

Securities Commission Malaysia
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Malaysia

11 February 2026

Discussion Paper on Malaysia's Corporate Governance Framework

Dear Sir or Madam,

The Asian Corporate Governance Association (ACGA) welcomes the opportunity to provide feedback on the Securities Commission Malaysia (SC) Discussion Paper on the Corporate Governance Framework of Malaysia. We commend the efforts to elevate standards of conduct in Corporate Malaysia and to bring corporate practices to meet expectations of investors, both domestic as well as global.

From the perspective of long-term institutional investors, we broadly support SC's proposals to enhance practices of corporates in relation to the three main areas covered by the Discussion Paper, relating to board leadership and effectiveness, audit and risk management, corporate reporting and relationships with stakeholders.

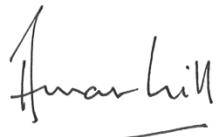
In our responses below we provide views to the specific questions and topics raised. We are very pleased that the SC makes reference to ACGA's *Value Up, Asia* report issued last May. ACGA endorses the related recommendations on responsibilities of the board and fostering corporate norms to drive long-term shareholder value. We support the direction of travel set out in the consultation, and provide recommendations on key elements of the consultation including:

- Appointment of a Lead or Senior independent director, in particular for larger companies
- External board evaluations with main recommendations disclosed to all shareholders
- Greater transparency on key performance indicators (KPIs) that incentivise senior executives to be aligned toward long-term value creation
- Stewardship practices that include meaningful discussions between investors and corporates on governance practices.

We view the proposals in the Discussion Paper as significant to raise corporate governance practices and provide some views and considerations in relation to the specific proposals. We

would be pleased to discuss any aspect of our response in greater detail and thank the SC for its open and consultative approach.

Yours faithfully,



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Feedback to Malaysian Discussion Paper on Corporate Governance Framework.pdf

1. Value Creation: Board Accountability and Capital Oversight

1) Should boards be expected to place greater emphasis on overseeing long-term value creation and capital discipline, including capital management, capital allocation, and monitoring of post-investment outcomes? Please provide reasons for your answer.

Yes, long-term value creation by the company is a key oversight responsibility of the board of a listed company. Investors' expectations are for boards to shape strategic decision making, including capital allocation. Japan and Korea have prominently launched value-creation programmes focused on capital discipline and long-term strategic clarity. Other markets including mainland China, Taiwan and Thailand have also launched similar initiatives for boards to place greater attention on shareholder value.

2) In your view, should companies be mandated to disclose and articulate how their purpose, values and strategies collectively contribute to long-term value creation, including;

- a. how they balance near-term performance with long-term value
- b. key long-term strategic priorities and how progress against these priorities and targets is monitored; and
- c. how shareholders' feedback informs board deliberations on strategy, capital and governance? Please share your views on the potential usefulness, feasibility and level of guidance that would be helpful for such disclosures.

Yes, for (a) to (c). Transparency over decisions made on trade-offs between near term and longer term performance should be provided to all shareholders. Similarly, the strategic priorities and targets as well as how performance against these is monitored. Board-investor dialogue on these topics is key to improving governance discussions and relevant investor correspondence as well as investor feedback should be shared with all directors. Such feedback would help to align the compensation structure for senior executives with similar companies regionally and, where relevant, also globally.

3) What measures, incentives or programmes would best support boards and management in prioritising long-term value creation? Please provide reasons for your answer.

To prioritise long-term value creation, investors generally expect transparent and quantifiable metrics and targets in executive compensation. Among executive compensation metrics and targets commonly used are (1) Relative TSR, (2) ROIC or ROE, (3) non-financial including specific ESG metrics. Transparency on key performance indicators (KPIs) and their weightings in determining compensation outcomes, including short-term as well as long-term incentives and the rationale for structuring these would facilitate meaningful discussions between investors and board representatives responsible for compensation.

Longer performance vesting terms (e.g. 3 years +) would help align senior executives compensation outcomes with long-term value. Shareholders would generally benefit from a consistent disclosure structure on executive compensation in the market.

4) Should there be a differentiated regulatory approach (including disclosure obligation) which takes into consideration the PLC's size, financial or market performance? If so, what parameters should be considered to determine such differentiation?

Yes. While minimum governance safeguards should apply to all, however larger or systemically important PLCs should face more robust long-term disclosure, while smaller PLCs should receive capacity-building support rather than be burdened by heavy compliance requirements. The key parameter to differentiate on expected disclosures would be market capitalisation but other relevant parameters could also include turnover, total assets, employee size and whether the company is in a systematically important sector (e.g. financial institutions).

2. Board Oversight and Competency in Technology

5) What are the concerns and challenges faced by companies when dealing with oversight of emerging technologies such as AI? Please elaborate your answer.

