
**ANALYSIS OF
CORPORATE GOVERNANCE
DISCLOSURES**

IN ANNUAL REPORTS

Annual Reports 2015-2016

DECEMBER 2016



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Pursuant to the Bursa Malaysia Listing Requirements (“LR”), listed issuers are required to prepare and publish in their Annual Reports the following Governance Statements:-

- 1) LR 15.25 – a Corporate Governance Statement and in this Statement, to narrate how they have applied the Principles set out in the Malaysian Code of Corporate Governance 2012 (“MCCG 2012”) to their particular circumstances having regard to the Recommendations under each Principle. Listed issuers must disclose any Recommendation to which the listed issuers have not followed and to provide reasons for not doing so and alternatives adopted, if any;
- 2) LR 15.15 – an Audit Committee Report that contains among others, a summary of the terms of reference of the committee, a summary of the activities of the audit committee and internal audit function etc;
- 3).15.26(b) – an Internal Control Statement where in making the disclosures the listed issuers should be guided by the Statement of Risk Management and Internal Control: Guidelines for Directors of Listed issuers¹.

This Review

The purpose of the review of annual reports is to assess the level and quality of disclosures made pursuant to the MCCG 2012 and LR, in particular, the Corporate Governance Statement, Audit Committee Report and Internal Control Statement in respect of the Principles and Recommendations under Principles 1 to 6 of the MCCG 2012². We also assess compliance by the listed issuers with the disclosure obligations under LR 15.06(1) [*Restriction on directorships in listed issuers*], 15.08 [*Directors’ training*], 15.08A [*Nominating committee*], 15.09 to 15.12 [*Audit committee*], 15.21 [*External auditor*], 15.23 [*Review of the Internal Control Statement by external auditor*], 15.27 [*Internal audit*] and Appendix 9C Part A [*Contents of Annual Report*], in their Corporate Governance Statement, Audit Committee Report and Internal Control Statement.

In 2016 Bursa Malaysia (“Bursa”) undertook a second round of review of 280 listed issuers’ annual reports. The review was conducted over annual reports of listed issuers which Bursa had reviewed in 2014. In the 2014 exercise, Bursa had reviewed the annual reports of 300 listed issuers and published its findings in the Analysis of CG Disclosures in Annual Reports 2014. Each of the 300 listed issuers in 2014 was provided with its scores and a copy of the Report. We followed up with these listed issuers and encouraged them to improve the quality of their disclosures where relevant. Out of the 300 listed issuers whose annual reports were reviewed in 2014, we once again reviewed the annual reports of 280 of them in 2016. Out of the remaining 20 listed issuers, 15 have since been delisted and 5 have changed their financial year end and did not issue their 2015 annual report as at the time of our review.

¹ Practice Note 9, paragraph 4.2

² Principle 7 of the MCCG 2012 is assessed continuously through reviews of listed issuers’ corporate disclosures periodically e.g. whether listed issuers make immediate announcements of material information) and Principle 8 is currently under assessment

The purpose of the review in 2016 was to assess whether these listed issuers have improved their disclosures in their 2015/2016 annual reports. We compared their 2016 scores against their 2014 scores in order to view the improvements of each listed issuer.

Methodology

(1) The Dashboard

The methodology applied in this review is as follows:-



“0” for no or incomplete disclosure



“0.5” for generic or general disclosure; and



“1” for adequate disclosure and/or disclosure that has complied with the requirements or best practice.

We have provided in **Appendix A**, the areas that we reviewed in each listed issuer’s annual report.

The maximum total score a listed issuer could obtain is **72 points** (which represents 100%). The breakdown of the total score for each Principle is reflected in **Table 1**.

Table 1 below provides the breakdown of the points under each Principle.

Principles	2014 Scores	2016 Scores
Principle 1	18 points	17 points
Principle 2	12 points	13.5 points
Principle 3	6 points	7 points
Principle 4	6 points	5.5 points
Principle 5	22.5 points	17 points
Principle 6	11 points	12 points
Total	75.5 points	72 points

Table 1

It should be noted that in our 2015 assessment³, **we adjusted the points awarded for each Principle** to emphasise on several criteria such as disclosure under Principle 2, of a board gender diversity policy and disclosures of clear board nomination and election processes and the criteria used in the selection process. In addition, we emphasized on Principle 3 which requires strong justification by the board to shareholders in respect of retention of independent directors beyond the nine year tenure and putting forth this as a resolution for shareholders to vote on at the Annual General Meeting.

We also emphasised on listed issuers’ risk management framework under Principle 6 including disclosures on identification, evaluation and management of risks and internal controls annually including adequacy of the same.

We decreased the points for Principle 5 by reducing the points for some items from 1 point to 0.5 points as some of the disclosures under this Principle did not require any elaboration (e.g. whether the listed issuer had a minimum of 3 members in the audit committee or whether one of them had MIA or equivalent qualifications). We made the necessary adjustments to the scores in order to accurately compare the 2014 scores for each listed issuer with their 2016 scores. It should be noted that all reference to 2014 scores in this document refers to scores which have been adjusted to reflect the additional criteria and amended scores for each of the Principles as depicted in **Table 1**.

³ This assessment was conducted over 450 listed issuers

(2) Sample Size and Representation by Market Capitalization

The sample size of our review comprised the annual reports of 280 listed issuers from the Main and ACE Markets and were representative of corporations with large (>RM 1 billion) (“**Large Cap Issuers**”), medium (RM500 million – RM1 billion) (“**Medium Cap Issuers**”) and small (<500 million) (“**Small Cap Issuers**”) market capitalization. This represents approximately 30% of our listed issuers.

The representation of listed issuers according to market capitalization in 2016 is presented in **Table 2** below:

Market Capitalisation	Percentage	No. of companies
Large (>RM 1 billion)	26.0%	73
Mid (RM 1 billion – RM500 million)	14.0%	39
Small (<RM500 million)	60.0%	168

Table 2

The review comprised annual reports with FYE 2015 and 2016. The review of annual reports was completed by June 2016 and any annual reports issued after that date would not have been taken into account.

(3) Bonus Points

The scorecard includes bonus points which were awarded for disclosures that provided insights into the listed issuer’s corporate governance practices and disclosures that were beyond the mandatory requirements and recommended best practices.

Listed issuers with good quality, clear and meaningful disclosures could obtain a maximum of 12 bonus points but the bonus points are not taken into account in their average score for each principle or their total score. It is reflected separately in their results.

We awarded bonus points for clear and meaningful disclosures for each Principle of the MCCG except for Principles 3 and 4 as follows:-

- i. Recommendation 1.1 and 1.2 of Principle 1 - Disclosures that provide greater insight into the responsibilities of the board and how directors discharge their fiduciary duties, which is an essential part of good CG;
- ii. Recommendation 2.2 of Principle 2 and LR 15.08A on the criteria to be used in the recruitment process of the board and the annual assessment of directors. Listed issuers will be given bonus points if they provide in-depth disclosures about the board nomination and selection process and the criteria used in the selection process as well as a clear description of the process the board undertakes to assess the performance of the board, board committees, individual directors and the outcome of the assessments;

- iii. Principle 5 and LR 15.15(3) on how the audit committee has effectively discharged its role and responsibilities during the financial year end;
- iv. Recommendation 5.2 of Principle 5 relating to the policies and procedures to assess the suitability and independence of external auditors and disclosures of details of non-audit fees; and
- v. Recommendation 6.1 where the disclosures provide clear insights and details of the listed issuer’s risk management and internal controls framework, process and principal risks.

Details about such disclosures can be found in the discussions of the respective principles in this Report.

Scores Achieved by Listed Issuers

The scores achieved by listed issuers in 2016 are shown in **Diagram 1**.

Based on the sample size of 280 listed issuers, approximately 1% of 280 listed issuers whose annual reports were assessed in 2016 scored above 90%, while 8 % obtained scores between 80% to 90%. Approximately 36% of listed issuers obtained scores of between 70% to 80% and 39% obtained scores between 60% to 70%, overall, 84% of listed issuers obtained scores of 60% and above. The highest score achieved by a listed issuer for disclosures in this review is **93.75 %** while the lowest score is **42.36%**.

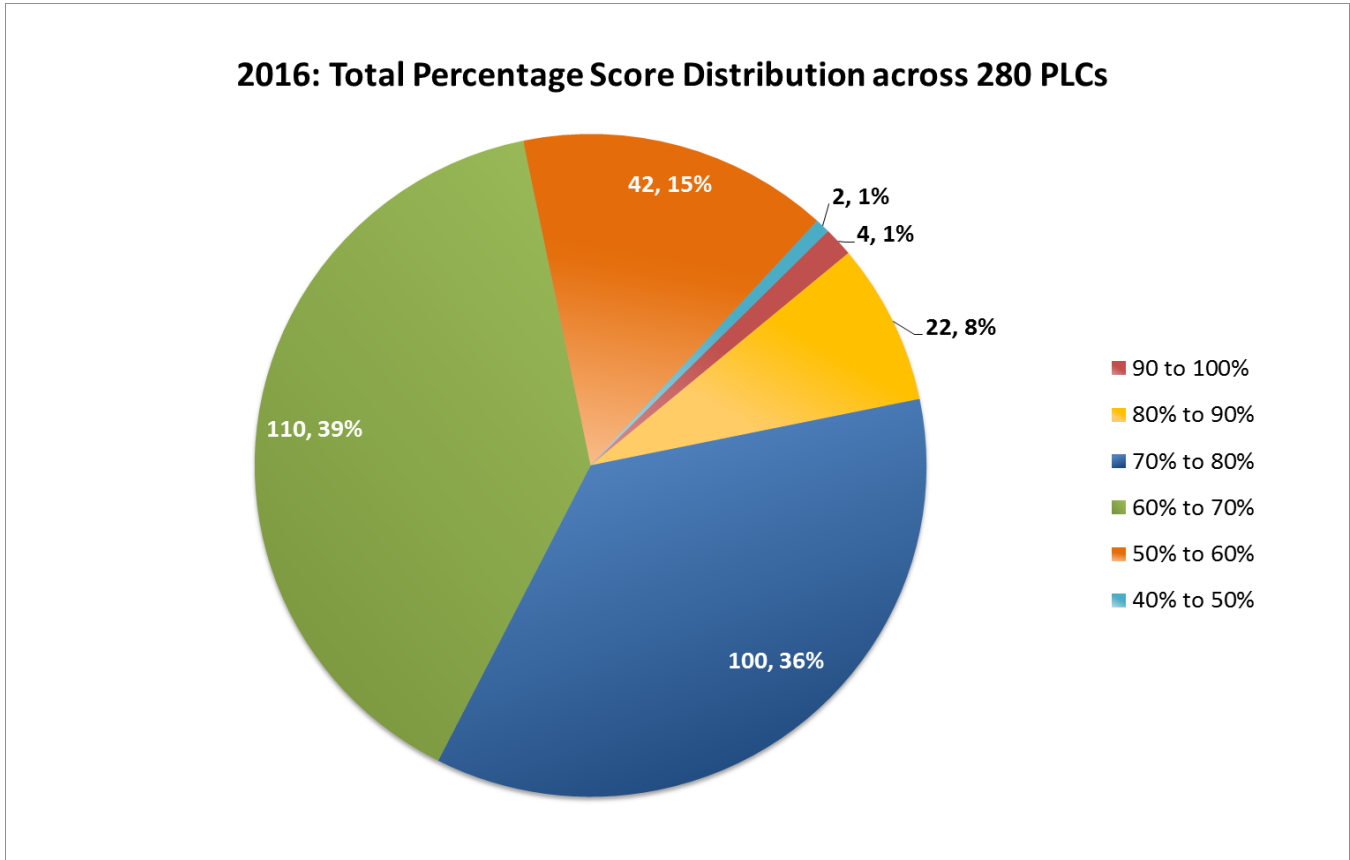


Diagram 1

Score	2014 Average %	2016 Average %
Principle 1 - Establish clear roles and responsibilities	61.00%	68.80%
Principle 2 - Strengthen composition & LR15.08A	57.50%	65.30%
Principle 3 - Reinforce Independence	74.10%	81.60%
Principle 4 - Foster Commitment	72.30%	76.20%
Principle 5 - Uphold Integrity of Financial Reporting	58.20%	68.10%
Principle 6 - Recognise and Manage Risks	55.80%	62.00%
GRAND TOTAL	60.90%	68.70%

Table 3

Table 3 compares the average scores obtained by Principle for all 280 listed issuers in 2014 and their scores when their annual reports were reviewed again in 2016. The scores have improved across all principles since 2014. **The average score achieved by all 280 listed issuers in 2016 is 68.7% whereas the average score achieved in 2014 was 60.9%⁴.** This represents an improvement of 7.8% between the 2014 and 2016 scores. A visual depiction of the scores is presented in **Diagram 2** below for greater clarity.

