Corporate Governance in Malaysia— An Investor Perspective

PREFACE

In view of the importance of portfolio equity flows to emerging markets, the Institute of International Finance (IIF) established in January 2001 the IIF Equity Advisory Group (EAG) consisting of senior executives from leading asset management firms throughout the world. The EAG is seeking implementation of its Code of Corporate Governance (the "IIF Code") in key emerging market countries that are of particular interest to the Institute's membership base. The IIF Code, which was first released in February 2002 and revised in May 2003,[1] endeavors to improve the investment climate in emerging markets by establishing practical guidelines for the treatment of minority shareholders, the structure and responsibilities of the board of directors, and the transparency of ownership and control of companies.

The strategy for promoting the implementation of the IIF Code, as the standard by which the company/ shareholder relationship is measured, is country-focused. Country Task Forces have been set up for Brazil, China, India, Lebanon, Mexico, Poland, Russia, South Africa, South Korea, Turkey, the GCC and Indonesia.

The Malaysia Task Force held meetings in Kuala Lumpur with senior officials from the Securities Commission, Bursa Malaysia, Bank Negara, Minority Shareholder Watchdog Group, rating agencies, consultancies, and other market participants involved in corporate governance in Malaysia. Manish Singhai, Chief Investment Officer, Asia ex-Japan Markets, AllianceBernstein Ltd., led the Task Force. Other Task Force members include Keith Savard and Rakhi Kumar of the IIF staff.

The aim of this report is to offer an assessment as to where Malaysia stands relative to the investment environment that members of the IIF Equity Advisory Group would like to see develop in key emerging market countries. This report is not meant to provide an exhaustive due diligence of corporate governance in Malaysia and, as with other Task Force Reports, neither the Task Force nor the IIF can in any way attest to or guarantee the accuracy or completeness of the information in the report.

[1]Investors' poor experience in a generally weak corporate governance environment in many emerging markets led to relatively strict and comprehensive original IIF guidelines. Nevertheless, more detailed standards were considered desirable in a few areas in light of far-reaching new legislation such as the Sarbanes-Oxley Act passed by the U.S. Congress in the summer of 2002. The revised standards offer guidance to emerging market officials as they decide what rules and regulations must be put in place to satisfy investors.

EXECUTIVE SUMMARY

The authorities in Malaysia have made a concerted effort to improve the country's corporate governance framework in recent years. The government adopted an integrated approach to strengthen the country's corporate governance framework and, as a result, the corporate governance environment in Malaysia has improved significantly since the Asian financial crisis in 1997. Its corporate governance framework complies with more than three-fourths of the IIF's corporate governance guidelines.

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As a part of the integrated plan of action, the government established the Minority Shareholder Watchdog Group (MSWG), which was initially funded by some of the largest pension and equity funds in the country. The MSWG's activities range from advising shareholders on proxy voting to conducting surveys of corporate governance practices in Malaysian companies. Further, it has helped retain the interest of companies, authorities and investors in corporate governance practices and created informal mechanisms through which companies are given incentives to voluntarily improve corporate governance practices. Given that the Malaysian Code on Corporate Governance is based on the comply-or-explain principle, developing an incentive system to reward good corporate governance practices is important since compliance with better corporate governance practices depends heavily on the voluntary buy-in of companies.

"The 2006 survey results assessing compliance of 200 companies showed that, in general, Malaysian companies tend to comply with local corporate governance best practices."

The annual Corporate Governance Survey Report published by MSWG assesses the compliance of companies with best practices as required by the Malaysian Code on Corporate Governance and with international best practices that are not in the Malaysian Code but are considered important by the international financial community. The 2006 survey results assessing compliance of 200 companies showed that, in general, Malaysian companies tend to comply with local corporate governance best practices. However, compliance with international best practices, such as higher degrees of board and committee independence, disclosure of director remuneration and statements on ethics, social responsibility, and the environment remains in need of enhancement.

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Moreover, according to MSWG, many Malaysian companies have adopted a "boiler-plate approach" to communicating with shareholders about their policies on corporate governance principles and best practices. The MSWG survey also found that bigger companies tended to have higher corporate governance scores (i.e. better corporate

governance policies and practices). It also found a positive, moderately strong and statistically significant relationship between the corporate governance score and market capitalization in the 100 biggest companies, indicating that the market has been rewarding those companies for better corporate governance. The survey did not find a significant relationship for the two measures in the 100 smaller companies.

"The Securities Commission (SC), the country's securities regulator, is a self-funded organization with investigative and enforcement powers."

Authorities have taken significant steps to strengthen the corporate governance legal framework in the country, though there is room for improving the capital market regulatory framework. The IIF's analysis of a country's regulatory environment assesses whether regulators are independent from industry and, as a best practice, from the executive branch of government. The Securities Commission (SC), the country's securities regulator, is a self-funded organization with investigative and enforcement powers. Although the SC reports to the Minister of Finance, it is financially and operationally independent of the Government. The SC is funded through levies and fees charged in the capital market.

"The SC has enforcement powers against those who breach the securities laws. However, companies and individuals who do not comply with the Companies Act can only be prosecuted by the Companies Commission, which has a weak surveillance and enforcement division."

Despite its operational independence, the SC is perceived as being influenced by the MoF by a cross-section of market participants and is considered to be a weak regulator. Nevertheless, it is considered a much stronger regulator than the Companies Commission, which is responsible for regulating all companies incorporated under the Companies Act of 1965. The SC has enforcement powers against those who breach the securities laws. However, companies and individuals who do not comply with the Companies Act can only be prosecuted by the Companies Commission, which has a weak surveillance and enforcement division. The SC, which has a stronger surveillance and enforcement function, provides the Companies Commission with information it may discover regarding financial wrongdoing or non-compliance during the course of SC investigations but there is limited coordination in bringing such companies to trial. However, on its own, the SC has taken action against companies that fail to ensure its consolidated financial statements are in accordance with approved accounting standards, corporate disclosures contain material omissions and submission of false information.

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In the Ninth Malaysian Plan (2006-2010), the government announced its intention to merge the Companies Commission and the Securities Commission, into one regulatory body. This announcement has been welcomed by market participants. Details and timelines of this merger have not been disclosed.

Quality of enforcement of rules and regulations in Malaysia is also affected by a somewhat weak court system. Malaysia does not have a specialized financial court dedicated to dealing with violations of securities laws. However, corporate governance cases fall under the purview of the Commercial Division of the High Court. There are also dedicated Sessions Courts that deal with matters related to, amongst others, the securities laws, banking laws and penal code provisions. However, court cases proceed slowly and, in some instances, allegations against individuals have been dismissed without the case being heard. These hurdles make it difficult for regulators to bring cases to trial and to prosecute offenders. Therefore, the SC has relied heavily on the option of fines and penalties to enforce compliance. Nevertheless, up to May 2007, the SC has initiated criminal charges against 10 persons; of whom seven are directors of public listed companies.