Integration of viable emerging new technologies into business strategy should be recommended as part of CEO statements in annual reports. In keeping with the principles based approach of the Malaysian Code on Corporate Governance (MCCG), separate requirement on disclosure on addressing emerging risks and granularity on expected disclosures need not be mandated; rather CEOs should state how they are integrating new technologies and business approach as part of their overall discussion on business performance and strategy for investors to assess how adequate and strategic the direction of the company is relative to peers and in the context of evolving industry challenges.

It is key that boards and governing practices be strengthened in line with principles set out in the code for effective oversight. Company boards and executives often need to upskill to adequately address various risks and areas of opportunities that emerge, including technologies such as AI. Lack of sufficient expertise in relevant areas can hinder decision making and effective oversight of strategy and risk management. Issuers should therefore prioritise the implementation and disclosure of relevant details regarding board training programmes (and related executive development initiatives) on these technologies.

At the same time they should balance the pace of adoption with the establishment of robust governance and oversight structures. Disclosures should articulate how the company evaluates expected financial projections (including potential returns, costs and risks) in relation to any significant new investments in these areas, enabling investors to assess the strategic rationale, maturity of approach and alignment with long-term value creation.

6) What are the key areas in which expectations and guidance can be provided by the SC that would be most useful in assisting boards in overseeing emerging technologies, including AI? Please elaborate your answer.

The issues that boards need to consider as they oversee emerging technologies include regulatory risks, counterparty risks, cybersecurity risks, exploitation risks as well as operational risks¹. Oversight by the board

should include regulation, user privacy and freedom of expression, action on negative societal impacts (particularly on minors), mitigating upstream environmental and social impacts, as well as workforce impacts.

The environmental and social impacts as AI and data infrastructure scale rapidly particularly around resources such as energy, water and land use, are becoming a key focus of stakeholders. Generally, investors look for transparency as to how companies are managing AI and other emerging technologies. They also seek transparency as to individual director skills and experience; board training and/or bringing in consultants in areas related to oversight of technology.

7) Should there be a distinction or difference in expectation for boards across various industries, such as higher expectations for boards in digital-intensive sector (as compared to other sectors) vis-à-vis utilisation of technology, governance structure in managing technology, and competencies including AI or data-governance experience, whether in board composition or external advisory arrangements? Please provide reasons for your answer.

Yes. In general, expectations are higher for boards of companies in digital intensive sectors such as technology, healthcare, and financial services. Board members should engage in discussions with their institutional investors and other stakeholders to understand the evolving expectations and relevant specific issues in their respective sectors. Broader guidelines reflecting baseline expectations of global investors may be provided through global industry benchmarks, for instance those from the International Sustainability Standards Board (ISSB)ⁱⁱ as well as those provided by asset owners or managersⁱⁱⁱ.

Investors also recognise the need to balance costs and benefits of reporting with materiality on a sectoral basis. With the upcoming adoption of International Financial Reporting Standards (IFRS) S1 and S2, the SC could evaluate the breadth of new disclosures these standards will introduce and thereafter assess whether they sufficiently address areas of concern before imposing further requirements.

3. Board Oversight of Social Practices

8) What forms of board oversight on social risks would be most practical, and what key challenges could companies face in enhancing oversight of these matters?

International investors would generally align their approach with internationally recognized frameworks, specifically with the UN Guiding Principles on Business and Human Rights (UNGPs) and the International Labour Organization (ILO) core conventions. These frameworks guide how investors identify, assess, and address impacts, dependencies, risks, and opportunities between our business and people across our investment activities. Companies may consider these frameworks as they manage social factors in their operations including supply chains. Considerations may differ by sector and may cover appropriate aspects relating to health and safety, modern slavery, community engagement and relations, indigenous peoples, inclusive human capital strategies, product quality and safety, data privacy and security, responsible contracting, as well as access to remedy mechanisms.

The board should at the outset identify which specific social risks are material to the business. For industries with significant exposure to social risks, the company would be expected to allocate formal oversight to a dedicated

board committee, including committing to any social-related targets (e.g. zero health and safety incidents, establishing third-party human rights audits for higher-risk suppliers) and introducing relevant strategies. Alternatively, the company could appoint a director responsible for overseeing social risks and reporting to the full board, with key performance indicators (KPIs) linked to these risks. The company should also establish a clear internal governance framework for managing social risks, incorporating senior management roles and accountable business divisions.

9) How feasible would it be for companies to undertake due diligence on human rights and other social risks within their operations and supply chains? Please share your perspectives on the potential benefits, challenges, and resource implications of implementing such processes.

We believe it is generally feasible to undertake appropriate due diligence in this area. Companies should focus on a risk-based mapping of their supply chain, especially if they are part of a global supply chain. The respective PLCs should allocate sufficient resources to minimise the risk of human rights breaches occurring within its supply chain, by having in place a robust human rights policy, conducting comprehensive supply chain mapping, performing supplier due diligence, and ensuring effective access to remedies. Inputs should be fully traceable through the supply chain; any non-conformance should be disclosed in line with the company's stated code of conduct or in accordance with other widely recognised international standards.

