

### Background

The **ASEAN CG Scorecard** as a methodology to assess public listed companies was initiated by the ASEAN Capital Markets Forum (ACMF) and funded by the Asian Development Bank (ADB). The Securities Commission Malaysia was given the mandate and trust to lead this ASEAN Corporate Governance initiative. Six ASEAN countries are involved in this project namely Malaysia, Thailand, Indonesia, Singapore, Philippines and Vietnam. This initiative is undertaken in parallel with the efforts to achieve convergence of corporate governance standards in ASEAN countries by year 2015 as an economic community. The ASEAN CG Scorecard seeks to unify regional standards of CG among PLCs and the respective ecosystems ahead of the formation of the ASEAN Economic Community (AEC). It is compelling that companies step up their CG performance so that they will be able to remain relevant and attractive to current and potential investors.

The ranking methodology was established by leveraging on methodologies already implemented in the ASEAN countries. In recognition of MSWG's track record in carrying out the assessment of CG practices among PLCs in Malaysia through the MCG Index since 2009, MSWG has been tasked to undertake the rankings in Malaysia with funding support from the Capital Market Development Fund (CMDf).

### Objectives

The ultimate aim of this CG convergence is to build on economies of scale to achieve a single asset class, translating to wider access into capital market for each member and thereby facilitate cross-border fund raising, investments and market access. The standardisation of the ASEAN corporate governance parameters is expected to:

- Raise corporate governance standards and practices of ASEAN PLCs, as it is benchmarked against global principles and best practices.
- Showcase and enhance visibility as well as profile well-governed companies in ASEAN internationally.
- Facilitate cross-border operations and help companies expand their markets within the region.
- Complement other ACMF initiatives and promote ASEAN as an asset class.

### Principles behind the ASEAN CG Scorecard

The development of the ASEAN CG Scorecard was guided by the following principles:-

- Reflective of global principles and internationally recognised good practices in CG applicable to PLCs which may exceed the requirement and standards recommended in national legislation
- Not based on the lowest common denominator to encourage PLCs to adopt higher standards and aspirations
- Comprehensive in coverage, capturing the salient elements of CG
- Enable gaps in CG practices among ASEAN PLCs to be identified
- Universal and applicable to different markets in ASEAN
- Robust methodology to allow accurate assessment of the CG of PLCs beyond minimum compliance and box ticking
- Extensive and robust quality assurance processes to ensure the independence and reliability of the assessment

### Methodology

The **ASEAN CG Scorecard** was mainly based on disclosures in the annual reports and company websites. Other sources of information included company announcements, circulars, articles of association, minutes of shareholders' meeting, corporate governance policies, codes of conduct and sustainability reports. For 2014, the cut-off date for Annual Report was as at 31 July 2014 but assessments were done based on the latest website information as at date of assessment.

The scorecard comprises two parts which are referred to as **Level 1** and **Level 2**. **Level 1** comprises 179 parameters and are divided into five (5) parts corresponding with the OECD Principles of Corporate Governance as depicted in *Figure 1*. Each part carries different weightage based on the relative importance of the area. The OECD principles were used as the main benchmark for the Scorecard given their global acceptance by policy makers, investors and other stakeholders. The total 'bonus' and 'penalty' points in **Level 2** are added or subtracted from the total score in Level 1 to give the **final score** of the company.

Figure 1 : ASEAN CG Scorecard sections

Section	Area	OECD Principles of CG	Examples of areas assessed
<b>Part A</b>	<b>Rights of Shareholders</b>	<p><b>Principle II. The Rights of Shareholders and Key Ownership Functions</b></p> <p>The corporate governance framework should protect and facilitate the exercise of shareholders' rights.</p>	Equal rights to share in profits, rights to participate in general meetings, voting process, disclosure of voting results, voting in absentia etc.
<b>Part B</b>	<b>Equitable Treatment</b>	<p><b>Principle III. The Equitable Treatment of Shareholders</b></p> <p>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.</p>	Voting rights, timely information for effective decision making by shareholders, disclosure on any material interest or conflict of interest by board members, disclosure of related party transactions and whether they are fair and conducted at arms' length etc.
<b>Part C</b>	<b>Role of Stakeholders</b>	<p><b>Principle IV. The Role of Stakeholders in Corporate Governance</b></p> <p>The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.</p>	Separate CSR/ sustainability report, company's efforts to interact with the communities, company's commitment towards broader stakeholders, procedures for complaints by employees etc.
<b>Part D</b>	<b>Disclosure &amp; Transparency</b>	<p><b>Principle V. Disclosure and Transparency</b></p> <p>The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.</p>	Disclosure on shareholding information including beneficial owner, disclosure of direct and indirect shareholdings of directors, disclosure of audit & non-audit fees, channel for communication, comprehensive reporting in annual report etc.
<b>Part E</b>	<b>Responsibilities of the Board</b>	<p><b>Principle VI. The Responsibilities of the Board</b></p> <p>The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.</p>	Role & responsibilities of the board, board charter & code of ethics, term limit of independent directors, disclosure of remuneration fee, board diversity, board committees, board assessment etc.