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In Malaysia, there is a predominance of government-linked companies (GLCs) on the stock exchange. GLCs constitute nearly 40 percent of market capitalization and have a low proportion of free float. Overhauling GLCs is a key part of the government's economic program to liberalize the economy through structural reforms. Khazanah, the government's strategic investment arm, has been tasked with overhauling the management and functioning of leading publicly listed companies in which it has a large equity stake. Khazanah is pursuing corporate governance changes, such as modifying boards, to implement its mandate. As a result, corporate governance structures of GLCs should improve in the coming years. GLCs seem to have benefited from these changes through increased profitability.

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Although the corporate governance environment in Malaysia is better than in most other emerging market countries, the authorities can further strengthen corporate governance by undertaking the following actions:

- √ Establish a timetable to merge the Companies Commission and Securities Commission
- √ Make the new entity a fully independent capital market regulator to increase the effectiveness of the regulatory structure
- √ Encourage investigative financial journalism and freedom of press
- √ Introduce international best practices currently not included in the Malaysian Code on Corporate Governance such as cumulative voting, disclosure of off-balance-sheet transactions, and risk monitoring methods

"During the past year, Khazanah, the government's strategic investment arm, has been tasked with overhauling the management and functioning of leading publicly listed companies in which it has a large equity stake."

KEY CORPORATE GOVERNANCE ISSUES

Integrated plan of action to improve overall governance after financial crises has benefited corporate governance environment

Corporate governance reforms in Malaysia gained momentum in the wake of the Asian financial crises of 1997. With an aim of improving the investment climate of the country, the authorities developed an integrated plan of action to improve its corporate governance framework and practices. The plan included:

- √ Designing and introducing the Malaysian Code on Corporate Governance
- √ Strengthening the legal framework for corporate governance by introducing laws such as requiring disclosure of related-party transactions and inter-company loans
- √ Updating stock exchange listing requirements to incorporate much of the Code on Corporate Governance
- √ Establishing the Minority Shareholder Watchdog Group (discussed below) to protect minority interests and promote shareholder activism

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As a result of these actions, Malaysia's corporate governance framework complies with three-fourths of the IIF's corporate governance guidelines. This puts Malaysia in the top quartile of emerging market countries surveyed by the IIF with a relatively sound corporate governance framework. Based on the 2006 corporate governance survey of 200 Malaysian companies conducted by the Minority Shareholder Watchdog Group (MSWG), 141 out of 200 companies complied with over 75 percent of corporate governance principles and best practices laid out in the Malaysian Code on Corporate Governance. The remaining 59 companies complied with at least half of the requirements in the Code. Results of the survey showed steady progress in the degree of compliance among listed companies during the past few years, which indicates that corporate governance practices in Malaysian companies have been improving.

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The survey also assessed companies based on compliance with a set of international best practices that are not included in the Malaysian Code on Corporate

Governance. Overall, the survey assessed 40 criteria based on local principles and best practices and 35 criteria based on international principles and best practices. The survey found that 122 out of 200 companies complied with between 50 to 60 percent of local and international best practices. Only one company complied with 90 percent of local and international best practices and 50 companies complied with less than 50 percent of local and international best practices. These results indicate that there is room for improving the overall corporate governance framework and practices in Malaysia.

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Regulatory structure can be further strengthened

The Task Force views the regulatory environment as the weakest factor in the overall corporate governance framework of Malaysia. All companies report to the Companies Commission of Malaysia, which administers and enforces laws, such as the Companies Act 1965, Trust Companies Act 1949, Registration of Businesses Act 1956, Kootu Funds (Prohibition) Act 1971 and all subsidiary legislation made under these acts. Listed companies or companies seeking public listing also report to the Securities Commission on matters pertaining to capital markets. The Companies Commission reports to the Ministry of Domestic Trade and Consumer Affairs and the Securities Commission reports to the Ministry of Finance (MoF). Of the two regulators, only the Companies Commission has the power to criminally prosecute an individual or a company for non-compliance with the Companies Act.

Both the Companies and Securities Commissions are perceived as weak by many investors and other market participants. However, recognizing the need to improve the country's regulatory environment, the government has announced plans to create one regulator by merging the Companies and Securities Commissions. This announcement was well received by the markets. Nevertheless, the success of this plan depends largely on the approach taken in executing the merger, which has yet to be decided.

"Recognizing the need to improve the country's regulatory environment, the government has announced plans to create one regulator by merging the Company and Securities Commissions."

Of the two regulators, the Securities Commission (SC) is perceived to be stronger. In recent years the SC has taken significant steps to strengthen its surveillance and compliance functions. For example, the SC has established 'flying squads' of financial forensic accounting specialists, who conduct surprise checks on a company's financial books. The SC has also taken legal action against errant companies,

but in general has found it difficult to successfully prosecute non-compliant individuals/companies due to problems in the current court system (see *Need for financial courts* below).

Moreover, the SC is not perceived by many of those who spoke with the Task Force to be operationally independent from the MoF, although under the present government the SC claims to have full operational freedom. This public perception weakens the regulator. The SC has also tried to create an incentive system which rewards companies for good and timely disclosure. Companies that have built a record of compliance with the SC get processed through the 'green channel' on needed approvals.

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Minority Shareholder Watchdog Group

The Minority Shareholder Watchdog Group (MSWG) was established in 2001 by five leading government-linked fund managers to promote and enhance shareholder activism and protect minority shareholder interests. Services offered by MSWG include:

- √ Proxy advisory and voting services
- √ Articles & commentaries
- √ Conducting surveys of the corporate governance environment in the country such as the annual survey of corporate governance practices of listed companies
- √ Public enquiries

MSWG owns shares in over 200 listed companies, which allows its representatives to attend and vote at Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs). The MSWG has played an important role in reforming the corporate governance environment in Malaysia. Its activities have helped keep corporate governance on the agenda of the authorities and companies, while increasing awareness of corporate practices among investors.

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Although the authorities have been successful in promoting shareholder activism through the creation of the MSWG, awareness about the organization and its activities is limited. In general, the MSWG is viewed as not being sufficiently independent from the government. The

MSWG is undergoing a restructuring process in terms of its funding and activities. The objective is to make the MSWG a self-funded institution by reducing its reliance on government-linked investment funds. MSWG also plans to offer services to retail shareholders in the near future.