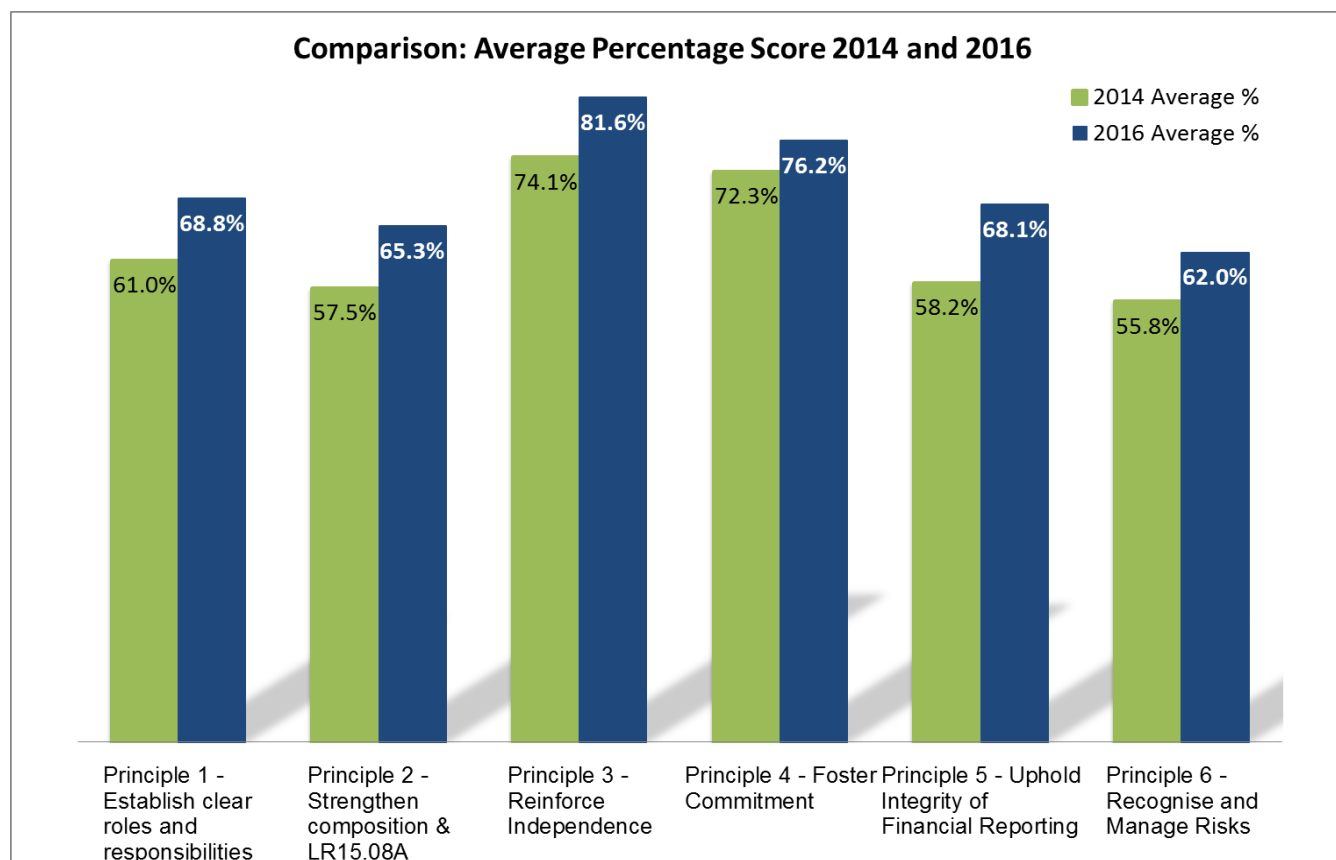


Diagram 2

⁴ Listed issuers should note that we have adjusted the scores for 2014 to reflect the new scores for each Principle as explained in page 4 of this Report.

As in the previous reviews of Annual Reports conducted in 2014 and 2015, we note that there is a high level of adherence to the MCGG 2012 and compliance with the LR. The scores for Principles 3 and 4 which focus on compliance with the LR as well as adherence to the MCGG 2012 are higher than scores for Principles 1, 2, 5 and 6 which focus not only on adherence to the Recommendations in the MCGG 2012 but also on the depth and quality of disclosures.

While listed issuers' disclosures have improved since our 2014 review, there is room for further improvement by providing higher quality and more detailed disclosures in order for shareholders and investors to obtain further information regarding the listed issuer's CG practices.

Results by Market Capitalisation for 2016

As in previous years, the dataset comprised a large number of listed issuers with small market capitalization. **Table 2** above shows the representation of listed issuers by market capitalisation. The comparative scores by market capitalization is shown in **Diagram 3** below.

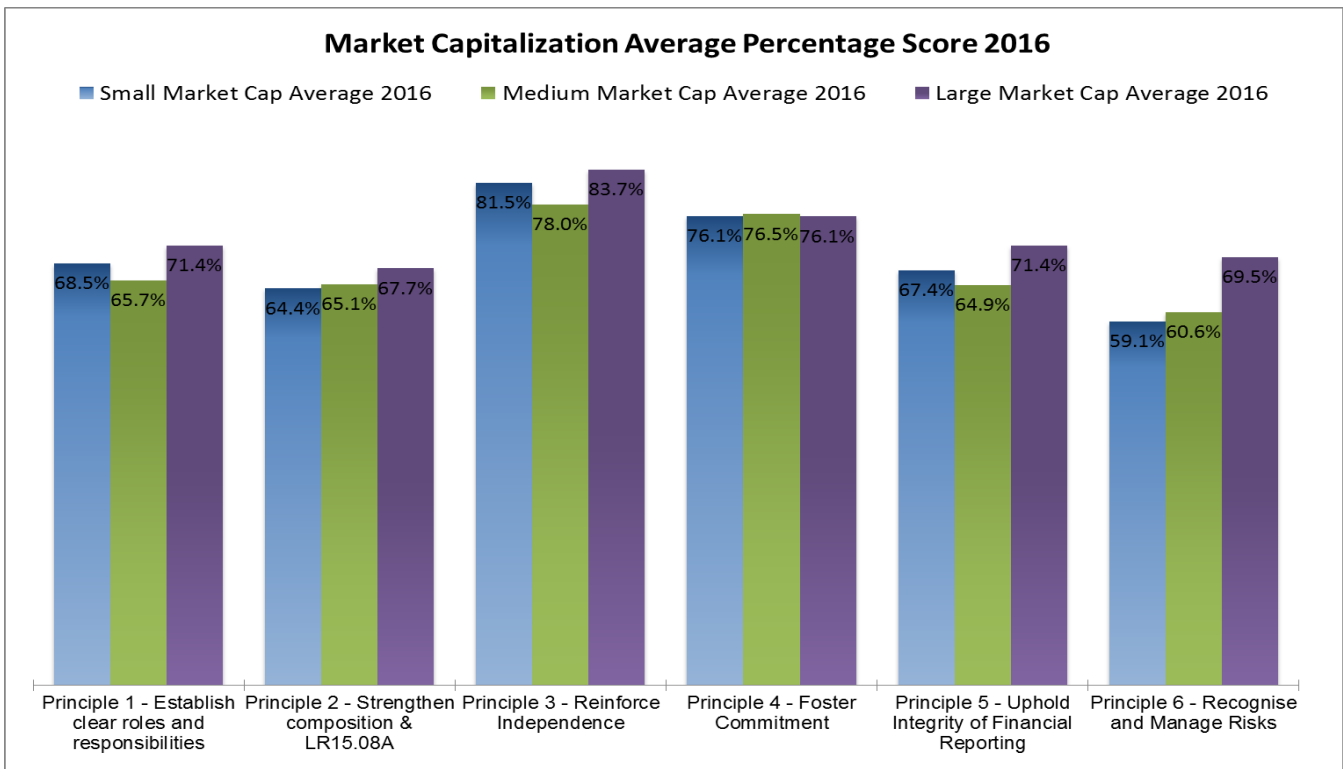


Diagram 3

The data in **Diagram 3** reveals the following:-

- Large Cap Issuers received higher scores across all Principles except for Principle 4. Medium cap listed issuers achieved slightly higher scores under Principle 4. There is also a bigger gap between the Large Cap Issuers and other listed issuers (i.e. the Medium and Small Cap Issuers) in relation to Principle 6. This indicates that the disclosures of Large Cap listed Issuers in relation to risk management and internal control are of much higher quality than those of Medium and Small Cap Issuers.
- **Medium cap listed issuers obtained lower scores than large cap and small cap listed issuers in Principles 1, 3 and 5.** This indicates that their disclosures in relation to the roles and responsibilities of the board, the independence of the board and the summary of the activities of the audit committee and internal audit needs further improvement.

The data in **Table 4** shows that overall, listed issuers have improved their disclosures since 2014. The average score in 2016 obtained by large cap listed issuers is 71.9%, medium cap listed issuers is 66.6% and small cap listed issuers is 67.7%.

The average scores obtained by medium cap listed issuers is slightly lower than the average scores obtained for small cap listed issuers. This is reflected in the lower scores obtained by medium cap listed issuers compared to small cap listed issuers for Principles 1, 3 and 5. Readers may refer to Diagram 3 above for a visual depiction of these scores.

The difference between large and medium cap listed issuers in 2014 was 4.2% and in 2016, the gap has increased to 5.3%.

Score	Average Score %					
	2014			2016		
	Small	Medium	Large	Small	Medium	Large
Principle 1 - Establish clear roles and responsibilities	59.6%	60.4%	64.6%	68.5%	65.7%	71.4%
Principle 2 - Strengthen composition & LR15.08A	58.0%	54.2%	58.2%	64.4%	65.1%	67.7%
Principle 3 - Reinforce Independence	74.8%	71.5%	73.9%	81.5%	78.0%	83.7%
Principle 4 - Foster Commitment	71.6%	74.2%	73.0%	76.1%	76.5%	76.1%
Principle 5 - Uphold Integrity of Financial Reporting	56.4%	58.4%	62.2%	67.4%	64.9%	71.4%
Principle 6 - Recognise and Manage Risks	52.2%	55.4%	64.3%	59.1%	60.6%	69.5%
GRAND TOTAL	59.7%	60.1%	64.3%	67.7%	66.6%	71.9%

Table 4

The difference between mid and small cap listed issuers was 0.4% in 2014 but this has since reversed and the difference is -1.1% with small cap listed issuers scoring better than medium cap listed issuers. The implication is that ***while medium cap listed issuers' disclosures in 2016 have improved since 2014, the improvement is not as much as improvements seen in small and large cap listed issuers.***

We also note the gap between average disclosures of small cap listed issuers and large cap listed issuers has become narrower. In 2014, the gap between their disclosures was 4.6% while in 2016, the gap has reduced to 4.2%. The implication is that small cap listed issuers have improved their disclosures more rapidly compared to medium cap and large cap listed issuers.

In addition, we found that 39.8% of large cap listed issuers obtained a score of 75% and above compared to 10.2% of medium cap listed issuers and 22.6% of small cap listed issuers. Approximately 2.3% of small cap listed issuers obtained higher scores than medium cap listed issuers.

Two small cap listed issuers obtained a score of 87.5%. Only 5 large cap listed issuers obtained a score that was higher than this score. None of the medium cap listed issuers obtained this score. The highest score obtained by a medium cap listed issuer was 84.72%. The implication is that small cap listed issuers are able to make high quality disclosures in their annual reports. This demonstrates that listed issuers regardless of size are able to produce good quality disclosures.

