MINISTRY OF FINANCE

PRINCIPLES ON GOOD GOVERNANCE FOR GOVERNMENT LINKED INVESTMENT COMPANIES

KWSP EPF PNB Permodalan Nasional Berhad KWAP KHAZANAH NASIONAL TABUNG HAJI

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PREAMBLE

Good governance is fundamental to shape the culture of an institution as well as the behaviour of individuals. It is also essential that the leadership of institutions promote integrity, accountability, respect for the rule of law and transparency in order to build confidence and trust of stakeholders. Government Linked Investment Companies (GLICs) have been one of the cornerstones in Malaysia's economic development and nation-building. By navigating the country through challenging periods and spurring key development and infrastructure projects, GLICs and Government Linked Companies (GLCs) will continue to play a key role as Malaysia progresses towards achieving high-income nation status and the Shared Prosperity Vision 2030.

In support of these aspirations, the *Program Memperkukuh Syarikat Pelaburan Berkaitan Kerajaan,* consisting of twenty (20) key initiatives was initiated and launched on August 12, 2021, by the Yang Amat Berhormat Prime Minister of Malaysia to strengthen and optimize the overall structure and governance of GLICs in Malaysia. Collectively, the twenty (20) initiatives aim to achieve five (5) key outcomes, namely:

(1) sharpen clarity on the mandate of each GLIC;
(2) spur new growth and enhanced socio-economic impact through developmental and catalytical investments;
(3) crowd-in the private sector while streamlining the role of the government and its agencies in business;
(4) future-proof GLICs with best-in-class governance, capabilities, and strategies; and
(5) strengthen social protection safeguards and fiscal resilience.

In addition to meeting the long-term aspirations of the nation, the *Program Memperkukuh Syarikat Pelaburan Berkaitan Kerajaan* aims to enhance the positioning of GLICs as world-class investors, equipped to deliver on their mandates. Large spillover effects are also expected to the broader economy. This includes enhanced socioeconomic outcomes through job creation and improvement of household income from the new growth areas spurred by the patient capital investments of GLICs, as fiscal sustainability and strengthened institutions continue to enhance our nation's macroeconomic strength.

Enhancing governance standards to future-proof GLICs

An effective governance framework supports GLICs in the prudent management of government funds to safeguard fiscal sustainability and growth of the nation's wealth across time horizons. It is also fundamental in ensuring contributor's funds, which are the Rakyat's lifetime savings is prudently managed and safeguarded to meet return expectations.

A robust governance framework will also mitigate against both financial and non-financial risks, and support responsible as well as effective investment decision making. This is achieved through among others, having robust oversight by the board, clear accountabilities and KPIs for management, embedding the required safeguards, ensuring that the board and committees are equipped with the right skills and experience to carry out their fiduciary duties.

Principles on Good Governance for Government Linked Investment Companies

In support of the initiative to enhance the governance and sustainability standards and practices across all GLICs, the Principles on Good Governance for Government Linked Investment Companies (PGG) was developed as the single reference on baseline governance and sustainability practices that should be adopted by GLICs.

The development of the PGG considers and integrates where applicable, local and global standards, practices and discourse on public and corporate governance including the Malaysian Code on Corporate Governance (MCCG) issued by the Securities Commission Malaysia. The MCCG which was first issued in 2001[1] , as a reform measure post the Asian Financial crisis 1997/1998 remains the main reference on corporate governance for listed companies.

The drafting of the PGG draws upon among others the experience of past and existing board members of GLICs, lessons learnt from regulatory concerns and accepted global standards on good governance practices of State-Owned Enterprises[2] (SOE) including the Organisation for Economic Co-operation and Development Guidelines on Corporate Governance of State-Owned Enterprises (OECD Guidelines) as well as the Santiago Principles by the International Forum of Sovereign Wealth Funds, to ensure alignment of the PGG with domestic and global corporate governance best practices.

The PGG is intended to complement and further strengthen the existing governance framework of GLICs including oversight by the relevant Ministries and requirements prescribed under the statutes governing these GLICs. The principles and practices in the PGG should be read and applied together with any existing legislation, guidelines or code governing the conduct of a GLIC as well as its directors and the discharge of their fiduciary duties.