Reforms in government-linked companies (GLC)

Companies in which the government owns a significant stake are classified as government-linked companies (GLC) in Malaysia. GLCs account for about two-fifths of Bursa Malaysia's total market capitalization. Khazanah, the government's strategic investment arm, has been tasked with overhauling the management and functioning of leading publicly listed companies in which it has a large equity stakes. Khazanah's mandate extends to transforming the operations of the GLCs, restructuring and divesting companies acquired in the aftermath of the 1997 crisis, and making new investments in Malaysia and the region. Khazanah is now moving from the planning to the implementation phase by changing the boards and management of these companies as well as entering into performance-based employment contracts.

After years of underperformance, shares in GLCs outperformed the broader market in late 2004, but have since slowed to track the composite index, reflecting the more difficult reforms ahead, including sizeable layoffs. It is not clear to what extent Khazanah will be successful in shifting the cost of the support provided by the GLCs for advancing social development objectives to the government. It will also take time for the management of associated companies to make changes that translate into improved operational performance.

"Until the judicial system is reformed and specialized financial courts are established, there is likely to be limited improvement in the enforcement of minority shareholder protections."

Chart 1: KLSE Composite Index

(1997=100)

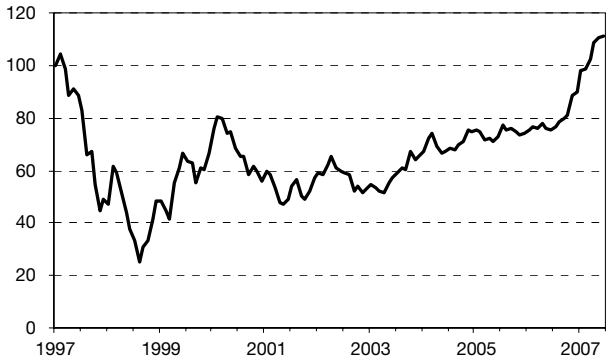

Table 1
Stock Market Developments
(billions of ringgit, end-period)

	2003	2004	2005	2006
Market capitalization	639.3	722.0	695.3	848.7
(% GDP)	(161.8)	(160.4)	(140.4)	(155.3)
Number of listed companies	906	963	1021	1027
KLSE Composite Index	793.9	907.4	899.8	1096.2
(% change previous year)	(22.8)	(14.3)	(-0.8)	(21.8)
		(millions of shares)		
Average daily turnover	444.9	437.9	426.3	807
Main board	345.6	345.6	308.7	501.2
Second board	96.5	81.8	64.3	90.7

Source: Bank Negara Malaysia and Bursa Malaysia

OUTLOOK AND RECOMMENDATION

The authorities in Malaysia have, in a systematic manner, improved the country's corporate governance framework and environment. Establishing an independent shareholder activist group in addition to tightening the legal framework for companies was a unique way for the authorities to create an interest in and push for corporate governance. Moreover, by establishing an informal awards system that recognizes and rewards companies for practicing good corporate governance, companies have been given incentives to voluntarily increase the disclosure of financial and non-financial items.

Malaysia's corporate governance framework is above average when compared to frameworks found in other emerging market countries. However, the regulatory framework of the country detracts from the overall corporate governance framework of the country. Actual corporate governance practices in companies are also somewhat weak with regard to international best practices as shown in the corporate governance survey results conducted by the Minority Shareholder Watchdog Group. In a country like Malaysia, which relies on comply or explain as the basis for corporate governance practices, surveillance and enforcement functions at the regulatory level need to be strong.

Due to legal limitations, only the Companies Commission can take action against errant companies and individuals in fraud cases. However, the Companies Commission is slow in enforcing compliance with the Companies Act. The Securities Commission (SC), which has limited authority compared to the Companies Commission, is perceived to be a stronger regulator than the Companies Commission as the SC has been strengthening its surveillance functions. Nevertheless, much of the SC's focus remains on financial compliance and needs to be broadened to include compliance with non-financial corporate governance-related matters such as the level of board independence and functioning of committees.

The Malaysia Task Force strongly supports the government's recent announcement to improve the regulatory environment by merging the Companies and Securities Commissions. Creating a single independent regulator will help to improve the overall corporate governance framework of the country and increase compliance with the IIF's corporate governance guidelines. However, more meaningful improvement will depend on several other measures that the government needs to implement while executing the merger, such as including personnel based on meritocracy over seniority/political connections and creating a new regulator who is independent of government influence.

While Malaysia's corporate governance framework is rated positively by a number of international organizations including the World Bank, perceptions regarding Malaysia's corporate governance framework continue to remain mixed among international investors. The Malaysia Task Force recommends that the Minority Shareholder Watchdog Group (MSWG) undertake a public relations campaign to increase the support it receives from minority shareholders, particularly from foreign fund managers. This will increase the profile of both MSWG and the state of corporate governance in Malaysia with the international community.

Another important area of weakness is the limited influence that the financial media has in influencing the equity culture of the country. In many emerging markets, the press not only exposes companies that break the rules but also lauds those that follow good governance practices. In contrast, with the exception of a few financial newspapers, Malaysia's financial press plays a relatively small role in promoting corporate governance, protecting minority shareholder rights, and pressuring regulators to take action when wrongful practices have been discovered. Investigative financial journalism should be encouraged. This would help increase financial transparency and investor education.

On its part, the Securities Industry Development Centre (SIDC) introduced a program entitled "Capital Market Insights for Financial Journalists" in 2005. This custom-designed program provided journalists an insight on the capital market and its current trends, as well as highlighting the role of journalists in educating the public. Moreover the SC and the SIDC continuously promotes investor education via articles in the press on subjects such as 'investing wisely on the good stocks'.

Other Task Force recommendations to improve corporate governance in Malaysia include:

- √ Establish specialized courts to deal with enforcement of securities laws; this would expedite the delivery of justice for securities and finance-related offences and reduce the cost of litigation
- √ Establish a time table to merge Companies and Securities Commissions; this would help strengthen surveillance and enforcement functions
- √ Introduce cumulative voting in director elections
- √ Establish mechanisms to resolve conflicts between shareholders
- √ Introduce a measure that would allow minority shareholders to formally present a view to the board if they own a predefined minimum number of shares
- √ Require full disclosure of off-balance sheet transactions and risk factors in the annual report

APPENDIX

MALAYSIAN CORPORATE GOVERNANCE FRAMEWORK

The foundation of corporate governance in Malaysia is laid out in the Companies Act of 1965 (CA), the Bursa Malaysia Securities Berhad (Bursa Malaysia) listing requirements and the Code of Corporate Governance (Code), with some additional provisions in the Code on Takeovers and Mergers (TOM). Corporate governance related legislation and rules comply with about three-quarters of the guidelines in the IIF Code. The analysis below compares Malaysia's corporate governance framework with the IIF's guidelines.