## Bonus & Penalty Items

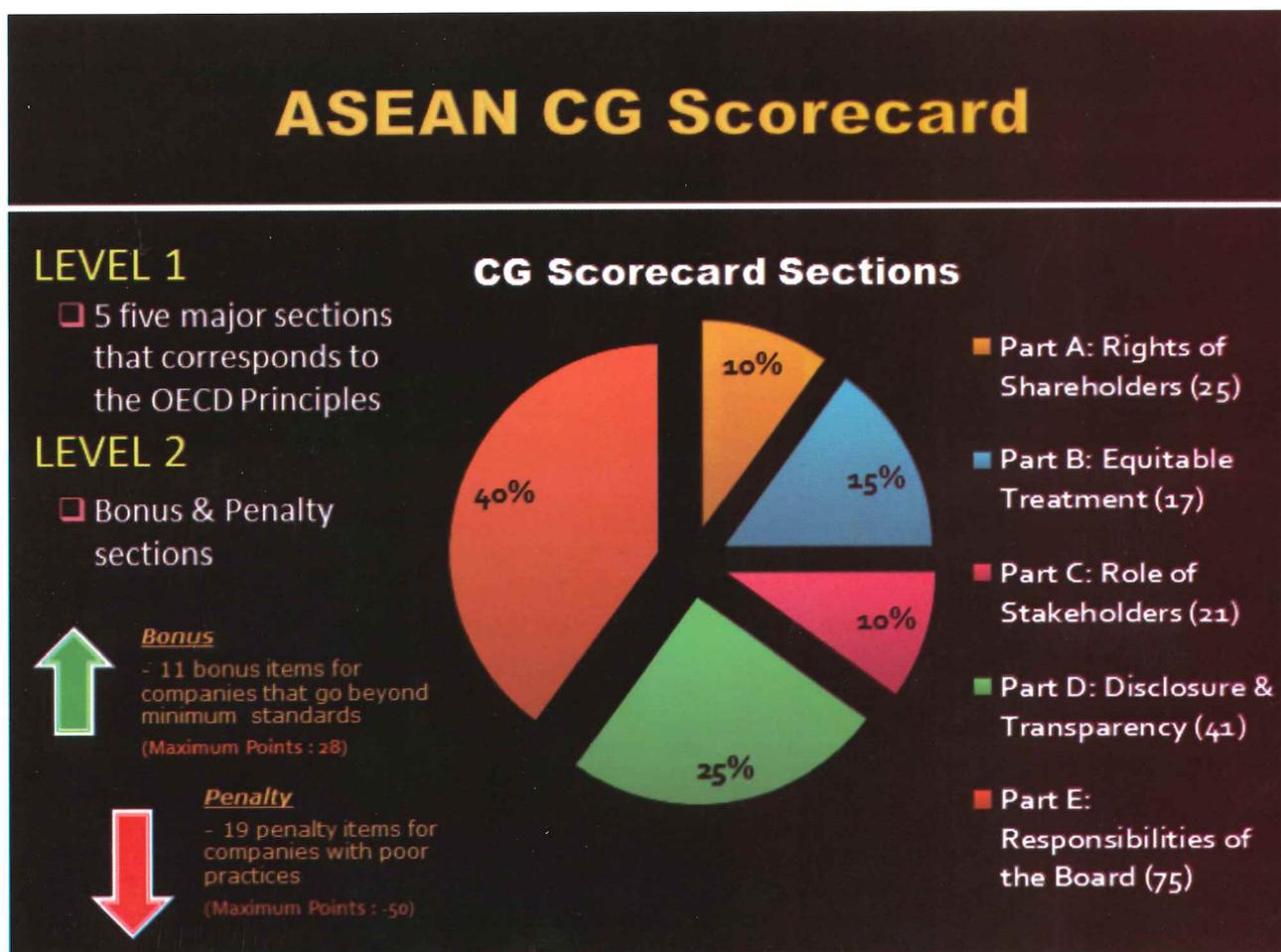
**Level 2** comprises a total of 30 'bonus' and 'penalty' items, each with a different number of points. The 'bonus' items were to recognise companies which had adopted good CG practices which went beyond items on **Level 1** particularly on aspirational board structure. Examples include disclosure of CEO's remuneration, having women independent directors on board and independent directors making up more than 50% of the board. Meanwhile the 'penalty' items were designed to penalise or downgrade companies with poor or undesirable governance practices which were not reflected in their **Level 1** score, such as being sanctioned by regulators for breaches of listing rules or securities laws and long tenureship of independent directors.

