Perbadanan Insurans Deposit Malaysia

Protecting Your Insurance And Deposits In Malaysia

BOARD GOVERNANCE POLICY

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Approved by the Board of Directors at the Board Meeting No. 65 on 6 December 2019.

A. STATEMENT OF COMMITMENT TO SOUND GOVERNANCE

1. Sound governance is important for an organisation to achieve its objectives and maintain its reputation. The International Association of Deposit Insurance's Core Principles for Effective Deposit Insurance Systems state that "The sound governance of agencies comprising the financial system safety net strengthens the financial system's architecture and contributes directly to system stability." [1]

2. Effective performance by the board - board governance - helps ensure that objectives are realised, resources are well managed, important relationships are nurtured, and the interests of stakeholders are reflected in decisions. Governance regimes are unlikely to be effective where there is lack of clarity or understanding of the roles of the respective participants in an organisation.

3. Accordingly the Board of Directors (the "Board") of the Malaysia Deposit Insurance Corporation (the "Corporation") wishes to record its understanding of its roles and responsibilities, and the principles and standards which will guide the Board in carrying out its roles and responsibilities.

4. This policy reflects:

   (a) the legislation to which the Corporation is subject; and
   (b) the Board's determination that the Corporation should follow sound standards of business and financial practices, adapted where relevant to public sector organisations.

5. This policy sets out of 15 best practices or standards to which the Board will subscribe in carrying out its responsibilities. These best practices and standards have been developed by reference to recognised best practices and corporate governance principles generally, adapted where appropriate, to reflect the fact that the Corporation is a statutory body with public policy objectives.[2]

6. In particular, this Policy and its set of standards have been developed based on overarching principles of governance adopted by the Corporation, in line with

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1 The IADI Core Principles for Effective Deposit Insurance Systems, Principle #5, International Association of Deposit Insurers, Basel 2008.

2 A list of references can be found at the end of the Policy.

recommendations set out in an international study, the "Governance in the Public Sector: A Governing Body Perspective", by the International Federation of Accountants (the "**IFAC Study**")[3] and the "International Framework : Good Governance in the Public Sector" by the International Federation of Accountants and The Chartered Institute of Public Finance and Accountancy (the "International Good Governance Framework").[4] These are as follows:

- **Ensuring Openness and Comprehensive Stakeholder Engagement**. To ensure that stakeholders can have confidence in the decision-making processes and actions of public sector entities, in the management of their activities, and in the individuals within them. Being open through meaningful consultation with stakeholders and communication in full, accurate and clear information leads to effective and timely action and stands up to necessary scrutiny.

- **Behaving with Integrity, Demonstrating Strong Commitment to Ethical Values, and Respecting the Rule of Law.** This comprises both straightforward dealing and completeness. It is based upon honesty and objectivity, and high standards of propriety and probity in the stewardship of public funds and resources, and management of an entity's affairs. It is dependent on the effectiveness of the control framework and on the personal standards and professionalism of the individuals within the entity. It is reflected both in the entity's decision-making procedures and in the quality of its financial performance reporting. The entity as a whole must be able to demonstrate the appropriateness of its actions and has mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

- **Implementing Good Practices in Transparency, Reporting and Audit, to Deliver Effective Accountability.** This is the process whereby the public sector entities, and individuals within them, are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the

[3] August 2001.
[4] July 2014, by IFAC and The Chartered Institute of Public Finance & Accountancy.

entity plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

7. The set of standards to which the Board subscribes are accompanied by explanations and reference to sources and by indications of some of the Board's expectations of Management, which do not form part of the policy and which are not intended to be exhaustive.

B. BACKGROUND

1. The Corporation's objects

1.1 The Corporation was established under the Malaysia Deposit Insurance Corporation Act 2005 as replaced by the Malaysia Deposit Insurance Corporation Act 2011 (the "Act"). The Act sets out the Corporation's objects, confers various powers on the Corporation and its Board respectively, sets out the terms of deposit insurance and takaful and insurance benefits protection, and deals with other aspects of the Corporation's operations. Under Section 4 of the Act, the Corporation's objects are to:

(a) administer a deposit insurance system and a takaful and insurance benefits protection system under the Act;

(b) provide insurance against the loss of part or all of deposits for which a deposit-taking member is liable and provide protection against the loss of part or all of takaful or insurance benefits for which an insurer member is liable;

(c) provide incentives for sound risk management in the financial system; and

(d) promote or contribute to the stability of the financial system.

1.2 In achieving its objects under paragraphs 1.1(b) and (d), the Corporation is required to act in such manner as to minimise costs to the financial system.

2. Division of responsibilities and accountability

2.1 The Corporation is accountable to Parliament through the Minister of Finance.[5] The Corporation operates within a legal framework that provides it with operational independence, as recommended by the International Association of Deposit Insurers.[6]

2.2 The key legislation to which the Corporation is the Malaysia Deposit Insurance Corporation Act 2011, which defines its mandate, powers and authority. The Corporation is also subject to the Statutory Bodies (Accounts and Annual Reports) Act 1980.

2.3 Under section 11 of the Act, the Board is responsible for the conduct of the business and affairs of the Corporation.[7] The Board is made up of a Chairman, with private sector experience, and up to four (4) other private sector directors. There are two (2) ex-officio Directors (the Secretary-General of the Treasury and the Governor of Bank Negara Malaysia). The other two (2) Directors are (i) from the public sector, and (ii) a person with public sector experience.

2.4 Under section 19 of the Act, the Chief Executive Officer (“CEO”) is responsible for the day-to-day administration of the Corporation. The CEO leads the Corporation’s senior management (“Management”), which is responsible for translating Board directions into actions and managing the Corporation’s day-to-day operations. In addition, Management is responsible for supporting the Board in fulfilling their governance responsibilities.

