KPMG

AUDIT COMMITTEE INSTITUTE

2009 Non-Executive Directors: Profile, Practices & Pay

KPMG IN MALAYSIA

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Contents

Introduction

The position of the non-executive director ("NED") is a challenging one as he is expected to advocate/champion the interests of diverse groups of shareholders, particularly the minority shareholders, whilst avoiding an adversarial relationship with the executives on his board.

Directors are required at all times to act for proper purposes and in good faith, to exercise duty of care, skill and diligence and to avoid conflicts of interest, as codified in the Malaysian Companies Act, 1965. From a legal perspective, the NED is no different from the executive director as both are jointly and severally liable for actions taken or omitted.

The Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia") and the Malaysian Code on Corporate Governance, Revised 2007 (the "Code") require the audit committee to comprise wholly of NEDs with a majority being independent. As a result, the NED's role in an audit committee has gained, and will continue to gain, greater prominence.

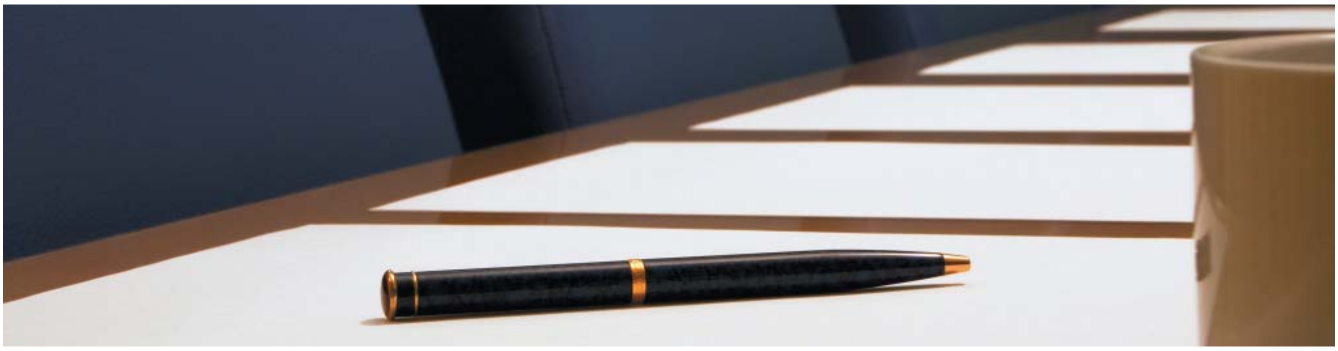
This study covers the top 300 and 30 companies on Bursa Malaysia's Main Market and ACE Market, respectively, by market capitalisation (as at 20 July 2009). A total of 1,804 non-executive directors from these 330 companies are included in the study.

An important sub-group, comprising government-linked companies ("GLCs"), is also analysed and comparisons made with the broader market, where appropriate.

Key themes arising from the study include the profile of the NEDs, diversity of their academic backgrounds, levels of participation in board committees, and total remuneration paid, including allowances and benefits-in-kind, apart from fees.

Whilst not intended to be a definitive guide on NED remuneration, it is hoped that this study will be instrumental in enabling boards of public-listed companies ("PLCs") to understand:

- the profile of a typical non-executive director;
- the NED's involvement in board and its committees; and
- the level of remuneration that can be expected by the NED, considering the increased scope of his responsibilities.



Foreword

Dato' Yusli bin Mohamed Yusoff
Chief Executive Officer
Bursa Malaysia Berhad

In the corporate boardroom, the importance of the non-executive director is recognised but their role, perhaps like that of the monarchy of old, is largely invisible and poorly understood. However, when corporate strategies fail or governance lapses, attention rightly focuses on the contribution of the non-executive director.

The appointment of a non-executive director is an effective means of broadening the vision of a company's board of directors and to ensure that the composition of the board is dynamic with diversified skills, competencies, age, gender and experience. In terms of skills, the non-executive director should have strategic reasoning, perception and vision, a critical faculty capable of quantitative and qualitative analysis and financial interpretation, planning and decision making capabilities, and communication and interpersonal skills.

In this increasingly globalised corporate world, good non-executive directors are always in demand and with this challenging and time-consuming role, comes increased expectation of accountability.

A carefully selected non-executive director can bring an independent view on a range of matters, drawing on knowledge and expertise which is not otherwise available to the company. As such, the selection process for the non-executive director should be undertaken with objectivity and with the ultimate goal of appointing the person for the job.

To ascertain the effectiveness of the board in general and the non-executive director in specific, the board should undertake a formal and rigorous evaluation of its performance. The evaluation process should be undertaken with the clear objective of identifying possible ways of improving the functioning of the board and the output can be constructively critical but substantially valuable.

Attaining accountability and transparency that is vital for corporate governance can only be achieved where the non-executive directors pursue a strong monitoring role, focused on integrity and disclosure.

Bursa Malaysia is highly committed towards ensuring that our market remains a market of integrity and quality. We ensure this by putting strong emphasis on good practice of corporate governance. Bursa Malaysia regularly engages with the directors of public listed companies through forums and dialogue sessions to stress the importance of discharging their obligations effectively and also to highlight corporate governance concerns.

I would like to commend the efforts of KPMG in issuing this study which is timely and relevant.

October 2009

Foreword

David Lim
Chairman
Audit Committee Institute Malaysia

The non-executive director today finds himself scrutinised by shareholders, regulators and the public, even more so when he is part of the audit committee. The glare of the spotlight becomes ever greater with each passing corporate scandal, and questions are invariably asked on the role played by the non-executives, both on the board and board committees every time a crisis arises.

As the investor base in the country becomes more robust and sophisticated, they will insist that the companies they have invested in practise good governance. To encourage foreign direct investment (FDI), it is necessary that Malaysia's corporate governance practices continue to be enhanced; a big step in the right direction would be to have independent non-executive directors who are prepared to act whilst being conscious of their reputational risk.

Non-executive directors have an implicit duty to work in a collegial manner with executive directors in performing their functions and discharging their duties to ensure the sustainability of the companies under their care - an "eyes on, hands off" approach would best describe the manner in which non-executive directors should act so as to provide insights without attempting to micro manage. Effective non-executive directors will go some way to help 1Malaysia achieve its position as a competitive destination for investment and raising of capital.

