

MALAYSIAN CODE ON CORPORATE GOVERNANCE

2012

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FOREWORD

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The Securities Commission Malaysia (SC) had in July 2011 released the *Corporate Governance Blueprint 2011* (Blueprint) which sets out the desired corporate governance landscape going forward. The essence of the Blueprint is to achieve excellence in corporate governance through strengthening self and market discipline and promoting good compliance and corporate governance culture. Boards and shareholders must embrace the understanding that good business is not just about achieving the desired financial bottom line by being competitive, but by also being ethical and sustainable.

The *Malaysian Code on Corporate Governance* (Code), first issued in March 2000, marked a significant milestone in corporate governance reform in Malaysia. The Code was later revised in 2007 (2007 Code) to strengthen the roles and responsibilities of the board of directors, audit committee and the internal audit function. The *Malaysian Code on Corporate Governance 2012* (MCCG 2012) focuses on strengthening board structure and composition recognising the role of directors as active and responsible fiduciaries. They have a duty to be effective stewards and guardians of the company, not just in setting strategic direction and overseeing the conduct of business, but also in ensuring that the company conducts itself in compliance with laws and ethical values, and maintains an effective governance structure to ensure the appropriate management of risks and level of internal controls.

Boards and management must be mindful of their duty to direct their efforts and resources towards the best interest of the company and its shareholders while ensuring that the interests of other stakeholders are not compromised. Disclosure and transparency are essential for informed decision-making. The timely availability of quality and accurate information including the reporting of financial performance are key facets of investor protection and market confidence.

A code of corporate governance is just part, albeit a very significant part, of the corporate governance regulatory tapestry. As highlighted in the Blueprint, several key recommendations will be implemented through the *Bursa Malaysia Listing Requirements* while others require changes to the law. Additionally, a company's own internal codes and procedures are critical in fostering a strong culture of corporate governance. It is therefore important that the MCCG 2012 is viewed and understood against the backdrop of this rich and strong tapestry.

In drafting the MCCG 2012, the views of many stakeholders were sought to understand the practicalities, challenges and expectations of inculcating high standards of corporate governance in listed companies and to ensure we have the necessary principles and recommendations of best practices to meet those standards. The SC would like to thank Bursa Malaysia, Federation of Public Listed Companies, Malaysian Institute of Corporate Governance, Malaysian Directors Academy, Minority Shareholders Watchdog Group, Malaysian Institute of Chartered Secretaries and Administrators, Malaysian Alliance of Corporate Directors and international corporate governance experts for their invaluable feedback and comments. I would also like to thank the staff of the SC for their efforts in the formulation and publication of MCCG 2012.

As always, I look forward to the support and co-operation of all stakeholders to enable us to achieve excellence in corporate governance to underpin the sustainable growth of the Malaysian capital market.

TAN SRI ZARINAH ANWAR

March 2012

CORPORATE GOVERNANCE IN MALAYSIA

Malaysia's Corporate Governance Journey

1. Malaysia recognises the value of good governance and it is for this reason that we are committed to promoting and sustaining a strong culture of corporate governance. Investor confidence in Malaysia was severely affected during the 1997/98 Asian Financial Crisis. Policy makers learnt valuable lessons and focused their attention, amongst others, on the need to raise corporate governance standards. We undertook numerous initiatives including the issuance of the *Malaysian Code on Corporate Governance* (Code) in the year 2000 to strengthen our corporate governance framework.
2. Since then, we have embarked on a journey to continuously improve our corporate governance framework. The Code was revised and securities and companies laws were amended. The Audit Oversight Board was established to provide independent oversight over external auditors of companies. The Securities Industry Dispute Resolution Center was established to facilitate the resolution of small claims by investors. Statutory derivative action was introduced to encourage private enforcement action by shareholders.
3. In 2011, the Securities Commission Malaysia issued the *Corporate Governance Blueprint 2011* (Blueprint) which outlines strategic initiatives aimed at reinforcing self and market discipline. The *Malaysian Code on Corporate Governance 2012* (MCCG 2012) is a key deliverable of the Blueprint.

The Malaysian Code on Corporate Governance 2012

4. The MCCG 2012, consistent with the Blueprint, retains the definition of corporate governance as set out in the *High Level Finance Committee Report 1999*.

Corporate governance is defined as:

“The process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the

ultimate objective of realising long-term shareholder value, whilst taking into account the interests of other stakeholders.”