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5 A legal opinion has been obtained on this matter.

6 The IADI Core Principles for Effective Deposit Insurance Systems, Principle #5, International Association of Deposit Insurers, Basel 2008, states as follows:
“…Operationally independent and accountable safety net organizations with clear mandates and which are insulated from undue political and industry influence provide greater integrity, credibility and legitimacy than entities lacking such independence.
The deposit insurance system should have a governing body and the governing body should be held accountable to the authority from which the deposit insurance system receives its mandate. The deposit insurance system should be structured such that the potential for undue political and industry influence and conflicts of interest respecting members of the governing body and management is minimized.” Also see, Governance of Deposit Insurance Systems, Guidance Paper, Prepared by the Research and Guidance Committee International Association of Deposit Insurers (6 May 2009).

7 Section 17 of the Act imposes a duty on a director of the Board to act at all times in the best interest of the Corporation and honestly and use reasonable diligence in the discharge of the duties of his office. A director or any person who has been a director is prohibited to make improper use of any information acquired by virtue of his position as a director to gain, directly and indirectly, an advantage for himself or for any other person or do, say or publish anything that may be detrimental to the interests of the Corporation.

2.5 This document also records the Board's expectations from Management for supporting the Board in fulfilling governance responsibilities.

C. ROLE AND RESPONSIBILITIES OF THE BOARD

1.1 The Board provides the stewardship and oversight of the management and operation of the Corporation. The Board's role is to foster the Corporation's short and long-term success consistent with its mandated objectives and accountability to other stakeholders. As such, the Board provides leadership with the specific responsibilities of:

(a) reviewing and overseeing the development of, and approving, a strategic plan and direction for the Corporation, taking into account opportunities, threats and risks facing the Corporation;

(b) approving the Corporation's material policies;

(c) setting performance objectives, monitoring implementation of agreed corporate plans and the corporate performance of the Corporation against its business objectives, strategies and plans, and overseeing major capital expenditures, acquisitions and divestitures;

(d) reviewing and approving the Corporation's annual budget and ensuring the integrity of financial statements, internal controls, financial information systems, projections, forecasts and audited statements;

(e) working with Management to identify the principal risks to the Corporation and ensuring that systems to manage those risks are in place;

(f) ensuring compliance with legal and regulatory requirements;

(g) ensuring that reporting, monitoring and accountability as set out in the Corporation's policies are met;

(h) ensuring that the Corporation has an appropriate communications strategy;

(i) approving, monitoring and reviewing the effectiveness of, governance practices, and in this connection, ensuring that controls, codes or guidelines are in place governing ethical conduct, conflict of interest and similar concerns;

(j) providing for the Board's good management and ongoing effectiveness, including the establishment of committees, task forces and work groups necessary to assist the Board in the effective discharge of its mandate;

(k) identifying the required competencies and personal attributes required on the Board and recommending to the Minister of Finance the orderly succession of Board members;

(l) assessing and reviewing its own performance and capability in carrying out its role and functions within the nature, scope, complexity and risk profile of the Corporation;

(m) identifying, assessing and recommending a suitable candidate for the position of the CEO, assessing the CEO's performance against pre-determined performance benchmarks and making recommendations on his or her compensation and bonus and planning for CEO succession; and

(n) succession planning, including appointing, training, fixing the compensation of and where appropriate, replacing senior management.

Sources and Rationale

1.2 All of the stated responsibilities above are sourced from "Best Practice Guidelines – Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organisations", Board Resourcing and Development Office, Office of the Premier[8] and reflect the eight (8) corporate governance principles and recommendations in the 2012 Malaysian Code on Corporate Governance ("the Malaysian Code").

[8] February 2005, page 13.

D. STANDARDS OF BEST PRACTICE OR BEHAVIOUR

(i) THE BOARD – STANDARD NOS. 1 TO 4

Standard No. 1 : Independence of the Board

Board members will exercise independent judgment.

1.1 The Board should ensure that the Corporation is conforming to legislation and its mandate and achieving agreed outcomes. Accordingly, it is crucial that Directors who lead the Board will uphold the public policy objectives of the Act. To fulfil the Corporation's mandate, the Board must exercise independent judgment in directing and overseeing operations.

1.2 Directors should be able to work co-operatively with Management and, where necessary, demonstrate objectivity and robust independence of judgment. The Board may exercise independent judgment in various ways including the following :

(a) Board members provide invaluable input but do not, however, serve on the Board under the specific direction of the Minister of Finance. Directors who are public servants should exercise independent judgment in ways that best fulfil their responsibilities to the Corporation.

(b) The Board should act as a sounding board, and challenge the assumptions, identified alternatives, and assessments contained in the corporate plan and other proposals.

(c) The Board should satisfy itself that the views of Management have been questioned and tested. The Board should actively challenge Management proposals.

(d) The CEO should attend all Board meetings.

(e) The Board should, as part of the Board meetings, regularly hold *in camera* sessions without Management.

(f) A Board member should be able to obtain independent financial, legal or other advice from an outside adviser, at the expense of the Corporation, where appropriate. There should be an approved Board policy for Directors, in furtherance of their duties, to take independent professional advice at the Corporation's expense, if necessary.

Expectations of the Board from Management

1.3 To enable the Board to properly exercise independent judgment, Management will ensure that all reports provided by it to the Board are objective, timely, relevant, accurate and complete and Management will carry out instructions as directed by the Board.

1.4 Management, led by the CEO, will provide the Board with information in a form and of quality appropriate to enable the Board to discharge its duties. Management should ensure there are procedures in place so that the Board is supplied in a timely fashion with information.

Sources and Rationale

1.5 Pursuant to the Act, the CEO is not a member of the Board. Accordingly there is a clear separation of duties and responsibilities between the Board and Management. There is also a separation of the position of Chairman from that of the CEO. This helps ensure independence and a balance of power and authority, where no one individual has unfettered powers of decision.