10) What approaches could companies adopt to identify and address workforce or supply chain-related concerns effectively? Do you see value in disclosing these mechanisms publicly, and what factors should be considered to ensure the disclosures are meaningful yet practical?

There is clear value for companies to disclose the different approaches they use to identify and address workforce-related or supply-chain-related concerns. The company should identify its key stakeholders — including workers, community groups, NGOs, unions, and local regulators — and actively gather their perspectives to help determine and prioritise areas of risk.

PLCs should also consider adopting a multichannel approach to identifying potential concerns across its supply chain. Both these efforts and their findings should be transparently disclosed as part of maintaining the company's social licence to operate. Companies that are part of global supply chains should bring in consultants to advise on specific risks that it should be monitoring and addressing. These would include having a healthy workplace, chemical and other hazardous materials safety management and a risk-based prioritisation of supplies based on exposure to country-, sector- and commodity-specific risks.

A mechanism that enables communication between the board and management with a wider group of stakeholders helps ensure issues are surfaced to leadership and addressed appropriately. Companies should ensure such channels of communication exist and to regularly report on risks and opportunities identified and addressed through such communication.

11) In your view, should these expectations apply to all sectors, or be adapted according to industry's exposure to social risks? Please provide your views on how such expectations could be framed to remain practical and proportionate for companies of varying sizes and sectors.

Expectations should be related to sectors based on materiality with consideration given to a company's size. For instance, health and safety is generally relevant for all sectors that have risks exposed to workers health, especially in sectors such as mining, materials, oil and gas, and industrials; supply chain labour and human rights would be relevant in retail, consumer goods, and technology hardware industries; while digital rights and artificial intelligence risks particularly relevant in technology software and financial services.

Expectations would also be higher for larger market capitalisation companies with some allowance for smaller companies e.g. below USD 1 bn market cap. Smaller companies which may be more resource constrained could take a pragmatic view and consider which suppliers and risks should be prioritised in view of their exposure to particular sectors or geographies.

4. Strengthening Governance Expectations of Company Secretaries

12) Do you agree that the role of company secretaries as 'governance gatekeepers' should be strengthened? If yes, in what ways could this be achieved? Please provide elaboration for your answer.

Largely agree with a caveat. We welcome governance training that enhances the skills of board secretaries. Company secretaries have an important role not just to ensure compliance but also to support the chairman and other board members in relation to board effectiveness and evaluations, director induction, succession planning and other board functions.

They should serve as facilitators, enabling investors to access the board when appropriate and fostering constructive dialogue. However, the concept of 'governance gatekeepers' should not impede shareholders from communicating governance expectations directly with the board. Rather, the governance gatekeepers should support and facilitate such engagement.

13) What are the challenges currently faced by company secretaries, including those that may arise when taking on such an enhanced role in governance, and what are your suggestions as to how these can be addressed?

N/A

5. Minute-taking Practices of Board and Committee Meetings

14) In your view, should board minutes reflect deliberations in a verbatim manner, or should they capture the substance of discussions and decisions made? Please provide reasons for your answer.

Investors typically prefer non-verbatim records. Importantly, records should provide evidence of effective board oversight. They should capture not only the issues discussed and decisions taken, but also main points considered on various substantive issues, stating board members who contributed the views. Board minutes should be able to present if directors exercised independent judgement, tested assumptions, considered alternatives and provided constructive challenge.

15) What level of detail would best balance accountability with the need to maintain a practical record that facilitates open discussion? Please provide reasons for your answer.

Board minutes are not a transcript but key points discussed should be minuted. The minutes should represent a collective record of board judgement that record key considerations, rationale, and outcomes.

16) Would the use of audio recordings as a supplementary tool to minute-taking support or discourage open and candid discussions among directors? Please provide reasons for your answer.

There are mixed views on audio recordings. If recordings are done they should be made with the explicit understanding that they will be kept only for the record and facilitate note taking but not made public, and to be played back only if there are subsequent disputes or disagreements relating to the minutes and actual board discussion. They may encourage directors to be more active in the discussions and encourage dissenting views to be raised and recorded on controversial issues. However, if having audio recordings could discourage constructive challenge and open discussion then they may be discouraged. In the context of Malaysian culture and norms, we believe recordings should be encouraged for record keeping as they should not in general result in board members being reticent during discussions.

6. Board Skills Matrix

17) Do you agree with the expectation for boards (through NC) to maintain a company specific, strategy-linked skills matrix? If so, what minimum elements and review frequency should apply? Please provide reasons for your answer.