The main design principles of the PGG are:

(1) Setting the baseline governance and sustainability practices which consider the unique role and requirements of the different GLICs and their respective mandates;

[1] The Securities Commission Malaysia is the custodian of the MCCG. The MCCG is periodically updated to ensure it remains fit for its purpose. There have been 4 revisions since the MCCG was introduced, in 2007, 2012, 2017 and 2021.

[2] State owned enterprises (SOEs) means any corporate entity recognised by national law as an enterprise, and in which the state exercises ownership. This includes joint stock companies, limited liability companies and partnerships limited by shares. Moreover statutory corporations, with their legal personality established through specific legislation, should be considered as SOEs if their purpose and activities, or parts of their activities, are of a largely economic nature.

(2) Alignment with global standards of good governance and sustainability, to ensure that the standards and practices of Malaysia's GLICs are in line with global standards; and

(3) Promote accountability and transparency throughout the entity and between the GLIC and its stakeholders including, the government, beneficiaries and the public.

The PGG identifies best practices on governance and sustainability which GLICs are strongly encouraged to adopt. Information on how the best practices are implemented should be disclosed annually in the annual reports of the GLICs to promote transparency, accountability and maintain stakeholders' confidence in these entities. The disclosure should also include clear explanation for any departures from the best practices, a reasonable timeframe for when the best practice(s) will be adopted and the measures which the GLICs have or will take to ensure they adopt the practice(s). A timeframe of three years or less is considered reasonable.

Implementation, Monitoring and Progress Report

The required structures and mechanisms should be in place to oversee the adoption and implementation of the PGG by the GLICs and facilitate periodic enhancements to the PGG to ensure it remains fit for purpose. Measures and progress on the adoption of the PGG by GLICs will be monitored closely to ensure that the PGG is implemented in substance and not merely in form and manifests positively in the governance and overall performance of the GLICs. Key information will also be made publicly available to bolster accountability and stakeholders' trust and confidence in these entities.

DEFINITION

Unless otherwise defined below, all words used in the PGG shall have the same meaning as assigned to it in the respective laws and constitution governing an entity:

"active politician"	a person is considered an active politician if he/ she is a member of parliament, state assemblyman or one who holds a position at the Supreme Council or division level in a political party;
"board"	means the board of directors of an entity;
'CEO"	means a Chief Executive Officer or a principal executive officer, by whatever name called, whether or not he is a director;
"director"	means a person appointed to the board of directors of an entity pursuant to the respective Act applicable to the entity;
"entity"	refers to a Government Linked Investment Company (GLIC);
"Government Linked Investment Companies (GLIC)"	means Federal Government Linked Investment Companies that allocate some or all of their funds to Government Linked Companies (GLCs). The board members and senior management of these entities are appointed by the Federal Government, where these individuals report directly to the Federal Government. The entities' funding for operations and/or capital (and some income) placed by unitholders/contributors may be guaranteed by the Federal Government. For purposes of these Principles, GLICs refer to Employee Provident Fund, Khazanah Nasional Berhad, Kumpulan Wang Amanah Negara, Kumpulan Wang Persaraan (Diperbadankan), Lembaga Tabung Angkatan Tentera, Lembaga Tabung Haji and Permodalan Nasional Berhad;

"independent director"	means a director who is independent of management and free from any business or other relationship with an entity or related corporations of the entity (each referred to as "said entity"). Without limiting the generality of the foregoing, an independent director is one who– (a) is not currently a government officer; (b) is not an officer (except as an independent director) of the said entity; (c) is not a family member of any officer of the said entity; and (d) is currently not an advisor or engaged in any transaction including providing professional advisory services for the said entity; A former officer or a person who has been appointed as an advisor or engaged in any transaction with the entity or related corporations of the entity shall serve a cooling-off period of three years from the date of his retirement, resignation or engagement with the entity or related corporation of the entity before he can be appointed as an independent director on the board;
"Investment Panel"	means a panel or committee established by an entity and responsible for matters pertaining to the investment of the fund;
"KPIs"	means Key Performance Indicators;
"management"	means a person having the authority and responsibility for planning, directing or controlling the activities, including the chief executive officer, chief financial officer, chief investment officer and chief operating officer, members of decision-making committees and other persons performing key functions such as risk management, compliance or other functions as may be specified by the board;
"non-executive director"	means a director appointed to a board of an entity who is not part of the executive or management team;