1.6 The Malaysian Code, in its Commentary to Recommendation 3.4[9] states that "Separation of the positions of the chairman and CEO promotes accountability and facilitates division of responsibilities between them. The responsibilities of the chairman should include leading the board in the oversight of management, while the CEO focuses on the business and day-to-day management of the company. This division should be clearly defined in the board charter".

1.7 The Canadian Joint Committee on Corporate Governance in its publication "Beyond Compliance: Building a Governance Culture"[10] identified the following four (4) conditions that can materially assist boards in developing a culture that provides

[9] Recommendation 3.4 — The positions of chairman and CEO should be held by different individuals, and the chairman must be a non-executive member of the board.

[10] November 2001

opportunity for both directors and management to feel comfortable when management positions are challenged:

(a) strong board members who are independent of management, provided with appropriate orientation, and who bring an appropriately diverse set of experiences, competencies, skills and judgment to the board;

(b) strong leadership within the board from an outside director;

(c) a CEO who understands the role of the board and is openly supportive of building a healthy governance culture; and

(d) regular meetings of the directors without management to build relationships of confidence, and cohesion among themselves.

1.8 The approach of engaging external advisers is a private sector practice.[11] The Malaysian Code states that "The board should have access to all information pertaining to the company. Management should supply accurate and complete information to the board in a timely manner to enable the board to discharge its duties effectively. Occasions may arise when the board has to seek legal, financial, governance or expert advice in the course of their duties. The board should be able to consult advisers and, when considered necessary, to seek independent professional advice. The board should be entitled to do so at the company's expense through an agreed procedure". However it is gaining acceptance in the public sector, particularly in larger agencies with more complex administrative responsibilities or significant prospective change agendas. The IFAC Study[12], for example, states "governing bodies of public sector entities need to establish appropriate arrangements to ensure that they have access to all such relevant information, advice and resources as are necessary to enable them to carry out their role effectively."

1.9 In unusual circumstances, individual board members may consider it appropriate to obtain independent financial, legal or other advice from an outside adviser at the expense of the corporation. The need for an outside adviser should be first considered by the appropriate committee and then be subject to the approval of the board. The engagement of outside advisers should be done with the full knowledge of

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[11] Commentary to Recommendation 1.5 of the Malaysian Code.

[12] Chapter 4, page 16, paragraph .080.

management and should be for the purpose of assisting directors to fulfil their responsibilities. The advice sought should not be for the purpose of enabling directors to participate in the day-to-day management of the business.[13]

1.10 The Malaysian Code sets out the need for Management to supply accurate and complete information to the board in a timely manner to enable the board to discharge its duties effectively, as set out in the Board's expectations of Management above.

Standard No. 2 : Board effectiveness and governance responsibilities

The Board will obtain and maintain an understanding of the Corporation's objects and powers, as well as of its governance responsibilities.

To achieve this, the Board will:

(i) develop and maintain approaches to fulfilling those responsibilities and will evaluate, objectively, on a regular basis, its effectiveness in doing so;

(ii) ensure that the Corporation has arrangements for the orientation of new directors and ongoing training appropriate to the Board's governance responsibilities and needs.

2.1 Board members and in particular, *ex-officio* directors, can assist the Board to better appreciate public policy objectives, and to understand the broad public policy philosophy and the direction that should be pursued by the Corporation.

2.2 The Board should also develop a process to annually evaluate the effectiveness of the Board, its committees and the directors individually.

2.3 Newly appointed directors should be provided with adequate orientation and training with regard to their responsibilities to the Corporation, the Corporation's relationship with the Government, compensation policies for the Corporation's Management and board procedures.

[13] Corporate Governance in Crown Corporations and Other Public Enterprises – Guidelines" by the Crown Corporation and Privatization Sector, Department of Finance and Treasury Board of Canada, June 1996, updated 2002.

Expectations of the Board from Management

2.4 Management, led by the CEO, will support the Board by providing information to ensure that the Board can obtain and maintain an understanding of the Corporation's objects and powers, as well as of its governance responsibilities.

2.5 Management will also put in place a procedure for the orientation, training, education and information for new directors relating to their governance responsibilities and needs. Management will ensure that each new director receives an information package containing at least a copy of this policy, the latest copy of the Act and other relevant laws, the Corporation's Code of Business Conduct Ethics, other relevant background material, such as the body's latest Corporate Plan and Annual Reports and Accounts, notes describing the body's organisational structure and statutory basis of operation, position descriptions for the members of the Board, the Chairperson and the CEO, as well as Corporate by-laws.

Sources and Rationale

2.6 Pursuant to subsection 11(1) of the Act, the Board is responsible for the conduct of the business and affairs of the Corporation and shall exercise all powers and do all acts that may be exercised or done by the Corporation. Accordingly, it is important that the Board understands its responsibilities and evaluates, objectively, on a regular basis, its effectiveness in fulfilling those responsibilities.

2.7 For this purpose, the Board should also develop a process to annually evaluate the effectiveness of the Board, its committees and the directors individually. The Canadian Joint Committee Report[14] broadly supports this view, stating that "regular assessment of the board's effectiveness, and the contribution of individual directors, is essential to improve governance practices. The governance system should include a process for the evaluation of the work of the board, its committees, and individual directors."

2.8 An effective mechanism for evaluating its own effectiveness may be the implementation of a "corporate governance health check", i.e. a formal annual board review with the introduction of formal performance measures. Five (5) important criteria essential for evaluating board performance are:

[14] On page 18.

- an understanding of the company's mission and strategic plan;
- a comprehension of the organisation's business;
- a willingness to challenge management when required;
- a willingness to appraise the chief executive officer; and
- the special expertise that board members have to add value to the company.