5. The MCCG 2012, which supersedes the 2007 Code, sets out the broad principles and specific recommendations on structures and processes which companies should adopt in making good corporate governance an integral part of their business dealings and culture.
6. The MCCG 2012, like all corporate governance codes, advocates the adoption of standards that go beyond the minimum prescribed by regulation. The observance of the MCCG 2012 by companies is voluntary. Listed companies are however required to report on their compliance with the MCCG 2012 in their annual reports.
7. The MCCG 2012 focuses on clarifying the role of the board in providing leadership, enhancing board effectiveness through strengthening its composition and reinforcing its independence. The MCCG 2012 also encourages companies to put in place corporate disclosure policies that embody principles of good disclosure. Companies are encouraged to make public their commitment to respecting shareholder rights.
8. The MCCG 2012 is arranged as follows:

Principles

The principles of MCCG 2012 encapsulate broad concepts underpinning good corporate governance that companies should apply when implementing the recommendations.

Recommendations

The recommendations are standards that companies are expected to adopt as part of their governance structure and processes. Listed companies should explain in their annual reports how they have complied with the recommendations. As there is no ‘one size fits all’ approach to corporate governance, companies are allowed to determine the best approach to adopting the principles. Where there is non-observance of a recommendation, companies should explain the reasons.

Commentaries

Each recommendation is followed by a commentary which seeks to assist companies in understanding the recommendation. It also provides some guidance to companies in implementing the recommendation. Although some of the commentaries provide examples and suggestions, these should not be taken to be exhaustive.

CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

This section is a listing of the eight principles and their corresponding 26 recommendations. The principles and recommendations focus on, amongst others, laying a strong foundation for the board and its committees to carry out their roles effectively, promote timely and balanced disclosure, safeguard the integrity of financial reporting, emphasise the importance of risk management and internal controls and encourage shareholder participation in general meetings.

Principle 1 – Establish clear roles and responsibilities

Recommendation 1.1

The board should establish clear functions reserved for the board and those delegated to management.

Recommendation 1.2

The board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions.

Recommendation 1.3

The board should formalise ethical standards through a code of conduct and ensure its compliance.

Recommendation 1.4

The board should ensure that the company's strategies promote sustainability.

Recommendation 1.5

The board should have procedures to allow its members access to information and advice.

Recommendation 1.6

The board should ensure it is supported by a suitably qualified and competent company secretary.

Recommendation 1.7

The board should formalise, periodically review and make public its board charter.

Principle 2 – Strengthen composition

Recommendation 2.1

The board should establish a Nominating Committee which should comprise exclusively of non-executive directors, a majority of whom must be independent.

Recommendation 2.2

The Nominating Committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of directors.

Recommendation 2.3

The board should establish formal and transparent remuneration policies and procedures to attract and retain directors.

Principle 3 – Reinforce independence

Recommendation 3.1

The board should undertake an assessment of its independent directors annually.

Recommendation 3.2

The tenure of an independent director should not exceed a cumulative term of nine years. Upon completion of the nine years, an independent director may continue to serve on the board subject to the director's re-designation as a non-independent director.

Recommendation 3.3

The board must justify and seek shareholders' approval in the event it retains as an independent director, a person who has served in that capacity for more than nine years.

Recommendation 3.4

The positions of chairman and CEO should be held by different individuals, and the chairman must be a non-executive member of the board.

Recommendation 3.5

The board must comprise a majority of independent directors where the chairman of the board is not an independent director.

Principle 4 – Foster commitment

Recommendation 4.1

The board should set out expectations on time commitment for its members and protocols for accepting new directorships.

Recommendation 4.2

The board should ensure its members have access to appropriate continuing education programmes.

Principle 5 – Uphold integrity in financial reporting

Recommendation 5.1

The Audit Committee should ensure financial statements comply with applicable financial reporting standards.

Recommendation 5.2

The Audit Committee should have policies and procedures to assess the suitability and independence of external auditors.

Principle 6 – Recognise and manage risks

Recommendation 6.1

The board should establish a sound framework to manage risks.

Recommendation 6.2

The board should establish an internal audit function which reports directly to the Audit Committee.

Principle 7 – Ensure timely and high quality disclosure

Recommendation 7.1

The board should ensure the company has appropriate corporate disclosure policies and procedures.

Recommendation 7.2

The board should encourage the company to leverage on information technology for effective dissemination of information.