"officer"	means any director or employee of the said entity or corporations established by the entity; and
"related corporation"	means a corporation which is – (a) a subsidiary of the entity; or (b) an entity established by the subsidiary.
"subsidiary"	refers to a corporation – (a) where the entity controls the composition of the board of directors of the corporation; (b) where the entity controls more than half of the voting power of the corporation; (c) where the entity holds more than half of the issued share capital of the corporation, excluding any part of the share capital which consists of preference shares; or (d) that is a subsidiary of any corporation which is that other entity's subsidiary.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

Intended Outcome I: *The board has the authority, competencies and objectivity to carry out its roles and responsibilities effectively, with integrity and takes accountability for its actions.*

Roles and Responsibilities of the Board

1.1 The board is collectively responsible to ensure that the entity operates in an efficient, transparent and accountable manner, in order to deliver sustainable value to its stakeholders and support the economic and social development goals of the nation.

1.2 The board sets the right tone from the top and champions the adoption of good governance culture and practices throughout the entity and other entities within its control.

1.3 The board ensures its composition is optimal to allow for diversity of thought, varying perspectives as well as innovative and strategic discussions. Board diversity is a recognised hallmark of progressive boards. It comprises several elements, including the participation of women on the board. Numerous research has shown strong empirical evidence that the participation of women on boards contributes positively to board leadership as well as the financial and non-financial performance of the entity. Promoting the participation of women in decision-making is also part of the Sustainable Development Goals (SDG), namely Goal 5 on Gender Equality[3] .

Thus, the board should:

(a) comprise at least 30% women directors; and

(b) implement policies and measures to support the participation of at least 30% women on the board by 1 June 2023 and in management within a reasonable time frame.

1.4 All directors objectively discharge their duties and responsibilities as fiduciaries, act with integrity and lead by example based on the following principles:

(a) Duty of care - to act in a reasonable, honest, fair and informed manner;

[3] SDG Goal 5, Target 5.5 aims to ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life.

(b) Duty of candour - to communicate honestly and to make a full and fair disclosure to fellow directors; and

(c) Duty of loyalty - to act on behalf of the entity and refrain from self-dealing, usurpation of corporate opportunity and any acts that would permit them to receive an improper personal benefit.

All directors should uphold the principles underpinned in the Companies Act 2016, Capital Market Services Act 2007, Malaysian Anti-Corruption Commission (MACC) Act 2009, Malaysian Code on Corporate Governance, Malaysian Code for Institutional Investors and Bursa Malaysia Main Market Listing Requirements and other relevant rules and regulations, where applicable.

1.5 The board exercises oversight of management including providing strategic guidance and challenge.

1.6 The board set the KPIs for the CEO and considers the performance of the CEO against these KPIs when deciding on among others, the remuneration of the CEO.

Guidance

In discharging its responsibilities, the board should among others:

(a) ensure that the strategic plan and operations of the entity support the delivery of sustainable value to its stakeholders and the economic as well as social development goals of the nation. In doing so, the board ensures that management adopts the right practices including the application of gender budgeting guided by the 'Manual on Gender Budgeting in Malaysia'[4]. Applying the gender prism to the budgeting process enables the needs of women and any gaps or biases to be considered and addressed;

(b) together with management, drive and promote the adoption of good governance culture and practices, which reinforces ethical, prudent and professional conduct throughout the entity and other entities within its control;

(c) effectively monitor management, including reviewing and deciding on management's proposal, challenging managements' assumptions where required and evaluating management's performance against the agreed KPIs;

(d) ensure there is a sound framework for internal controls and risk management;

[4] The Manual on Gender Budgeting in Malaysia is issued by the Ministry of Women, Family and Community Development as a measure to address gender injustice or gender inequities in the system.

(e) ensure that there are mechanisms to enable effective communication with stakeholders;

(f) ensure that management has the required skills and experience to undertake their roles effectively, and there are measures in place to provide for the orderly succession of management roles; and

(g) ensure the integrity of financial and non-financial disclosures.