The recent financial crisis which has abated somewhat has allowed emerging economies to have a greater influence on the world stage. It stands out clearly that there is a continuing shift in economic power away from the G7 economies. Asian economies have demonstrated great resilience and fortitude; having learnt from the pain inflicted during the Asian version of its own financial crisis a decade or so earlier. Amidst the change in the economic landscape, the attendant competition for FDI will no doubt continue as global investors intensify efforts to identify destinations where their money can be invested safely.

The proposed Whistle Blowers Act, announced in the Budget 2010 speech, will be introduced next year to provide immunity to informants from civil and criminal charges. Non-executive directors may have a significant role to play in facilitating successful implementation of a whistle-blowing process.

It is incumbent for boards of directors to instil good risk management practices whilst focusing on more sustainable and longer term view of how the business should be driven. A spirit of enduring optimism burns bright as this is possibly Asia's time. Malaysia definitely has a part to play in this 'golden era' as our economy, with responsible and good statesmanship, is well positioned to ride out the global downturn.

The study which we have conducted will be done on an annual basis going forward as we believe it will shed some light into the profile, practices and pay of non-executive directors in Malaysia. The ultimate aim is to attract more talent and thus bolster the quality of people who would serve on the board of directors as non-executive directors.

October 2009

Portrait of a non-executive director

Main Market Top 300

Profile

50%, 50 years

Half of the NEDs have a basic degree in business, legal or technical-related fields.

79% of NEDs are more than 50 years-old.

A typical board comprises 6 non-executive directors. Of these, about 50% have at least a basic degree in the fields of business (and its various disciplines), law, engineering, and accounting, bringing invaluable insight and experience gleaned through the years. This is reflected in the age-group of majority of NEDs, who are over 50 years-old.

♂ He: 27 – 89

The age range for the male NED.

The youngest male NED is 27 years-old whilst the oldest is 89. The longest serving NED, who is 84 years-old, has been on the board for an astonishing 44 years!

♀ She: 30 – 74

The age range for the female NED.

The age range of the female NED is from 30 to 74 years. The longest serving female NED, aged 70, has clocked in 23 years of service but still has some way to go before matching her male counterpart.

She: Minority

Only 6% of NEDs are female

The overwhelming percentage of NEDs (94%) are male. This compares to 84% for Australia. In Europe, a study on all directors found 90% of board members to be male.

7 years

Average length of service by the NED.

The NED is on the board for an average of 7 years. Around one-fifth (21%) has served for more than 10 years.

Practices

6 meetings

The board meets on average 6 times a year.

The NED attends on average 6 board meetings annually. If he is an NED in a financial services company, it is normal to expect 11 or more meetings in a year.

2 boards

An NED sits on an average of 2 PLC boards.

Around half (45%) of NEDs sit on one board, with a similar proportion (43%) on 2 to 4 boards. As the NED on average serves on the board of 2 PLCs, his total remuneration amounts to about RM144,000 per annum.

AC chairmen ≠ NC/RC chairmen

The audit committee chairman focuses on leading his committee.

A substantial majority of audit committee chairmen (74%) do not chair the nominating and/or remuneration committees.

$ Pay

RM89,000: Across-the-board

NED's remuneration for the top 300 Main Market companies.

On a top-300 basis, the NED receives an average of RM89,000 per annum. Approximately half of the NED's package comprises fees with the balance made up of allowances, other emoluments and benefits-in-kind. *See "Pay: NED remuneration" section for details.*

RM72,000: Malaysia, PLC

NED's remuneration of a typical Malaysian PLC.

Remuneration of an NED received from a typical Malaysian PLC (non-finance, non-GLC and locally owned) averages RM72,000 per annum. *See "Pay: NED remuneration" section for details.*

Bankers: Top of the league

Financial institutions lead in NED payout by a wide margin compared to the broader market.

Remuneration of NED from a finance sector GLC averages RM218,000 per annum whilst a non-GLC finance company NED receives RM146,000 per annum.

The AC chair: +19%

The total remuneration package of an NED who is the audit committee chair is more than his fellow committee member by a hefty 19%.

The NED who is also the chair of the audit committee receives 19% more in total remuneration than the NED who is an "ordinary" member of the committee.

Insight

Going up

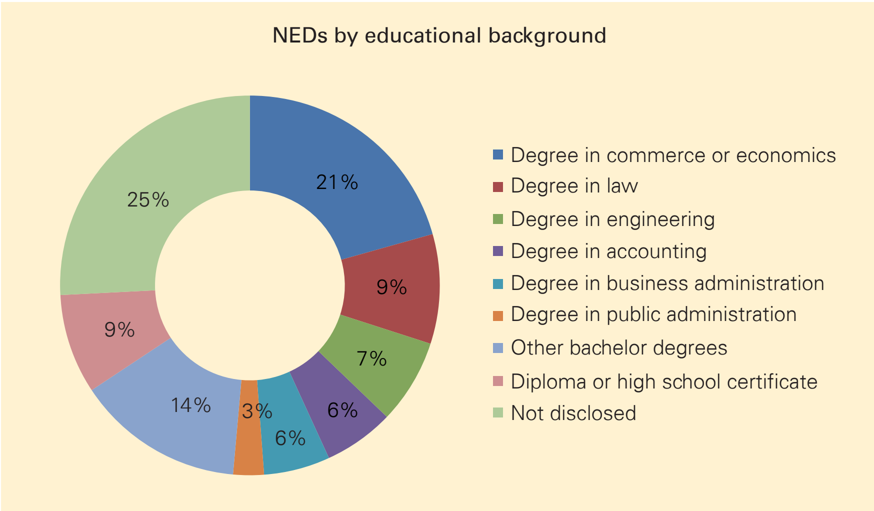
NED remuneration can only go up.

As demands on the NED increase and more time is spent, it is only natural for NED remuneration to rise in tandem.

Main Market: Top 300

Profile: The person

A quick take on the typical non-executive director will show that the NED is likely to be male, above 50 years-old and has been on the board for an average of 7 years, although his education background may vary as tabulated below.