Principle 8 – Strengthen relationship between company and shareholders

Recommendation 8.1

The board should take reasonable steps to encourage shareholder participation at general meetings.

Recommendation 8.2

The board should encourage poll voting.

Recommendation 8.3

The board should promote effective communication and proactive engagements with shareholders.

In the following section, a commentary is provided for each recommendation. The commentary seeks to explain and provide some guidance for each recommendation.

PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

The responsibilities of the board, which should be set out in a board charter, include management oversight, setting strategic direction premised on sustainability and promoting ethical conduct in business dealings.

Recommendation 1.1

The board should establish clear functions reserved for the board and those delegated to management.

Commentary

The respective roles and responsibilities of the board and management should be clearly set out and understood to ensure accountability of both parties.

The board together with the Chief Executive Officer (CEO) should develop the descriptions for their respective functions. In addition, the board should develop and agree with the CEO, the corporate objectives, which include performance targets and long-term goals of the business, to be met by the CEO. Regular review of the division of responsibilities should be conducted to ensure that the needs of the company are consistently met. This allocation of responsibilities should reflect the dynamic nature of the relationship necessary for the company to adapt to changing circumstances.

Recommendation 1.2

The board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions.

Commentary

The board should assume, amongst others, the following responsibilities:

- *Reviewing and adopting a strategic plan for the company*
The role of the board is to review, challenge and approve management's proposal on a strategic plan for the company. The board brings objectivity and breadth of judgment to the strategic planning process as they are not involved in day-to-day management of the business. The board should satisfy itself that management has taken into account all appropriate considerations in establishing the strategic plan for the company. The board is also responsible for monitoring the implementation of the strategic plan by management.

- *Overseeing the conduct of the company's business*

A basic function of the board is to oversee the performance of management to determine whether the business is being properly managed. The board's obligation to oversee the performance of management contemplates a collegial relationship that is supportive yet vigilant. Therefore, the board must ensure that there are measures in place against which management's performance can be assessed.
- *Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures*

The board must understand the principal risks of all aspects of the company's business and recognise that business decisions involve the taking of appropriate risks. This is intended to achieve a proper balance between risks incurred and potential returns to shareholders. The board must therefore ensure that there are systems in place which effectively monitor and manage these risks.
- *Succession planning*

The board should ensure that all candidates appointed to senior management positions are of sufficient calibre. The board should also be satisfied that there are programmes in place to provide for the orderly succession of senior management.
- *Overseeing the development and implementation of a shareholder communications policy for the company*

The responsibility of the board is to ensure that the company has in place a policy to enable effective communication with its shareholders and other stakeholders. This policy should include how feedback received from its stakeholders are considered by the company when making business decisions.
- *Reviewing the adequacy and the integrity of the management information and internal controls system of the company*

The board has to ensure that there is a sound framework of reporting on internal controls and regulatory compliance.

Recommendation 1.3

The board should formalise ethical standards through a code of conduct and ensure its compliance.

Commentary

A key role of the board is to establish a corporate culture which engenders ethical conduct that permeates throughout the company. The board needs to formalise and commit to ethical values through a code of conduct and ensure the implementation of appropriate internal systems to support, promote and ensure its compliance. The code of conduct should include appropriate communication and feedback channels which facilitate whistleblowing. The board should periodically review the code of conduct. A summary of the code of conduct should be made available on the corporate website.

Recommendation 1.4

The board should ensure that the company's strategies promote sustainability.

Commentary

The board should formalise the company's strategies on promoting sustainability. Attention should be given to environmental, social and governance (ESG) aspects of business which underpin sustainability. Balancing ESG aspects with the interests of various stakeholders is essential to enhancing investor perception and public trust. The board should ensure the company discloses these policies and their implementation in the annual report and the corporate website.

Recommendation 1.5

The board should have procedures to allow its members access to information and advice.

Commentary

The board should have access to all information pertaining to the company. Management should supply accurate and complete information to the board in a timely manner to enable the board to discharge its duties effectively.

Occasions may arise when the board has to seek legal, financial, governance or expert advice in the course of their duties. The board should be able to consult advisers and, when considered necessary, to seek independent professional advice. The board should be entitled to do so at the company's expense through an agreed procedure.

Recommendation 1.6

The board should ensure it is supported by a suitably qualified and competent company secretary.