Bonus Points

As indicated earlier, bonus points are awarded for meaningful disclosures which provide insight into the listed issuer's CG practices. As we did not award bonus points to listed issuers in our 2014 review of their annual report disclosures, we are unable to provide comparisons between 2014 and 2016.

In our 2016 review, approximately 38% of large cap listed issuers scored bonus points as compared to 15% of mid and 30% of small cap listed issuers. We also noted however that large cap listed issuers obtained many bonus points for their disclosures whereas mid and small cap listed issuers obtained fewer points.

Few listed issuers were awarded bonus points under Recommendation 1.1 and 1.2 of the MCCG which indicates that the disclosures made although comprehensive, were not insightful into the listed issuers' actual practices.

Approximately 28% of listed issuers were awarded bonus points for disclosures on the process and criteria for recruitment of directors and their criteria for performance assessment of the board, board committees and individual directors. However most of them obtained 0.5 out of 2 points which indicates that although they had provided better disclosures than the rest of the listed issuers, their disclosures could be further improved to provide greater insight into the selection and appointment process and criteria used to select new directors as well as criteria for performance evaluation.

Approximately 4% of listed issuers obtained bonus points for insightful disclosures about the activities of the audit committee and internal audit and 3.5% for insightful disclosures about how they assessed the suitability and independence of their external auditors. 3.2% of listed issuers obtained bonus points for insightful disclosures in their Statement of Risk Management and Internal Control. Most of the



bonus points for such disclosures were obtained by large cap listed issuers.

Results of the Assessment

► *Improvement in Scores*

Our finding is that **there continues to be strong adherence to the LR**. We also found an improvement in scores for all 6 Principles in 2016 compared to 2014 as indicated in **Table 3**.

We noted that information in the board charter in 2016 was more comprehensive compared to 2014. Listed issuers provided more details such as whether there was a formal schedule of matters reserved for the board and the board's oversight of management and the role of the CEO in overseeing the conduct of business in the board charter.

We noted that an increased number of listed issuers disclosed their code of conduct and whistleblowing policies and some of the information was quite comprehensive.

94% of listed issuers assess their independent directors annually which is an increase from 78% in 2014. We also noted that approximately 94% of listed issuers had a separate resolution to shareholders to retain the service of the independent directors after the nine year tenure compared to 77% in 2014.

Furthermore, we noted that in 2014, 34% of listed issuers who retained their independent directors beyond 9 years did not provide justification in the corporate governance statement or in the notice of AGM. However in 2016, this number reduced significantly to only 4%.

There was a slight increase in the number of listed issuers who separated the position of chairman and CEO from 87% in 2014 to 94% in 2016. However it would appear that the number of listed issuers where the Chairman and CEO were related has increased slightly from 22% in 2014 to 26% in 2016.

62% of listed issuers disclosed that there were protocols for directors to observe before accepting new appointments for the position of director in other listed companies. In 2014, only 34% of listed issuers made similar disclosures.

We noted that listed issuers provided more relevant information on how they assessed the suitability and independence of their external auditors. In 2014, most listed issuers disclosed that the audit committee met separately with external auditors without the presence of management. Our 2014 Report highlighted that listed issuers were expected to make their own assessment as to the suitability and independence of their external auditors and more was required to achieved this than meeting separately with external auditors. We noted that in 2016, many listed issuers disclosed that they had taken steps to assess the independence of their external auditor and also determine if the external auditor had sufficient resources to carry out the audit work that they were tasked with.

Areas for further improvement

While listed issuers' disclosures on the roles and responsibilities of the board has increased, there is room for further improvement as these disclosures should describe how the board carried out its role during the financial year.

We noted that although listed issuers disclosed that they conducted performance evaluations of their board, board committees and individual directors, only 56% disclosed the criteria for evaluation of individual directors, 40% disclosed criteria for evaluation of board committees and 65% disclosed criteria for evaluation of the board.

We also noted an increase in the number of listed issuers whose boards or nominating committees did not disclose whether they conducted a formal assessment of the training needs of directors.

Furthermore although listed issuers are encouraged as a best practice to disclose the remuneration of each director, we noted that there were very few (13%) who did this.

Listed issuers continued to provide weak justification for re-appointing independent directors beyond 9 years. In the explanatory notes to the resolution in the notice of AGM, they provided the same justification for several independent directors.

Most listed issuers continued to issue generic disclosures on the activities of the audit committee and internal audit function. Most listed issuers did not disclose the significant risks that they faced in their business and did not comprehensively disclose how they identified, evaluated and managed their risks.

The findings show that while disclosures have increased since 2014, there is still room for improvement and listed issuers continue to issue some generic disclosures under Principles 1, 5 and 6.

Our results by market capitalisation for 2016 also indicates that mid cap listed issuers should further improve their scores especially in relation to the roles and responsibilities of the board, having clear policies on the tenure of independent directors and providing meaningful disclosures on the summary of the activities of the audit committee and internal audit.

Mid cap listed issuers also need to improve the quality of their disclosures as indicated by the lower number of mid cap listed issuers that obtained bonus points compared to small and large cap listed issuers.



Principle 1

Establish clear roles and responsibilities

Principle 1: Establish clear roles and responsibilities

The disclosures under **Principle 1**⁵ are about providing insight into how the board carried out its roles and responsibilities during the financial year. There is a difference between ‘static’ information⁶ which comprises terms of reference or the governance framework as well as the mission and vision of the listed issuer, and information on how the board performed its role during the financial year.

Good disclosures under **Principle 1** placed ‘static’ information in the board charter while disclosures in the annual report focused on providing insight on how the board set the strategic direction of the listed issuer and carried out its role during the financial year.

Diagram 4 below shows the scores obtained by listed issuers under Principle 1. Approximately 19% of listed issuers obtained scores of above 80% for disclosures under this Principle.

“The average scores for Principle 1 increased from 60.8% in 2014 to 68.9% in 2016.”

The largest improvement for Principle 1 was among small cap listed issuers. The scores for this category improved from 59.34% in 2014 to 68.50% in 2016 representing an improvement of approximately 9.1%.

Where large cap listed issuers were concerned, we noted an improvement of approximately 6.8% between 2014 and 2016 for disclosures under Principle 1.

The improvement in scores for Principle 1 was due to listed issuers making their board charter available on their website since our last review in 2014. Information about the role of the chairman, CEO and formal schedule of matters reserved for the board were stated in the board charter. Some listed issuers had a very comprehensive board charter with detailed information on the terms of reference of the various committees and provided further insight into the role of chairman and the CEO as well as the role played by executive and non-executive directors.

“The improved scores in Principle 1 were also due to more listed issuers making adequate disclosures that have complied with best practice.”

Large cap listed issuers had comprehensive board charters dealing with the functions, roles and responsibilities of the board. Across all listed issuers, there were better disclosures pertaining to the Chairman’s oversight over the board as in 2016, as 94% listed issuers made disclosures as opposed to 80% in 2014. We also noted an increase in the number of listed issuers disclosing the formal schedule of matters reserved for the board. In 2014 approximately 50% disclosed this information whereas in 2016, 77% of listed issuers disclosed the same.

We noted that a high number of listed issuers disclosed their Code of Conduct and whistle blowing policies. In 2014, 75% of listed issuers disclosed their whistleblowing policy while in 2016, this number increased to 92%.

⁵ Principle 1 – The responsibilities of the board which should be set out in the board charter, include management oversight, setting strategic direction premised on sustainability and promoting ethical conduct in business dealings.

⁶ Static information refers to information that remains substantially unchanged from year to year

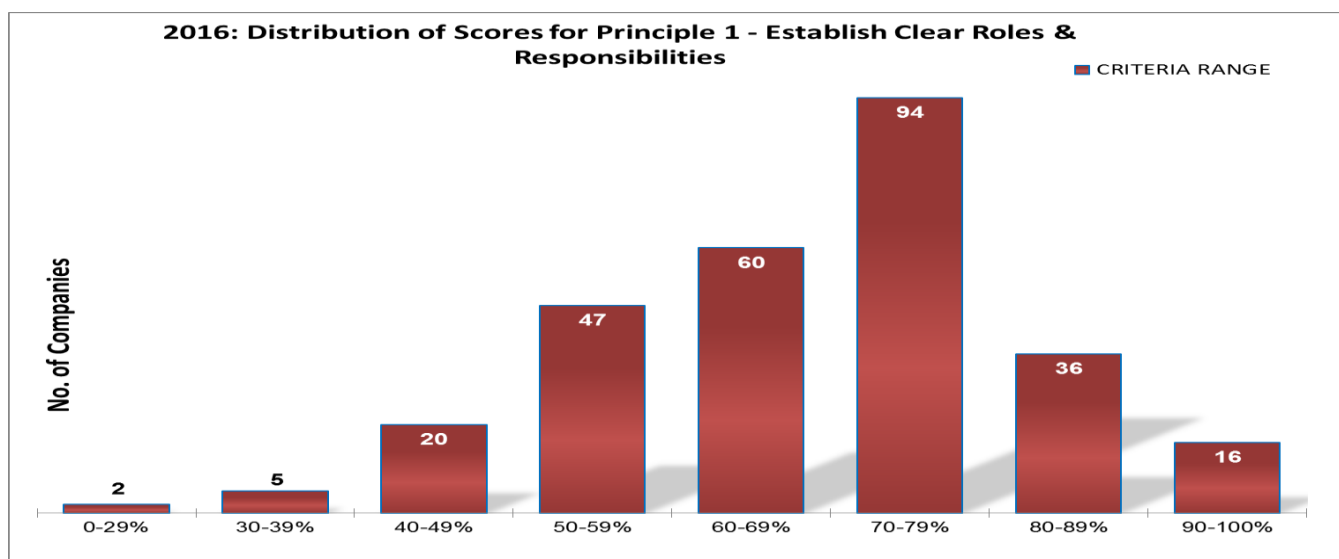


Diagram 4

We also noted increased instances where listed issuers disclosed the timeframe to circulate board papers compared to 2014 when most listed issuers did not address this issue. As it is critical for the board to have sufficient time to review board papers prior to the board meeting, the practice of disclosing the timeframe to circulate board papers will enable investors to assess if the board had sufficient time to prepare for board meetings.

There were however continued gaps in disclosures under Principle 1. The Commentary to Recommendation 1.2 of the MCCG 2012 provides some insight into the roles and responsibilities of the board such as reviewing and adopting a strategic plan for the company, overseeing the conduct of the company's business, identifying principal risks, succession planning, overseeing the development and implementation of a shareholder communications policy and reviewing the adequacy and integrity of management information and internal controls system of the company. We observed in 2014 that many listed issuers disclosed the roles and responsibilities of the board very briefly. We did not observe much improvement in 2016 as most listed issuers continued to issue brief disclosures.

We also noted that while the majority of listed issuers disclosed that the directors had access to information and advice, many listed issuers described these procedures very briefly without disclosing the process in place to exercise that right. Furthermore, while almost all listed issuers disclosed the qualifications of the company secretary, 50% disclosed the role and responsibilities of the company secretary while the rest did not.

“As the company secretary plays an important role in ensuring that listed issuers adhere to the law and listing requirements, there is an expectation that a description of their role will be emphasised in the board charter or in the annual report.”

Without such information, it appears that the company secretary plays a merely administrative role to support the listed issuer, which is not an ideal situation.

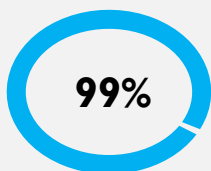
We observed in our 2016 review that many listed issuers did not disclose if they had updated or reviewed their board charter since it was first uploaded. Some listed issuers had uploaded their board charter in 2013 but there was no indication that they had reviewed or updated the board charter since. As the board charter is akin to the terms of reference of the board, boards should be prepared to review the board charter more frequently to ensure that it remains fit for purpose.