The top 100 PLCs were further subjected to performance criteria elimination process. In addition to the CG scores, performance criteria of Total Shareholder Return (TSR) and Return on Equity (ROE) were also used and given weightages of 30% and 70% respectively. The final overall score is then weighted against the criteria of performance and base CG transparency using the ASEAN CG Scorecard methodology in a ratio of 15 : 85.

	Top 100	Top 50	Top 20
<b>ROE</b>	≥3.0% for past 3 yrs	≥3.0% for past 3 yrs	≥3.0% for past 3 yrs
<b>Base Score (with positive Net Level 2 Score)</b>	≥ 60 points	≥ 70 points	≥ 80 points
<b>Overall Score</b>	≥ 50 points	≥ 60 points	≥ 70 points

The overall components of the scorecard are summarised in Figure 2 below.

Figure 2 : ASEAN CG Scorecard Sections



### **Environment, Social & Governance (ESG)**

Environment, Social and Governance (ESG) has increasingly become an important area of corporate governance and in this regard, MSWG has been recognising and awarding PLCs with good ESG with more emphasis on sustainability. This is also in line with the Government's agenda of promoting companies with good ESG as was also evident during the Government's tabling of Budget 2014 where it was stated that ValueCap will allocate RM1 billion to invest in companies that score high on the ESG Index.

The ASEAN CG Scorecard has several parameters that measure disclosures on ESG. In total, there are 21 items in the scorecard that measure companies in terms of their ESG policies and practices including the internal stakeholders such as employees as well as external stakeholders such as the community and customers. It is important to disclose the policies, objectives and the impact on the company. The adoption and execution of these activities and having a separate reporting is highly encouraged.

In this respect, many companies have started having such disclosures in their annual reports and websites. Management's commitment in driving this ESG agenda is important. It is equally important that the budget allocation and the utilisation are measured.

### **Publishing of AGM Minutes and Memorandum and Articles of Association (M&A)**

An area which MSWG has been promoting to PLCs since the last two years is the disclosure of AGM minutes and Memorandum and Articles of Association in the websites to facilitate shareholders to get the company's rules and constitution as well as to obtain information on the proceedings of the company's general meetings. On the AGM minutes, we hope more Malaysian companies will provide at least a summary of AGM minutes which should include the following :-

- Attendance of directors
- Opportunity allowing shareholders to ask questions or to raise issues
- Results of voting for each resolution

### **Risk Management**

Risk Management is an important area of corporate governance and a robust risk management framework will certainly help a company identify its key risks areas so that they can manage the risks more effectively.

Internal audit function is one key element which is part of the risk management process of a company. The amount of the internal audit cost disclosed will to a certain degree indicate whether the scope and effectiveness of the internal audit is adequate in relation to the size and complexities of the company. Companies should not compromise on the cost and scope of internal audit function as the potential loss may be too high a price to pay.

### **Balanced and Diverse Board**

A balanced and diverse board is important as it is part of good corporate governance. Integral to the quality of the board in terms of skills is its balanced composition as it can nurture ideas and harness the diversity. Whilst avoiding "group think" the structure of the board should encourage collegiality and in line with the principle of making decision in the best interests of the company and stakeholders.

A well-balanced board can be in the form of skills, gender, geography, ethnicity and composition of executive directors and non-executive directors.

MSWG has been actively encouraging PLCs to have more women directors particularly independent women directors. Apart from gender diversity, MSWG has certainly not disregarded the importance of other forms of diversity and has, therefore, urged all PLCs to have a balanced and diverse Board.