Commentary

The board regularly consults the company secretary on procedural and regulatory requirements. The company secretary also plays an important role in supporting the board by ensuring adherence to board policies and procedures. Therefore, the board should appoint a suitably qualified and competent company secretary who can support the board in carrying out its roles and responsibilities.

Recommendation 1.7

The board should formalise, periodically review and make public its board charter.

Commentary

The board charter sets out the board's strategic intent and outlines the board's roles and responsibilities. The board charter is a source reference and primary induction literature, providing insights to prospective board members and senior management. It will also assist the board in the assessment of its own performance and that of its individual directors.

In establishing a board charter, it is important for the board to set out the key values, principles and ethos of the company, as policies and strategy development are based on these considerations. The board charter should also include the division of responsibilities and powers between the board and management, the different committees established by the board, and between the chairman and the CEO. The board charter should set out processes and procedures for convening board meetings. The board should periodically review and publish the board charter on the corporate website.

PRINCIPLE 2: STRENGTHEN COMPOSITION

The board should have transparent policies and procedures that will assist in the selection of board members. The board should comprise members who bring value to board deliberations.

Recommendation 2.1

The board should establish a Nominating Committee which should comprise exclusively of non-executive directors, a majority of whom must be independent.

Commentary

The Nominating Committee is charged with the responsibility to oversee the selection and assessment of directors.

An effective Nominating Committee will contribute towards ensuring that board composition meets the needs of the company. The chair of the Nominating Committee should be the senior independent director identified by the board.

Recommendation 2.2

The Nominating Committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of directors.

Commentary

The Nominating Committee's responsibilities include assessing and recommending to the board the candidature of directors, appointment of directors to board committees, review of board's succession plans and training programmes for the board. In assessing suitability of candidates, considerations should be given to the competencies, commitment, contribution and performance. The Nominating Committee should facilitate board induction and training programmes. The nomination and election process of board members should be disclosed in the annual report.

The board should establish a policy formalising its approach to boardroom diversity. The board through its Nominating Committee should take steps to ensure that women candidates are sought as part of its recruitment exercise. The board should explicitly disclose in the annual report its gender diversity policies and targets and the measures taken to meet those targets.

Recommendation 2.3

The board should establish formal and transparent remuneration policies and procedures to attract and retain directors.

Commentary

Fair remuneration is critical to attract, retain and motivate directors. The remuneration package should be aligned with the business strategy and long-term objectives of the company. Remuneration of the board should reflect the board's responsibilities, expertise and complexity of the company's activities.

The board should establish a Remuneration Committee to perform this function. The Remuneration Committee should consist exclusively or a majority of, non-executive directors, drawing advice from experts, if necessary. Companies without a Remuneration Committee should have board policies and procedures on matters that would otherwise be dealt with by the Remuneration Committee. Board remuneration policies and procedures should be disclosed in the annual report.

PRINCIPLE 3: REINFORCE INDEPENDENCE

The board should have policies and procedures to ensure effectiveness of independent directors.

Recommendation 3.1

The board should undertake an assessment of its independent directors annually.

Commentary

Independent directors bring independent and objective judgment to the board and this mitigates risks arising from conflict of interest or undue influence from interested parties.

The existence of independent directors on the board by itself does not ensure the exercise of independent and objective judgment as independent judgment can be compromised by, amongst others, familiarity or close relationship with other board members.

Therefore, it is important for the board to undertake an annual assessment of the independence of its independent directors. When assessing independence, the board should focus beyond the independent director's background, economic and family relationships and consider whether the independent director can continue to bring independent and objective judgment to board deliberations. The Nominating Committee should develop the criteria to assess independence. The board should apply these criteria upon admission, annually and when any new interest or relationship develops.

The board should disclose that it has conducted such assessment in the annual report and in any notice convening a general meeting for the appointment and re-appointment of independent directors.

Recommendation 3.2

The tenure of an independent director should not exceed a cumulative term of nine years. Upon completion of the nine years, an independent director may continue to serve on the board subject to the director's re-designation as a non-independent director.

Commentary

The assessment criteria for independence of directors should also include tenure. Long tenure can impair independence. For this reason, tenure of an independent director is capped at nine

years. The nine years can either be a consecutive service of nine years or a cumulative service of nine years with intervals. An independent director who has served the company for nine years may, in the interest of the company, continue to serve the company but in the capacity of a non-independent director.

Recommendation 3.3

The board must justify and seek shareholders' approval in the event it retains as an independent director, a person who has served in that capacity for more than nine years.