MEANINGFUL DISCLOSURES INCLUDE:

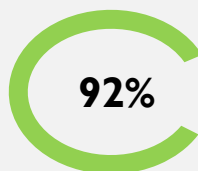
- ✓ A summary of functions reserved for the board and functions for management;
- ✓ A description of fiduciary responsibilities including:-
 - How the strategic planning process was carried out;
 - How the board ensures that the business is being effectively managed;
 - The board's processes in place for succession planning, its authority and mandate;
 - A summary of the shareholder communications policy and how the company communicated with shareholders during the financial year;
- ✓ Whistle blowing policy with appropriate communication and feedback channels

KEY FINDINGS

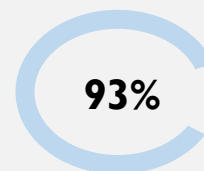
Principle 1: Establish clear roles and responsibilities



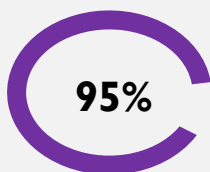
disclosed that there were procedures in place for the board to obtain timely information.



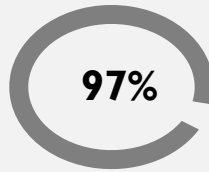
disclosed that they had a Code of Conduct.



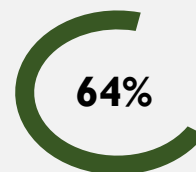
disclosed the qualifications of their company secretary.



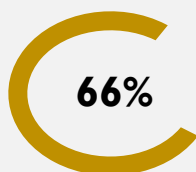
disclosed their board charter publicly.



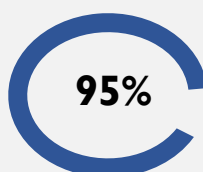
disclosed that the board had oversight over succession planning.



disclosed the limitations on management's authority.



provided a summary of their whistleblowing policy



disclosed that the board oversaw the conduct of business and 14% of this group provided insight into how it was discharged.



disclosed that their board reviewed and adopted strategic plans & 14% of this group provided detailed explanations on how it was discharged.



Principle 2

Strengthen composition

Principle 2⁷ pertains to the effectiveness of the board and maintaining board quality.

Our review of disclosures under Principle 2 of the MCCG was coupled with a review of disclosures under LR 15.08A and Appendix 9C pertaining to the nominating committee and remuneration of directors. The disclosures under Principle 2 generally focused on the terms of reference of the nominating committee, board quality - whether there were clear policies on board quality which is a requirement in the LR pursuant to paragraph 2.20A⁸, and board diversity - whether boards were actually diverse.

Additionally, we assessed whether listed issuers disclosed clear policies to limit the tenure of independent directors to 9 years as recommended by the MCCG and whether they had clear gender diversity policies. In addition, listed issuers were assessed on whether they disclosed clear processes and criteria in place for recruitment of new directors and whether they conducted performance assessments of the board, board committees and individual directors.

Diagram 5 shows the scores that listed issuers obtained for their disclosures.

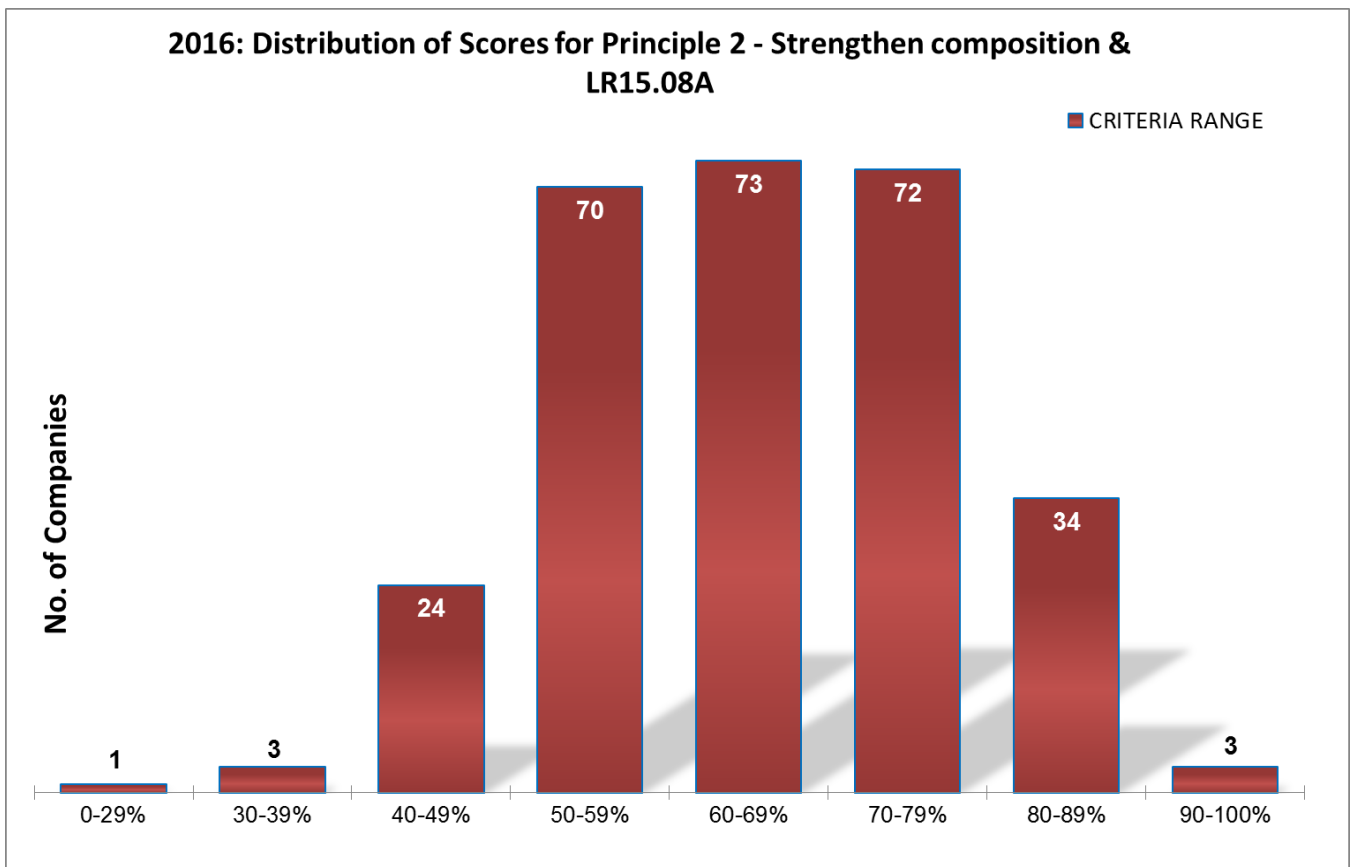


Diagram 5

⁷ 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.

⁸ Paragraph 2.20A states that every listed corporation, management company or trustee- manager must ensure that each of its directors, chief executive or chief financial officer has the character, experience, integrity, competence and time to effectively discharge his role as a director, chief executive or chief financial officer, as the case may be, of the listed corporation, or the collective investment scheme.

We found that most listed issuers (98%) disclosed that the terms of reference of the nominating committee include the selection and appointment of new directors as well as carrying out performance evaluations of the board, board committees and individual directors. This is an improvement from 78% in 2014. In assessing individual directors, 94% nominating committees disclosed in our 2016 review that they also assessed the continued independence of the independent directors on the board. This represents an improvement from 68% in 2014.

It was clear from our 2016 review, that boards had a policy of having a mix of skills and experience and in most instances, the board composition reflected such policy.

Approximately 15% of listed issuers disclosed such policy on gender diversity. Most of the balance 85% of listed issuers disclosed that while they were aware of the Commentary under Recommendation 2.2 of the MCCG 2012, their policy was to make appointments to the board based on merit. We noted that only 5% of listed issuers disclosed the targets and measures to appoint more women on boards.

Approximately 31% of listed issuers did not make clear disclosures on the nomination and selection process for the appointment of new directors to the board. Instead, the disclosures made were generic in nature.

19% of listed issuers who had appointed new directors during the financial year, made generic disclosures on the selection and appointment process and the criteria for selection. Such listed issuers should make specific disclosures on how they selected and appointed the new directors and also disclose the selection criteria for appointment and furthermore, that the nominating committee and also the board were satisfied that the appointees met with the criteria. It is important that listed issuers provide shareholders with insight into the robustness of

the board appointment process.

We noted that listed issuers continued to employ generic language in disclosing that the nominating committee had carried out performance assessments. Some listed issuers stated that *'the nominating committee assessed the effectiveness of the board as a whole, the committees of the board and the contribution of each individual director, including the Independent Non-Executive Directors'*.

As in 2014, our observation was that some listed issuers in 2016 continued not to disclose clearly whether it was the board, board committees or individual directors who were evaluated during the financial year. Even when such disclosures were clear, the criteria for such evaluations were not disclosed. We did note, however, several instances of exemplary disclosures as some listed issuers not only disclosed the process and criteria for performance evaluation but also the conclusions that it had drawn from such evaluations and that the nominating committee would address any gaps that were found during the evaluation.

We commend these listed issuers for such disclosures.

"We also noted good disclosures among a few small cap listed issuers on performance evaluations and the criteria used."

Most listed issuers reviewed in 2016 did not have a clear policy to limit the tenure of independent directors to a cumulative term of nine years. They stated that they would comply with the MCCG 2012 by providing justifications and obtaining shareholders' approval if they retained independent directors after the nine year period. We noted that 10% of listed issuers reviewed in

2016 stated clearly that they deemed that a tenure policy for independent directors was unnecessary.

“Some of these listed issuers may have been under the impression that the issue of limiting the tenure of independent directors need not be addressed until it arises.”

We recommend that all listed issuers should have a clear policy in place on the tenure of independent directors.

The Commentary to Recommendation 2.3 of the MCCG 2012 states that the remuneration package should be aligned with the business strategy and long term objectives of the company. We noted that 81% of listed issuers in our 2016 review made disclosures on this area. 77% of listed issuers disclosed their policies in relation to remuneration of directors. Furthermore, 13% of listed issuers disclosed the remuneration of individual directors in line with best practice.

“Listed issuers should note that remuneration of directors is an important matter to shareholders, many of whom ask questions about it at annual general meetings.”

We encourage listed issuers to provide as much information as possible to shareholders in order to enable them to make an informed decision when they vote on directors’ remuneration.

MEANINGFUL DISCLOSURES INCLUDE:

- ✓ Description of the process of sourcing candidates
- ✓ Description of the selection criteria used when assessing candidates for new board appointments
- ✓ Disclosure of the assessment criteria and process undertaken prior to recommending directors who will be seeking re-election at the Annual General Meeting
- ✓ Description of the tools or methodology adopted in assessments of boards, board committees and individual directors during the financial year.

KEY FINDINGS

Principle 2: Strengthen composition



100%

nominating committees comprised exclusively of non-executive directors, majority of whom were independents



89%

NC's ToRs comprised selection and assessment of directors.



98%

established a policy on mix of skills in relation to board composition & **100%** had mix of skills sets on their board.



62%

stated that the board is cognizant of the need for gender diversity and will develop appropriate policies in future.



91%

disclosed that they had conducted a performance evaluation for the board and individual directors.



83%

disclosed that they had also conducted a performance evaluation for the board committees.

**59%**

did not disclose the criteria used in the performance evaluation of board committees.

**77%**

Disclosed the remuneration policy.

**100%**

categorized remuneration into executive directors' and non-executive directors' remuneration.

**93%**

disclosed the remuneration of directors in bands of RM50,000.

**13%**

listed issuers disclosed directors remuneration by name.



Principle 3

Reinforce Independence

Principle 3 is about ensuring the effectiveness of independent directors. In this review, we focused on whether independent directors are assessed annually and whether they are re-designated as non-independent after 9 years.

Our 2016 review showed that listed issuers assess independent directors annually and in most cases, the basis of assessment was done against the definition of independent director pursuant to the LR⁹ i.e. items/criteria (a) to (g) of the definition. Nevertheless, listed issuers should be reminded that the definition contained in the LR also includes the item/criteria that an independent director must be ‘independent of management and free from any business or other relationship **which could interfere with the exercise of independent judgement...**’ (emphasis added) (“the General Independent Criteria”).

In this respect, **Paragraph 2.1, Practice Note 13** of the LR clearly states that if a director does not fall within any of paragraphs (a) to (g) of the said definition (“Objective Criteria”), it does not mean that the director will automatically qualify to be an independent director.

The director concerned as well as the board of directors of the listed issuer must still apply the test of whether the said director is able to exercise independent judgment and act in the best interests of the listed issuer as set out in the said definition (“Subjective Definition”).