Yes, investors would generally welcome and encourage issuers to disclose identified gaps in board skills, to be accompanied by the board's reflection on actionable plans for further training and board recruitment. The board skill matrix should reflect and be aligned with business strategies and be reviewed annually and/or when there is a change in board composition to ensure overall capacity on the board for genuine oversight on matters relevant for the business.

18) Should the skills matrix be publicly disclosed in the annual report or Corporate Governance Report, or served as an internal document guiding the NC? Please provide reasons for your answer.

This information should be publicly disclosed either in the annual report or in the Corporate Governance Report to provide transparency. Public disclosure and skill matrix analyses enable investors and other key stakeholders

to understand the board's skills profile relevant to its business and operations while addressing and identifying any potential gaps.

19) What challenges do boards face in assessing and disclosing emerging skills and what forms of guidance would help produce transparent, decision-useful matrices? Please provide reasons for your answer.

The emerging skills that will be required on the board will vary by sector and industry. Disclosure and discussion on relevant emerging skills that may be required and how these are being addressed would be best left to the chairman to explain in his/her statement.

7. Director Fitness and Propriety

20) Should clearer expectations on the content of Fit & Proper policies be set? If so, what minimum elements should be required? Please provide reasons for your answer.

Yes, there should be clear guidelines for Fit & Proper policies. Companies should articulate a clear policy regarding what would lead to an individual being considered unfit for appointment as a director. Relevant areas for consideration should include any statutory disqualifications to serve on the boards of listed companies as well as relevant historical conduct, e.g. regulatory and/or criminal disqualifications, or relating to corporate failures where the director was involved in mismanagement, wrongful/fraudulent trading, misuse of assets, deliberate non-payment of taxes, or serious cases of regulatory non-compliance. In general, candidates for board positions at PLCs should have unquestionable personal integrity and capacity to perform their responsibilities.

21) Should a limit on concurrent executive directorships be introduced, particularly for the roles of CEOs, Managing Directors and Executive Chairs? If so, how should the limit be framed? Please provide reasons for your answer.

Yes, there should be limits on the number of concurrent executive directorships as well as other board seats that CEOs, MDs and Executive Chairs should hold. Even if they have non-executive board positions in related group companies, investors will likely have concerns about their capacity to act effectively at the given PLC as well as at the other companies if the CEO/MD/Executive Chair holds more than one other executive position. Similarly, having more than four other non-executive board positions in group related companies will likely raise concern of investors.

22) Should NCs be required to provide detailed, case-specific disclosures when recommending appointments or reappointments involving multiple executive roles (e.g. time-commitment analysis, leadership responsibilities and mitigation measures)? Please provide reasons for your answer.

Yes, such information will be useful when investors are considering to vote in support of candidates to help determine if a nominee has the capacity to perform the role and carry out the responsibilities at the respective company(ies).

23) In your view, what exclusionary or high-risk factors should be included in Fit & Proper policies (e.g. ongoing criminal proceedings)? How should boards disclose their consideration of such factors while safeguarding privacy? Please provide reasons for your answer.

A history of criminal conviction should bar a person from being a director of a PLC for at least ten years, after which the board could nominate and provide reasons for the person's suitability to serve on the board. A person facing either criminal or other regulatory investigations should not in general be nominated (or re-nominated); if the board and the candidate wish for the person to stand, details should be provided on the investigations against them and specific reasons why the investigations are not relevant to his/her capacity to serve with integrity and professionalism on the board of the company.

8. Independent Directors: Appointment, Tenure and Designation of Senior/Lead Independent Director

24) Should the two-tier voting mechanism be made mandatory for the reappointment of INEDs beyond nine years (up to the 12-year cumulative term limit)? Please provide reasons for your answer.

Yes, it should be mandatory. A two-tier voting mechanism helps ensure that the rights of minority shareholders are not diluted in the presence of controlling shareholders. A stronger position is to re-classify an INED after 9 years as non-independent; however, in some cases there could be considerations provided to support the candidate's independence and it may also be less of a concern if there are other INEDs on the board with shorter tenures.

25) Should the two-tier voting mechanism be extended to the first-time appointment of INEDs to strengthen minority protection? Please provide reasons for your answer.

There does not seem to be a consensus view of investors on this. From the perspective of minority shareholders, two-tier voting for first-time candidates would help avoid situations where a controlling shareholder brings in a new nominee who does not have majority support of minority shareholders. However, this infringes on the one share-one vote principle. The SC may consider that companies disclose the percentage of support that all candidates (including first-time appointees) receive from all shareholders as well as from just minorities; where a new candidate receives less than 50% support from minority shareholders, the company should seek to ascertain the reasons for the lack of support (through dialogue with investors) and by the next AGM the chairman should state the reasons for the director's suitability to serve on the board despite lack of minorities' support or consider requesting the director to retire.