2.9 The IFAC Study[15] states that "members of the governing body need to receive appropriate induction training on the first occasion of appointment to the governing body, and subsequently as necessary."

Standard No. 3 : Role and responsibilities of committees

Where the Board appoints a committee, it will establish the responsibilities and authority of Board committees, as well as accountability requirements for them.

3.1 It is sound practice for the Board to establish the responsibilities and authority of Board committees, as well as accountability requirements for them. In particular, the Board should establish an audit committee comprising not less than three (3) directors.

3.2 Where the Board delegates to committees, the Board should ensure that:

(a) each committee, and its Charter, are established by a formal resolution of the Board or through an appropriate corporate by-law;

(b) committee members are selected on the basis of their expertise, interests and availability; and

(c) Board members are regularly informed of each committee's activities, findings, conclusions and recommendations.

15 Chapter 4, on page 16, paragraph .079.

Expectations of the Board from Management

3.3 Management will provide the Board with recommendations on the roles and limits of decision-making authority of Board committees for the Board's consideration.

Sources and Rationale

3.4 The Malaysian Code[16] states that "The board charter should also include the division of responsibilities and powers between the board and management, the different committees established by the board, and between the chairman and the CEO".

<u>**Standard No. 4**</u> : Board composition and succession

The board constitution should maintain independence, and there should be an appropriate mix of skills and capabilities, given the objectives and strategic direction of the Corporation.

To achieve this, the Board will, in consultation with the CEO:

(i) develop a profile of desirable skills and capabilities that would best enable the Board to fulfil their responsibilities and advise the Minister of Finance of the desired mix that should be sought in filling upcoming non *ex-officio* Board vacancies; and

(ii) have a board succession plan to recommend to the Minister of Finance the orderly turnover of directors.

Expectations of the Board from Management

4.1 Management will:

(a) provide the Board with recommendations for the consideration of the Board on the desired mix of director skills and capabilities, and in particular those skills and capabilities that should be sought in filling upcoming non *ex-officio* vacancies;

[16] Commentary to Recommendation 1.7 — The board should formalise, periodically review and make public its board charter.

(b) develop a competency matrix that is updated annually and when vacancies arise. The competency matrix may be used to identify competency "gaps" on the board and direct the search for new candidates; and

(c) assist in the development of a board succession plan to recommend to Minister of Finance the orderly turnover of directors.

Sources and Rationale

4.2 The BDRO Guidelines[17] recommends the following:

(a) the board is made up of individuals who, collectively, have the required competencies and personal attributes to carry out their responsibilities effectively;

(b) unless specified otherwise in the governing legislation, board members are independent from management and have no material interest in the organisation;

(c) the board has a committee that develops director selection criteria and identifies and evaluates potential candidates;

(d) the board has a competency matrix that is updated annually and when vacancies arise. The competency matrix is used to identify competency "gaps" on the board and direct the search for new candidates;

(e) the board has a board succession plan to recommend to Government the orderly turnover of director; and

(f) the board publishes the name, appointment term and a comprehensive biography of each director.

4.3 The literature on board performance places great weight on selecting appropriate directors and the CEO. It also advocates choosing board members that are multi-skilled, experienced in a variety of business areas, prepared to update their

[17] Best Practice Guideline 1, page 12.

knowledge, flexible, analytical, and prepared to monitor and assess their individual or collective capabilities.

4.4 In the private sector, it is common to have a mix of internal and external directors to complement the skills and perspectives of company executive members, and to provide greater independence from management. The Malaysian Code[18] states that "The Nominating Committee's responsibilities include assessing and recommending to the board the candidature of directors, appointment of directors to board committees, review of board's succession plans and training programmes for the board. In assessing suitability of candidates, considerations should be given to the competencies, commitment, contribution and performance. The Nominating Committee should facilitate board induction and training programmes. The nomination and election process of board members should be disclosed in the annual report".

4.5 In relation to board succession, The Malaysian Code[19] states that "The board should establish a policy formalising its approach to boardroom diversity".[20] Professional diversity is provided in the Corporation's current Board composition by virtue of the Board's mix of professional qualifications as well as experiences.

(ii) DIVISION OF RESPONSIBILITIES AND ACCOUNTABILITY – STANDARD NOS. 5 TO 8

Standard No. 5 : Role and responsibilities of the Chief Executive Officer

The responsibilities and accountability of the Chairman and the CEO should be clearly distinguished and documented.

In this connection, the Board will:

(i) develop a position description for the CEO;

18 Commentary on Recommendation 2.2 — The Nominating Committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of directors.

19 Commentary on Recommendation 2.2

20 The Commentary goes on to provide that "The board through its Nominating Committee should take steps to ensure that women candidates are sought as part of its recruitment exercise. The board should explicitly disclose in the annual report its gender diversity policies and targets and the measures taken to meet those targets". The Corporation's Board has considered this matter and is of the view that it is not necessary to establish a policy specifically on gender diversity or to report on the targets and measures taken to meet those targets.

(ii) develop a set of corporate objectives at least annually for which the CEO is responsible for achieving and evaluate the performance of the CEO against those objectives; and

(iii) establish an accountability relationship for the CEO to the Board.

5.1 The principles of corporate governance require those involved to identify and articulate their responsibilities and their relationships; consider who is responsible for what, to whom, and by when; acknowledge the relationship that exists between stakeholders and those who are entrusted to manage resources; and deliver required outcomes. It provides a way forward to those, whether in the public or private sectors, who find themselves in somewhat different relationships than perhaps they have previously experienced.

5.2 A clear understanding and appreciation of the roles and responsibilities of the relevant participants in the governance framework, importantly, those of the responsible Minister, Board and CEO, are key components of sound accountability. The absence of these features weakens accountability and threatens the achievement of organisational objectives.