Minority Shareholder Protection

Malaysia's governance framework addresses a little more than two-thirds of the IIF Code that pertains to minority shareholder protection. Scope for significant improvement lies in introducing cumulative voting in director elections, improving the treatment of foreign shareholders, and allowing minority shareholders to formally present a view to the board if they own some predefined minimum threshold of outstanding shares.

Voting Rights

According to Malaysian rules and regulations, all shareholders have the right to participate and vote at general meetings. The IIF Code states that companies should be encouraged to allow proxy voting and, as a best practice, proxy systems should be universally available to all shareholders. The Companies Act fulfills this provision of the IIF Code, granting all shareholders the legal right to appoint a proxy, and giving each proxy the same right as a shareholder to both vote and speak at meetings.

The IIF code states that each share should have one vote, and that the "one-share, one-vote" principle should be a threshold requirement for new issues. Malaysia's Companies Act complies with this principle by stating that "each member shall have one vote in respect of each share held by him."

Cumulative voting in director elections is not mentioned in the Malaysian legal framework. The IIF Code strongly encourages this provision and implementing it would further strengthen minority shareholder rights.

Capital Structure

The IIF Code recommends that companies require shareholder approval to change their capital structure through takeovers, mergers, division or spin-offs, capital increases, dilution of voting and ownership rights, IPOs and significant share buybacks. Malaysia's corporate governance framework meets this requirement. Moreover, Malaysia's framework exceeds the IIF Code requirement by calling for share buybacks to be approved by a meeting of the shareholders.

Regarding the regulations and procedures for takeovers in general, the Securities Commission promulgated the Malaysian Code on Takeovers and Mergers of 1998. These procedures provide for the regulation of mandatory offers. The IIF Code states that ownership exceeding 35 percent should trigger a public offer. The Malaysian Code on Takeovers and Mergers complies with this provision by calling for a mandatory offer when an acquirer who holds more than 33 percent but less than 50 percent of the voting rights of a company acquires more than 2 percent of the voting shares of a company.

Shareholder Meetings/Other Rights

The IIF Code recommends that shareholder meeting notices and agendas be sent out within a reasonable amount of time prior to a meeting and, as best practice, they should be sent out at least one month prior to a meeting. The Bursa Malaysia listing requirements call for notices and agendas that include special business to be sent out no less than 14 days before a meeting and no less than 21 days before the Annual General Meeting (AGM) or any other meeting where a special resolution is being proposed. In addition, the Companies Act allows for one or more shareholders controlling 10 percent or more of the issued share capital to call a special meeting, which also complies with the IIF Code's provision.

Quorum for these meetings, according to the IIF Code provisions, should be set at 30 percent with some independent non-majority-owning shareholders present, however, Malaysia's Companies Act only requires two members to be present to be quorum.

The IIF Code states that minority shareholders should have the right to formally present a view to the board if they own some predefined minimum threshold of outstanding shares. The Companies Act provides that every member has the right to attend any general meeting, and he/she also has the right to speak and vote on any and all resolutions before the meeting. In addition, shareholders representing 5% of a company's voting shares or 100 shareholders holding shares on which there is an average paid-up capital per member of at least RM500 may request the company to circulate their proposed resolutions.

The IIF Code states that shareholders should have mechanisms whereby minority shareholders can trigger an arbitration procedure to resolve conflicts with controlling shareholders. Although Malaysian rules do not make reference to shareholder arbitration, there are provisions in the law by which minority shareholders may apply for an order against a company.

Structure and Responsibilities of the Board of Directors

Malaysian rules encompass about four-fifths of the key guidelines found in the IIF Code that pertain to boards of directors. Scope for improvement lies in requiring executive, non-executive and independent non-executive members to be present in order to form a quorum at a board meeting and requiring the minutes of meetings to be made a part of public record.

Board Structure

The Bursa Malaysia listing requirements define an independent director as one who is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interests of an applicant or a listed issuer. The listing requirements also

require that at least one-third of the board of directors be independent. Additionally, the Malaysian Code suggests that there should be a balance of executives and non-executives and that independent, non-executives, in particular, should make up at least one-third of the board. These provisions are in line with those set out by the IIF Code.

Regarding the frequency of board meetings, the IIF Code recommends that board meetings take place every quarter and that the minutes of the meetings become part of public record. The Companies Act requires that an AGM be held at least once in every calendar year and the minutes of such meetings be kept at the registered office of the company and open to the inspection of any member without charge. The Malaysian Code does not specify an exact number of meetings required but states that while meetings should take place at least four times a year, different company boards have different needs. Therefore, Malaysian law finds it more appropriate to require the disclosure of the number of board meetings in the annual report, instead of a specific number of meetings.

The Bursa Malaysia listing requirements state that any member may nominate a person for election to the board if he/she leaves a notice in writing signed by the nominee at the registered office of the company at least eleven days prior to the meeting. In addition, the Malaysian Code suggests that a nomination committee comprised of non-executive directors, the majority of whom are independent, be formed. This committee is required to consider all candidates proposed by the CEO, senior executives, directors and shareholders and make recommendations to the full board. It is ultimately the responsibility of the full board to decide which individuals to nominate. This only partially complies with the IIF Code's provision that a nomination committee chaired by an independent director should be formed and a mechanism should be put in place to allow minority shareholders to put forward directors.

The IIF Code also recommends that re-election for the board of directors should be held every three years and there should be a "cooling-off" period of one year for any director who has served three consecutive terms. The Bursa Malaysia requirements state that re-election should take place each year and each director must retire from office at least once every three years, but may then be eligible for re-election.

To help boards of directors run effectively, both the IIF Code and the Malaysian Code suggest the formation of internal committees to perform and oversee specific functions such as remuneration, nomination, and audit. The Malaysian Code goes on to state that the composition of each of these three committees should be mostly non-executive and, especially for the nomination and audit committees, mostly independent.

In addition to the requirement for board independence, the availability of trained independent directors in Malaysia is augmented by mandatory training required by the Code. This helps Malaysia to overcome the problem that many countries have regarding qualified directors. Qualified directors are often willing to join only prestigious companies but shy away from joining the boards of smaller companies that could benefit the most from the guidance of independent directors. Recognizing the need for qualified independent directors, the Code has mandated training.

The guidelines of the IIF Code also call for the formal evaluation of board members by the nomination committee. The Malaysian Code complies by requiring the board to implement a process whereby the nominating committee must assess the effectiveness of the board as a whole, the committees of the board and the contribution of each individual director annually.