Commentary

The shareholders may, in exceptional cases and subject to the assessment of the Nominating Committee, decide that an independent director can remain as an independent director after serving a cumulative term of nine years. In such a situation, the board must make a recommendation and provide strong justification to the shareholders in a general meeting.

Recommendation 3.4

The positions of chairman and CEO should be held by different individuals, and the chairman must be a non-executive member of the board.

Commentary

Separation of the positions of the chairman and CEO promotes accountability and facilitates division of responsibilities between them. The responsibilities of the chairman should include leading the board in the oversight of management, while the CEO focuses on the business and day-to-day management of the company. This division should be clearly defined in the board charter.

Recommendation 3.5

The board must comprise a majority of independent directors where the chairman of the board is not an independent director.

Commentary

A chairman who is an independent director can provide strong leadership by being able to marshal the board's priorities more objectively. If the chairman is not an independent director, then the board should comprise a majority of independent directors to ensure balance of power and authority on the board.

PRINCIPLE 4: FOSTER COMMITMENT

Directors should devote sufficient time to carry out their responsibilities, regularly update their knowledge and enhance their skills.

Recommendation 4.1

The board should set out expectations on time commitment for its members and protocols for accepting new directorships.

Commentary

Directors should devote sufficient time to carry out their responsibilities. The board should obtain this commitment from its members at the time of appointment. Directors should notify the chairman before accepting any new directorship. The notification should include an indication of time that will be spent on the new appointment.

Recommendation 4.2

The board should ensure its members have access to appropriate continuing education programmes.

Commentary

In a dynamic and complex business environment, it is imperative that directors devote sufficient time to update their knowledge and enhance their skills through appropriate continuing education programmes and life-long learning. This will enable directors to sustain their active participation in board deliberations.

PRINCIPLE 5: UPHOLD INTEGRITY IN FINANCIAL REPORTING

The board should ensure financial statements are a reliable source of information.

Recommendation 5.1

The Audit Committee should ensure financial statements comply with applicable financial reporting standards.

Commentary

The board must recognise the value of an effective Audit Committee in ensuring the company's financial statement is a reliable source of financial information. The Audit Committee must, amongst others, ensure that the company's financial statements comply with applicable financial reporting standards as this is integral to the reliability of financial statements.

Recommendation 5.2

The Audit Committee should have policies and procedures to assess the suitability and independence of external auditors.

Commentary

The Audit Committee should review and monitor the suitability and independence of external auditors. The independence of external auditors can be impaired by the provision of non-audit services to the company. The Audit Committee should therefore establish policies governing the circumstances under which contracts for the provision of non-audit services can be entered into and procedures that must be followed by the external auditors.

To provide support for an assessment on independence, the Audit Committee should obtain written assurance from the external auditors confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.

PRINCIPLE 6: RECOGNISE AND MANAGE RISKS

The board should establish a sound risk management framework and internal controls system.

Recommendation 6.1

The board should establish a sound framework to manage risks.

Commentary

The board should determine the company's level of risk tolerance and actively identify, assess and monitor key business risks to safeguard shareholders' investments and the company's assets. Internal controls are important for risk management and the board should be committed to articulating, implementing and reviewing the company's internal controls system. Periodic testing of the effectiveness and efficiency of the internal controls procedures and processes must be conducted to ensure that the system is viable and robust. The board should disclose in the annual report the main features of the company's risk management framework and internal controls system.

Recommendation 6.2

The board should establish an internal audit function which reports directly to the Audit Committee.

Commentary

The board should establish an internal audit function and identify a head of internal audit who reports directly to the Audit Committee. The head of internal audit should have the relevant qualifications and be responsible for providing assurance to the board that the internal controls are operating effectively. Internal auditors should carry out their functions according to the standards set by recognised professional bodies. Internal auditors should also conduct regular reviews and appraisals of the effectiveness of the governance, risk management and internal controls processes within the company.

PRINCIPLE 7: ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

Companies should establish corporate disclosure policies and procedures to ensure comprehensive, accurate and timely disclosures.

Recommendation 7.1

The board should ensure the company has appropriate corporate disclosure policies and procedures.

Commentary

The board should have internal corporate disclosure policies and procedures which are practical and include feedback from management. These policies and procedures should ensure compliance with the disclosure requirements as set out in the *Bursa Malaysia Listing Requirements*. In formulating these policies and procedures, the board should be guided by best practices.