A large proportion of NEDs (49%) are trained in the fields of business (comprising various disciplines such as economics, accounting, etc), law and engineering. In particular, those with economics and legal backgrounds are well sought after. These NEDs bring with them experience and expertise that Management and/or founder-owners may not possess, such as the ability to interpret regulatory requirements or to provide pertinent perspectives to complex business proposals.

The time invested in building up such experience can be seen in the age profile of the NEDs, where a third are aged between 51 to 60 years and a further third in the 61 to 70 years bracket.

A brief history of the non-executive director

The non-executive director was first mentioned, formally, in the United Kingdom's Cadbury Report (1992), which called for boards to comprise both executive and non-executive directors. The report also laid out key duties of the NED.

Over the years, other notable publications on the NED include:

- Hampel Report (1998) – a review of the Cadbury report with further recommendations;
- Higgs Report (2003) – on the effectiveness of the NED; and
- Principles of Corporate Governance (issued 2004) by the Organisation of Economic Co-operation and Development.

The bean counters

Although a relatively small percentage of directors in our study (6%) majored in accounting in university, many went on to acquire professional accounting qualifications and 14% of the NEDs in the study are members of the Malaysian Institute of Accountants.

How long is long?

In Malaysia, there is no limit on tenure of service for directors, apart from the standard retirement provisions in the company's articles of association and the Companies Act, 1965.

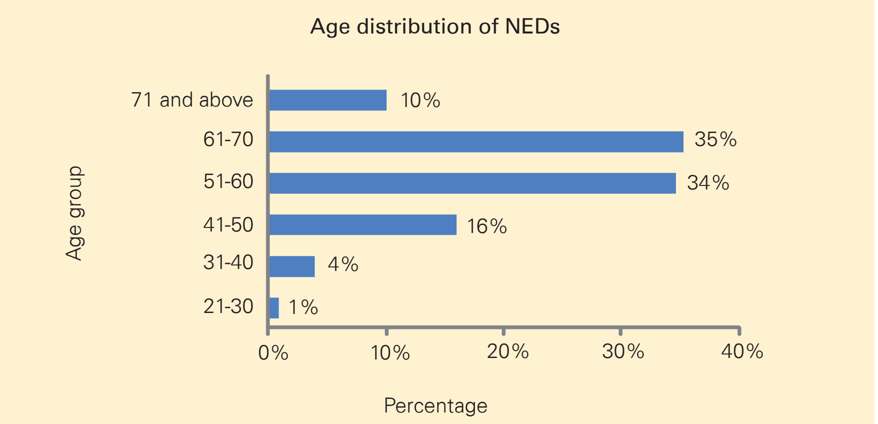
In the United Kingdom, the Financial Reporting Council's Combined Code on Corporate Governance calls for NEDs serving more than nine years to subject themselves to an annual re-election.

The Australian Stock Exchange's Corporate Governance Principles urge boards to regularly assess the independence of each non-executive director. The board chairman should be independent.

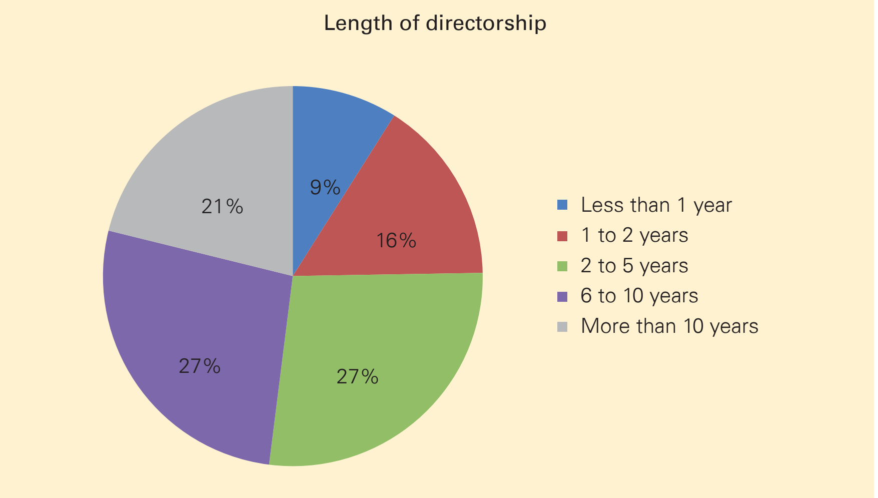
In Hong Kong, an exposure draft on corporate governance requires companies to limit independent directors to nine years of service, after which a separate shareholder's resolution is needed for the director's re-election.

Record holders

- The oldest male NED in our study: 89 years
- The oldest female NED: 74 years
- The longest tenure by a male NED: 44 years (he is 84 years-old)
- The longest serving female NED: 23 years (she is 70 years-old)



The NEDs' age profile leads to another question: length of board membership. Half of the NEDs in our study had served for at least five years, with one-fifth having been on the same board for more than 10 years.



The tenure of non-executive directorship, as seen above, can largely be attributed to a few factors: That boards are comfortable with the non-executives, and that time and resources invested by the NEDs in understanding the intricacies of their companies have apparently led to value-adding contributions during board deliberations.

There is some debate on the length of service for a non-executive director. In some countries (see sidebar), a view is that non-executives, particularly independent directors, should not serve more than a certain number of years without being subject to an annual re-election, whilst new directors should be regularly inducted in order to refresh the board.

Down under

In a 2007 study conducted by the University of Wollongong on the top 50 Australian PLCs, by market capitalisation, the typical non-executive director:

- is male (84%);
- is aged between 60 – 69 years;
- serves for 6 years on the board;
- sits on 2 PLC boards; and
- receives upwards of AUD140,000 in remuneration per annum.

