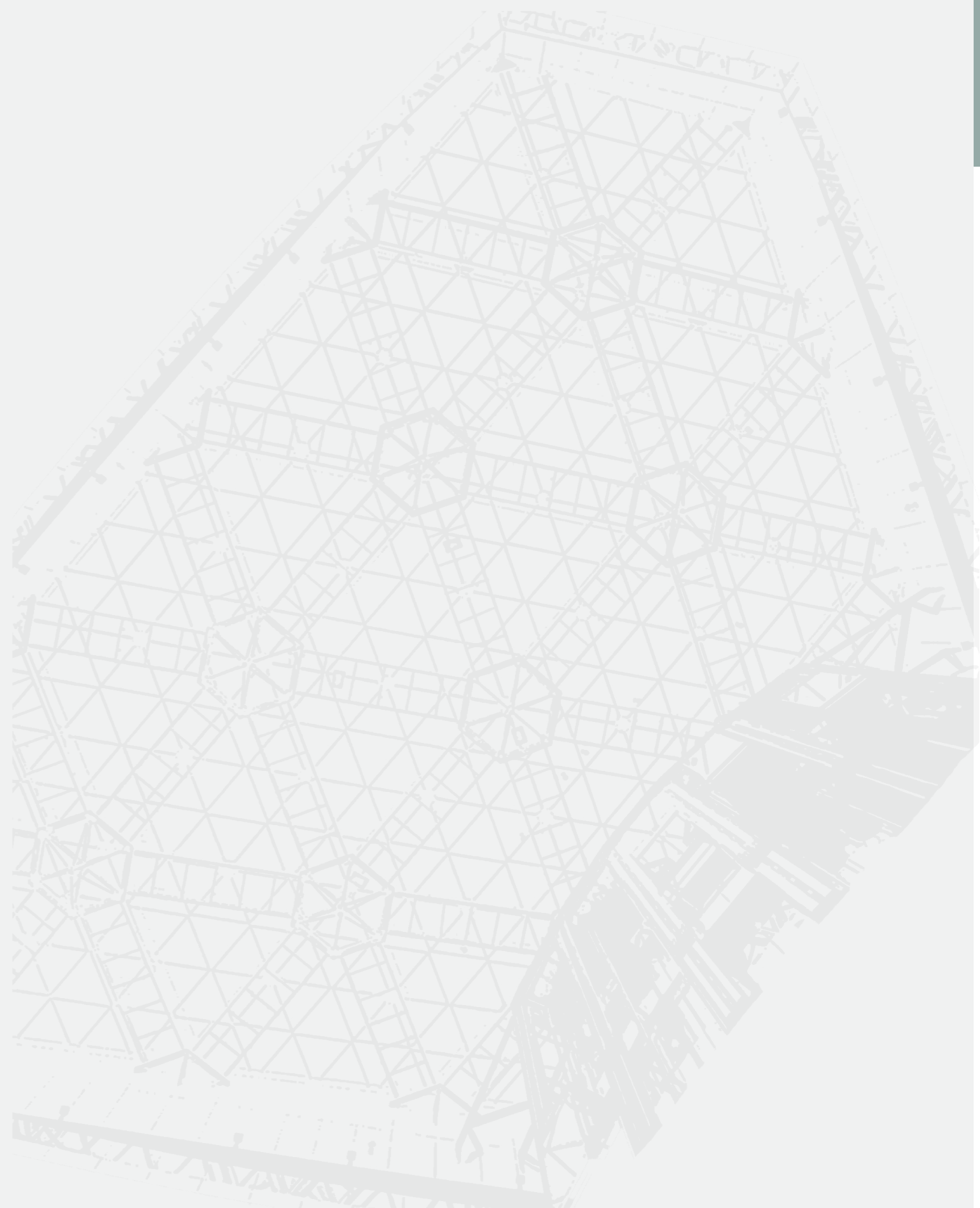
STRATEGIC INITIATIVE
2.3

Enhance transparency on sustainability practices of listed companies



Bursa Malaysia is currently reviewing the sustainability reporting framework for listed companies to improve the quality of sustainability disclosures and meet the information needs of capital market stakeholders.