Roles and Responsibilities of Management

1.7 Management is responsible for among others, developing and implementing the strategic and operational plans of the entity as endorsed by the board and ensuring the day-to-day operations of the entity run smoothly and comply with the relevant laws and regulations.

1.8 Management develops and tables the following to the board annually, for the board's review, comments, and endorsement:

(a) clear business plan which lays out the action items and target out comes for the year; and

(b) management's collective and individual KPIs for the year and how these are tied to the determination of management remuneration (pay and performance).

1.9 Management updates the board, on the progress of the business plan and achievement against the agreed KPIs, at least once every quarter.

1.10 Management proactively keeps the board informed of material changes in circumstances, and always be mindful to ensure that all information provided to the board is true and accurate and there is no omission of material information in the board updates.

Guidance

The board and management must work together cohesively with respect and candour.
In discharging its responsibilities, management should among others:

(a) develop and implement the strategic and operational business strategy;

(b) oversee day-to-day operations and make decisions that support and achieve the long-term objectives and policies as determined by the board;

(c) analyse, assess and mitigate the internal and external risks of the entity and address them effectively to safeguard the entity's interest and where applicable contributors;

(d) ensure that all assets and resources are adequately safeguarded and utilized in an effective and efficient manner; and

(e) comply with the relevant standards, laws, regulations and other responsibilities.

Board Charter

1.11 The board adopts a board charter that clearly outlines among others, the roles and responsibilities of the board, board committees and management. The segregation of duties and function between the board and management are clearly stated to avoid overlap and provide clarity on the authority and decision limits between the board and management. The board charter is periodically reviewed to ensure it reflects the current state and functions of the board, board committees and management.

Guidance

The board charter is a critical document as it outlines the responsibilities of the board as well as the policies that will enable the board to execute its functions including their oversight of management. The board should also use the board charter as an induction tool for newly appointed directors and members of management.

Code of Conduct and Ethics

1.12 The board ensures there is a Code of Conduct and Ethics (Code) that is implemented and observed by all officers of the entity. The Code sets out fundamental guidance for the conduct of employees and the need to observe the highest standards of ethical and professional conduct at all times. This includes acting honestly and impartially when carrying out their duties, safeguarding confidential information and avoiding any conduct or activity that could be or perceived to be a conflict of interest. The Code should be reviewed periodically by the board.

1.13 The Code clearly states the consequences of failing to observe the guidelines as prescribed in the Code. This may include disciplinary action or termination of employment in the case of serious violations.

Guidance

The policies and procedures in the Code should be consistent with the expectations of the law and are implemented within the entity and its related corporations. Necessary measures to enhance employees' awareness and understanding of the Code should be held periodically including structured compliance programs.

Chairman

1.14 The Chairman assumes responsibility for board leadership and ensures that the board discharges its responsibilities effectively.

1.15 The Chairman promotes positive board dynamics and culture, by among others encouraging the participation of all directors in discussions and ensuring all board members have equal voice and participation. The Chairman should welcome constructive challenge and debates, collective decision-making and promote respectful conduct and relations amongst directors and between the board and management.

Guidance

The Chairman is expected to lead the entity forward, by ensuring that the board is efficient and effective in discharging its roles and responsibilities.

Key responsibilities of the Chairman include:

(a) providing leadership and ensuring that the board perform its responsibilities effectively;

(b) leading the board in the adoption and implementation of good governance culture and practices including adhering to high standards of ethics and integrity;

(c) setting the agenda of board meetings and ensuring that directors receive complete and accurate information in a timely manner to facilitate open and robust discussions at these meetings;

(d) effectively leading board meetings and promoting meaningful deliberations;

(e) encouraging active participation of all board members and facilitating open discussions where dissenting views can be freely expressed;

(f) managing the interface and alignment between board and management; and

(g) acting as primary liaison between the entity and its stakeholders and ensuring appropriate steps are taken to support effective communication with stakeholders.

1.16 The Chairman of the board should not be the Chair or a member of the Audit Committee, Nomination Committee, Remuneration Committee, Investment Panel, Risk Committee or the Procurement/Tender Committee.