Disclosure

The IIF Code views disclosure of information as a crucial part of any country's corporate governance framework. Malaysia complies fully with all the IIF's provisions in this area. The Bursa Malaysia listing requirements define the six specific policies regarding disclosure that companies must adhere to as:

- The immediate disclosure of material information
- Thorough public dissemination
- Clarification, confirmation, or denial of rumors or reports
- Response to unusual market activity
- Unwarranted promotional disclosure activity
- Insider trading

Furthermore, it defines material information as any information that is reasonably expected to have a material effect on the price, value or market activity of any of the listed issuer's securities or the decision of a holder of securities of the listed issuer or an investor determining his choice of action. The listing requirements provide a list of examples, such as the gain or loss of assets, changes in management, or any change in business strategy.

The IIF Code also stresses the importance of adopting effective procedures for information release, namely through local exchanges and the company website. The Bursa Malaysia listing requirements do require companies to disclose information through the exchange, as well as, through the press and/or newswire services.

With regards to the annual report, the IIF Code recommends that the remuneration of directors be disclosed within the report. Malaysia's mandatory laws require the disclosure of the aggregate remuneration of directors with categorization into appropriate components distinguishing between executive and non-executive directs and the number of directors whose remuneration falls in each successive band of RM50,000 distinguishing between executive and non-executive directors. This only partially complies with the IIF Code recommendation. However, the Malaysian Code makes a general statement that the annual report contain details of the remuneration each director.

Other Responsibilities

Both the IIF Code and Malaysia's legal framework require any conflict of interest that a director has with the listed issuer to be disclosed to the board of directors at their meeting. However, a director may not vote in regard to any contract or proposed contract or arrangement in which he has, directly or indirectly, an interest.

In addition, the IIF Code suggests that the audit committee should be responsible for the assessment of the integrity of internal control and risk management systems of the company. The Bursa Malaysia listing requirements state that the board of directors should make a statement about the state of internal control of the listed issuer as a group. Additionally, the Malaysian Code proposes that an internal audit function be established to regularly review the system of internal controls within the company.

Regarding investor relation programs, the Malaysian Code requires the board of directors to develop and implement an investor relations program or a shareholder communications policy for the company. Recently, listing requirements in Malaysia have made the disclosure of corporate social responsibility activities mandatory in annual reports.

Accounting/Auditing

Malaysia's corporate governance framework agrees with a little less than three-quarters of the IIF guidelines in this area. However, requiring the disclosure of off-balance sheet transactions and compelling the audit committee to address business risks in their financial reports could further strengthen this area.

Standards

The IIF Code states that all listed companies should comply with International Accounting Standards (IAS) and that consolidated accounting should be employed for subsidiaries. The Malaysian Accounting Standard Board (MASB) is an independent authority which develops and issues accounting and financial reporting standards in Malaysia. Along with the Financial Reporting Foundation (FRF), the MASB is responsible for the accounting framework in Malaysia which complies with IAS and requires consolidated accounting to be used for financial statements.

Both the IIF Code and Malaysia's accounting standards include provisions that require audited annual and non-audited semi-annual financial statements. In accordance with best practices, Malaysia requires quarterly reports to be submitted to the Exchange within two months after the end of each quarter. Additionally, both the IIF Code and Bursa Malaysia listing requirements provide that auditors must be independent.

Malaysia has yet to comply with the IIF Code's guidelines on disclosure of off-balance sheet transactions and a statement from the audit committee addressing business risks in reports.

Audit Committee

The IIF Code emphasizes the importance of an effective audit committee chaired by an independent director with a financial background. The committee should be required to approve and oversee external audit services and to communicate with independent auditors without executive board members present.

The Bursa Malaysia listing requirements state that the audit committee must be comprised of a majority of independent directors and must be chaired by an independent director. In addition, at least one member of the committee must have adequate experience or certification. The listing requirements also stipulate that non-audit fees paid to external auditors must be disclosed in the annual report and the audit committee must review the external auditors and report their findings to the board of directors.

Transparency of Ownership and Control

Malaysia's governance framework touches on all of the IIF Code that pertains to transparency of ownership and control. Malaysia's regulations address in detail the issues associated with related-party transactions. The listed issuers are required to make an immediate announcement to the Exchange regarding the related-party transaction and any direct or indirect interest that directors, major shareholders, or persons connected with them have in the transaction. Moreover, companies are also required to keep a register showing the particulars of each director's shares in the company or in related corporations which the director has an interest and the nature and extent of that interest. In addition, the annual report must include the remunerations of all directors.

Regarding minimally significant shareholders, the Companies Act defines significant shareholders as persons who have an interest or interests in one or more voting shares in the company and the nominal amount of these shares is 5 percent or more of the nominal amounts of all the voting shares in the company. Significant shareholders are required to give notice in writing to the company of all the details of voting shares in the company in which he/she has an interest. They must also give notice in writing to the company and Stock Exchange if his/her interest changes or he/she ceases to be a significant shareholder. The annual report must disclose the date of such statement and give the names of the substantial shareholders along with their interests. These provisions comply with the IIF Code's suggestion that significant shareholders should disclose their holdings.

Regulatory Environment and Enforcement

Malaysia's corporate governance framework addresses less than half of the key guidelines found in the IIF Code that pertain to regulatory issues. The two most significant issues in this area are the lack of effective enforcement and the lack of independence of its supervisory body. The creation of an independent securities supervisory authority would be a significant improvement.

The IIF Code states that the capital markets supervisory authority and the stock exchange should have adequate enforcement powers, and that stock exchanges should have the power to grant, review, suspend or terminate listings. Both organizations should also be politically independent. All enforcement authorities, including the judiciary, should have adequate staffing and professional skills.

Malaysia's stock exchange is a listed company that answers to the Securities Commission (SC). Together, the SC and the Companies Commission (CC) are responsible for enforcing the corporate governance framework of Malaysia. They report to the Ministry of Finance and the Ministry of Domestic Trade and Consumer Affairs, respectively. However, the SC is financially and operationally independent of the government. The SC has also made great effort to strengthen its enforcement powers. Between 1999 and May 2007, the SC took action against 36 cases involving 67 individuals, however, the CC and SC should be further strengthened.