The enhanced sustainability reporting framework scheduled for roll-out in the second half of 2022 will also include mechanisms to enable data capture from the sustainability disclosures of listed companies. The mechanism will enable the SC to extend its current use of artificial intelligence (AI) to cover sustainability disclosures, and provide annual data and observations on sustainability through the SC's annual CG Monitor report.



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STRATEGIC
PRIORITY

3

SUPPORT INVESTOR STEWARDSHIP AND ENGAGEMENT

Investor activism and stewardship are powerful tools to shape governance and drive long-term value creation of companies. It also provides the market discipline required to drive responsible business conduct.

The IIC and MSWG have been instrumental in raising the level of stewardship and influencing positive changes in the governance of companies.

To deepen and strengthen shareholder activism, the SC will undertake investor education efforts targeted at strengthening retail investors' understanding of corporate governance and sustainability issues, as well as support institutional investor stewardship and engagement.

STRATEGIC
INITIATIVE

3.1



Investor education focusing on CG and sustainability for retail investors

The SC will collaborate with the MSWG to develop a series of programmes to enhance retail shareholders' awareness and understanding on corporate governance and sustainability issues. This includes evaluating companies' governance practices, measures to improve board diversity and digital aptitude as well as performance in managing sustainability risks and opportunities.

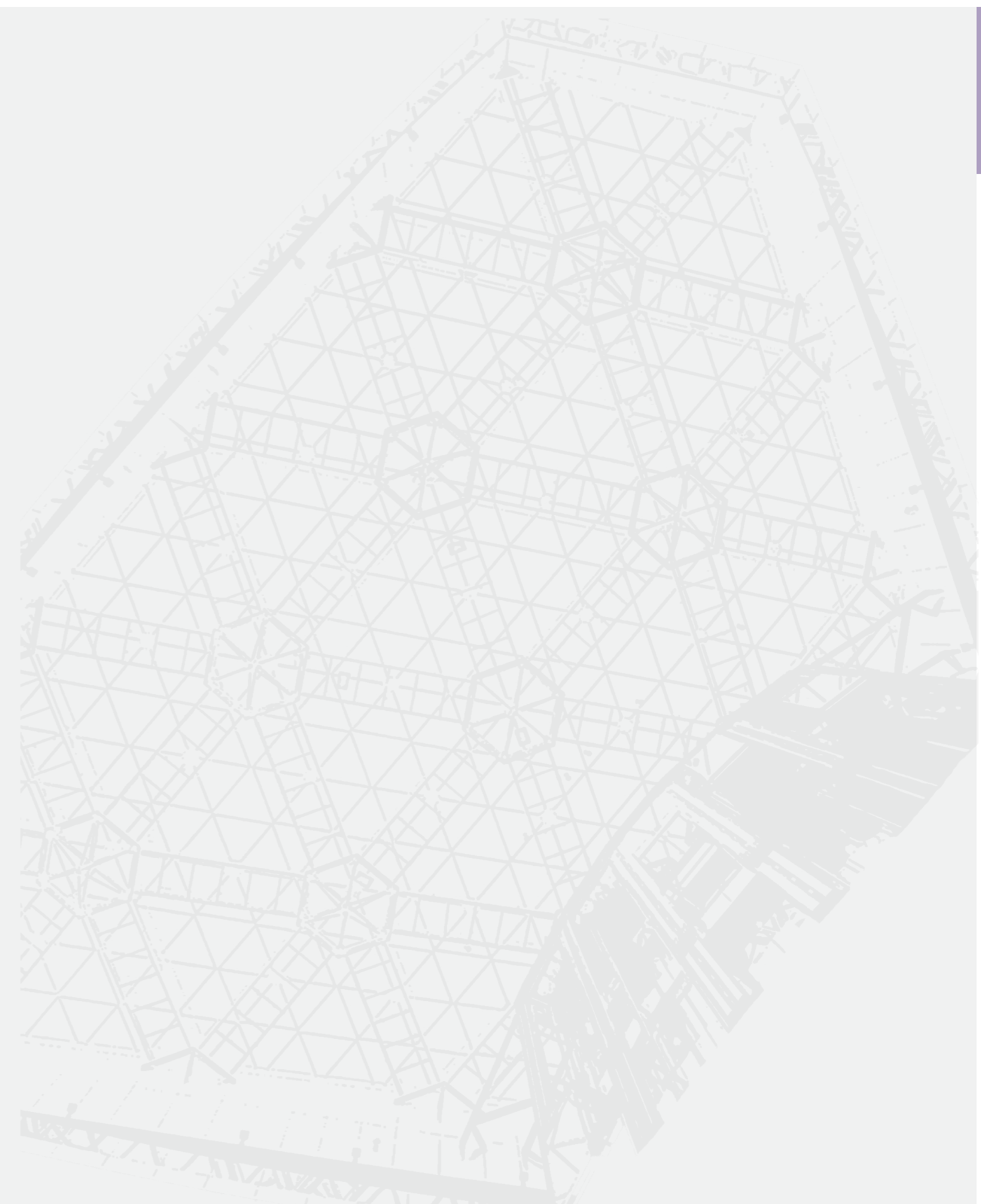
STRATEGIC INITIATIVE
3.2

Support institutional investor stewardship and engagement through the PERKUKUH programme



On 12 August 2021, the Government launched the *Perkukuh Pelaburan Rakyat* (PERKUKUH) programme, consisting of 20 initiatives to strengthen governance and optimise the performance of government-linked investment companies (GLICs).

Led by Ministry of Finance (MOF), the SC is supporting the development of baseline governance requirements and best practices that GLICs are expected to adopt. The SC will also work closely with the IIC and Capital Markets Malaysia to update and enhance the *Malaysian Code for Institutional Investors* (MCII) to promote effective and outcome oriented stewardship as well as address capacity-building needs of GLICs to scale up their engagement approach and measures.



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4 LEVERAGE DIGITAL TOOLS TO ENHANCE TRANSPARENCY

One of the key initiatives identified in the SC's CG Strategic Priorities (2017-2020) was the use of technology to monitor and gain insights on the corporate governance practices of companies. This led to the development of the SC's *Governance in a Glance* (GIG) system that uses AI to monitor the adoption of the MCCG and evaluate the quality of corporate governance disclosures.