Women and the board

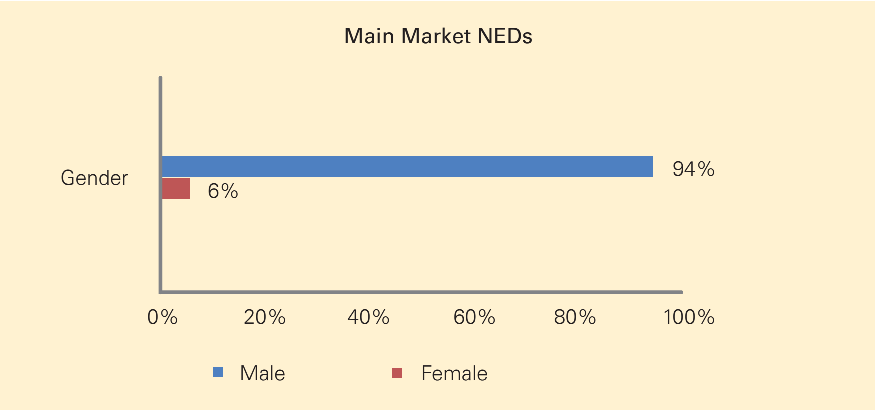
In a 2007 study, the advocacy group Catalyst studied the participation of women directors and found that companies with higher percentages of women board members, on average, financially outperformed companies with the lowest percentages of women board directors by significant margins. In addition, women directors tend to increase the number of other women officers in the same company *[Catalyst, The Bottom Line: Corporate Performance and Women's Representation on Boards (2007)].*

A 2008 study of the top 300 European companies found that women's representation at board level was 10% *(European PWN Board Women Monitor 2008, survey of FTSEurofirst 300 Index companies).*

Another school of thought, however, stresses that "independence in mind" is far more critical than the number of years on the board as an absolute measure of a non-executive director's function and effectiveness. It is pivotal for the nominating committees of PLCs to reflect upon this when performing an evaluation of the directors for re-election.

It is also worth noting that directors who are aged 70 years and above are required (by Section 129 of the Companies Act, 1965) to retire annually. If he is standing for re-election, passing of a resolution by at least 75% of eligible shareholders at the meeting is required. Whilst the rationale for this section is not explicit in the Act itself, such a provision could arguably serve as a "safety valve" against entrenchment of a long-serving director who may be perceived to be ineffective, as he would need the support of at least three-fourths of shareholders present at the meeting or via proxies to be re-elected.

It was found that an overwhelming majority of non-executive directors are men, with women comprising only 109 NEDs out of the sample of 1,804.



The educational background of a majority of these women directors is in the fields of economics, business administration and accounting. There are 13 PLCs which had two female directors each, and one with 3 female directors on their boards.

Who is the SINED?

The word "senior" often confuses boards as it has the tendency to be equated to the oldest independent director. The SINED may not always be the most elderly director but is usually someone who commands enough authority to:

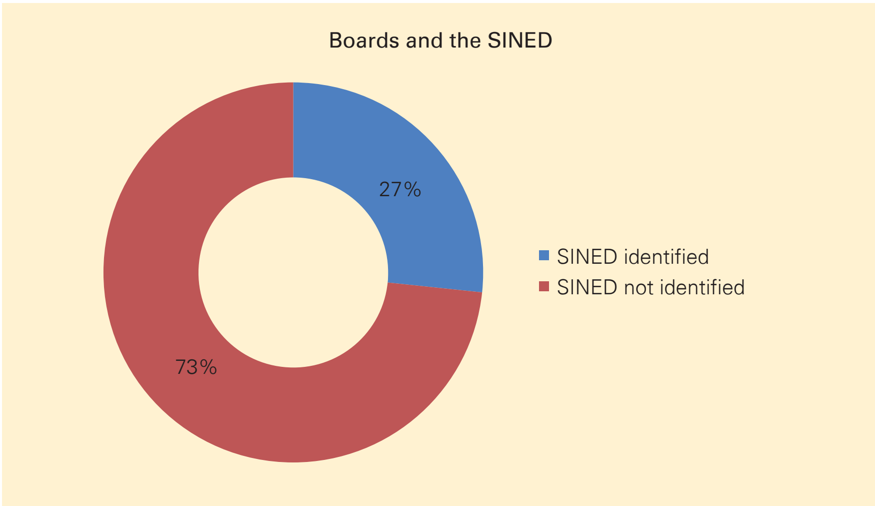
- chair meetings amongst fellow non-executive directors where the chairman does not attend;
- lead the non-executive directors in performance evaluation of the board chairman; and
- be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or finance director has failed to resolve or for which such contact is inappropriate.

(The Higgs Report, 2003; Financial Reporting Council, Combined Code 2008)

The Code calls for the PLC board to identify in the annual report of the PLC, a director as the "senior independent non-executive director" (SINED), to whom concerns may be conveyed. Such concerns may be from fellow directors or other stakeholders, who find it perpetually difficult, if not virtually impossible, to bring up matters for discussion to the board, through the chairman or the chief executive, especially when the autocratic chairman is closely allied to a powerful chief executive.

Whilst the SINED is a feature of the United Kingdom's Combined Code (see sidebar), this practice is not found in the corporate governance codes of Singapore or Australia.

Whilst the concept is not difficult to grasp, its implementation can be described as less than sterling, with only about a quarter of boards having identified their SINEDs.



Boards of Malaysian PLCs electing not to identify such a director usually explain that concerns of board members and other stakeholders are addressed when the chairman opens the floor for discussion. The board may also point out that a strong independent element on the board negates the necessity for a SINED.

Practices: Board and committee involvement

A firm commitment

The time requirement of 15 days per annum from an NED for each PLC is predicated upon that PLC being a well-run organisation and the NED having an in-depth understanding of the company's business, its strategy, cost structure and risk profile.

Sir Derek Higgs, in his benchmark 2003 report "Review of the Role and Effectiveness of Non-Executive Directors", quotes research suggesting a time commitment of between 15 and 30 days a year is realistically needed from a non-executive director.

The NED must, at all times, bear in mind that the board's six specific responsibilities (based on the Code), as mentioned below, apply to both NEDs and executive directors:

- review and adopt a strategic plan;
- oversee business conduct;
- identify risks and ensure implementation of risk management systems;
- succession planning;
- develop and implement investor relations programme or shareholder communications policy; and
- review adequacy and integrity of internal control and management information systems.