Guidance

Having the same person assume the positions of Chairman of the board, and Chairman of the Audit Committee, Nomination Committee, Remuneration Committee, Investment Panel, Risk Committee or the Procurement/Tender Board gives rise to the risk of self-review and may impair the objectivity of the Chairman and the board when deliberating on the observations and recommendations put forth by the board committees. Thus, the Chairman of the board should not be involved in these committees to ensure there is check and balance as well as objective review by the board.

Separation of Chairman and CEO

1.17 The positions of Chairman and CEO are held by different individuals.

Guidance

The separation of the positions of the Chairman and CEO is critical to promote accountability, enable the division of responsibilities as well as mitigate the concentration of power in any one individual. It also reinforces the board's ability to exercise independent and objective oversight of management. The responsibilities of the Chairman should include leading the board in its collective oversight of management, while the CEO focuses on the business and day-to-day management of the entity.

Committees

1.18 The board governance framework includes the establishment of board committees to enable the board to undertake its functions in an effective and efficient manner as well as allow greater focus on specific issues. The board ensures the following board committees are established and members of the committee are clear on the committees' purpose and duties:

(a) Audit Committee;
(b) Investment Panel;
(c) Nomination Committee;
(d) Remuneration Committee;
(e) Risk Committee; and
(f) Procurement/Tender Committee

It is recommended that these board committees are stand-alone to ensure adequate attention can be provided to matters under the committee's oversight including anticipating developments and trends that may affect the entity. Subject to the nature, size and complexity of the entity, some of these board committees may be combined for example the board Nomination and Remuneration Committee. Establishing separate board committees also mitigates the risk of issues being overlooked.

1.19 The board committees:

(a) are guided by a term of reference which clearly outlines the duties and authority of the committee;

(b) comprise exclusively of non-executive directors, a majority of whom are independent directors, with the exception of the Investment Panel;

(c) are chaired by a non-executive director; and

(d) comprise directors who possess the skills, knowledge and experience relevant to the role and responsibilities of the committee. Members of the Investment Panel must comprise individuals who possess the skills and experience in relevant fields.

Guidance

The establishment of board committees does not relieve the board from its collective responsibility for matters under the purview of these committees. The board committee should report to the board and the minutes of the board committee meetings should be circulated to the board.

The **Audit Committee** is responsible for reviewing the financial reporting process and internal controls framework by undertaking among others the following functions:

(a) reviewing the audit plan and report of the entity;

(b) evaluating the effectiveness of the internal controls framework and the internal audit functions;

(c) reviewing any related party transaction and conflict of interest situation that may arise concerning the entity; and

(d) where applicable, the appointment or re-appointment of an external auditor.

The internal audit function should report directly to the Audit Committee and support the Audit Committee in undertaking its role by assessing the effectiveness of governance, risk management and internal controls policies and processes of the entity.

The **Investment Panel** is responsible for the oversight of matters pertaining to the investment decisions made by the entity. The responsibilities of the Investment Panel include:

(a) developing the investment strategies, objectives and policies which are in line with the risk appetite and mandate of the entity;

(b) ensuring the investments strategies are implemented effectively;

(c) monitoring investment performance and providing strategic direction to support positive investment returns; and

(d) evaluating the appointment and performance of fund managers engaged by the entity.

The **Nomination Committee** is responsible for ensuring a robust process is in place for the nomination of directors and management, evaluating board and management performance and driving the continuous capacity building of the board and management. In doing so, the Nomination Committee must ensure that Intended Outcome II[5] of these Principles is achieved by:

(a) developing and periodically reviewing board and management skills matrix and succession planning having regard to the mix of skills, independence, and diversity (including gender diversity) of the board;

(b) strategically address the need to refresh the board and management through among others identifying the board's future composition needs and a timeline for the changes;

[5] The composition of the board supports the exercise of objective and independent judgment. Each director on the board and those appointed to management has the character, experience, integrity, competence and time to discharge their roles and responsibilities effectively.

