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Overview on the Malaysian Code on Corporate
Governance:
Its Implementation and Implications on Public Listed
Companies in Malaysia





Introduction

Sustainable Development Goals (SDG) is the 2030 core agenda in sustainable development which was agreed upon by leaders around the world on 25 September 2023 at the United Nations Conference. The SDG contains 17 goals and 169 targets aiming to be achieved by 2030 in stability in three dimensions of sustainable development namely social, economy and environment. Forming parts of the 17 goals in the SDG, the Diversity, Equity and Inclusion (DEI) was introduced in the corporate governance sector to measure the effectiveness and well-functioning organization as well as ensuring an organization is steered by diverse group of employees in age, ethnicity and gender.

In Malaysia, the Malaysian Code on Corporate Governance (MCCG) by the Securities Commission Malaysia (SC) to be applicable to all public companies and has formed part of the Listing Requirements¹ whereby its board of directors are required to provide an overview statement of the application of principles set out in the MCCG and to disclose its application of each practice in the MCCG during the financial year together with the announcement in the annual report. MCCG is currently applicable to all listed companies in the Bursa Malaysia.

Objectives of MCCG

The MCCG was introduced in 2000 and was revised in 2021 for the purpose of serving as a tool for corporate governance reform and to raise the standards of corporate governance. It reflects the global principles and international recognised practices of corporate governance which goes beyond the statute and regulations prescribed by the Bursa Malaysia. Under the MCCG, the SC has introduced the CARE approach which are Comprehend, Apply and Report approach which aims to nurture the corporate governance culture. CARE encourages companies to clearly identify the thought processes involved in practising good corporate governance, including providing fair and meaningful explanation of how the company has applied the practices.

Comprehend	Apply	Report
Understand and internalise the spirit and intention behind the principles and practices including its intended outcomes.	Implement the practices in substance to achieve the intended outcome of building and supporting a strong corporate governance culture throughout the company.	Provides fair and meaningful disclosure on the company's corporate governance practices.

Diagram 1²

¹ Paragraph 15.25 of Bursa Malaysia Listing Requirements (Listing Requirements)

² Paragraph 3.1 of the MCCG





Implementations of MCGG

According to the MCGG, there are **three (3) key principles** of good corporate governance, which are:-

- a. **Board Leadership and Effectiveness;**
- b. **Effective Audit and Risk Management; and**
- c. **Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders.**

Companies are expected to follow the guidelines in order to successfully incorporate the principles. In the event that companies departed from the guidelines in implementing its corporate governance, they are expected to justify such departure to the SC as part of the consideration to further improve the guidelines in the future.

A. Board Leadership and Effectiveness

The principle of Board Leadership and Effectiveness is comprised of several sub-categories that serve as a guide to companies in implementing good corporate governance which are Board Responsibilities, Board Composition and Remuneration.

Board Responsibilities

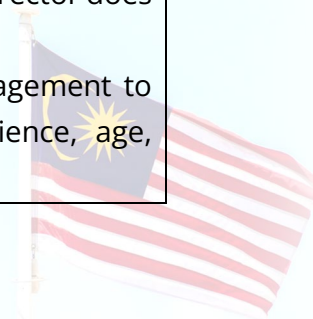
Intended Outcome	Implementation
Companies to be headed by a Board which assumes the responsibility of leadership and be collectively responsible for meeting the objectives and goals of the company	<ul style="list-style-type: none"> • Board to set the company's strategic aims and ensure resources are met to achieve such aims and review management performance. • Company to appoint a chairman of the board who is responsible for the good corporate governance, leadership and effectiveness of the board, which is different individual than the Chief Executive Officer. • Chairman to have an independent role and to ensure that he is not a member of the Audit Committee, Nomination Committee or Remuneration Committee. • Board to be supported by qualified and competent company secretary that could provide sound governance advice, adherence to rules and procedures and experienced in adopting best corporate governance practices.
Demarcation of Responsibilities between the Board, its committees and management	<ul style="list-style-type: none"> • Company to have a board charter that is published on the company's website and reviewed periodically. • Board charter to clearly identifies the respective roles and responsibilities of the board, its



	committees, individual directors and management as well as issues and decision reserved for the board.
Best practice in company that promotes good business conduct and healthy corporate culture that engenders integrity, transparency and fairness	<ul style="list-style-type: none"> • Board to establish a Code of Conduct and Ethics for the company which includes managing conflicts of interest, preventing abuse of power, corruption, insider trading and money laundering. • Company to publish the Code of Conduct and Ethics in the company's website. • Board to establish, review and implementation policies and procedures for whistleblowing which are required under the Listing Requirement.
Identifying sustainability risks and opportunities in integrated and strategic manner	<ul style="list-style-type: none"> • Board to set out company's sustainability strategies, priorities and targets in the development and implementation of company strategies, business plans and risk management. • Board to ensure that company's sustainability strategies, priorities and targets and its performance are communicated to the stakeholders. • Board to take appropriate action to understand sustainability related issues relevant to the company. • Performance evaluations of the board and senior management on addressing company's material sustainability risks and opportunities.

Board Composition

Intended Outcome	Implementation
Board decision to be made for the best interest of the company taking into account diverse perspective and insights	<ul style="list-style-type: none"> • Nomination committee to ensure that composition of board is refreshed periodically and the tenure of each director to be reviewed and annual re-election of a director to be based on satisfactory evaluation of director's performance and contribution to the board. • Ensure that half or the majority of the board comprises of independent directors. • Ensure that the tenure of independent director does not exceed nine (9) years • Appointment of board and senior management to be based on diversity in skills, experience, age, cultural background and gender.