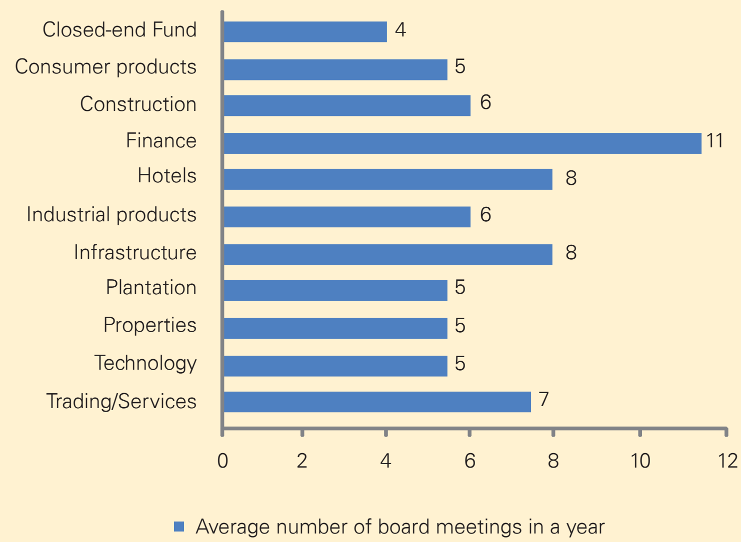
Overview

Apart from the actual time spent attending full board meetings, the non-executive director is also expected to commit his time for committee meetings, engage with management, and visit operational sites, especially when acquisitions arise.

On average, boards meet six times a year. This is close to the expected number of meetings for a typical PLC board, i.e. once every quarter to review and approve quarterly results, and a further one or two for non-routine agenda items. The Code stipulates the specific responsibilities of the board which, taken as a whole, would mean a significant amount of time commitment by the NED is needed (see sidebar). Therefore, it would not be unreasonable to suggest that a time commitment of at least 15 days per annum is needed from the NED.

Boards from the finance sector meet the most often, i.e. 11 meetings a year or nearly double the average. This is not surprising given the highly regulated nature of the industry and the many changes witnessed by this industry in recent years, which included, amongst others, deregulation, consolidation and rationalisation.

Board meetings by industry sectors



Capping board memberships

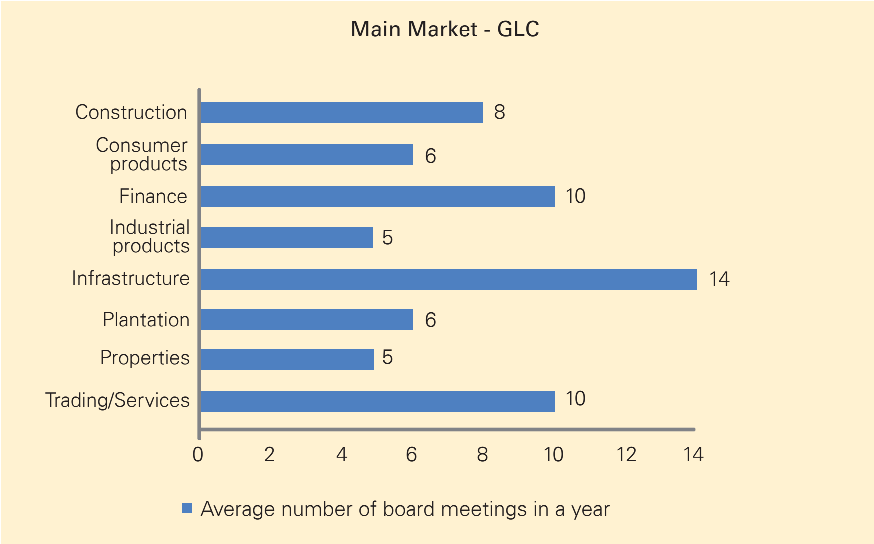
The time commitment expected of a director is a key reason why the Listing Requirements limit him to the boards of 10 PLCs and 15 other than PLCs.

In the Government-issued "Green Book" (Enhancing Board Effectiveness, Putrajaya Committee on GLC High Performance, 2006), a director who sits on any one GLC is limited to five PLC boards, regardless of whether that PLC is a GLC or not. For boards of non-listed companies, the limit is 10.

Walk-ing the talk

Sir David Walker, in his report on corporate governance in UK financial institutions*, recommends that for a major bank, a minimum time commitment of 30 to 36 days a year should be expected and clearly stipulated in the NED's appointment letter.

* *A review of corporate governance in UK banks and other financial industry entities, July 2009*

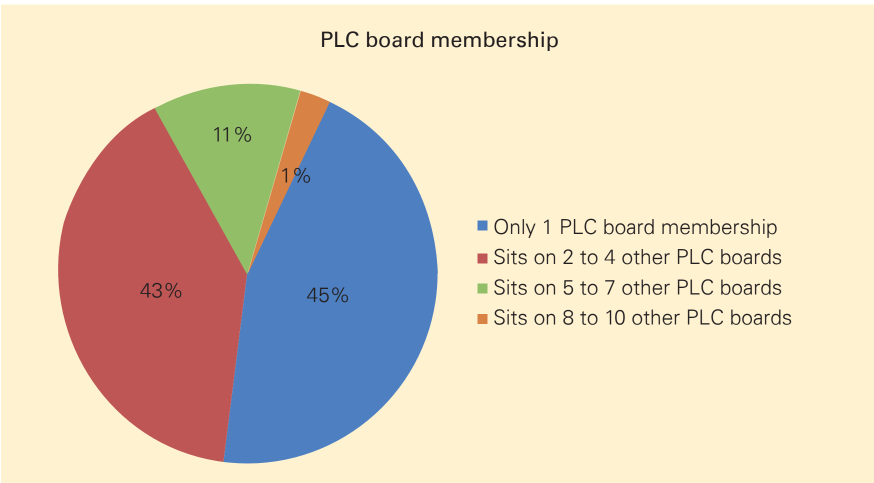


Note: The sole representative for infrastructure is Time dotCom Berhad. Its board met 14 times for the financial year ended 31 December 2008.

The number of board meetings for GLCs either matched or exceeded those held by the average PLC. This seems to be in line with the comparatively higher levels of remuneration paid to NEDs of these corporations. There are, of course, other reasons for the higher levels of remuneration, which are looked at in the next section of this study.