(c) identifying and nominating candidates for board and management positions when a vacancy arises;

(d) ensuring the use of independent sources to identify candidates for board and management positions;

(e) conducting an annual assessment of the board and individual directors and management's performance in executing their roles and responsibilities; and

(f) identifying suitable board and management development programmes to ensure the board stays abreast of new developments and risks affecting the business of the entity.

The **Remuneration Committee** is responsible to develop and implement remuneration policies and procedures to determine the remuneration of directors and management. The responsibilities of the Remuneration Committee include:

(a) the development and implementation of policies on board and management's remuneration taking into account the needs of the entity and to attract and retaining skill sets that are needed for the sustainable growth of the entity;

(b) ensuring alignment between the overall performance of the individual and the entity (pay versus performance); and

(c) assessing and recommending the remuneration package for directors, board committee members and management.

The **Risk Committee** is responsible to develop and review the effectiveness of the risk management framework and processes which are in place. Among the responsibilities of the Risk Committee, include:

(a) providing oversight of the risk identification and mitigation framework;

(b) ensuring among others, that the risk controls and mitigation tools are appropriate and effective; and

(c) reviewing management's periodic reports on risk exposure, risk profile and risk mitigation activities to ensure adequacy and effectiveness.

ESG Oversight

1.20 The board establishes a governance structure for the oversight of sustainability, which includes clear points of accountability and reporting line between management and the board to ensure ESG considerations are managed effectively.

1.21 The board ensures that management integrates ESG consideration in the strategies and permeates across the operations of the entity. The duties of management include but are not limited to the development and execution of robust and relevant ESG strategies, effective management of material ESG risks and opportunities and taking the necessary measures to fulfil commitments and targets.

1.22 The board ensures management takes the necessary measures to reduce the carbon footprint from its operations and that of its investment portfolio. These measures should support and be guided by the national goal, climate commitment and target. This includes the implementation of the Twelfth Malaysia Plan 2021-2025 that is anchored on three dimensions, one of which is environmental sustainability. The entity's climate commitments and targets as well as progress against these targets, should be made transparent and disclosed.

1.23 The board ensures that management communicates the entity's expectations on sustainability issues to portfolio companies. This includes the disclosure of material ESG risks by portfolio companies, in line with international best practices. Clear policies and processes must also be in place for the resolution of material ESG risks and/or non-compliance by portfolio companies.

1.24 The board ensures that there is sufficient investment in ESG literacy and that the entity is endowed with the right skills and expertise to address ESG in a strategic and effective manner.

Guidance

The board should proactively consider sustainability issues when it oversees the planning, performance and long-term strategy of the entity. This is to ensure that the entity remains resilient, is able to deliver sustainable value as well as maintains the confidence of its stakeholders. The role of management is also critical in integrating sustainability considerations in the day-to-day operations of the entity and ensuring the effective implementation of the entity's sustainability strategies and plans. The board and management should continuously engage and consider the views of its internal and external stakeholders to better understand and manage the entity's sustainability risks and opportunities.

In relation to climate action and targets, the use of science-based targets and measures is encouraged to ensure that the intended outcomes for the reduction of carbon footprint are achieved.

Anti-corruption and Whistleblowing

1.25 The board ensures that an Organisational Anti-Corruption Plan (OACP) is in place, which includes corruption risk assessment, policies and procedures on anti-corruption, whistleblowing and the establishment of an Integrity and Governance Unit (IGU) that reports directly to the identified board committee.

1.26 A Chief Integrity Officer is appointed to lead the IGU of the entity. The Chief Integrity Officer shall be a Certified Integrity Officer by the Malaysian Anti-Corruption Commission, who reports directly to the identified board committee.

1.27 The board, together with management secures the ISO 37001 Anti-Bribery Management Systems (ABMS) certification and ensures compliance to the standards as prescribed to prevent, detect and address incidences of bribery.

Guidance

The board should ensure that the entity establishes and implements policies and procedures on anti-corruption and whistle-blowing that are guided by the Guidelines on Adequate Procedures issued pursuant to section 17A(5) of the Malaysian Anti-Corruption Commission Act 2009 and any other directive issued by the Government.