26) Should the tenure of INEDs be limited to a cumulative term of nine years, instead of the current 12-year limit? Please provide reasons for your answer.

We note that in recent years, other exchanges in the region e.g. Singapore and Hong Kong have brought down the tenure limit for INEDs to nine years, beyond which the INEDs would need to be reclassified as non-independent. ACGA members generally discourage the reappointment of directors if their tenure on the board exceeds nine years, to avoid an extensive period of working together with management and controlling shareholders that may erode their independence.

Investors look for a healthy mixture of tenures and skillsets on boards, supported by regular board refreshment. They consider the overall composition of boards and recognise the value that long-serving directors can contribute. Although experience and a detailed knowledge of a company can be helpful, too many directors serving concurrently over a long period can increase the risk of groupthink and complacency.

27) Should NCs be required to disclose, at a minimum, the rationale for the appointment of INEDs, including how the candidate meets the company's needs, the basis for independence and time commitment? Please provide reasons for your answer.

Yes, this should be disclosed for more informed voting decisions by minority shareholders. The rationale and suitability of the candidates should be closely linked to with the company's purpose and business strategy, as well as to address any previously identified skill gaps.

28) Do you agree that large PLCs and those with a Non-Independent Chairman should be required to designate an SID or Lead INED? If an SID or Lead INED is not appointed, should boards instead identify an INED to serve as the primary contact for investor engagements? Please provide reasons for your answer.

Yes, we urge the appointment of a Senior Independent Director (SID) or Lead Independent Non-Executive Director (Lead INED) to be mandatory where the board chair is not independent and/or is also the CEO. The Hong Kong Stock Exchange has designated the appointment of a Lead INED as a recommended best practice, although emerging markets are generally at an early stage in adopting the Lead INED role as a standard governance feature for boards.

Companies with combined chair and CEO roles should appoint a Lead INED who has the appropriate formal powers and authority to facilitate more effective oversight together with other INEDs. The role of the INED should include: approving board meeting agendas (together with the Chair), able to call meetings of the INEDs, act as liaison between the Chair and INEDs, and to be the point person for interaction with investors who seek to have meetings with an INED.

9. Board Effectiveness

29) Do you agree that discussions on board diversity, and the NC's decisions on board appointments should give greater consideration to age diversity within the context of an outcomes-based approach? Please provide reasons for your answer.

Yes. While the age profile on Malaysian corporate boards appears reasonable, investors believe that a clear emphasis is needed on the NC's forward-looking role in candidate selection. In particular, NCs should be expected to actively assess future age-related succession risks. Explicitly incorporating age diversity into NC deliberations would encourage earlier, phased renewal, thus mitigating the risk of disruption and preserving institutional knowledge on the board.

For family-controlled and founder-led companies with succession risk, age diversity at board level can also support succession discussions, providing a stabilising counterbalance during generational transitions in board control and management.

30) Should boards disclose how their composition, including age profile and succession planning, supports continuity, renewal and alignment with the company's strategic objectives? Please provide reasons for your answer.

Yes. Beyond encouraging transparency on how the overall profile of individual directors aligns with strategy, disclosure expectations should clearly extend to how boards are managing the timing and sequencing of renewal, especially where several directors are in higher age bands.

Investors would benefit from narrative explanation of continuity mechanisms such as staggered refreshment, mentoring between longer-tenured and newer directors, and board-level contingency planning for unplanned departures.

31) In your view, should Malaysia move towards mandatory quotas to accelerate change, or continue promoting voluntary adoption and market-driven incentives?

Malaysia has made good progress on gender diversity. Investors generally support continued emphasis on regulatory minimum expectations combined with strong market-driven and stewardship mechanisms such as the MCCG, rather than the adoption of rigid mandatory quotas. This approach reinforces expectations while allowing boards the flexibility to align appointments with strategy, skills needs, and succession planning.

We would also emphasise the need for planning and transparency on diversity at senior management level to ensure a growing pool of women who become suitable for board positions. Further progress towards 30% women on boards for all companies, and increasing the proportion at larger companies, is more likely to achieve higher-quality outcomes if driven by board leadership, talent pool development and nomination committee accountability.

32) What are the main challenges companies face in identifying and appointing qualified women directors?

The usual excuse across the region for lack of women on boards is the suggestion that women lack industry skills relevant to the company's business. This highlights the need to develop the talent pool and incorporate diversity goals within senior management. There are also many skill sets relevant to boards e.g. accounting, legal, human capital, marketing, where this excuse is clearly not valid.

33) What has been the impact of increased female representation on board effectiveness and governance outcomes?

Increased female representation has been seen to have been positive for board effectiveness, through bringing in diversity of perspectives, improved quality of debate, and reduced risk of groupthink. Global governance research and investor stewardship experience show that more gender-diverse boards tend to have stronger oversight, better consideration of long-term risks and opportunities, and greater sensitivity to stakeholder concerns. Diversity on the board is clearly essential for a broader and more informed discussion on workforce as well as sustainability issues.