A director could be in a position where he or she does not exercise independent judgment. This could be due to long standing relationships and familiarity with other members of the board/management which may influence the independent and objective judgment by the director and give rise to reluctance on the part of the said independent director from challenging the management/other board members. Independent directors are important not only because of their knowledge and skills but because they refresh the board by bringing new and objective ideas and perspectives to the board. When listed issuers retain independent directors for a long period of time, they carry the risk of losing that fresh/objective perspectives.

Diagram 6 shows distribution of scores for Principle 3. The scores show that there is a high level of adherence to Principle 3. Listed issuers have complied with the LR requiring 1/3 of the board to comprise independent directors and the have disclosed that independent directors are assessed annually.

We noted that 62% of the 280 listed issuers reviewed in 2016 continued to retain independent directors beyond the 9 year tenure. Where the balance of listed issuers are concerned, most of them comprise listed issuers who have not been listed for long which means that none of their independent directors had served on the listed company for nine years or longer.

⁹ LR1.01.

We noted that there were very few listed issuers who replaced their independent directors after they had served for a cumulative period of nine years. We noted that in most instances listed issuers provided justification for retaining independent directors beyond the 9 year tenure. The Commentary to Recommendation 3.3 of the MCCG 2012 indicates that the board must make a recommendation and provide strong justification to shareholders in a general meeting and the shareholders may in exceptional cases and subject to the assessment of the Nominating Committee vote to retain the independent director although he or she has served a cumulative term of 9 years.

“We noted that listed issuers have not given due attention to the Commentary as the justifications provided to retain such independent directors were not only generic but similar justifications were provided for all independent directors of the listed issuer who had served beyond 9 years.”

This is similar to our findings in the 2014 Report.

There was no disclosure that the nominating committee had assessed whether there were circumstances that could interfere with such director’s exercise of independent judgement. Some listed issuers even stated that since such director did not fall within any of the categories in (a) to (g) of the LR, he or she was considered independent.

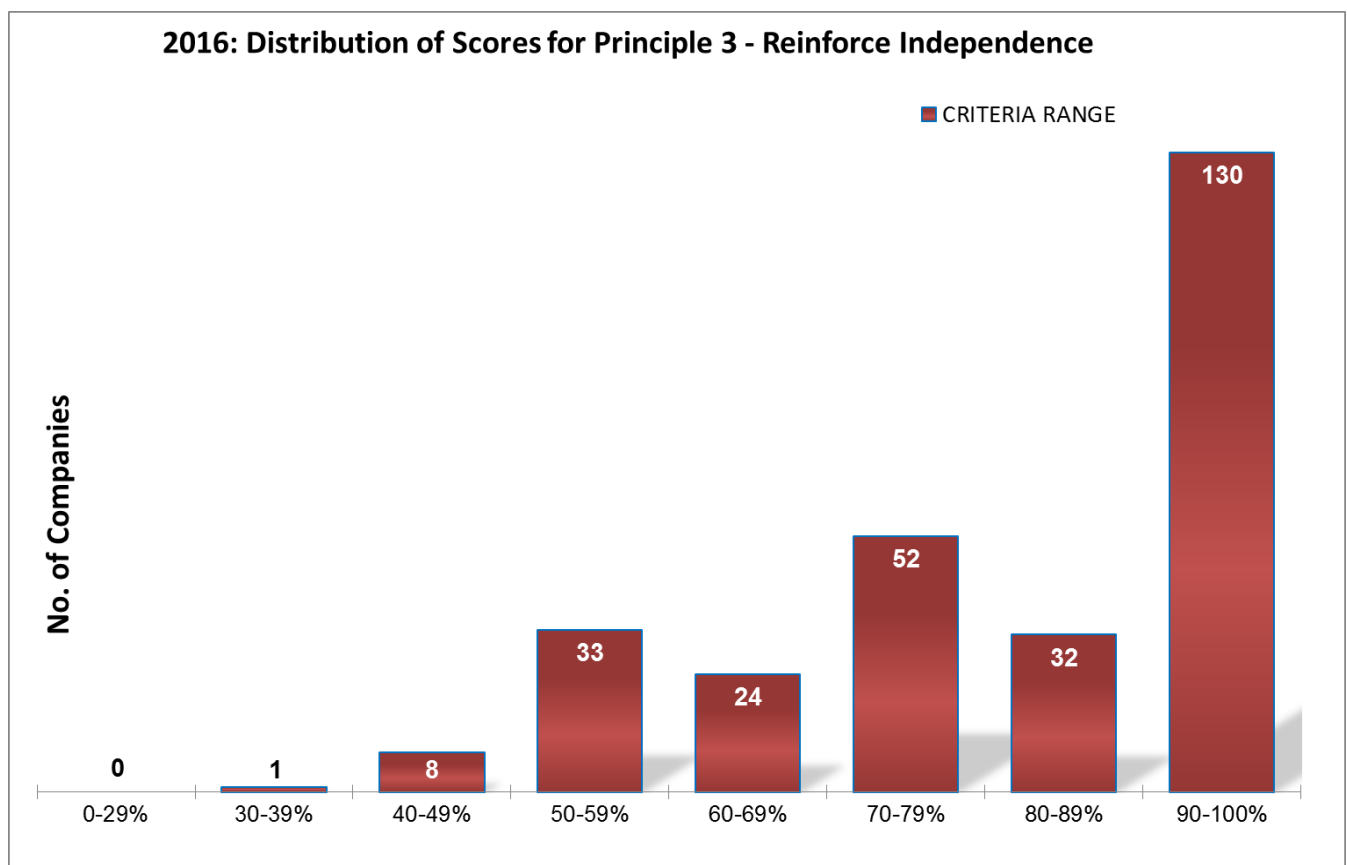


Diagram 6

We recommend that listed issuers review their approach towards independent directors so as to bring fresh perspectives and greater diversity to the board. The purpose of Recommendation 3.2¹⁰ in the MCCG is to ensure that the board composition is constantly refreshed and also to prevent ‘group think’ which may occur when directors are familiar with each other over a long period of time.

We also recommend that in instances where the listed issuer does not adopt best practice and decides to retain independent directors who have served for 9 cumulative years, there should be clear justification for each independent director who is retained which will show that the nominating committee considered the matter thoroughly. Such disclosures should provide sufficient insight to shareholders to enable them to assess the merits of the nominating committee’s decision to retain the services of the independent directors beyond the nine year tenure.

We noted however that in our 2016 review, 90% of listed issuers who intended to retain their independent directors beyond the 9 year tenure put this in a separate resolution to shareholders at the annual general meeting. This is in contrast to 67% who had done so in 2014. This shows that listed issuers have adopted better practices in terms of seeking shareholders’ approval.

We indicated in the Executive Summary that there has been a slight decline in 2016 in the number of listed issuers where the positions of chairman and CEO were held by the same individual.¹¹

“However it was also noted that there is a slight increase in 2016 in the number of listed issuers where the Chairman and CEO were related compared to 2014.”

Approximately 45% of listed issuers reviewed in 2016 had appointed an independent director as chairman of the board. The balance listed issuers had non independent non-executive directors or executive directors as chairman of the board. Recommendation 3.5 of the Code states that where the chairman of the board is not an independent director, the majority of the board must comprise independent directors.

We noted that among the balance 55% of listed issuers where the chairman was not an independent director, approximately 42% had a majority of independent directors on the board .This represents a slight increase from 39% in our 2014 review.

Approximately 34% of listed issuers had executive directors as chairman of the board. This represents a very slight decrease from 35% in 2014. It indicates that these listed issuers have not adopted best practices recommended in the MCCG 2012.

¹⁰ Recommendation 3.2 states that 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.

¹¹ 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.

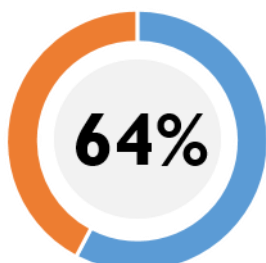


MEANINGFUL DISCLOSURES INCLUDE:

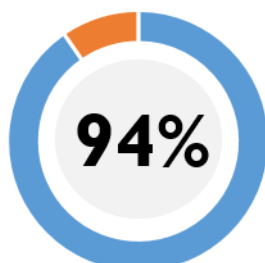
- ✓ A policy on independent directors that includes a tenure limit or the board of director's view on the tenure limit of independent directors
 - ✓ Strong justification where the listed issuers wish to retain independent directors beyond the 9 year tenure
 - ✓ Application of the subjective assessment pursuant to the LR definition of independent directors, in determining continued independence of such director
 - ✓ Justification to be provided for non-adoption of majority independent board members where the chairman is an executive.
-

KEY FINDINGS

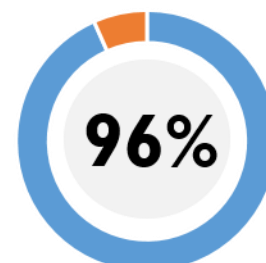
Principle 3: Reinforce Independence



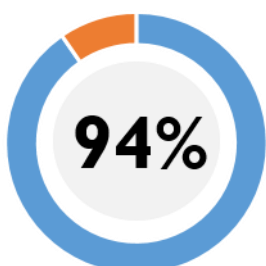
disclosed a policy on the tenure of IDs .



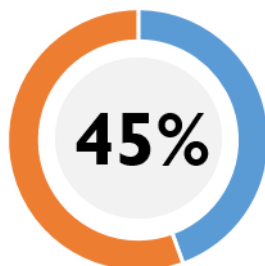
independent directors were assessed annually.



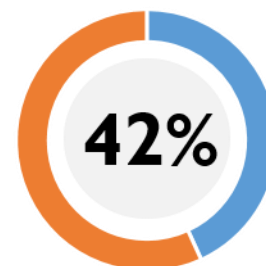
provided justification for retaining independent directors beyond 9 years but the justifications were not strong



of listed issuers separated the role of chairman and CEO.



had an independent chairman.



of listed issuers without an independent chairman had appointed a majority of independent directors to the board.



Principle 4

Foster commitment

It is important for directors to devote sufficient time to carry out their duties responsibly. Directors should ensure that they have sufficient time, not only to attend meetings but to prepare for the meetings.

We have indicated elsewhere in this review that listed issuers should disclose the number of days stipulated for board papers to be circulated prior to the board meeting¹². Best practice dictates a minimum of 7 days¹³. This is to ensure that the listed issuer provides the board with sufficient time to go through the board papers thoroughly.

Recommendation 4.1 of the **MCCG** also states that the board should set out the expectations on time commitment for directors and protocols for accepting new directorships. The **LR** limits directors to holding directorships in not more than 5 listed issuers¹⁴ for the purpose of ensuring that they devote sufficient time to their duties.

The disclosures under Principle 4 comprise information about directors’ time commitment and their attendance at continuing education programmes. **Diagram 7** shows that over half (52%) of the 280 listed issuers have obtained a score of above 80% for their disclosures under this Principle.