The entity is also expected to implement the ISO 37001 standard on ABMS. The related corporations of the entity are also expected to adopt these standards. The implementation of these policies and procedures must be overseen by the entity's Board Risk Committee and reviewed at least once every three years to assess effectiveness. The Board Risk Committee should ensure that corruption risk is included in the annual risk assessment of the entity and appropriate measures are taken to address the risk. The whistleblowing policies must enable employees and other stakeholders to raise concerns about unethical or questionable practices by employees of the entity in confidence and without the risk of reprisal.

Preserving Board Independence

1.28 The board is insulated from political interference that could inhibit the ability of the board to exercise independent and objective judgment in executing its mandate.

1.29 In Accordance to the OECD Guidelines on Corporate Governance of State-Owned Enterprises (OECD Guidelines), active politicians are discouraged from being appointed to the board.

Guidance

The OECD Guidelines recommend that the board composition of an SOE should allow the exercise of objective and independent judgment. All board members including public officials should be nominated based on qualifications and have equivalent legal responsibilities (Principle VII.C). Further, the OECD Guidelines recommend that persons linked directly with the executive powers such as heads of state, heads of government and ministers, should not serve on boards as this would cast serious doubt on the independence of their judgment.

Where an active politician is appointed as a board member, the appropriate measures including a screening process should be undertaken prior to the appointment to ensure that the individual is able to fulfil his roles and responsibilities as a director effectively. Other measures include establishing an Investment Panel which is independent of the board and comprise exclusively of non-board members. An active politician is discouraged from being appointed as a member of the Investment Panel.

PRINCIPLE B: STRENGTHENING BOARD COMPOSITION

Intended Outcome II: *The composition of the board supports the exercise of objective and independent judgment. Each director on the board and those appointed to management has the character, experience, integrity, competence and time to discharge their roles and responsibilities effectively.*

Board Size

2.1 The size of the board is optimal to ensure it is able to discharge its roles and responsibilities effectively and efficiently.

Guidance

There must be a sufficient number of directors on the board to ensure the board is able to discharge its roles and responsibilities effectively. The size of the board must also not become too large and unwieldy, which can compromise board dynamics as well as accountability of individual directors. The OECD Guidelines highlight that smaller boards allow for real strategic discussion and are less prone to become rubberstamping boards.

Board and Management Appointment

2.2 Board and management appointments are made based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender. Where applicable, the board should consider these factors and nominate board candidates for the consideration and approval of the Minister-in-charge of the respective entity. A board skills matrix that maps the skills mix required on the board is used to guide the nomination and appointment of directors.

Any appointment that may cast doubt on the independence, governance or reputation of the entity should be avoided.

Guidance

The appointment of members of the board and management should be decided based on a rigorous and competence-based selection process. The Nomination Committee should identify candidates based on the criteria set by the Ministry and guided by the board skills matrix. Transparency on the selection criteria and process will also help maintain trust and confidence of stakeholders in the governance and leadership of the entity.

The Nomination Committee should also ensure that it casts a wide net in identifying board candidates, for example, by sourcing from a director's registry or the use of independent search firms.

Independence

2.3 The board comprises one-third independent directors to strengthen the independence and objectivity of the board. The tenure of an independent director on the board does not exceed 9 years.

Guidance

The participation of independent directors on the board helps strengthen the objectivity of the board in its deliberation and decision-making. The appointment of professionals from the private sector with in-depth understanding of the sector or technical expertise is encouraged.

Performance Evaluation

2.4 The board carries out an objective and structured performance evaluation to review the performance of individual directors as well as collective performance of the board annually. The evaluation also covers the performance of board committees.

2.5 A board evaluation facilitated by independent experts is conducted once every three years.

2.6 The performance of the Chairman is evaluated annually through the feedback and views of all board members. The evaluation considers among others, demonstration of leadership qualities such as promoting constructive debate and effective decision-making, maintaining healthy relationship with directors, management, stakeholders and preserving stakeholders' confidence in the board. Outcomes from the evaluation should enable the entity to make an informed decision on whether the said individual should be retained as the Chairman of the board or otherwise.

2.7 The board reviews the performance of management annually. Attention should be given to any KPIs that are not met and management's response in relation to these KPIs.