Comparison of IIF Code and

Malaysia's Companies Act of 1965 (CA), Bursa Malaysia Securities Berhad **Listing Requirements (LR), Code of Corporate Governance (Code), and Malaysia Code on Takeovers and Mergers (TOM)**

	IIF	Malaysia's Companies Act of 1965 (CA), Bursa Malaysia Securities Berhad Listing Requirements (LR), Code of Corporate Governance (Code), and Malaysia Code on Takeovers and Mergers (TOM)
Minority Shareholder Protection		
Voting rights		
Proxy voting	Firms are encouraged to allow proxy voting.	(1) A member of a company entitled to attend and vote at a meeting of the company, or at a meeting of any class of members of the company, shall be entitled to appoint another person or persons as his proxy to attend and vote instead of the member at the meeting. A proxy appointed to attend and vote instead of a member shall also have the same right as the member to speak at the meeting, but unless the articles otherwise provide: (a) a proxy shall not be entitled to vote except on a poll; (b) a member shall not be entitled to appoint a person who is not a member as his proxy unless that person is an advocate, an approved company auditor or a person approved by the Registrar in a particular case; (c) a member shall not be entitled to appoint more than two proxies to attend and vote at the same meeting; and (d) where a member appoints two proxies the appointments shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy. A proxy shall be entitled to vote on a show of hands on any question at any general meeting. (LR Section 7.20) Where a member of the company is an authorized nominee as defined under the Securities Industry Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the company standing to the credit of the said securities account. (LR Section 7.22)

One-share, one-vote principle	"One-share, one-vote" should be a threshold requirement for new issues.	On a poll each member shall have one vote in respect of each share held by him and where all or part of the share capital consists of stock or units of stock each member shall have one vote in respect of the stock or units of stock held by him which is or are or were originally equivalent to one share. (CA Section 147)
Cumulative voting	Cumulative voting should be permitted.	No provision.
Capital structure		
Takeover/buyout/ merger - Procedures on major corporate changes	Shareholder approval of mergers and major asset transactions should be required. If an offer is made above a reasonable minimum threshold of outstanding stock, a significant portion of that purchase must be through a public offer. Ownership exceeding 35% triggers a public offer in which all shareholders are treated equally. Under a merger or takeover, minority shareholders should have a legal right to sell shares at appraised value.	A mandatory offer must be made when an acquirer who has obtained control in a company, or an acquirer who holds more than 33% but less than 50% of the voting rights of a company and such acquirer acquires in any period of six months more than 2% of the voting shares of the company. (TOM, Part II, Part 6 and Part IV, Part 12) In the case of a mandatory offer, the offeror in any take-over offer shall offer as consideration that is to be paid or provided for the acceptances of the take-over offer an amount of not less than the highest price (excluding stamp duty and commission) paid or agreed to be paid by the offeror or any person acting in concert with the offeror for any voting shares to which the take-over offer relates within six months prior to the beginning of the offer period. (TOM, Part V.20.1)
Capital Increases (pre-emptive rights)	Shareholder approval is required. Any capital increase over a period of one year and above a minimum threshold must first be offered to all existing shareholders.	Notwithstanding anything in a company's memorandum or articles, the directors shall not, without the prior approval of the company in general meeting, exercise any power of the company to issue shares. (CA Section 132D)

Share buybacks	Details of share buybacks should be fully disclosed to shareholders.	A listed company shall include in its annual report, information with respect to purchase of its own shares. (LR Section 12.24) A listed company must not purchase its own shares unless the shareholders of the listed company have given an authorization to the directors or the listed company to make such a purchase by way of ordinary resolution which has been passed at a GM. (LR Section 12.03) A listed company seeking authorization from its shareholders to purchase its own shares must issue a circular to the shareholders. (LR Section 12.06)
Shareholder meeting		
Meeting notice and agenda	Meeting notice and agenda should be sent to shareholders within a reasonable amount of time prior to meetings.	The notices convening meetings shall specify the place, day and hour of the meeting, and shall be given to all shareholders at least 14 days before the meeting or at least 21 days before the meeting where any special resolution is to be proposed or where it is an annual general meeting. Any notice of a meeting called to consider special business shall be accompanied by a statement regarding the effect of any proposed resolution in respect of such special business. At least 14 days' notice or 21 days' notice in the case where any special resolution is proposed or where it is the annual general meeting, of every such meeting shall be given by advertisement in at least 1 nationally circulated Bahasa Malaysia or English daily newspaper and in writing to each stock exchange upon which the company is listed. (LR Section 7.17)
Special meetings	Minority shareholders should be able to call special meetings with some minimum threshold of the outstanding shares.	Two or more members holding not less than one-tenth of the issued share capital or, if the company has not a share capital, not less than five per centum in number of the members of the company or such lesser number as is provided by the articles may call a meeting of the company. (CA Section 145)

Treatment of foreign shareholders	Foreign shareholders should be treated equally with domestic shareholders.	Every company shall have at least two directors, who each has his principal or only place of residence within Malaysia. (CA Section 122)
Conflicts between shareholders	Should have mechanisms whereby a majority of minority shareholders can trigger an arbitration procedure to resolve conflicts between minority and controlling shareholders.	No provision.
Quorum	Should not be set too high or too low. Suggested level would be about 30% and should include some independent non-majority-owning shareholders.	Two members of the company, personally present shall be a quorum. (CA Section 147)
Petition rules/objection to majority shareholder actions	Minority shareholders should have the right to formally present a view to the board if they own some predefined minimum threshold of outstanding shares.	It is the duty of the company, on the requisition in writing of a member or members representing not less than 5% of the total voting rights or 100 shareholders holding shares on which there is an average paid-up capital per member of not less than RM500 to circulate proposed resolutions or statements to be considered at the company's AGM at the expense of the requisitionists. (CA Section 151)

Structure and Responsibilities of the Board of Directors		
Board structure		
Definition of independence	Cannot have a business or personal relationship with the management or company, and cannot be a controlling shareholder such that independence, or appearance of independence, is jeopardized.	Without limiting the generality of the foregoing, an independent director is one who √ is not an executive director of the company or related company √ has not been within the last 2 years an officer of the Corporation √ is not a major shareholder in the company √ is not a relative of any executive director, officer or major shareholder of the company √ is not acting as a nominee or representative of any executive director or major shareholder of said company √ has not been engaged as a professional adviser by the said company under such circumstances as prescribed by the Exchange or is not presently a partner, director or major shareholder, as the case may be, of a firm or corporation which provides professional advisory services to the said company under such circumstances as prescribed by the Exchange √ has not engaged in any transaction with the said Company under such circumstances as prescribed by the Exchange is not presently a partner, director, or major shareholder, as the case may be, of a firm or company which has engaged in any transaction with the said company under such circumstances as prescribed by the Exchange. (LR Section Definitions)
Share of independent directors	At least one-third of the board should be non-executive, a majority of whom should be independent.	An applicant must ensure that at least 2 directors or 1/3rd of the board of directors of the applicant, whichever is higher, are independent directors. (LR Section 3.14) The board should include a balance of executive directors and non-executive directors (including independent non-executives) such that no individual or small group of individuals can dominate the board's decision making. (Code Part 1.A.II) To be effective, independent non-executive directors need to make up a least one third of the membership of the board. (Code Part 2.AA.III)