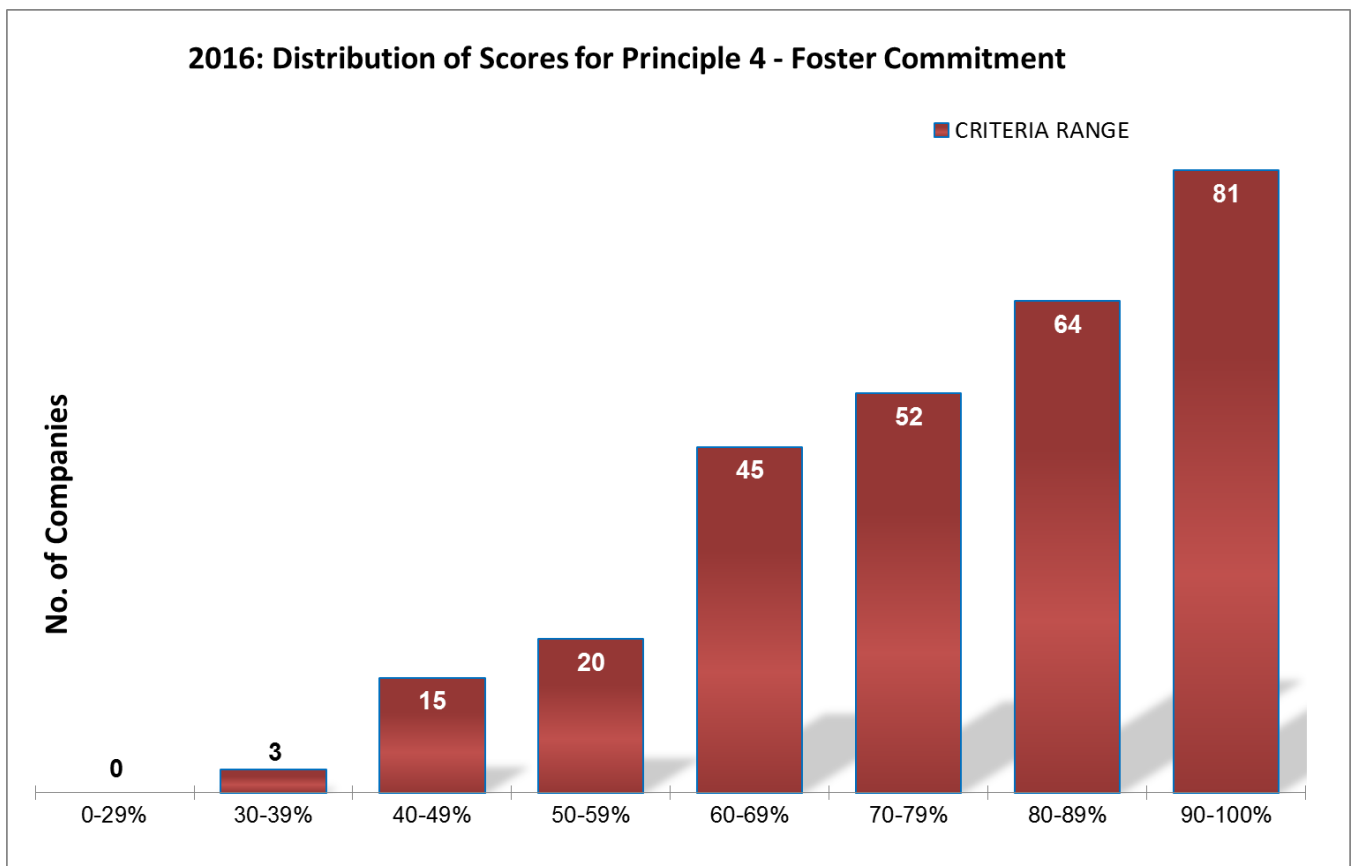


Diagram 7

¹² Discussion under Principle 1.

¹³ Corporate Governance Guide – Towards Boardroom Excellence (2nd Edition).

¹⁴ **LR 15.06**

We noted that in 2016, 28% of listed issuers provided clear disclosures on the time commitments expected of directors, compared to 17% in 2014. Most of the disclosures on time commitments were in the form of disclosures about the expected number of board meetings to be held during the financial year. In most instances such information was provided in the board charter. The annual report provided information on the actual number of board meetings held during the financial year and individual director's attendance at the board meetings.

We noted a significant increase in 2016 pertaining to disclosures about the protocols in place before directors could accept new directorships in other companies. In 2014, 34% of listed issuers disclosed that they had such protocols in place. This increased to 62% in 2016.

“Approximately 62% of listed issuers disclosed the protocols for accepting new directorships”

Some listed issuers also required such directors to provide the chairman with an estimation of the time commitment involved in the new appointment and also to provide the chairman with assurance that the director would be able to fulfil his or her commitment to the listed issuer in spite of the new appointment. We recommend this as a best practice which will ensure that the director is fully committed to fulfilling his or her role in the listed issuer.

We noted that only one listed issuer did not disclose the attendance of individual directors at board meetings. 99.6% of listed issuers made such disclosures in 2016 as compared to 97% in 2014.

Recommendation 4.2 states that the board should ensure that its members have access to appropriate continuing education programs.

The LR¹⁵ requires the board to disclose in the annual report, a statement on the training attended by directors. The statement also has to disclose that **the board has undertaken an assessment of the training needs of the directors.**

We noted that there was a decline in disclosures pertaining to the assessment of training needs of directors by the board or the nominating committee. In 2014 approximately 11% of listed issuers did not make such disclosures. This number increased to 29% in 2016. It should be noted such listed issuers have disclosed for the most part that *“Directors are encouraged to attend trainings to keep abreast with the latest developments”* or *“The board is aware of the continuous training needed to broaden their Directors’ perspective”*. Such disclosures or self-assessments of training needs fall short of the LR which expects the board or nominating committee to conduct a formal assessment of the training needs of directors.

“29% of listed issuers did not disclose whether the board had undertaken the assessment of training needs of each director”

¹⁵ LR 15.08 (3)

99% of listed issuers provided disclosures on the type of training that the directors have attended during the financial year. 65% of listed issuers disclosed the type of training attended by each individual director during the financial year.

We noted that approximately 11% of listed issuers did not disclose individual directors' training, but instead disclosed the names of the training programs attended by the directors. This falls short of disclosing whether all the directors have attended at least one of these training programs. We recommend that listed issuers make this clear in their annual reports in order to show that all their directors have complied with the LR requirement on continuous education.

We consider that these disclosures fall short of the LR.

Nevertheless,

“there were some detailed disclosures about the trainings attended by each director and it was clear from these disclosures that such listed issuers encouraged their directors to continuously update and upgrade their knowledge and skills.”

We commend these listed issuers for their disclosures and their approach towards directors' training.

We noted that some listed issuers did not disclose any attendance at training programs by their directors and provided no reasons for the non-attendance. This does not comply with the LR as the FAQs issued in relation to the LR indicate that in exceptional circumstances where any director has not attended any training during the financial year, valid justifications must be provided. Non-attendance due to work commitments is not good justification as it does not amount to exceptional circumstances¹⁶.

¹⁶ Chapter 15, Corporate Governance, Questions and Answers - 15.18 at [http://www.bursamalaysia.com/misc/system/assets/14813/Consolidated%20Main%20FAQs%20\[071315\].pdf](http://www.bursamalaysia.com/misc/system/assets/14813/Consolidated%20Main%20FAQs%20[071315].pdf).

KEY FINDINGS

Principle 4: Foster commitment

98%

listed issuers provided some form of expectation of time commitments to directors, mostly in the form of scheduling the number of meetings for the year

65%

disclosed the training attended by each director.

100%

complied with the LR that limits directors to holding no more than five directorships in listed issuers.



Principle 5

Uphold integrity in financial reporting

Principle 5¹⁷ emphasises the role of the audit committee in ensuring that financial statements are reliable¹⁸. It also emphasises the role of the audit committee in assessing the suitability and independence of external auditors.¹⁹ We assessed disclosures in the Audit Committee Report vis-à-vis the disclosure requirements stipulated under the LR.²⁰

Diagram 8 shows the breakdown in scores achieved by the 280 listed issuers reviewed. We noted in our assessment that listed issuers did not obtain high scores for disclosures under Principle 5. The Diagram shows that 11% of listed issuers achieved scores above 80% for their disclosures. This shows that the quality of the disclosures by listed issuers, could be improved further.

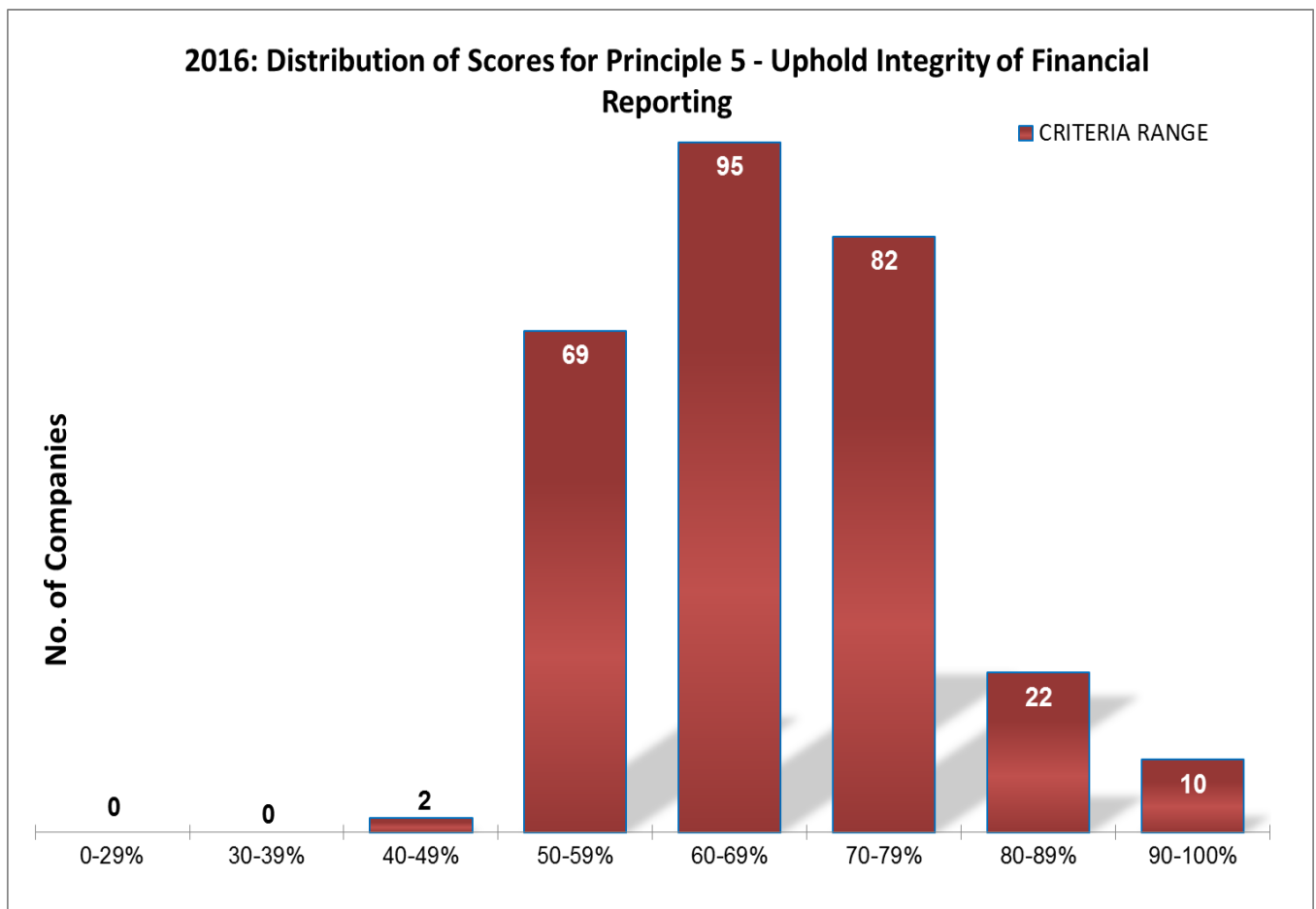


Diagram 8

¹⁷ **Principle 5** The board should ensure financial statements are a reliable source of information
¹⁸ **Recommendation 5.1** The Audit Committee should ensure financial statements comply with applicable financial reporting standards.

¹⁹ **Recommendation 5.2** The Audit Committee should have policies and procedures to assess the suitability and independence of external auditors

²⁰ LR 15.09 to 15.12, 15.15 and 15.27

Listed issuers complied with the **LR** on the composition of the audit committee such as the number of audit committee members, and the number of meetings attended by the audit committee during the financial year. In addition, they disclosed the written terms of reference of the audit committee. A very small number of listed issuers did not have any audit committee member with MIA or requisite qualifications. The chairman of the audit committee in all the listed issuers were independent directors.

We noted that 98% of listed issuers disclosed that the audit committee oversees the external auditor's scope and audit plan and 97% disclosed that they discuss the audit report with the external auditor. In addition 99% disclosed that they review the quarterly and year-end financial statements.

We identified three areas for further improvement under **Principle 5** which are disclosures about the activities of the audit committee and internal audit as well as disclosures about policies and procedures to assess the suitability and independence of the external auditors.