# LIST OF TOP 100 COMPANIES

## TOP 100

for Disclosures based on ASEAN CG Scorecard Methodology

AFFIN HOLDINGS BERHAD  
AIRASIA BERHAD  
ALLIANCE FINANCIAL GROUP BERHAD  
ALLIANZ MALAYSIA BERHAD  
AMMB HOLDINGS BERHAD  
AMWAY (M) HOLDINGS BERHAD  
ANALABS RESOURCES BERHAD  
ASTRO MALAYSIA HOLDINGS BERHAD  
AXIATA GROUP BERHAD  
BATU KAWAN BERHAD  
BIMB HOLDINGS BERHAD  
BRITISH AMERICAN TOBACCO (M) BERHAD  
BÚMI ARMADA BERHAD  
BURSA MALAYSIA BERHAD  
C.I.HOLDINGS BERHAD  
CARLSBERG BREWERY (M) BERHAD  
CIMB GROUP HOLDINGS BERHAD  
CYPARK RESOURCES BERHAD  
DAIBOCHI PLASTIC AND PACKAGING INDUSTRY BERHAD  
DIALOG GROUP BERHAD  
DIGI.COM BERHAD  
DRB HICOM BERHAD  
ECS ICT BERHAD  
ENGTEX GROUP BERHAD  
FABER GROUP BERHAD  
FAVELLE FAVCO BERHAD  
FELDA GLOBAL VENTURES HOLDINGS BERHAD  
FOCUS POINT HOLDINGS BERHAD  
FRASER & NEAVE HOLDINGS BERHAD  
GAMUDA BERHAD  
GAS MALAYSIA BERHAD  
GD EXPRESS CARRIER BERHAD  
GENTING BERHAD  
GENTING MALAYSIA BERHAD  
GENTING PLANTATIONS BERHAD  
GUINNESS ANCHOR BERHAD  
HAP SENG CONSOLIDATED BERHAD  
HARTALEGA HOLDINGS BERHAD  
HONG LEONG BANK BERHAD  
HONG LEONG FINANCIAL GROUP BERHAD  
IHH HEALTHCARE BERHAD  
IJM CORPORATION BERHAD  
IJM LAND BERHAD  
IJM PLANTATION BERHAD  
IOI CORPORATION BERHAD  
IQ GROUP HOLDINGS BERHAD  
KOSSAN RUBBER INDUSTRIES BERHAD  
KPJ HEALTHCARE BERHAD  
KUALA LUMPUR KEPONG BERHAD  
KULÍM (M) BERHAD  
KUMPULAN PERANGSANG SELANGOR BERHAD  
LAFARGE MALAYSIA BERHAD  
LBS BINA GROUP BERHAD  
LPI CAPITAL BERHAD  
MBM RESOURCES BERHAD  
MAGNUM BERHAD  
MALAYAN BANKING BERHAD  
MALAYSIA AIRPORT HOLDINGS BERHAD  
MALAYSIA BUILDING SOCIETY BERHAD  
MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD  
MALAYSIAN RESOURCES CORPORATION BERHAD  
MANULIFE HOLDINGS BERHAD  
MASTER-PACK GROUP BERHAD  
MATRIX CONCEPTS HOLDINGS BERHAD  
MAXIS BERHAD  
MEDIA CHINESE INTERNATIONAL LIMITED  
MEDIA PRIMA BERHAD  
MISC BERHAD  
MMC CORPORATION BERHAD  
MSM MALAYSIA HOLDINGS BERHAD  
MUDAJAYA GROUP BERHAD  
NESTLE (M) BERHAD  
ORIENTAL HOLDINGS BERHAD  
OSK HOLDINGS BERHAD  
PETRONAS CHEMICALS GROUP BERHAD  
PETRONAS DAGANGAN BERHAD  
PETRONAS GAS BERHAD  
PLENITUDE BERHAD  
POS MALAYSIA BERHAD  
PRESTARIANG BERHAD  
PUBLIC BANK BERHAD  
QL RESOURCES BERHAD  
RHB CAPITAL BERHAD  
SAPURAKENCANA PETROLEUM BERHAD  
SARAWAK PLANTATION BERHAD  
SIME DARBY BERHAD  
SP SETIA BERHAD  
STAR PUBLICATIONS (M) BERHAD  
SUNWAY BERHAD  
SURIA CAPITAL HOLDINGS BERHAD  
TELEKOM MALAYSIA BERHAD  
TENAGA NASIONAL BERHAD  
TOP GLOVE CORPORATION BERHAD  
TROPICANA CORPORATION BERHAD  
TSH RESOURCES BERHAD  
UEM SUNRISE BERHAD  
UMW HOLDINGS BERHAD  
UMW OIL & GAS CORPORATION BERHAD  
WESTPORTS HOLDINGS BERHAD  
ZHULIAN CORPORATION BERHAD