To discharge a director's stewardship role effectively, attending board meetings per se is obviously insufficient. Time spent in diligently reviewing board papers and preparing to discuss matters on the meeting agenda is also a pre-requisite for the NED. In addition, the NED needs to allocate time for reading, research and attending courses related to his field of expertise or areas pertaining to corporate law, taxes and governance.

The NED then should consider carefully the time realistically needed for him to discharge his responsibilities adequately and effectively. On this matter, it is encouraging to note that close to half (45%) of Main Market NEDs are board members of only one PLC. A close percentage (43%) sits on two to four PLCs. A minority (12%) are board members of five or more PLCs. On average, the NED is a member of two PLCs.



The NED and the audit committee

In demand: Committee membership and chairmanship

Of our population of 1,804 NEDs, 59% are members of the audit committee.

As for the nominating and remuneration committees, we find that more boards have been setting up these committees, and based on our study, almost 90% of the Top 300 Main Market companies have them.

In some countries, the concentration of committee chairmanship is, for obvious reasons, discouraged. For example, the UK's Combined Code cautions boards against membership structures that may lead to undue reliance on a particular director.

This is not yet a situation seen here, as 74% of audit committee chairmen do not head the nominating and/or remuneration committees.

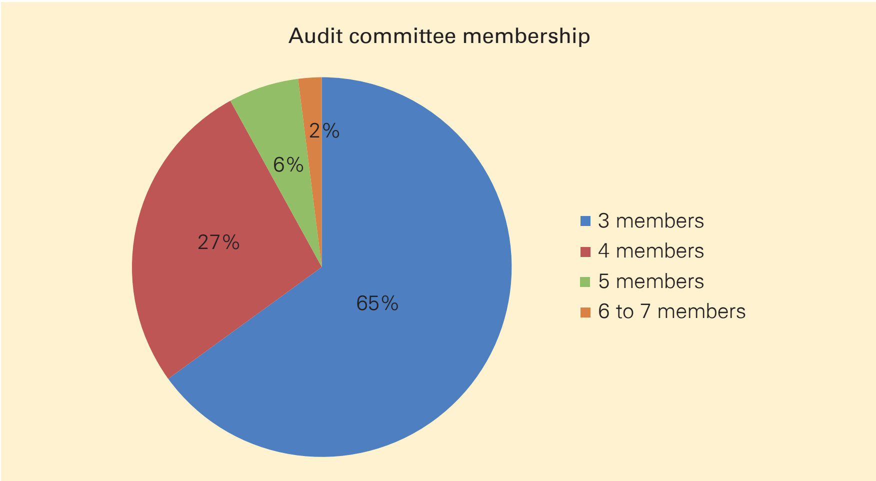
Down south

In a 2009 study conducted by the Institute of Certified Public Accountants of Singapore (ICPAS), 42% of audit committee chairmen are members of ICPAS.

In our study, 31% of chairmen are members of the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants, or both.

By virtue of the Listing Requirements and the Code, the non-executive director now finds himself committed to serving on one or more board committees, the most prominent of these being the audit committee (AC).

As the Listing Requirements stipulate a minimum number of three members in an audit committee, it is hardly surprising to note about two-thirds (65%) of the boards have such a number in their audit committees. The remaining boards have audit committees comprising 4 or more members.



Mathematically, boards with only three NEDs are quite certain to form audit committees comprising these same NEDs. Boards with larger numbers of NEDs may choose to even out membership of the audit, nominating and remuneration committees amongst their pool of NEDs, with due consideration to the skills and experience required to serve on the said committees.

Whilst it can be deduced from the Listing Requirements that the audit committee should meet at least once a quarter, some audit committees, however, may decide to meet more often, either as required by its terms of reference or because situations warrant the increased number of meetings.

Audit committees from the finance sector, as expected, meet the most often, i.e. seven times compared to an average of five for the others.

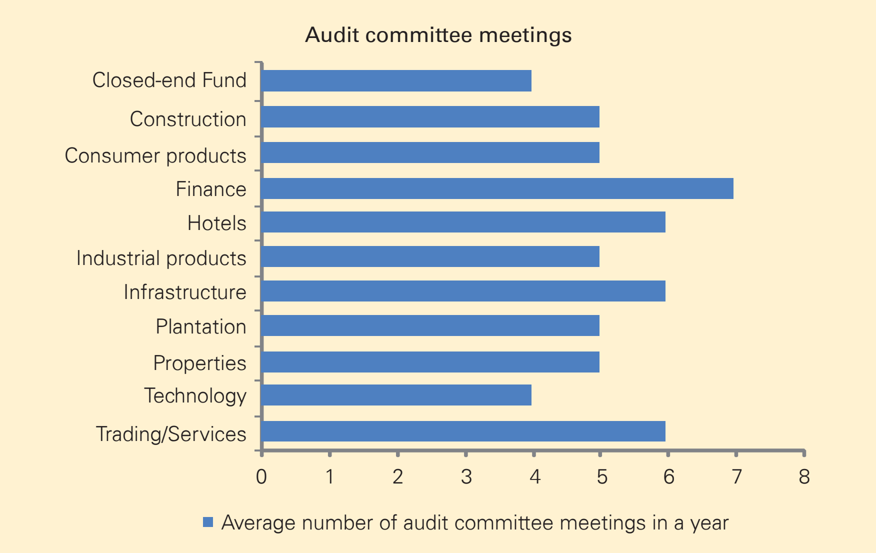
Nominating and remuneration committees: Their key roles

On average, the nominating committee meets twice a year, whilst the remuneration committee meets only once a year. The Code does not prescribe the frequency of meetings.

There is a perception of the nominating committee being an ad-hoc committee which meets for the sole purpose of considering the appointment of potential directors. There is, however, another primary role for the nominating committee, i.e. to assess the effectiveness of the board as a whole, the various board committees and the contribution of each individual director.

As for the remuneration committee, its key role is to recommend to the board, remuneration of the executive directors in all its forms (for the non-executives, it is a matter for the board as a whole).