34) How effective is an internal board evaluation approach in ensuring objectivity while encouraging frank and open discussion? Please provide reasons for your answer, including the factors impeding and/or enhancing effectiveness.

Internal evaluations can encourage openness if the corporate and board culture supports candour; however, this is often constrained. Important aspects of board effectiveness, such as board dynamics, quality of challenge, independence of thought, and behavioural interactions, are difficult for boards to assess objectively without external input. Only having internal board evaluations risks reinforcing biases, power dynamics, and groupthink, particularly where directors may have long tenure on the board, or there are dominant board members and/or concentrated ownership.

Investors therefore place greater emphasis on third-party evaluations which are disclosed in sufficient detail to provide an understanding of board effectiveness and dynamics, with remedial actions or issues to be addressed

where relevant. Externally facilitated board evaluations introduce a valuable independent perspective, enabling more penetrating insights into behaviours and dynamics that may not surface through self-assessment. It is highly encouraged that at least the larger companies should have external evaluations at regular intervals, for instance every three years, and that the summaries of these evaluations and recommendations be made available to all shareholders.

35) Do you agree that, at a minimum, the disclosure of the outcomes of board effectiveness evaluation should cover the following:

- a. whether the evaluation was conducted internally or by an external independent party;
- b. the scope of the evaluation;
- c. the criteria used; and
- d. the outcome of the evaluation, including actions taken to address recommendations.

Please provide reasons for your answer.

Yes, transparency on the key findings of the board evaluations covering items (a) to (d) should be mandatory, whether board evaluations are internal or external. A summary of the evaluation and key recommendations should be shared with all shareholders to ensure that appropriate steps are taken to address any identified weaknesses in the board composition and its dynamics.

Meaningful disclosure should show how boards subject themselves to independent challenge over time. Investors benefit most from narrative disclosure explaining how evaluation findings, especially from third-party reviews, have informed strategy, board renewal, skills development, succession planning, and changes in board practices. This can be achieved without publishing sensitive details by summarising themes, areas for development, and progress on prior action plans.

10. Linking Value-Creation Key Performance Indicators to Executive Remuneration

36) Do you agree with the proposal to link long-term value creation indicators with executive remuneration? Please provide reasons for your answer.

Yes, the compensation structure for senior executives should incentivise a focus on long-term value rather than short-term outcomes. The choice and weighting of metrics is critical. Simplistic adoption of standard financial indicators such as TSR or EPS can incentivise short-term behaviour, financial engineering, or excessive focus on share price movements that may not be consistent with long-term economic value. Hence performance metrics should be across a medium- to longer-term time frame (three- to five-years) and be aligned with strategic goals including stakeholder-relevant outcomes.

Remuneration committees should retain strong discretion and ensure that metrics are simple, transparent, and clearly connected to the company's strategy, including relevant sustainability outcomes for the long-term success of the business.

37) Should the linkage of value-creation indicators to executive remuneration apply to all PLCs, or to specific groups (for example, large PLCs)? Please provide reasons for your answer.

We believe that the linkage of executive compensation to value-creation should apply to all PLCs, as all listed companies owe a duty to all their shareholders to pursue long-term shareholder value. The logic for KPIs to incentivise management for long-term shareholder value applies to all listed companies.

38) What challenges might companies face in linking value-creation indicators such as TSR and ROE to executive remuneration, and in disclosing this linkage? Please provide reasons for your answer.

A large part of TSR is determined by market direction and sentiment around the company and its sector at the initial and the end point of the TSR measurement. Hence sector-relative TSR criteria should be favoured. There may still be an issue if the market value of the company at the starting point of the measurement was depressed which may result in stronger share price and TSR performance over the following years; conversely, if the starting point was when the share price was overly inflated leading to subdued performance over the following years. Hence TSR criteria in KPIs should be coupled with relevant financial performance metrics independent of market valuation, e.g. ROE improvement, growth in book value or NAV, increase in EPS/ DPS etc. that the remuneration committee and the board consider to be relevant for measuring performance of management against the company's overall strategy and objectives.

With regard to ROE, the main risk is taking on excessive leverage to boost the ratio, without significant improvement in the underlying business, or if the ROE may have improved but remains low because of excessive cash or non-operating assets on the balance sheet. Hence, ROE as a metric should be coupled with other financial ratios that more closely measure operational performance, for instance return on invested capital (ROIC). It is recommended that the remuneration committee should include at least one member with financial experience and expertise, or to have a remuneration consultant to advise the remuneration committee on the appropriate approach to link these financial ratios to senior management KPIs.

11. Enhanced Disclosure in the Appointment and Reappointment of External Auditors

39) What are your views on the proposal to introduce enhanced disclosure requirements for the appointment and reappointment of external auditors? Please provide reasons for your answer.