Recommendation 7.2

The board should encourage the company to leverage on information technology for effective dissemination of information.

Commentary

Companies should consider wider usage of information technology in communicating with stakeholders including establishing a dedicated section for corporate governance on their website. This section should provide information such as the board charter, rights of shareholders and the annual report.

PRINCIPLE 8: STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

The board should facilitate the exercise of ownership rights by shareholders.

Recommendation 8.1

The board should take reasonable steps to encourage shareholder participation at general meetings.

Commentary

General meetings are an important avenue through which shareholders can exercise their rights. The board should take active steps to encourage shareholder participation at general meetings such as serving notices for meetings earlier than the minimum notice period.

The board should direct the company to disclose all relevant information to shareholders to enable them to exercise their rights. The board should also consider adopting electronic voting to facilitate greater shareholder participation.

The board can demonstrate their commitment to shareholders by ensuring that the company publishes these measures on its corporate website.

Recommendation 8.2

The board should encourage poll voting.

Commentary

The board is encouraged to put substantive resolutions to vote by poll and make an announcement of the detailed results showing the number of votes cast for and against each resolution. Companies are encouraged to employ electronic means for poll voting.

The chairman should inform shareholders of their right to demand a poll vote at the commencement of the general meeting.

Recommendation 8.3

The board should promote effective communication and proactive engagements with shareholders.

Commentary

Direct engagement with shareholders provides a better appreciation of the company's objectives, quality of its management and challenges, while also making the company aware of the expectations and concerns of its shareholders. This will assist shareholders in evaluating the company and facilitate the considered use of their votes.

Board members and senior management are encouraged to have constructive engagements with shareholders about performance, corporate governance, and other matters affecting shareholders' interests.

Table 1: Comparison between the MCGG 2012 and the 2007 Code

The MCGG 2012 adopts a new structure and encompasses recommendations from the Blueprint and parts of the 2007 Code. The comparison table below sets out the principles and recommendations of the MCGG 2012 with the corresponding Blueprint recommendations and relevant parts of the 2007 Code to aid the navigation and understanding of the MCGG 2012.

| Prin. No. | MCGG 2012 Principle | Rec. No. | MCGG 2012 Recommendation | Blueprint Recommendation No. | 2007 Code |
|-----------|--|----------|---|---|---|
| | | | Corporate Governance in Malaysia | 24 Mandate companies to focus on substance rather than form in meeting corporate governance requirements | Introduction : 3 and 4 |
| 1 | Establish clear roles and responsibilities | 1.1 | The board should establish clear functions reserved for the board and those delegated to management | - | Part 2 : AA XVI "Relationship of the board to management" |
| | | 1.2 | The board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions | - | Part 1 : A I "The board" Part 2 : AA I "Principal responsibilities of the board" |
| | | 1.3 | The board should formalise ethical standards through a code of conduct and ensure its compliance | 10 Mandate boards to formulate ethical standards and system of compliance through the company's code of conduct | - |

| Prin. No. | MCCG 2012 Principle | Rec. No. | MCCG 2012 Recommendation | Blueprint Recommendation No. | 2007 Code |
|-----------|------------------------|----------|--|---|---|
| | | 1.4 | The board should ensure that the company's strategies promote sustainability | 11 Mandate boards to formulate strategies that address sustainability and stakeholder interests through internal policies | - |
| | | 1.5 | The board should have procedures to allow its members access to information and advice | - | Part I : A III "Supply of information" Part 2 : AA XIX "Access to information" |
| | | 1.6 | The board should ensure it is supported by a suitably qualified and competent company secretary | 30 Enhance the role of company secretaries through clarifying their role and look into qualification requirements needed to raise the skills and professional standards for company secretaries of listed companies | Part 2 : AA XX "Access to Advice" Part 2 : AA XXI and XXII |
| | | 1.7 | The board should formalise, periodically review and make public its board charter | 12 Mandate formalisation of the board charter and disclosure of the charter in the annual report | - |
| 2 | Strengthen composition | 2.1 | The board should establish a Nominating Committee which should comprise exclusively of non-executive directors, a majority of whom must be independent | 16 Mandate boards to establish a Nominating Committee with enhanced roles chaired by an independent director. | Part I : A IV and Part 2 : AA VIII "Appointments to the board" |