5.3 Section 19 of the Act provides for the Minister of Finance to appoint a CEO, on the recommendation of the Board, and the CEO shall be responsible for the day-to-day administration of the business and affairs of the Corporation. Generally, therefore, the Board should avoid participating in the day-to-day management of the business of the Corporation. The CEO’s task is, therefore, to run the business and implement the policies and strategies adopted by the Board.

5.4 In recognition of the importance of the position of the CEO, the Board should also periodically assess the CEO’s position and evaluate the CEO’s performance against the established duties and objectives that were agreed to by the Board and the CEO at the start of the year. The Board, through the Chairman, should communicate the results of the CEO’s performance evaluation to the CEO and to the Corporation.

5.5 Furthermore, the Board should periodically review the allocation of responsibilities between the Board and Management. This review should focus on defining and describing both the Board’s principal responsibilities and the limits to Management’s authority. It is also sound practice for the Board to evaluate, on a regular basis, the effectiveness and prudence of Management in managing the operations of the Corporation and the risks to which the Corporation is exposed.

Expectations of the Board from Management

5.6 Management will provide the Board with recommendations on the above for consideration by the Board.

Sources and Rationale

5.7 The BDRO Guidelines[21] states "In order to establish the proper relationship between the board and the CEO, the board should, with the input from the CEO, develop a job description for the CEO, annually develop appropriate performance expectations and have a formal process in place to evaluate the CEO's performance."

<u>Standard No. 6</u> : Appointment of senior corporate officers

The Board will appoint the senior corporate officers of the Corporation (other than the CEO) and determine their terms of office and compensation.

6.1 It is important for senior management positions to be filled by suitably qualified individuals capable of managing the operations of the Corporation effectively and prudently, and plan for their succession. In particular, there will be senior corporate officers who are directly responsible to the Board. Accordingly, it is appropriate that the Board should appoint such officers of the Corporation.

6.2 Under section 21(1) of the Act, such officers shall hold office for such periods, receive such salaries, allowances and benefits, and shall be subjected to such terms and conditions of service as may be determined by the Board.

Expectations of the Board from Management

6.3 Management will provide the Board with recommendations for its consideration regarding the appointment of senior corporate officers (other than the CEO).

21 Section 7 on page 24.

Sources and Rationale

6.4 In particular, there will be officers who are directly responsible to the board. For example, the IFAC Study[22] recommended that there should be an officer who is responsible to the governing body for ensuring that appropriate advice is given to the governing body on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control. Also, there should be an officer who is responsible to the governing body for ensuring that governing body procedures are followed, and that all applicable statutes and regulations and other relevant statements of best practice are complied with. It is therefore appropriate for the Board to appoint senior officers (other than the CEO) who will be accountable to it.

Standard No. 7 : Compensation of officers

The Board will satisfy itself, on a regular basis, that the compensation of the Corporation's officers and employees is consistent with the sustainable achievement of the Corporation's objects, the prudent management of its affairs and the risks to which it is exposed and adherence to its policies and procedures.

The Board will review the compensation program for all Directors, and make recommendations to the Minister of Finance in that regard.

7.1 Levels of remuneration for officers and employees should be sufficient to attract and retain them to run the entity successfully. Further to section 21(1) of the Act, officers and employees appointed by the Corporation shall hold office for such periods, receive such salaries, allowances and benefits, and shall be subjected to such terms and conditions of service as may be determined by the Board.

7.2 Under section 20(b) of the Act, the CEO shall enjoy such compensation and other amenities as approved by the Minister, upon recommendation of the Board. Given the importance of the role of the CEO, his compensation package should also be considered by the Board and reviewed annually.

7.3 Similarly, it may be necessary to consider the compensation program for directors for recommendation to the Minister. Further to section 16 of the Act, the Corporation

22 Page 17, paragraphs 0.087 and 0.088.

may pay a director of the Board such fees, remuneration or other allowances as the Minister may determine, on the recommendation of the Board.

Expectations of the Board from Management

7.4 Management will provide the Board with recommendations on the compensation of the Corporation's officers and other employees for the Board's consideration on a regular basis.

Sources and Rationale

7.5 The IFAC Study[23] state that:

- levels of remuneration of members of the governing body need to be sufficient to attract and retain them to run the entity successfully.
- public sector entities need to establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual members of the governing body. It is appropriate that no member is involved in deciding his or her own remuneration.

7.6 In the context of the Board members of the Corporation, in particular as the final decision on remuneration lies with the Minister, members do not decide his or her own remuneration.

Standard No. 8 : Succession planning

The Board will plan for the succession of the CEO and review succession plans for key senior management.

8.1 As part of its responsibility for the stewardship of the Corporation, the Board should approve Management's succession plan including appointing, training and monitoring of senior management. The succession plan should, in particular, deal with the CEO's plans for the appointment, training, assessing and motivating of managers.

8.2 The Board should review and discuss the CEO's proposals to appoint and to promote key senior managers.

23 Page 17, paragraphs .089 to .091.

8.3 The Board must be satisfied that the Corporation's programs to train and develop Management will provide for the orderly succession of Management.

8.4 Under the Act, the Minister appoints the CEO on recommendation of the Board. Accordingly the Board will also consider the CEO's succession plan for the CEO, for recommendation to the Minister.

Expectations of the Board from Management

8.5 Management will review and discuss with the Board, succession planning for senior management.

8.6 Management will also provide the Board with recommendations on succession planning for the CEO and Board-appointed officers. Management will also plan for the training of Board-appointed officers and the monitoring of their performance.

Sources and Rationale

8.7 The Malaysian Code[24] states that "The board should ensure that all candidates appointed to senior management positions are of sufficient calibre. The board should also be satisfied that there are programmes in place to provide for the orderly succession of senior management".