Investors would generally welcome the proposal to strengthen disclosures regarding external auditors, particularly with respect to non-audit fees.

The expectations of investors are that audit committee should establish and enforce a policy on what non-audit services the company can procure from the external auditor. Investors are keen to ensure that non-audit services and related fees do not compromise auditor independence, and affect the integrity of the audit. In general, non-audit fees should not exceed 50% of audit fees in any given year. If this is exceeded, there should be a clear explanation why it was necessary for the auditor to provide these services and any steps taken to ensure the independence and objectivity of the audit was not compromised. The committee should consider action to ensure this does not recur, either by reallocating non-audit work to a different firm or tendering for a new audit firm.

12. Tendering of Audit Firms

40) What are your views on the proposal to recommend companies to conduct re-tendering of the current audit firms servicing them? Please provide reasons for your answer.

Frequent change of auditors is not recommended and may be the unintended outcome if there is frequent tendering for external auditors. Competitive tenders may also result in audit fees declining, resulting in poorer quality audits over time. The rotation of audit partner at reasonable intervals should be mandated. The current regulation for a seven-year rotation of audit partner appears long as it allows the audit partner to build up a close relationship with the corporate; regulators may consider to shorten the required rotation of auditors to five years, as is required in Hong Kong and Singapore. A tender for auditors after the rotation of two audit partners have completed their expected rotation period would then be after ten years of the firm being the external auditor.

41) Do you agree that audit re-tendering would be an effective safeguard to enhance audit quality? Please provide reasons for your answer.

Frequent audit re-tendering may not necessarily enhance audit quality and could have the reverse effect. This may result if the sequential re-tendering results in progressively lower fees hence impacting on the quality of audit over time.

42) Do you agree with the proposed frequency for audit re-tendering i.e. for audit firms serving beyond 10 years? Please provide reasons for your answer.

Yes, re-tendering after 10 years appears to be a reasonable period. We note that some asset managers allow for the external auditor to remain even up to slightly more than 20 years but we believe that should be following a successful retender. An alternative to consider is the practice in South Korea where after six years, the regulator appoints an auditor for the listed company for a three-year period; however, it should be noted that this entails that the regulator has the capacity to ensure auditors with suitable expertise are selected.

43) Do you agree with the proposed timeline to carry out the audit tender i.e. within three years after the 10-year period served by the incumbent external auditor? Please provide reasons for your answer.

After a ten-year period, we believe the re-tendering should be conducted in the following year, i.e. within one year rather than stretching out much beyond that which would give the incumbent external auditors an extended period to remain in their role. However, if re-tendering after ten years is introduced, the initial re-tendering could be phased in over a period of up to three years to mitigate potential upheaval in the industry if many PLCs are calling for re-tendering all at once.

13. Risk Management Committee

44) In your view, should all PLCs be expected to establish a dedicated Risk Management Committee? Please provide reasons for your answer.

In many companies, the risk function is part of the audit committee responsibilities as this would be linked to financial as well as business risks that may have a material financial risk. It may be at the board's discretion to

establish a dedicated risk committee. However, if responsibility for risk oversight is assigned to the audit committee, the company should clearly articulate the specific responsibilities of the committee in relation to oversight of risks, and ensure that the overall risk governance structure is well-defined and transparent.

14. Competency of Internal Auditors in Emerging Areas

45) Do you agree that internal auditors should play a stronger role in supporting the board and management in assessing the effectiveness of the company's governance, risk management and internal control systems in relation to emerging areas? Please provide reasons for your answer.

Internal audit should have a key role in providing an assessment of company's governance, risk management and internal controls generally. The areas of risk that should be in the scope of internal audit should be set by the audit committee or risk committee of the board following discussions with management and, where necessary, with inputs of external experts (e.g. on AI and cyber-risks), and ultimately approved by the board. A clear governance process in determining the functions and responsibilities of internal audit would be preferred over leaving this to internal audit management to determine for itself its role and scope.

46) To what extent should internal auditors be expected to integrate emerging risks and developments into their audit universe and audit plans? Please provide reasons for your answer.

As above, emerging risks and relevant developments for internal audit to monitor should be determined by the audit/risk committee together with the overall board. However, in its reports to the board, internal audit should identify these emerging risks and relevant developments for consideration of the audit/risk committee and the board on how best to monitor and address such risks.

47) How can internal audit function best leverage technology, including AI, to enhance the effectiveness of their audit work? What would be the key challenges they may face in doing so? Please provide reasons for your answer.

The use of AI and other emerging technologies generally should be approached with caution, discipline, and robust oversight to ensure that related risks are effectively managed. Before undertaking large-scale deployments or developing deep operational reliance on such technologies, the company should first establish strong ethical AI governance principles. Discussions with internal audit as well as external experts from the audit profession and related areas of expertise is encouraged in leveraging these new technologies to enhance the effectiveness of audit work.