| Prin. No. | MCCG 2012 Principle | Rec. No. | MCCG 2012 Recommendation | Blueprint Recommendation No. | 2007 Code |
|-----------|------------------------|----------|--|------------------------------|---|
| | | 2.2 | The Nominating Committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of directors | | <p>Part 2 : AA IX</p> <p>Part 2 : AA X</p> <p>Part 2 : AA XIII “Directors’ training”</p> |
| | | 2.3 | The board should establish formal and transparent remuneration policies and procedures to attract and retain directors | - | <p>Part 1 : B I “The level and make-up of Remuneration”</p> <p>Part 1 : B II “Procedure”</p> <p>Part 1 : B III “Disclosure”</p> <p>Part 2 : AA XXIV “Remuneration Committees”</p> |
| 3 | Reinforce independence | 3.1 | The board should undertake an assessment of its independent directors annually | 14 | Mandate boards to undertake an assessment on independence annually, upon re-admission and when any new interests or relationships surface-based on a set of criteria established by the boards |

| Prin. No. | MCCG 2012 Principle | Rec. No. | MCCG 2012 Recommendation | Blueprint Recommendation No. | 2007 Code |
|-----------|---------------------|----------|--|---|---|
| | | 3.2 | The tenure of an independent director should not exceed a cumulative term of nine years. Upon completion of the nine years, the independent director may continue to serve on the board subject to the director's re-designation as a non-independent director | 13 Mandate a cumulative term limit of up to nine years for an individual to serve as an independent director | - |
| | | 3.3 | The board must justify and seek shareholders' approval in the event it retains as an independent director, a person who has served in that capacity for more than nine years | | |
| | | 3.4 | The positions of chairman and CEO should be held by different individuals, and the chairman must be a non-executive member of the board | 15 Mandate separating the position of chairman and CEO and for the chairman to be a non-executive member of the board | Part 2 : AA II "Chairman and Chief Executive Officer" |
| | | 3.5 | The board must comprise a majority of independent directors where the chairman of the board is not an independent director | | |
| 4 | Foster commitment | 4.1 | The board should set out expectations on time commitment for its members and protocols for accepting new directorships | 21 Mandate boards to set out their expectations on time commitment including protocols for accepting other external appointments in their board charter | - |

| Prin. No. | MCCG 2012 Principle | Rec. No. | MCCG 2012 Recommendation | Blueprint Recommendation No. | 2007 Code |
|-----------|---|----------|---|---|--|
| | | 4.2 | The board should ensure its members have access to appropriate continuing education programmes | - | - |
| 5 | Uphold integrity in financial reporting | 5.1 | The Audit Committee should ensure financial statements comply with applicable financial reporting standards | - | Part II : BB II |
| | | 5.2 | The Audit Committee should have policies and procedures to assess the suitability and independence of external auditors | - | |
| 6 | Recognise and manage risks | 6.1 | The board should establish a sound framework to manage risks | - | Part I : D II "Internal control" |
| | | 6.2 | The board should establish an internal audit function which reports directly to the Audit Committee | - | Part 2 : BB VII & VIII |
| 7 | Ensure timely and high quality disclosure | 7.1 | The board should ensure the company has appropriate corporate disclosure policies and procedures | 23 Move beyond minimum reporting by making explicit the requirement for shareholders to be provided with quality and timely information | - |

| Prin. No. | MCCG 2012 Principle | Rec. No. | MCCG 2012 Recommendation | Blueprint Recommendation No. | 2007 Code |
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| | | 7.2 | The board should encourage the company to leverage on information technology for effective dissemination of information | 25 Promote better use of technology by companies to communicate with their shareholders | - |
| 8 | Strengthen relationship between company and shareholders | 8.1 | The board should take reasonable steps to encourage shareholder participation at general meetings | 5 Mandate companies to make public their commitment to respecting shareholder rights and take active steps to inform shareholders of how these rights can be exercised 27 Encourage companies to provide better quality and timely information through notices and documents and to serve notices for meetings earlier than the minimum notice period | Part 3 : I "Shareholder voting" |
| | | 8.2 | The board should encourage poll voting | 3 Impose obligation for the chairman of the general meeting to inform shareholders of their right to demand a poll vote | - |

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| | | 8.3 | The board should promote effective communication and proactive engagements with shareholders | - | <p>Part I : C I “Dialogue between companies and investors”</p> <p>Part 2 : CC I “The relationship between the board and shareholders”</p> <p>Part 3 : II “Dialogue between companies and investors”</p> |