Summary of Audit Committee's Activities

Where the audit committee report is concerned, we noted that listed issuers focused on disclosing the audit committee's terms of reference or charter but did not emphasise on how it actually carried out its role and responsibilities during the financial year. The information provided was generic and in most instances listed issuers did not provide any insight into how the audit committee had exercised oversight over the financial reporting. The summary of audit the audit committee's activities read like a list which showed that the audit committee had carried out each item in the terms of reference but without any elaboration on how it carried out its role and the outcomes.

Listed issuers must disclose the terms of reference of the audit committee on their website and the Audit Committee's Report should focus on how it discharged its role and responsibilities during the financial year.

We noted that

“very few listed issuers obtained bonus points for their Audit Committee Report which indicates that most listed issuers did not use this report as an opportunity to provide insight into how the listed issuer's audit committee carries out its role.”

Nevertheless some listed issuers provided further details such as the dates when the audit committee met with the external (and internal) auditors without the presence of management and the topics discussed. Such listed issuers also disclosed that the audit committee had discussed new MFRS and other standards which may have had a significant impact on the listed issuer's financial statements. These listed issuers also went on to disclose that there was assurance provided by the Chief Financial Officer to the audit committee that matters such as prudent judgments and estimates had been made in accordance with the MFRS 134 or that adequate processes and controls were in place for effective and efficient financial reporting and disclosures under the MFRS.

We noted that some of the better audit committee reports described the activities of the audit committee under various headings. For instance, under the subheading 'External Audit', the report described the dealings between the audit committee and the external auditor during the financial year in terms of reviewing and approving the external auditor's audit plan and scope, deliberating the external auditor's audit report before presenting it to the board, the various meetings with the external auditor and the process of assessing the suitability and independence of the external auditor.

Various other subheadings were dealt with in the same manner such as how the audit committee reviewed related party transactions and the financial statements of the listed issuer. By highlighting such issues and disclosing how it had addressed them

“these audit committee reports conveyed the impression that the audit committee was serious about dealing with certain key issues when carrying out its role.”

Some listed issuers also disclosed that the audit committee analysed the impact of changes in accounting policies and that it reviewed cashflow assumptions and working papers in order to determine the recoverability of major assets.

Summary of Activities of Internal Audit

We found that the summary of internal audit activities for the most part was written using generic language. Disclosures such as *‘During the financial year, the Internal Auditors have assisted the Audit Committee to plan and conduct the internal audit for financial year ended 2016 and review the state of internal control of various operating cycles within the Group’* are insufficient to provide much insight into the actual areas that were audited during the financial year or how internal audit performed its function.

We noted that 99% of listed issuers disclosed their internal audit’s objective and approach. However approximately 65% disclosed the use of international practices such as the International Professional Practices Framework as the basis of their internal audit work. The purpose of disclosures about use of international practices would enable readers of the audit committee report to benchmark the quality of the internal audit carried out in the listed issuer. As internal

audit is the ‘eyes and ears’ of the audit committee, this could also provide reassurance to the audit committee and the board that internal audit is a strong line of defense for internal controls in the listed issuer.

We noted that many listed issuers outsourced the internal audit function. We encourage the audit committee in such listed issuers to require the outsourced internal audit firm to adopt the International Professional Practices Framework issued by the Institute of Internal Auditors (Global) or any other recognized internal audit framework.

As was the case for other Principles, there were also good disclosures on the activities of internal audit. In some instances listed issuers disclosed the number of internal audit assignments completed during the year and stated whether these were aligned to the audit plan. These listed issuers also disclosed the specific areas that were audited such as finance, sales, marketing, procurement, etc. with details of the specific aspects audited.

In some instances, listed issuers disclosed that the scope of internal audit engagements were aligned with the companies’ risk management profile i.e. that they audited areas that were identified as key risk areas.

Some disclosures went on to reveal that internal audit’s reports were discussed at the senior management level and that action plans were put in place to complete the necessary preventive and corrective actions. Such disclosures made it clear that a summary of internal audit’s findings and management’s responses were tabled to the audit committee to ensure that management undertakes the agreed remedial actions.

Some listed issuers disclosed that the audit committee had assessed the competency of the internal audit and whether it had adequate

resources to carry out its duties. Their conclusions were backed by data on the number of internal auditors working for the listed issuer. In large companies, this data was at times broken down to show how many auditors were involved in specific areas audited. Some listed issuers also provided an analysis of the variations in the internal audit costs or fees with explanations. We commend these listed issuers for their disclosures.

We also noted listed issuers made clear disclosures about the type of non-audit services provided by the external auditor and the fee paid to the external auditor.

“The purpose of disclosures on non-audit services is to allow investors to assess whether the fee paid to the external auditor for such services may affect their independence.”

Suitability and Independence of External Auditor

With reference to the independence and suitability of the external auditor, under **MCCG Recommendation 5.2** of the MCCG 2012, we noted that compared to 2014, listed issuers in 2016 disclosed information about the policies and processes in place to assess their external auditors accordingly. In 2014 many listed issuers disclosed that the audit committee met with the external auditor independently of management, which does not address the intention of the **MCCG Recommendation 5.2**. In 2016, we noted that listed issuers’ disclosures focused on assessments by the audit committee as to whether the external auditor remained independent and could continue its services to the listed issuer. The disclosures also implied that the audit committee was cognizant of the need to assess the resources of the external auditor to carry out its services during the financial year.

While most listed issuers have improved their disclosures in this area, we would encourage them to go further to describe the criteria used to assess the suitability and independence of the external auditor so as to provide reassurance to their shareholders that a thorough process is in place to make such assessment. After all, the external auditor is one of the most important lines of defence that the listed issuer relies upon.

We noted that some listed issuers made it clear that they shortlisted several audit firms to choose their external auditor for a period of three years. While the process of selection was carried out once every three years, management would assess the service levels of the external auditors each year and provide the results of their assessment to the audit committee.

“Some listed issuers disclosed the evaluation criteria that would be used in the selection process of their external auditor which showed that the process was robust.”

These listed issuers also disclosed that they were aware that non-audit services performed by the external auditor could compromise the independence of the external auditor and for this reason, all non-audit services and fees would be presented for discussion before the audit committee.

A few listed issuers obtained written confirmation from their auditors about their independence during the financial year but most listed issuers did not disclose whether such assurance had been obtained and when they did make such disclosures, it was unclear whether the assurance was provided in writing.

MEANINGFUL DISCLOSURES INCLUDE:

- ✓ Oversight of financial reporting which includes significant issues the audit committee has considered and how it has addressed these, adherence to the appropriate accounting standards (MFRS), review of reasonableness of accounting policies, integrity of the processes and controls in place, and other relevant matters;
- ✓ Oversight of external auditors in terms of topics deliberated or significant issues highlighted;
- ✓ Oversight of internal auditors in terms of significant topics and issues discussed, review of adequacy and suitability of internal audit team and resources;
- ✓ Disclosures of policies on external auditors and provision of non-audit services by them;
- ✓ Disclosure of processes, procedures and tools in place during the year with regards to external auditors' appointments, assessment on suitability, assessment on independence and tenure;
- ✓ Board statement on suitability and independence of external auditors.

KEY FINDINGS

Principle 5: Uphold integrity in financial reporting

100%

audit committees comprised at least minimum of 3 members, non-executive and majority of whom were independent directors.

100%

audit committee chairmen comprised independent directors & no alternate directors was appointed as members.

76%

disclosed the audit committee's oversight of financial reporting of which **15%** provided exemplary disclosures.

93%

disclosed the audit committee's oversight of the external auditors of which **16%** provided exemplary disclosures.

93%

disclosed a summary of internal audit's activities of which **20%** provided exemplary disclosures.

99%

disclosed internal audit's objectives and approach of which **65%** disclosed it had adopted a risk based approach or followed an international practices framework.

76%

provided some form of disclosures of the areas that were subjected to internal audit.

76%

disclosed that the board assessed the suitability and independence of the external auditor 30% made exemplary disclosures about the tools in place to make an assessment of suitability and 19 % made exemplary disclosures about the process in place to make disclosures about the independence of the external auditor



Principle 6

Recognise and manage risks

Principle 6 emphasises the importance of disclosures on internal controls and risk management in the Internal Control Statement.²¹

We reviewed whether listed issuers disclosed information in **Principle 6** while also referencing the Statement of Risk Management and Internal Control (**SRMIC**) as Practice Note 9 states that listed issuers should be guided by the SRMIC.

Diagram 9 shows that 10% of listed issuers reviewed have achieved a score of 80% and above for their disclosures. This shows that the **quality** of the disclosures while adequate, could be further improved.

99% of listed issuers disclosed the main features of internal control while 98% disclosed the main features of risk management in their organization. We noted that in our 2016 review, listed issuers have made more disclosures on risk management compared to their disclosures in 2014. This could have been due to more risk management processes in place in the listed issuers since 2014.

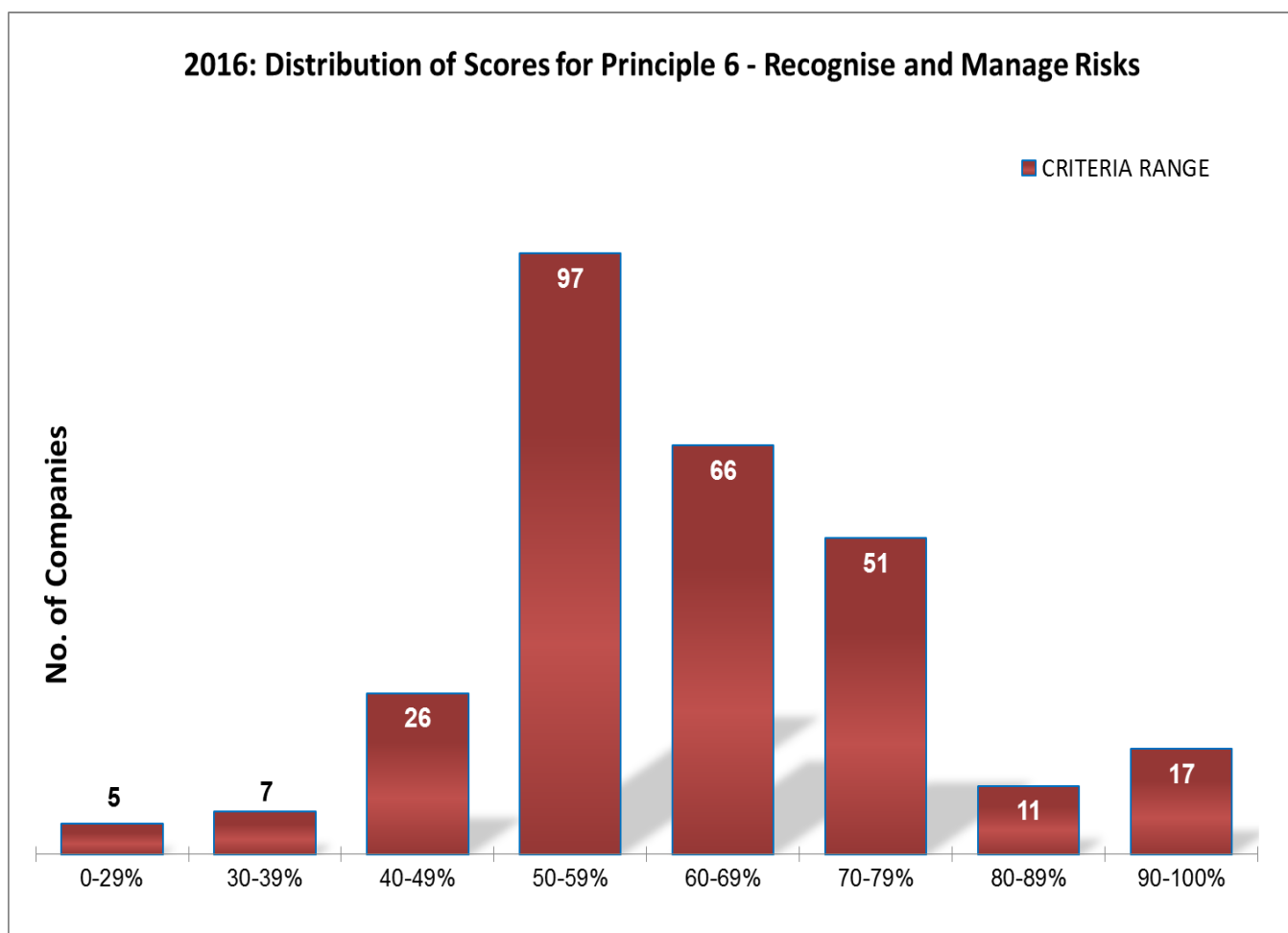


Diagram 9

²¹ LR15.26 (b), Practice Note 9 and Principle 6

We further noted that in 2016, listed issuers have provided more disclosures about the process of identifying, evaluating and managing their risks. However we continue to note that the quality of disclosures is lower compared to disclosures on other Principles within the MCCG 2012. The improvement in disclosures in the statement of risk management and internal control of all 280 listed issuers reviewed in 2014 and again in 2016 is 6.2%.