	<ul style="list-style-type: none"> The board comprises of at least 30% women directors
Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors	<ul style="list-style-type: none"> Board to undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committee and director.

Remuneration

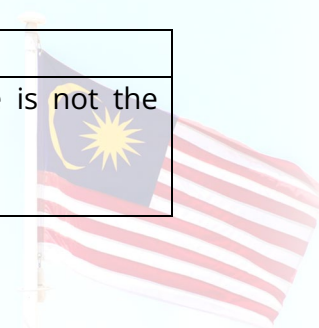
Intended Outcome	Implementation
The level and composition of remuneration of directors and senior management to take into account the desire to attract and retain the right talent to drive company's long term objectives	<ul style="list-style-type: none"> Company to provide fair remuneration to attract, retain and motivate directors and senior managements. Company are encouraged to table separate resolutions on approval of fees for each non-executive director. Executive directors should not be involved in discussion to decide on their remuneration. The board to have Remuneration Committee to implement its remuneration policies and procedures including reviewing and recommending matters relating to remuneration of board and senior management.
Stakeholders are able to assess remuneration of directors and senior management	<ul style="list-style-type: none"> Detailed disclosure on named basis on remuneration of individual directors including remuneration breakdown of individual directors such as fees, salary, bonus, benefits in kind and other emoluments as required under Listing Requirements

B. Effective Audit and Risk Management

The principle of Effective Audit and Risk Management is comprised of several sub-categories that serve as a guide to companies in implementing good corporate governance which are Audit Committee and Risk Management and Internal Control Framework.

Audit Committee

Intended Outcome	Implementation
There is an effective and independent Audit Committee	<ul style="list-style-type: none"> The Chairman of the Audit Committee is not the Chairman of the board





	<ul style="list-style-type: none"> • Audit Committee to have a policy that requires a former partner of external audit firm of listed company to observe a cooling-off period of at least three years before being appointed as a member of the Audit Committee.
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Risk Management and Internal Control Framework

Intended Outcome	Implementation
Companies to make informed decisions about level of risk they want to take and implement necessary controls	<ul style="list-style-type: none"> • Board to establish an effective risk management and internal control framework and disclose the features of its risk management and internal control framework and the adequacy and effectiveness of its framework.
Companies to allow stakeholders to assess the effectiveness of framework	<ul style="list-style-type: none"> • Audit Committee to ensure that internal audit is effective and functioning independently. • Board to disclose:- <ul style="list-style-type: none"> - Internal audit free from conflict of interest; - Resources in internal audit department; - Qualifications of internal auditors; and - Functions are done according to the framework.

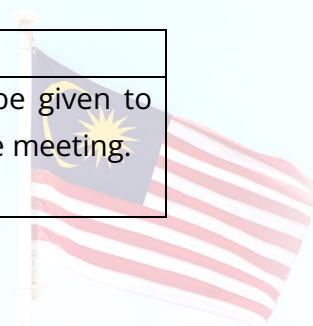
C. Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders
 In this last principle, it focused on the relationship of stakeholders with the company. Here, there are two sub-category which are Engagement with Stakeholders and Conduct of General Meetings.

Engagement with Stakeholders

Intended Outcome	Implementation
Stakeholders are able to make informed decisions with respect to the business of company, its policies on governance, the environment and social responsibility	<ul style="list-style-type: none"> • Board to ensure that there is effective, transparent and regular communication with stakeholders. • Companies are encouraged to adopt integrated reporting based on a globally recognized network

Conduct of General Meetings

Intended Outcome	Implementation
Shareholders are able to participate, engage the board and senior	<ul style="list-style-type: none"> • Notice for Annual General Meeting to be given to shareholders at least 28 days prior to the meeting.





management effectively and make informed voting decision at general meetings	<ul style="list-style-type: none"> All directors attend general meetings and Chairman of Audit, Nominating, Risk Management and other committees provide meaningful response to questions addressed.
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Implications of MCCG

The implementation of MCCG in a company's corporate governance would help in building resilience and create long-term value for the company. As the MCCG requires for the composition of the board to be diversify, companies that adopted MCCG would have a high-performing board that are competent and competitive in coming up with solutions as well as being able to have interconnection dimension in tackling solutions due to their experience in their fields.

In addition, having a proper risk management and internal control framework would allow companies to have more resilience and increase in productivity. Companies whom adopt MCCG would also would be less expose to regulatory and legal interventions which would in return reduce costs.

Lastly, as MCCG promotes stakeholders involvement in decision making, it allows companies to be deeply intertwined with its stakeholders. This would allow stakeholders to be aware of the operations of the business as well building stakeholders trust. Having stakeholders' trust would allow lesser hesitation by stakeholders in placing their investment and would be invaluable to the company in the long run.

Conclusion

Bursa Malaysia has taken a significant step towards fostering positive change by introducing the PLC (Public Listed Companies) Transformation Programme ³which incorporates various measures aimed at enhancing the workplace environment. The Programme is aimed to promote MCCG in listed companies as well as guiding corporations to take part in the proper implementation of the MCCG by offering guide books and practical how-to tools for companies to take part and track its progress with Bursa Malaysia.

³ PLC transformation programme (PLCT) - Bursa malaysia. (n.d.).

https://www.bursamalaysia.com/sites/5d809dcf39fba22790cad230/assets/62a1a28539fba243eb321d31/20220609_BURSA_Book_2_Sustainable_Socially_Responsible_and_Ethical_PLCS_vF.pdf



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