## CATEGORIES OF AWARDS

Exemplary AGM Minutes

Exemplary ESG Practices

Top Corporate Governance Recognition

- Mid Cap (> RM750 million to RM3 billion)
- Mid Cap (> RM100 million to RM750 million)
- Small Cap (RM100 million and below)

Industry Excellence

- Plantation
- Property
- Oil & Gas
- Financial
- Industrial / Trading
- Consumer Goods
- Consumer Services
- Telecommunications/Utilities

Investor Watchdog Peer Recognition

CG Writer of the Year

Chairman of the Year

CEO of the Year

Top Transparency Recognition

Top Corporate Governance Recognition

## OBJECTIVES AND CRITERIA FOR CATEGORIES OF AWARDS

Categories	Objectives/Criteria
<b>Exemplary AGM Minutes</b>	<p>To encourage and recognise PLCs to publish quality minutes on their websites.</p> <p>Published quality AGM Minutes which include, among others, disclosures on:</p> <ul style="list-style-type: none"> <li>▪ attendance of Board members</li> <li>▪ meeting procedures</li> <li>▪ opportunity for shareholders to raise questions</li> <li>▪ detailed voting results for each resolution</li> </ul>
<b>Exemplary ESG Practices</b>	<p>To encourage and recognise PLCs which have good policies on environment, social and governance (ESG) and implement such activities effectively with strong emphasis on sustainability.</p> <ul style="list-style-type: none"> <li>▪ Has a separate quality Sustainability Report.</li> <li>▪ It must address 4 pillars of Corporate Responsibility, e.g. community, environment, workplace, and marketplace.</li> <li>▪ Has demonstrated the implementation of these activities and disclosed cost benefits.</li> </ul>
<b>Top Corporate Governance Recognition</b> <ul style="list-style-type: none"> <li>- Mid Cap (&gt; RM750 million to RM3 billion)</li> <li>- Mid Cap (&gt; RM100 million to RM750 million)</li> <li>- Small Cap (RM100 million and below)</li> </ul>	<p>To encourage and recognise mid and small cap PLCs to embrace corporate governance.</p>
<b>Industry Excellence</b> <ul style="list-style-type: none"> <li>• Plantation</li> <li>• Property</li> <li>• Oil &amp; Gas</li> <li>• Financial</li> <li>• Industrial/Trading</li> <li>• Consumer Goods</li> <li>• Consumer Services</li> <li>• Telecommunications/Utilities</li> </ul>	<p>To encourage and recognise PLCs in their respective industries with the best corporate governance practices including transparency and performance.</p>

## OBJECTIVES AND CRITERIA FOR CATEGORIES OF AWARDS

<b>Investor Watchdog Peer Recognition</b>	<p>To recognise an individual in the ASEAN region who has contributed immensely in the promotion of corporate governance and minority rights in his/her country.</p>
<b>CG Writer of the Year</b>	<p>To recognise an individual who has contributed quality articles and commentaries on CG issues and has created awareness in the marketplace.</p>
<b>Chairman of the Year</b>	<p>To recognise an individual who has demonstrated influence in corporate governance within his company and marketplace.</p> <ul style="list-style-type: none"> <li>• The individual must be an independent Chairman who has served less than 9 years.</li> <li>• The Company that he helms must have published AGM minutes.</li> <li>• Conducted himself well during the AGM.</li> <li>• Obtained good feedback through nomination.</li> <li>• The Company that he helms must be in the top 50.</li> </ul>
<b>CEO of the Year</b>	<p>To recognise an individual who is visionary, entrepreneurial and dynamic and has brought corporate governance to a greater height.</p> <ul style="list-style-type: none"> <li>• Successfully led the company to venture overseas.</li> <li>• Has pushed corporate governance practice beyond minimum requirements especially in the areas of diversity, ESG.</li> <li>• Has showed and shared his knowledge in marketplace, showcasing and encouraging good CG practices.</li> </ul>
<b>Top Transparency Recognition</b>	<p>To recognise a PLC with the best corporate governance disclosures.</p>
<b>Top Corporate Governance Recognition</b>	<p>To recognise PLCs with the best corporate governance disclosures.</p>