“60% disclosed the process for identifying risks, 55% disclosed the process for evaluating risks while 63% disclosed the process for managing those risks”

Approximately 15% of listed issuers provided clear and detailed information on the process of identifying and evaluating risks whilst 20% provided clear and detailed explanations on the process of managing risks. 28% of the listed issuers reviewed, disclosed the principal risks faced by the organisation. The rest of the listed issuers made generic statements such as;

‘The Board recognizes that an effective risk management framework will allow the Group to identify, evaluate and manage risks that affect the achievement of the Group’s business objectives in a timely and effective manner.’

These statements do not describe the processes involved and do not provide insight to shareholders as to what these risks are and how they are managed. Some listed issuers disclosed the various types of risks faced by the industry and provided textbook examples of those risks without specifying how they evaluated and managed these risks.

However

“we noted that there were good disclosures on the types of risks faced, the evaluation of those risks and how each of these risks were mitigated.”

There were disclosures which stated that the Board with the assistance of the Audit Committee and internal auditors continuously reviewed existing risks and identified new risks that the listed issuer faced and would take action to manage those risks. These types of disclosures were inadequate as such statements did not disclose any details of how this is done.

Listed issuers should expand on such disclosures to disclose the type of risks faced and how they are managed. There should also be disclosures about the process the listed issuer has put in place to ensure that new risks are identified and evaluated properly.

We noted that some listed issuers had established a separate board risk committee while in most listed issuers, the audit committee exercised oversight over risk management. We found that good risk management disclosures explained in detail the risk management framework within the listed issuer, steps taken to ensure that such framework was embedded within the entire organization, how the listed issuer compiles its risk register, risk parameter and ERM report, and how this has led to monitoring and managing the risks. We commend listed issuers who have issued detailed reports which provide insight into how the listed issuer carried out their risk assessment.

Listed issuers with good disclosures on internal controls, described the policies and procedures to maintain good internal controls in key risk areas and explained how they had assessed if these controls were put in place properly.

We noted that some listed issuers provided in depth information on how their internal audit division reviews internal control in the organization and how their comments are addressed by management and subsequently that the internal control report by internal audit and management's response is brought before the audit committee for further discussion. We commend such listed issuers for such in-depth and insightful disclosures.

We found that most listed issuers disclosed receiving assurance from the Chief Executive Officer and Chief Financial Officer or their equivalent that the risk management and internal controls within the organization are operating adequately and effectively in all material aspects. We noted in our 2016 review that while disclosure is not mandatory 80% of listed issuers disclosed that their external auditors had reviewed the Statement of Risk Management and Internal Control. This is an increase compared to 2014 where only 62% of listed issuers made such disclosures.


MEANINGFUL DISCLOSURES INCLUDE:

- Details about the features of the risk management and internal control systems;
- The process for identifying, evaluating and managing significant risks as opposed to a statement that there is such a process in place without further elaboration. This should involve disclosure of the position of the persons in charge of risk management and internal control within the organization, how they carry out their role in identifying, evaluating and managing risks and the key risks identified and how they were managed during the financial year;
- A description of the actual process applied by the listed issuers in reviewing the risk management and internal control systems, the person who conducted the review, whether significant weaknesses were identified and the outcome of such review.

KEY FINDINGS


Principle 6 :Recognise and manage risks

95%



disclosed that the risk management and internal control system had been reviewed by the board or the audit committee.

75%




revealed that no material losses had been incurred as a result of weakness in internal controls.

69%



revealed that the system had been reviewed by gatekeepers.

84%



disclosed CEO assurance obtained while **74%** disclosed that CFO assurance had been obtained.

94%



disclosed that internal audit reports to the board.

This is the first time that we have reviewed listed issuers whose annual reports were reviewed in 2014. Our intention was to assess the state of CG disclosures in our market as well as to assess whether there were improvements in disclosures of the 280 listed issuers after various CG initiatives that we had undertaken such as advocacy and engagements with these listed issuers. We note that most of the 280 listed issuers assessed have improved their disclosures and obtained higher scores. This indicates that their CG practices have improved.

While Large Cap Issuers led the way in terms of compliance with the LR and issuing good quality disclosures, the greatest improvement is among Small Cap Issuers. Their scores have improved by 8% since 2014.

In our review of 303 Small Cap Issuers in 2015 (a different group of Issuers from our 2014 and 2016 review), we noted that 23 or approximately 7.6% Small Cap Issuers obtained scores between 75% and 82%. In our 2016 review we have found that 38 out of 168 Small Cap Issuers or approximately 22.6% obtained scores between 75% and 87.5%. This shows considerable improvement in their disclosures even compared to their peers in 2015. Furthermore, their average score in 2016 is higher than mid cap listed issuers. This is commendable and indicates that market cap is not a barrier to good CG practices and disclosures.

As for the mid cap listed issuers, while they have shown improvement, there is opportunity for them to continue to improve their disclosures. Bursa Malaysia will engage with Medium Cap Issuers to improve their scores further.

We have highlighted good disclosures throughout this report and have also identified areas for further improvement. We hope that listed issuers will emulate these good disclosures.

We have provided **each of the 280 listed issuers** in this review with their **individual disclosure scores** and a **detailed report** which will indicate areas where they have made adequate disclosures as well as areas for improvement. We commend listed issuers that have obtained high scores as it shows that the quality of their disclosures is exemplary.

We require listed issuers to table their scores to their board to discuss how they can improve their corporate governance practices and disclosure. Bursa Malaysia will also be engaging with listed issuers which have not complied with the **LR**.

We will utilize the findings in this review to conduct advocacy programmes for directors and practitioners in 2017. These advocacy programs are provided free of charge and forms part of our efforts to work with listed issuers to improve the corporate governance culture in our capital market.

We are cognizant that the Securities Commission will be updating the Malaysian Code of Corporate Governance and we will devise a new scorecard which is aligned with amendments in the Malaysian Code of Corporate Governance ("**New Code**") and will assess disclosures of listed issuers in their annual reports in future using this scorecard. We will also issue a 3rd edition of the Corporate Governance Guide and conduct advocacy programmes for disclosures under the New Code in due course to assist listed issuers in adopting best practices in the Code.

END

Analysis of Corporate Governance Disclosure 2013 - 2014
Principle 1 - Establish clear goals & responsibilities
R1.1 Establish clear function reserved for board and delegation to management
Chairman's/ Board's oversight of management
CEO's focus on business / responsibilities
Formal schedule of matters reserved for board
Limits to management's responsibilities
Explanation
R1.2 Clear roles and responsibility in discharging fiduciary/leadership
Review & adopt strategic plan
Oversee conduct of business
Identify risk & implement appropriate IC
Succession planning
Shareholder communications (policy & its implementation)
Review adequacy and integrity of management info and IC
Explanation
R1.3 Code of conduct and implementation
Code of Conduct/ ethics established and summary disclosed
Whistleblowing policy established with description/summary
Description on how the Code or policy is applied or made available on website
Explanation
R1.5 Access to information and advice
Clear procedure to obtain advice
Clear procedure on timely info
Explanation
R1.6 Qualified and competent CS
Qualification disclosed
Description of responsibilities and more
Explanation
R1.7 Formalise, periodically review and publicise board charter
Formal Board Charter established and disclosed
Board charter reviewed
Explanation

Principle 2 - Strengthen composition & LR15.08A
R2.1 NC exclusively NED & majority ID
Establish TOR dealing with its authorities and duties
TOR includes selection and assessment of directors
Policy on board composition established, having regard to mix of skills, character, experience, integrity, competence & time commitment
Policy on board composition established, having regard to mix of skills on board composition
Independence - Policy on tenure of ID
Diversity- Policy on gender diversity available
Explanation
R2.2 Develop, maintain and review criteria for recruitment
Board nomination and election process(general)
Criteria used in the selection process(general)
If there is a new board member during the year, Board nomination and election process(specific)
Criteria used in the selection process(specific)
Explanation
R2.2 Criteria for board assessment
Assessment done - board
Criteria on board assessment
Assessment done - committee
Criteria on committee assessment
Assessment done - Individual director
Criteria on individual director assessment
Explanation
R2.3 Formal & transparent remuneration procedures
Disclosed remuneration policies and procedures
Linked to strategy and/or performance/long term objectives of the company
Aggregate remuneration categorised into components differentiating EDs from NEDs
Successive bands of RM50,000
Explanation
Principle 3 - Reinforce independence
1/3 IDs or more
R3.1 Undertake assessment of ID annually
Annual assessment on IDs
Explanation

R3.2 Tenure of IDs or justification of Independence for IDs > 9 years
Explanation
R3.3 Shareholders (SH) approval sought and obtained or justification for not obtaining SHs approval
Resolution for ID>9 year (in notice of SH meeting) or justification for not obtaining shareholders approval
Explanation
R3.4 Separation of Chairman & CEO
Chairman & CEO separate or justification provided if Chairman & CEO the same person
Explanation (for justification)
Chairman & CEO unrelated
Chairman is a Non Executive Director or justification provided if Chairman is an executive director
Chairman is an Independent Director
R3.5 Majority ID if Chairman not an ID or ED or justification provided for non adoption of R3.5
Principle 4 - Foster Commitment
R4.1 Time commitments
Expectations of time commitments
Board meeting attendance (individual) & no of meetings
Protocol for accepting new directorship disclosed
Does not exceed 5 directorships
Explanation
R4.2 Continuing education programs
Formal assessment of training needs by NC or Board
Type of training attended
Individual directors training attendance disclosed
All directors attend training during the year or justification for non-attendance
Explanation
Principle 5 - Uphold Integrity of Financial Reporting
Composition of audit committee
No fewer than 3 members
Members are NEDs & majority ID
Member of MIA or fulfils requirements
No alternate director in AC
Number of meetings and attendance
Chairman of AC is ID
AC has written terms of reference
Explanation
Functions of the AC
TOR&SOA: External auditors' scope, audit plan and fees
TOR&SOA: Discuss audit report with external auditor
TOR&SOA: Review quarterly and year end FS
TOR: Review RPT & COI

Review RPT or COI transactions or processes during the year
Summary of AC activities - A discussion of:
Oversight of financial reporting
Oversight of external auditors
Oversight of the internal auditors
Summary of IA activities
IA's objective and approach
Use of International practices framework or risk-based approach
Description of the areas which the IA evaluated/reviewed during the year
Internal Audit Fees & Costs
Outsource or In-house
Explanation
Recommendation 5.2 - Suitability and independence of EA
Policy to assess suitability and independence of external auditors (EA) established and disclosed
Assessment process or procedures on suitability/independence of EA.
Suitability assessment tools in place for the year
Independence assessment tools in place for the year other than written assurance from EA
Written assurance on independence of EA obtained during the year
Board statement on suitability of EA.
Board statement on independence of EA.
Tenure of the current auditor
Explanation
R6.1 BOD Statement of IC
Main features of Risk Management(RM) framework
Oversight of RM by a risk committee and/or RM team
Main features of IC
Process for identifying risk
Process for evaluating risk
Process for managing risk
Disclosure of significant or principal risks
Process in place for year under review
Review by the AC/RC or board of adequacy of RM & IC system
Process applied in reviewing the RM&IC system (by gatekeepers)
Confirmation that necessary action have been taken to remedy significant weaknesses identified from review
Board Commentary / Opinion on adequacy & effectiveness of RM& IC
Assurance from CEO

Assurance from CFO
EA reviewed SIC
R6.2 IA reports to AC
Explanation