Guidance

A well-conducted board and management evaluation are critical for continuous improvement in the leadership and performance of the board as well as management. The exercise also helps surface any gaps that if not addressed, may lead to drag in the effectiveness of the board or management. Such gaps must be communicated to the Ministry and the appropriate measures undertaken to address them.

Remuneration

2.8 The board implements a remuneration policy to determine the remuneration of directors and management. The policy is published on the entity's website and is periodically updated.

2.9 The board ensures that the determination of remuneration takes into consideration among others, the performance and contribution of the individual, the financial and non-financial performance of the entity and the long-term objectives of the entity.

2.10 The board explains in the annual report how the remuneration of the board and management were determined including the alignment between pay and performance.

2.11 The board discloses the remuneration of directors and member of management in bands of RM50,000 in its annual report.

Guidance

In recommending the remuneration of the board and management, the board should:

(a) ensure the remuneration commensurates with performance in terms of the individual's responsibilities, dedication, contribution, and the overall performance of the entity;

(b) ensure the remuneration promotes good corporate governance, prudent risk-taking behaviour and encourages individuals to act in the best and long-term interest of the entity and where applicable contributors; and

(c) the remuneration does not give rise to concerns of misalignment between pay and performance or excessive remuneration.

Professional Development

2.12 All newly appointed directors attend an on-boarding program within four months from the date of their appointment as a director.

2.13 The board on a continuous basis identifies the training needs of its directors and put in place training programmes to close gaps identified or to keep abreast with new developments and emerging risks. Each director under the required training and professional development programs that have been identified.

Guidance

On-boarding and continuous professional development for directors is important to enable directors to discharge their duties and responsibilities effectively. The subject matter of the training or program must be relevant and conducted by those with relevant experience. The board should leverage on institutions such as the Institute of Corporate Director's Malaysia (ICDM) for the board's professional development needs.

PRINCIPLE C: PROMOTING STEWARDSHIP AND TRANSPARENCY

Intended Outcome III: *Effective exercise of the board's mandate includes promoting good corporate governance among investee companies to mitigate downside risks arising from misconduct or poor governance policies and practices.*

Preserving stakeholder confidence in the entity through accountability and transparency.

Stewardship

3.1 The board ensures the stewardship role of the entity is discharged effectively through the adoption of the Malaysian Code for Institutional Investors. Stewardship efforts and outcomes are publicly disclosed in the annual report of the entity.

Guidance

The board should ensure the required framework, as well as policies, are in place for the entity to fulfil its stewardship responsibilities. This includes among others, the adoption of a responsible investment approach, which enhances long-term value by taking into consideration wider ethical, environmental, and social factors.

Annual Disclosure

3.2 An annual report is made publicly available within 4 months from the date of the financial year-end of the entity or 1 month after the approval of the entities' annual report in Parliament. The annual report provides information on among others the governance and overall financial and non-financial performances of the entity.

Guidance

The annual report should be prepared in line with disclosure requirements and standards applicable to public listed companies. The annual report should contain among others:

(a) a statement by the board on how it has executed its responsibilities during the year;

(b) the financial and non-financial performance of the entity;

(c) discussion on emerging risks, including environmental, social and governance risks; and

(d) the remuneration of individual board members and management, as well as an explanation of the link between remuneration and performance.

The information disclosed should be balanced and relevant that promotes greater transparency to stakeholders.

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BLURB

Principles on Good Governance for Government Linked Investment Companies (PGG), is a reference document outlining the baseline governance standards and sustainability practices for the adoption of GLICs. A functioning good governance framework is essential to support GLICs in the prudent management of government funds to safeguard fiscal sustainability. The Working Group has developed a set of principles measured against the local and international best practices, including the Malaysian Code on Corporate Governance (MCCG), Organisation for Economic Co-operation and Development Guidelines on Corporate Governance of State-Owned Enterprises (OECD Guidelines) and the Santiago Principles. The three broad principles of PGG are Board Leadership and Effectiveness, Strengthening Board Composition and Promoting Stewardship and Transparency. These principles promote transparency and accountability to strengthen stakeholders' confidence within and outside GLICs. The principles and practices in the PGG should be read and applied together with any existing legislation, guidelines or code governing the conduct of a GLIC.

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