8.8 The board should review and approve the corporation's management succession plan to ensure that skilled management will be available for the ongoing and longer-term fulfillment of the corporation's mandate. The succession plan should deal with the CEO's plans for the appointment, training, assessing and motivating of managers.

8.9 The board should review and discuss the CEO's proposals to appoint and to promote the key senior managers. In working with the CEO, the board must be satisfied that the corporation's programs to train and to develop management will provide for the orderly succession of management.[25]

[24] Commentary to Recommendation 1.2: The board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions.

[25] Corporate Governance in Crown Corporations and Other Public Enterprises – Guidelines by the Crown Corporation and Privatization Sector, Department of Finance and Treasury Board of Canada (June 1996 Updated 2002)

(iii) STANDARDS OF BEHAVIOUR – STANDARD NO. 9

Standard No. 9 : Standards of Behaviour and Ethics
The Board will ensure that Management develops adequate policies, strategies, processes and controls within the Corporation to maintain an organisational climate that fosters ethical behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction.

To fulfil this responsibility, the Board will:

(i) establish standards of conduct and ethical behaviour for Directors, the Corporation's officers and other employees, and obtain, on a regular basis, reasonable assurance that the Corporation has an ongoing, appropriate and effective process for ensuring adherence to those standards; and

(ii) ensure that Management develops adequate policies, strategies, processes and controls within the Corporation to achieve the organisational climate.

9.1 As stated earlier, a fundamental principle of governance for a public body is integrity, comprising "straightforward dealing and completeness". Integrity is based on honesty and objectivity, high standards of propriety and probity in the stewardship of public funds and resources, and management of the Corporation's affairs. Integrity is dependent, among other things, on the personal standards and professionalism of the individuals within the entity.

9.2 Accordingly, the Board will approve codes concerning conflicts of interest and post-employment matters relating to conflicts of interest in respect of directors, officers and employees of the Corporation.

Expectations of the Board from Management

9.3 Management will provide the Board with recommendations respecting standards of conduct and ethical behaviour for directors, officers and employees. Management will also establish such policies and procedures to ensure that the Corporation's employees are treated in a fair and equitable manner. Management will recommend key human capital and compensation policies for Board approval.

9.4 Management will also develop and implement an ongoing, appropriate and effective process for ensuring adherence to the Corporation's standards of conduct and behaviour and provide the Board periodically (and at least annually) with reports that will enable the Board to assess the quality of the Corporation's process for ensuring adherence to these standards.

Source and Rationale

9.5 Paragraph 9.1 reflects the IFAC Study's discussion on integrity.[26] The IFAC Study, in Chapter 4, page 15, also recommends that governing bodies of public sector entities adopt a formal code of conduct defining the standards of behaviour to which individual governing body members and all employees of the entity are required to subscribe.

(iv) CONTROL – STANDARD NOS. 10 TO 12

Standard No. 10 : Significant risks to the Corporation

The Board will:

(i) obtain an understanding of the principal risks of the corporation's business;

(ii) ensure that appropriate and prudent risk management systems to manage these risks have been implemented and review these regularly;

(iii) obtain reasonable assurance, on a regular basis, that systems are being adhered to and continue to effectively manage the risks affecting the Corporation; and

(iv) ensure that the Chief Risk Officer (or in his absence, a representative from the Enterprise Risk Management Division) should regularly attend all scheduled Board meetings.

10.1 It is an important responsibility of the Board to obtain an understanding of the principal risks to which the Corporation is exposed.

[26] Page 12, Figure 3.1.

10.2 The integrity of an entity is also dependent on the effectiveness of the control framework within an entity, its decision-making procedures and quality of its financial and performance reporting. Accordingly the Board should:

(a) establish appropriate and prudent risk management policies for the risks of the Corporation, and review these policies on a regular basis (and at least annually), to satisfy itself that they continue to be appropriate and prudent; and

(b) obtain reasonable assurance, on a regular basis (and at least annually), that the Corporation has an effective enterprise risk management process and that risk management policies are being adhered to.

Expectations of the Board from Management

10.3 Management will:

(a) identify and assess the significance of the risks to the achievement of the Corporation’s objects, strategies, plans and operations;

(b) provide the Board regularly (and at least annually) with reports that will enable the Board to understand the management of the Corporation’s significant risks;

(c) recommend risk management policies for the Corporation’s significant risks to the Board, review these policies periodically (and at least annually) to ensure that they remain appropriate and prudent and report to the Board on the results of these reviews;

(d) provide the Board regularly (and at least annually) with reports that will enable the Board to be aware of any situations in which those risks are not being managed in accordance with established policies and assess whether the Corporation’s risk management policies remain appropriate and prudent in the circumstances and are being followed; and

(e) provide the Board regularly (and at least annually) with reports that will enable the Board to assess whether the Corporation has an appropriate and effective enterprise risk management process.

Sources and Rationale

10.4 The Malaysian Code[27] states that "The board should determine the company's level of risk tolerance and actively identify, assess and monitor key business risks to safeguard shareholders' investments and the company's assets. Internal controls are important for risk management and the board should be committed to articulating, implementing and reviewing the company's internal controls system. Periodic testing of the effectiveness and efficiency of the internal controls procedures and processes must be conducted to ensure that the system is viable and robust. The board should disclose in the annual report the main features of the company's risk management framework and internal controls system".

10.5 In the context of a public body, these risks include risks affecting how well the corporation fulfils its mandate.

Standard No. 11 : Control environment and internal audit

The Board will ensure that the Corporation has a control environment that supports the prudent management of its operations and of the risks to which it is exposed (including risks to the attainment of its objects) and has effective policies and practices to assure the integrity of internal controls and management information systems.