Frequency and record of meetings	For large companies, board meetings every quarter, audit committee meetings every 6 months. Minutes of meetings should become part of public record.	The board should meet regularly, with due notice of issues to be discussed and should record its conclusions in discharging its duties and responsibilities. (Code Part 2.AA.XIV) The Committee considered that stipulating a minimum figure for bard meetings to be unpractical. However, it is difficult to imagine how a board is in control of the company if it meets less than four times. We recommend instead that the directors should be required to disclose the number of board meetings held a year and the details of the attendance of each individual director to enable shareholders to evaluate the commitment of a particular director to the affairs of the company. (Code Section 4.44) Every company shall cause – (a) minutes of all proceedings of general meetings and of meetings of its directors and of its managers, if any, to be entered in books kept for that purpose within fourteen days of the date upon which the relevant meeting was held; and (b) those minutes to be signed by the chairman of the meeting at which the proceedings were had or by the chairman of the next succeeding meeting. (CA Section 156) The books containing the minutes of proceedings of any general meeting shall be kept by the company at the registered office of the company, and shall be open to the inspection of any member without charge. (CA Section 157)
Quorum	Should consist of executive, non-executive, and independent non-executive members.	Two members of the company, personally present shall be a quorum. (CA Section 147)
Nomination and election of directors	Should be done by nomination committee chaired by an independent director. Minority shareholders should have mechanism for putting forward directors at Annual General Meeting (AGM) and Extraordinary General Meeting (EGM).	The actual decision as to who shall be nominated should be the responsibility of the full board after considering the recommendations of a nominating committee that is composed exclusively of non-executive directors, the majority of whom are independent. The committee should consider candidates proposed by the CEO and, within the bounds of practicability, by any other senior executive, director or shareholder. (Code Part 2.AA.VIII)

Term limits for independent directors	For large companies, re-election should be every 3 years with specified term limits.	An election of directors shall take place each year. All directors shall retire from office once at least in each 3 years, but shall be eligible for re-election. (LR Section 7.28) All directors should be required to submit themselves for re-election at regular intervals and at least every three years. (Code, Part 1.A.V.)
Board committees	The board should set up 3 essential committees: nomination, compensation and audit.	Boards should appoint remuneration committees, consisting wholly or mainly of non-executive directors, to recommend to the board the remuneration of the executive directors in all its forms, drawing from outside advice as necessary. (Code Part 2.AA.XXIV) The board of every company should appoint a committee of directors composed exclusively of non-executive directors, a majority of whom are independent, with the responsibility for proposing new nominees for the board and for assessing directors on an on-going basis. (Code Part 2.AA.VIII) The board should establish an audit committee of at least three directors, a majority of whom are independent. The Chairman of the audit committee should be an independent non-executive director. (Code Part 2.BB.I)
Formal evaluation of board members	For large companies, nomination committee must review directors ahead of formal re-election at AGM.	The board should implement a process to be carried out by the nominating committee annually for assessing the effectiveness of the board as a whole, the committees of the board and for assessing the contribution of each individual director. (Code Part 2.AA.X.)

Disclosure		
Immediate disclosure of information that affects share prices, including major asset sales or pledges	Any material information that could affect share prices should be disclosed through stock exchange. Material information includes acquisition/disposal of assets, board changes, related-party deals, ownership changes, directors' shareholdings, etc.	A listed issuer must adhere to the following 6 specific policies concerning disclosure, which are as follows: √ immediate disclosure of material information; √ thorough public dissemination; √ clarification, confirmation, or denial of rumors or reports; √ response to unusual market activity; √ unwarranted promotional disclosure activity; and insider trading. (LR Section 9.02) Information is considered material if it is reasonable expected to have a material effect on the price, value or market activity of any of the listed issuer's securities; or the decision of a holder of securities of the listed issuer or an investor determining his choice of action. (LR Section 9.03) Immediate disclosure is required for, among others: √ the entry into a joint venture agreement of merger; √ the acquisition or loss of a contract, franchise or distribution rights; √ a change in management; √ the commencement of or the involvement in litigation and any material development arising therefrom; √ the commencement of arbitration proceedings or proceedings involving alternative dispute resolution methods; √ the purchase or sale of an asset; √ a change in capital investment plans; √ the making of a tender offer for another company's securities; √ the occurrence of an event of default on interest and/or principal payments in respect of loans; √ a change in general business direction; √ a change of intellectual property rights; √ the entry into a memorandum of understanding; or √ the entry into any call or put option or financial futures contract. (LR Section 9.04)

Procedures for information release	Through local exchanges, and as best practice, through company website.	Any public disclosure of material information must be made by an announcement first to the Exchange or simultaneously to the Exchange, the press and newswire services. (LR Section 9.08)
Remuneration of directors	Should be disclosed in annual report. All major compensation schemes, including stock options, should be fully disclosed and subject to shareholder approval.	The remuneration of directors of the listed issuer for the financial year must be included in the annual report in the following manner: √ the aggregate remuneration of directors with categorization into appropriate components distinguishing between executive and non-executive directs and √ the number of directors whose remuneration falls in each successive band of RM50,000 distinguishing between executive and non-executive directors. (LR Appendix 9C) The company's annual report should contain details of the remuneration of each director. (Code, Part 1.B.III)
Other responsibilities		
Conflict of interest	Any potential or actual conflicts of interest on the part of directors should be disclosed. Board members should abstain from voting if they have a conflict of interest pertaining to that matter.	Subject to this section every director of a company who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the company shall, as soon as practicable after the relevant facts have come to his knowledge, declare the nature of his interest at a meeting of the directors of the company. (CA Section 131) A director shall not vote in regard to any contract or proposed contract or arrangement in which he has, directly or indirectly, an interest. (LRSection 7.27) Any conflict of interest that a director has with the listed issuer should be disclosed in the annual report. (LR Appendix 9C)