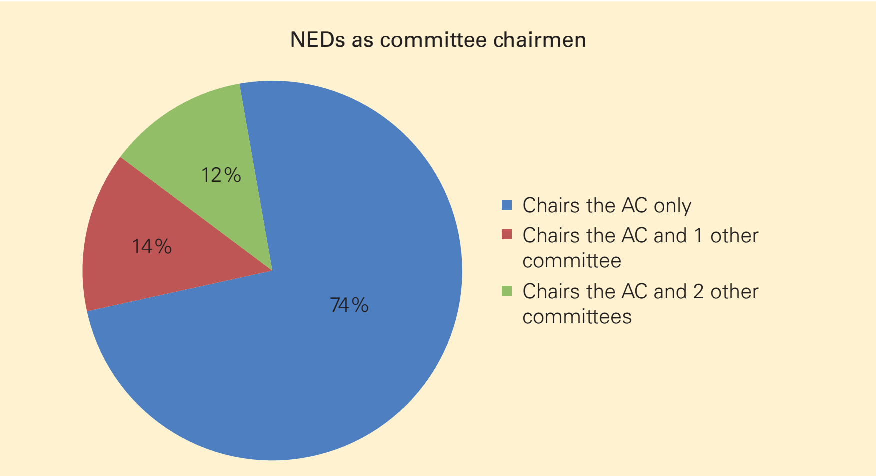
Both committees should meet as often as is necessary, in order to discharge duties described in the Code, not only in form but in substance as well.



As an audit committee member, the NED must be aware that his key duties include reviewing quarterly and year-end results for recommendation to the board for its approval, assessing the scope, functions, competence and resources of the internal audit function, and reviewing related party transactions and any conflict of interest situations that may arise. These duties require a certain level of financial literacy, which essentially means the ability to read, analyse and interpret financial statements - the Code prescribes that ALL audit committee members should be financially literate.

In addition to the above, the audit committee chair has the responsibility of leading meetings, managing discussions with fellow members and invited attendees, ensuring that the audit committee fully discharges the duties entrusted to it, engages with senior management and the auditors on a continuous basis, and remains the point-man to perform board reporting.

These added responsibilities to the chair perhaps explain why a large majority (74%) of audit committee chairmen limited themselves from chairing/leading other board committees, e.g. nominating or remuneration committees.



Pay: NED remuneration

CEO Pay: "Hot button" issue

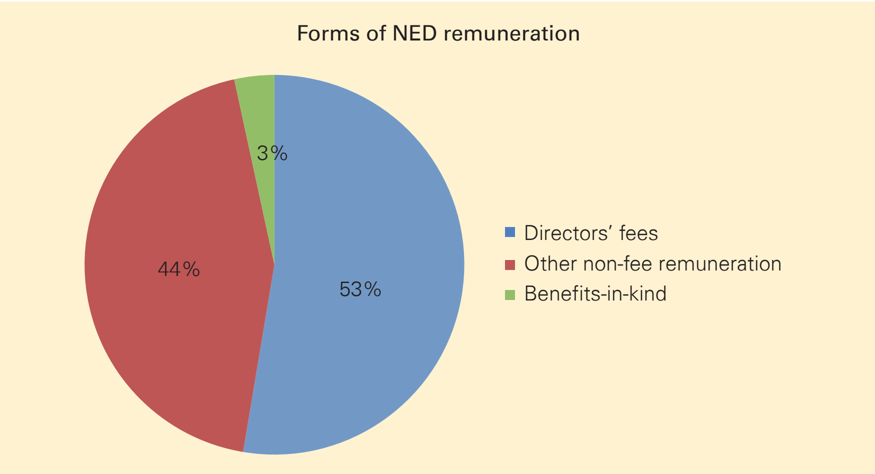
Whilst remuneration for executive directors has always been somewhat controversial, the topic has gained even more prominence over the past two years, with statistics showing chief executives of S&P 500 companies enjoying 10% annual pay increments (1993 – 2006), compared to 3% for rank-and-file employees.

Perceptions of such largesse could only be reinforced by recent revelations from the Institute for Policy Studies that chief executives of banks receiving US government bailouts were paid 37% higher in 2008 than their peers in the S&P500.

Remuneration paid to NEDs, on the other hand, has remained largely free of controversies. In fact, non-executive directors have begun to ask the question, "given our increasing burden of responsibilities, are we being fairly compensated?"