15. Investor Relations

48) Should the IR function be established as a baseline requirement for all PLCs to facilitate continuous engagement with shareholders beyond the AGM? Please provide reasons for your answer.

Yes. All PLCs should at minimum have a member of management responsible for IR to receive queries, comments and feedback from all shareholders, and to communicate issues/concerns of shareholders to the board. However, the establishment of an IR function should not be regarded as a substitute for the ongoing

requirement of periodic and appropriate direct dialogue between the board and shareholders on matters of relevance.

49) What are the main challenges or common barriers faced by PLCs in engaging with shareholders and other stakeholders beyond the AGM?

N/A

16. Quality of Engagements and Conduct of Annual General Meetings

50) What are the main factors that currently hinder meaningful engagement between shareholders, boards, and management at AGMs? Please provide reasons for your answer.

Because of relatively short AGMs – even if these might last 2-3 hours – many of the questions are like to come from retail investors attending in larger numbers than institutional investors. Thus institutional investors generally seek separate meetings with board members and do not frequently attend AGMs. One approach to encouraging greater interaction with institutional investors is to allow investors to send in their questions online or by email and for these questions to be answered during AGMs where the questioner is identified to be present, while other questions to be answered by the chairman representing the board following the AGM on the company's website.

51) What practical measures could help ensure that shareholder questions are addressed fairly and transparently without disrupting meeting order?

As above, PLCs could encourage questions from shareholders to be sent in advance of the AGM and the board or the chairman then ranks these questions by order of significance. At the AGM, investors attending can be matched with questions that have been ranked, so that the questions are answered in order of the board/chairman's earlier ranking of questions sent by investors who are present. Other relevant questions can be left to the board/chairman to answer online or on the company's website. Investors who feel their relevant questions are not being answered may then forward these to Minority Shareholders Watch Group (MSWG) for attention and potential engagement after AGMs or MSWG may keep note to raise these questions at the following year's AGM.

52) In your view, does the current guidance adequately equip scrutineers to discharge their responsibilities effectively? Please provide reasons for your answer.

N/A

53) Should minimum expectations be set for scrutineers (e.g. in relation to their independence, competence, scope of responsibilities, and limits of involvement)? Please provide reasons for your answer.

Yes, there should be a process to ensure the credibility of the scrutineers and that they are independent to ensure meeting procedures are followed and duly recorded. It should be the board responsibility to state how the scrutineers have been chosen for the meeting and for the company secretary or IR team to be open for any feedback from minority shareholders who may have concerns about the scrutineer's independence or effectiveness.

17. Resolutions on Directors Appointments and Reappointments

54) Do you agree that the NC should be expected to disclose its rationale for recommending a director, referencing the board skills matrix, succession needs and alternatives considered? If so, what level of specificity and format should apply? Please provide reasons for your answer.

Yes, similar to Q22 and Q27 above, information relating to nominees and referencing board skill gaps, succession needs and other relevant information should be provided for informed voting decisions of shareholders. A summary of the recommendations from the most recent board evaluation should be available or referred to, with skill gaps to be addressed identified and summary information on candidates and their experience and expertise that may relate to the skill gaps provided to shareholders.

55) For reappointments, do you agree that the NC should be expected to disclose decision-useful information on its assessment, including directors' time commitment, management of conflicts of interest, fit and proper considerations, and how the directors have performed their roles? Please provide reasons for your answer.

Yes, similar to Q22 and Q27 above, we agree that such information should be provided for informed voting on director elections by shareholders.

18. Other Areas

56) Are there additional areas that should be included or strengthened within Malaysia's corporate governance framework to improve practices and conduct across Corporate Malaysia? Please elaborate your answer.

A key element for holistic engagement on corporate governance is for meaningful discussions between investors, in particular their stewardship teams, together with board members. Hence, ACGA strongly recommends that at least the larger companies in the market appoint a Lead or Senior INED whose responsibility should include engaging with investors. To complement such discussions, institutional investors should be encouraged to have, as part of their stewardship responsibility, comprehensive discussions on board effectiveness and related governance issues with INEDs. Engagements between stewardship teams of investors and INEDs of PLCs are key for corporate governance to move beyond a compliance approach.

ⁱ These risks are detailed in ACGA member, Federated Hermes' paper, [Investors' Expectations on Responsible Artificial Intelligence and Data Governance](#) and investor expectations in [EOS Digital Governance Principles](#).

ⁱⁱ [IFRS - IFRS Sustainability Standards Navigator](#)

ⁱⁱⁱ For instance as provided by Federated Hermes in [Investors' Expectations on Responsible Artificial Intelligence and Data Governance](#) and [EOS Digital Governance Principles](#).