In this connection the Board will:

(i) allocate resources for, and establish an internal audit group, setting out its mandate;

(ii) approve its audit plan each year; and

(iii) seek, from the internal audit group, on a regular basis, reasonable assurance regarding the monitoring of, and the compliance with internal controls, the

[27] Commentary to Recommendation 6.1 — The board should establish a sound framework to manage risks.

integrity of the system, and that appropriate action is being taken to address any significant weaknesses or breakdowns identified.

11.1 In light of the Corporation's role in managing deposit insurance funds and as a statutory body, it is appropriate for the Board to set aside resources for, and establish, an independent inspection and audit group for the Corporation, and to approve its plan each year. The Board will also seek, from the independent inspection and audit group, on a regular basis, validations that the institution's processes, policies, procedures and controls are being monitored and adhered to, and that appropriate action is being taken to address any significant weaknesses or breakdowns that have been identified.

Expectations from the Board of Management

11.2 Management will ensure that the Corporation has a control environment that supports the prudent management of its operations and of the risks to which it is exposed and contributes to the achievement of its objectives. It will provide the Board regularly (and at least annually) with reports that will enable the Board to assess whether the Corporation has such a control environment.

Sources and Rationale

11.3 The Board has financial accountability and oversight responsibilities. Accordingly it must review financial performance information, monitor systems of internal controls established by management and the Board, and oversee the internal and audit process, with the assistance of its Audit Committee.[28] Generally organisations that require an internal audit capacity are those with high risk or high profile operations.[29]

11.4 The internal audit function is an integral part of an effective system of corporate governance. The Malaysian Code[30] states that "The board should establish an internal audit function and identify a head of internal audit who reports directly to the Audit Committee. The head of internal audit should have the relevant qualifications and be responsible for providing assurance to the board that the internal controls are

28 BDRO Guidelines, paragraph 4, page 17.
29 Ibid, page 19.
30 Commentary to Recommendation 6.2: The board should establish an internal audit function which reports directly to the Audit Committee.

operating effectively. Internal auditors should carry out their functions according to the standards set by recognised professional bodies. Internal auditors should also conduct regular reviews and appraisals of the effectiveness of the governance, risk management and internal controls processes within the company".

11.5 Accordingly internal auditors support the need for an organisation to assure:

(a) that existing management processes are adequate to identify and monitor significant risks facing the organisation, and that the existing internal control system operates effectively;

(b) that those who are responsible for managing risks and operating the control system take a wholly objective and systematic view of their own performance; and

(c) that the board receives the quality of information from management needed to support the organisation's risk management and internal controls effectively.

11.6 One of the CEO's responsibilities should be to work with the board to develop an information system that meets the needs of the board. The board should discuss and define with management the parameters the quantity, timing, frequency, and the usefulness of the information it receives. Because the board's information needs will likely change over time and with experience, the usefulness of the information should be a periodic consideration for the board.

11.7 The board should be satisfied that the corporation's information systems and management practices meet its needs and give the board confidence in the integrity of information produced.[31]

<u>Standard No. 12</u> : In control

The Board will obtain, on a regular basis, reasonable assurance that the Corporation is "in control".

[31] Corporate Governance in Crown Corporations and Other Public Enterprises – Guidelines by the Crown Corporation and Privatization Sector, Department of Finance and Treasury Board of Canada (June 1996 Updated 2002).

12.1 The concept of being "in control" refers to the state or condition wherein –

(a) operations are subject to effective governance by the Board;

(b) operations are being managed in accordance with ongoing, appropriate and effective strategic and risk management processes, and are being conducted in an appropriate control environment; and

(c) any significant weaknesses or breakdowns related to those matters are being identified, and appropriate and timely action is being taken to address them.

12.2 The idea is to have the Board consider the entire network of the various controls established by Management to support the achievement of the Corporation's objectives as a whole, including the effectiveness and efficiency and operations, the reliability of internal and external reporting, compliance with applicable laws and internal policies.

Expectations of the Board from Management

12.3 Management will develop and implement an appropriate and effective process for assisting the Board to assess regularly (and at least annually) whether the Corporation is "in control".

(v) STRATEGIC PLANNING – STANDARD NO. 13

Standard No. 13 : Strategic management process

The Board is responsible for reviewing and overseeing the development of and approving a strategic plan and direction for the Corporation, taking into account the opportunities and risks facing the Corporation.

To fulfil this responsibility, the Board will:

(i) periodically assess the Corporation's objects to ensure their continuing relevance and, if thought appropriate, propose changes for consideration by the Minister of Finance;

(ii) adopt a strategic planning process;

(iii) at least annually, approve operating objectives and strategies, an operating budget, capital budget, borrowing plan, corporate plan and premium rates that are appropriate and prudent in light of the Corporation's objects, current and anticipated environment, risks, resources and financial position;

(iv) regularly evaluate the Corporation's performance in implementing its approved plans, and budgets; and

(v) obtain, on a regular basis, reasonable assurance that the Corporation has an effective strategic management process.

13.1 It is sound practice for the Board to:

(a) establish the business objectives of the Corporation, consider and approve the Corporation's business strategy and its business plans for significant operations, and review those things at least once a year to ensure that they remain appropriate and prudent in light of the institution's current and anticipated business and economic environment, resources and results;

(b) evaluate frequently the Corporation's actual operating and financial results against forecast results, in light of the institution's business objectives, business strategy and business plans; and

(c) obtain, on a regular basis, reasonable assurance that the institution has an ongoing, appropriate and effective strategic management process.

13.2 The Board should also:

(a) examine its public policy objectives and periodically the legislated mandate to ensure their continuing relevance;

(b) assess the relevance of the Corporation's mandate, and, if appropriate, propose changes for the consideration of the Minister; and

(c) ensure that all public policy objectives are clearly described in the corporate plan annually approved by the Board.