Integrity of internal control and risk management system	Should be a function of the audit committee.	A listed issuer must ensure that its board of directors makes the following additional statement in its annual report: a statement explaining the board of directors' responsibility for preparing the annual audited accounts and a statement about the state of internal control of the listed issuer as a group. (LR Section 15.27) The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets. (Code Part 1.D.II) The Board of Directors is responsible for identifying principal risks and ensuring the implementation of appropriate systems to manage these risks and reviewing the adequacy and the integrity of the company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines. (Code Part 2.AA.I) The Board should establish an internal audit function. Where an internal audit function does not exist, the Board should assess whether there are other means of obtaining sufficient assurance of regular review and/or appraisal of the effectiveness of the system of internal controls within the company. (Code Part 2.BB.VII)
Investor relations	Should have an investor relations program.	The Board of Directors is responsible for developing and implementing an investor relations program or shareholder comm*unications policy for the company.* (Code Part 2.AA.I)
Social responsibility and ethics	Make a statement on policy concerning environmental issues and social responsibility.	All annual reports must include a section on Corporate Social Responsibility activities undertaken by the company during the FY. (LR Rule 9.28 (30))

Accounting/Auditing		
Standards		
National/international GAAP	Identify accounting standard used. Comply with local practices and use consolidated accounting (annually) for all subsidiaries in which sizable ownership exists.	The Malaysian Accounting Standard Board (MASB), along with the Financial Reporting Foundation (FRF), is responsible for the accounting framework in Malaysia and complies with IAS and requires consolidated accounting to be used for financial statements.
Frequency	Semi-annually audited report at end-FY.	A listed issuer must give the Exchange for public release, an interim financial report that is prepared on a quarterly basis as soon as the figures have been approved by the BOD of the listed issuer, and in any event not later than 2 months after the end of each quarter of a financial year. (LR Section 9.22) The annual report shall be issued to the listing issuer's shareholders and given to the exchange within a six months from the end of the FY, and the annual audited accounts together with the auditor's and director's reports shall be given to the Exchange for public release within four months of the end of the FY (unless the annual report was already issued). (LR Section 9.23)
Audit quality	Independent public accountant. As a best practice, auditors should adhere to the global standards devised by the International Forum on Accountancy Development (IFAD).	Must adhere to the Malaysian Accountants Standards Board. (LR Section 10.03)
Off-balance sheet transactions	Listing requirements should specify disclosure of off-balance-sheet transactions in the annual report with materiality level for disclosure.	No provision.
Risk factors/ monitoring procedures	Should be statement from audit committee in reports and accounts addressing business risks. Need a mechanism for review by auditors.	The board should maintain a sound system of internal control to safeguard shareholder' investment and the company's assets. This covers not only financial controls but operational and compliance controls, and risk management. (Code Part 4.D.4.14)

Audit committee		
Audit committee	For large firms, must be chaired by qualified independent director with a financial background	An applicant must establish an audit committee comprising a majority of independent directors. (LR Section 3.15) At least one member of the audit committee must: √ be a member of the Malaysian Institute of Accountants; √ or have at least 3 years' working experience and either √ have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967 or √ be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or √ fulfills such other requirements as prescribed by the Exchange. (LR 15.10) The members of an audit committee shall elect a chairman from among their number who shall be an independent director. (LR Section 15.11) The board should establish an audit committee of at least three directors, a majority of whom are independent. The Chairman of the audit committee should be an independent non-executive director. (Code Part 2.BB.I)

Relationship/communication with internal and external auditors	Committee should approve services provided by external auditor. Breakdown of proportion of fees paid for each service should be made available in annual report. As a best practice, communication with auditors should be without executives present. Contemporaneous provision of audit and non-audit services from the same entity should be prohibited.	Contents of the annual report must include the amount of non-audit fees paid to external auditors for the financial year. (LR Appendix 9C) The audit committee must review the following and report the same to the board of directors of the listed issuer: √ With the external auditor, the audit plan √ With the external auditor, his evaluation of the system of internal controls √ With the external auditor, his audit report √ The assistance given by the employees of the listed issuer to the external auditor √ The adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work (LR Section 15.23)

Transparency of Ownership and Control		
Majority ownership	Significant ownership (20-50% including cross-holdings) is deemed to be control.	No specific provision however, under the Code on Takeover and Mergers, a holding or control of 33% triggers a mandatory takeover.
Buyout offer to minority shareholders	Ownership exceeding 35% triggers a buyout offer in which all shareholders are treated equally.	A mandatory offer must be made when an acquirer who has obtained control in a company, or an acquirer who holds more than 33% but less than 50% of the voting rights of a company acquires in any period of six months more than 2% of the voting shares of the company. (TOM, Part II, Part 6 and Part IV, Part 12)
Related-party ownership	Companies should disclose directors' and senior executives' shareholdings, and all insider dealings by directors and senior executives should be disclosed.	For a related-party transaction, the listed issuer must make an immediate announcement to the Exchange of such transaction. Announcement shall include whether the directors and/or major shareholders and/or persons connected with a director or major shareholder have any interest, direct or indirect in the transaction and the nature and extent of their interests. (LR Appendix 10A) A company shall within three days after receiving notice from a director enter in its register in relation to the director the particulars including the number and description of shares., debentures, participatory interests, rights, options and contracts to which the notice relates and in respect of shares, debentures, participatory interests, rights or options acquired or contracts entered into after he became a director. (CA Section 134)

Minimally significant shareholders	Shareholders with minimally significant ownership (greater than 3-10%) of outstanding shares must disclose their holdings	A person has a substantial shareholding in a company if he has an interest or interests in one or more voting shares in the company and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is not less than five per centum of the aggregate of the nominal amounts of all the voting shares in the company. (CA Article 69D) A person who is a substantial shareholder in a company shall give notice in writing to the company stating his name, nationality and address and full particulars of the voting shares in the company in which he has an interest or interests (including, unless the interest or interests cannot be related to a particular share or shares, the name of the person who is registered as the holder) and full particulars of each such interest and of the circumstances by reason of which he has that interest. (CA Article 69E) Person must also give notice in writing to company and Stock Exchange if his/her interests change or he/she ceases to be a substantial shareholder. (CA Article 69F, 69G) The contents of the annual report must include a statement indicating the date of such statement and setting out the names of the substantial shareholders and their direct and deemed interests stating the number and percentage of shares in which they have an interest as shown in the register of substantial shareholders of the listed issuer. (LR Appendix 9C)
Regulatory Environment		
Enforcement powers	The supervisory authority and the exchange must have adequate enforcement powers. Exchanges should have the power to grant, review, suspend, or terminate the listing of securities. Enforcement authorities should have adequate training and an understanding of the judicial process.	The Ministry of Domestic Trade and Consumer Affairs has enforcement powers over the Companies Act of 1965. The Securities Commission has investigative and enforcement powers to supervise the exchange and register prospectuses of corporations. The Exchange has the power to suspend and terminate listings.
Independence of supervisory body and of exchange	The supervisory body and the exchange should be independent from government and industry	Bursa Malaysia Berhad is a self-regulated by the Securities Commission. The Securities Commission reports to the Ministry of Finance.

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