The AI uses natural language processing and machine learning to evaluate corporate governance disclosures against predetermined parameters identified by the SC. The use of AI has enabled efficient monitoring of MCCG adoption as well as the issuance of the annual SC's CG Monitor report that presents observations and data on corporate governance.

To widen public access to corporate governance and sustainability data, the SC will explore mechanisms to enhance data availability for example, through the use of a public dashboard.

STRATEGIC
INITIATIVE

4.1



Widen public access to CG data

Access to current and reliable corporate governance and sustainability data is important to enable stakeholders to understand a company's governance structure and practices, evaluate its CG performance as well as support market and academic research on corporate governance.

The SC will explore the development of a public dashboard where corporate governance and sustainability information such as data on board composition and material sustainability risks are made available.

The SC also plans to share data on the adoption of the MCCG online, using an interactive format that will allow the public to view year-on-year or multi-year progress in terms of listed companies' adoption of the MCCG.

STRATEGIC
PRIORITY

5

DEEPEN ENGAGEMENT WITH YOUTH ON CG

Research and surveys have shown that Generation Y and Z will likely bring different expectations and perspectives related to society, technology and ethics which will influence corporate purpose and stimulate the exploration of new business models. Nurturing and embedding an early understanding of corporate governance among this segment of the population i.e. the youth, will enable them to meet their full potential as future leaders and agents of positive change.

In the CG Strategic Priorities (2017-2020), the SC identified the need to embed early understanding and appreciation of good corporate governance among youth. In 2021, the SC initiated discussions with universities on potential collaborations, and in May 2021, the SC formalised a collaborative agreement with Monash University Malaysia. The agreement facilitates the SC in engaging students and faculty members through guest lectures on current corporate governance issues.

STRATEGIC
INITIATIVE
5.1



Develop further collaboration with universities on corporate governance

The SC intends to develop further collaboration with universities to deepen its engagement with youth on corporate governance. The collaboration would include research on corporate governance issues to widen students' exposure to current discussions and developments as well as enrich empirical evidence on these issues. Findings from the research will also support the development of future corporate governance policies and measures.

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