Expectations of the Board from Management

13.3 Management will periodically assess the continuing relevance of the Corporation's objects and powers and report to the Board on the results of these reviews.

13.4 Management will periodically (and at least annually) develop recommendations for prudent and appropriate operating objectives and strategies, an operating budget, borrowing plan, corporate plan and premium rates that take into account the Corporation's objects, current and anticipated environment, risks, resources and financial position, and submit such recommendations to the Board for their consideration.

13.5 Management will provide the Board regularly with reports that enable them to assess:

(a) the Corporation's performance in implementing its current approved objectives, strategies, plans and budgets; and
(b) whether the Corporation has an appropriate and effective strategic management process.

Sources and Rationale

13.6 The "Principles and Better Practices - Corporate Governance in Commonwealth Authorities and Companies", Discussion Paper by the Australian National Audit Office[32] suggests that the objectives of an (public sector) organisation need to be clearly documented in a long term corporate strategy (3-year minimum, updated annually) and an annual business plan together with achievable and measurable performance targets and milestones. The Board should be responsible for approving or rejecting the budget developed by management to achieve the agreed strategy.

13.7 The Corporate Governance in Crown Corporations and Other Public Enterprises – Guidelines[33] by way of guidance recommends that where the Board considers that the legislated mandate is no longer valid in the current economic or social context, the board should advise the Minister.

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[32] May 1999, page 24.
[33] Issued by the Crown Corporation and Privatization Sector, Department of Finance and Treasury Board of Canada, June 1996 and updated 2002 on page 7.

(vi) COMMUNICATIONS – STANDARD NO. 14

Standard No. 14 : Effective communication

The Board will ensure that the Corporation communicates effectively with the public, Bank Negara Malaysia, other statutory bodies or regulators, depositors, member institutions and other relevant parties.

14.1 In implementing the standard stated above, the Board should be assured that the Corporation's systems supporting the communications policy will anticipate those issues likely to attract interest and, when appropriate, inform the Minister in a timely manner.

14.2 The Corporation, usually through the CEO or the Chairperson, should inform the Minister of any significant developments and decisions likely to have a major impact on the Corporation or on public perceptions and attitudes towards it. Any significant direct communication between Management and the Minister of Finance should be brought to the Board's attention.

14.3 In respect of its communication with stakeholders, the Board must be satisfied with the main messages contained in the Corporation's annual report and, where applicable, in the documents tabled in Parliament, namely, the Corporation's annual report containing the corporate plan summary, the budget summaries and "the management discussion and analysis".

Expectations of Management

14.4 Management will develop and recommend communications policies to the Board for their consideration.

14.5 It will also bring any direct communications on significant matters between Management and the Minister to the Board's attention.

Sources and Rationale

14.6 The BDRO Guidelines[34] state that "Public sector organisations should be accessible and responsive when communicating with their stakeholders, their employees, the public and Government. It follows that the board should ensure that management has adopted an appropriate communications strategy. The communications strategy should reflect the fact that the organisation is part of the public sector where transparency is an important feature of accountability. The board should be satisfied that all salient information about the organisation and its operations is made accessible by management."

14.7 Note that section 36 of the Act provides that the accounts of the Corporation shall be audited by the Auditor General, and requires the Corporation to transmit a copy of the annual accounts certified by the Auditor General within three months from the close of its financial year and an annual report on the working of the Corporation throughout the year to the Minister, who shall, as soon as possible, cause them to be laid before the Dewan Negara and Dewan Rakyat.

(vii) BOARD GOVERNANCE POLICY – STANDARD NO. 15

Standard No. 15 : Review of Board Governance Policy

The Board will review this Board Governance Policy biennially to ensure that it remains responsive to the circumstances and needs of the Corporation and continues to reflect the legislation to which the Corporation is subject, the Corporation's mandate, guidance on matters of governance specific to statutory bodies and recognised best practices.

15.1 Governance methodologies continue to evolve, especially in the context of public sector bodies, and the operating environment of the Corporation may change. Accordingly, it is appropriate that the Board Governance Policy be continually reviewed and its practices updated to match opportunities and changing needs.

[34] Section 12, page 32.

Expectations of the Board from Management

15.2 Management will provide timely information and reports to the Board on trends and evolving best practices in the area of governance that may be applicable to the Corporation.

Sources and Rationale

15.3 "Principles and Better Practices - Corporate Governance in Commonwealth Authorities and Companies", Discussion Paper by the Australian National Audit Office[35] states as a better practice that "The Board should adopt a written statement of its own governance principles and regularly evaluate them."

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6 December 2019.

[35] May 1999, page 26.

Appendix 1

LIST OF REFERENCES

1. “Best Practice Guidelines – Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organisations” by the Board Resourcing and Development Office (BRDO) in the Office of the Premier”[36] (February 2005)

2. “Beyond Compliance: Building a Governance Culture” by the Joint Committee on Corporate Governance (Canada) (November 2001)

3. “Governance in the Public Sector: A Governing Body Perspective” by the International Federation of Accountants” (August 2001)

4. “Malaysian Code on Corporate Governance” by the Securities Commission (Revised, 2012)

5. “Principles and Better Practices — Corporate Governance in Commonwealth Authorities and Companies” by the Australian National Audit Office (May 1999)

6. “Corporate Governance in Crown Corporations and Other Public Enterprises – Guidelines” by the Crown Corporation and Privatization Sector, Department of Finance and Treasury Board of Canada (June 1996)

7. “International Framework : Good Governance in the Public Sector” by the International Federation of Accountants and The Chartered Institute of Public Finance and Accountancy (July, 2014)

[36] The BRDO was established in 2001 with a mandate to bring professional processes to the area of director appointment and corporate governance in the public sector.