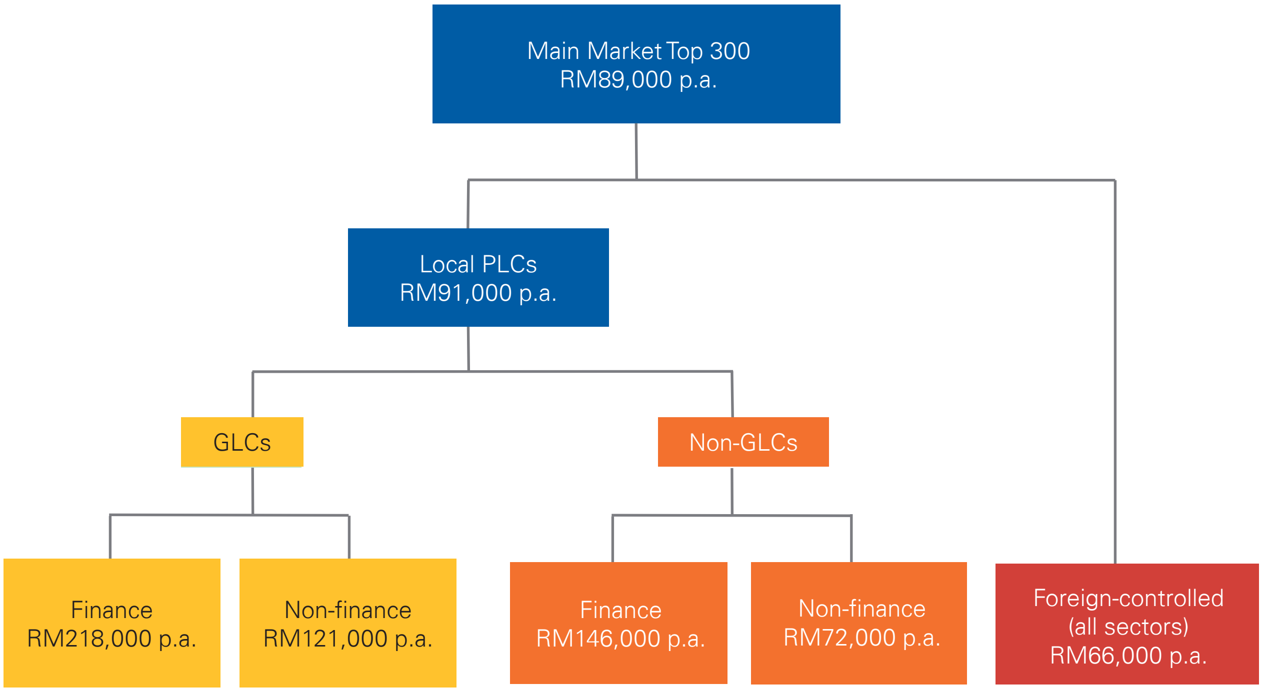
Overview

The typical compensation package received by a non-executive director comprises not only fees but other forms of remuneration as well, notably allowances and share-based payments. Whilst a large proportion of remuneration is paid in cash, share-based payments have an advantage of a longer vesting period, thereby linking the board's performance with that of the company.



The average remuneration of RM89,000 per annum per NED paid by the top 300 Main Market companies may be a statistic that raises eye-brows of some observers as being on the high side. In reality, this average is skewed by the high payers in the financial services sector and government-linked companies.

Snapshot of the varying levels of NED remuneration (received from the PLC Group)



Note: The above averages have been adjusted to exclude the "de-facto executive director" element, the rationale of which is explained in the next section of this study.

Is it any surprise that financial institutions are the leading paymasters? This could be linked to the sector's risk profile and a compelling reason why banks inherently carry a higher risk profile. They not only involve shareholders' investment (as all public-listed companies do), but also funds from a large proportion of the public who are their customers, and a failure or potential failure of financial institutions would invariably have far-reaching repercussions than that of an "ordinary" company, as can be seen from the runs on Northern Rock and American International Group, or from the failure of Lehman Brothers in the United States.

It is interesting to see that remuneration paid by GLCs exceeds their local counterparts by 49% (in the finance sector) and 68% (other sectors). There are perhaps good reasons for this:

- with the introduction of the Green Book in 2006 under the GLC Transformation Programme, these government-linked companies have been given the impetus to recruit top talents, including non-executive directors, into their boards;
- GLCs are large, public-interest companies and a directorship carries an inherently higher profile compared to a non-GLC company;

On track: Transforming the GLCs

In March 2009, a mid-term progress review was presented by the Putrajaya Committee on GLC High Performance. The ten-year programme on GLC transformation was launched in April 2004.

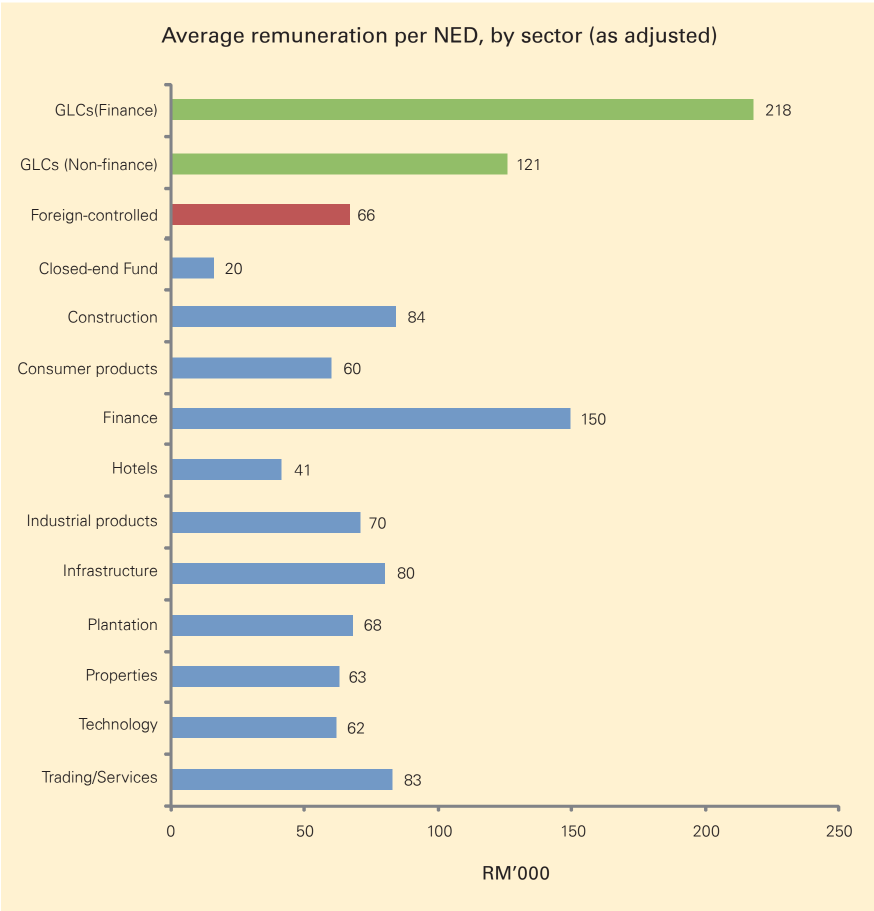
The key findings were, inter-alia, as follows:

- the top 20 GLCs recorded total shareholder return that outperformed the Kuala Lumpur Composite Index (now known as FBM KLCI) by a compounded annual growth rate of 4.8%;
- more stakeholders (e.g. the public) are benefiting from the transformation programme; and
- however, GLCs were found to underperform compared to top regional sector peers, and a higher degree of commitment was called for.

(Mid-term Progress Review Report, Putrajaya Committee On GLC High Performance, March 2009)

- the number of meetings generally exceeds that convened by the average PLC;
- a GLC is typically more complex by virtue of its size, geographical reach and/or diversity of businesses under its control; and
- directors are limited to only five PLC board memberships by the GLC Transformation Manual, as opposed to ten PLCs (a rule in the Listing Requirements). For non-listed boards, the limit is ten, as opposed to 15. This, in a way, accords a premium for the GLC director.

Moving away from the finance sector, the averages for most other industries (non-GLC) approximate each other, falling within the RM60,000 to RM80,000 range, with an average of RM72,000 per annum.



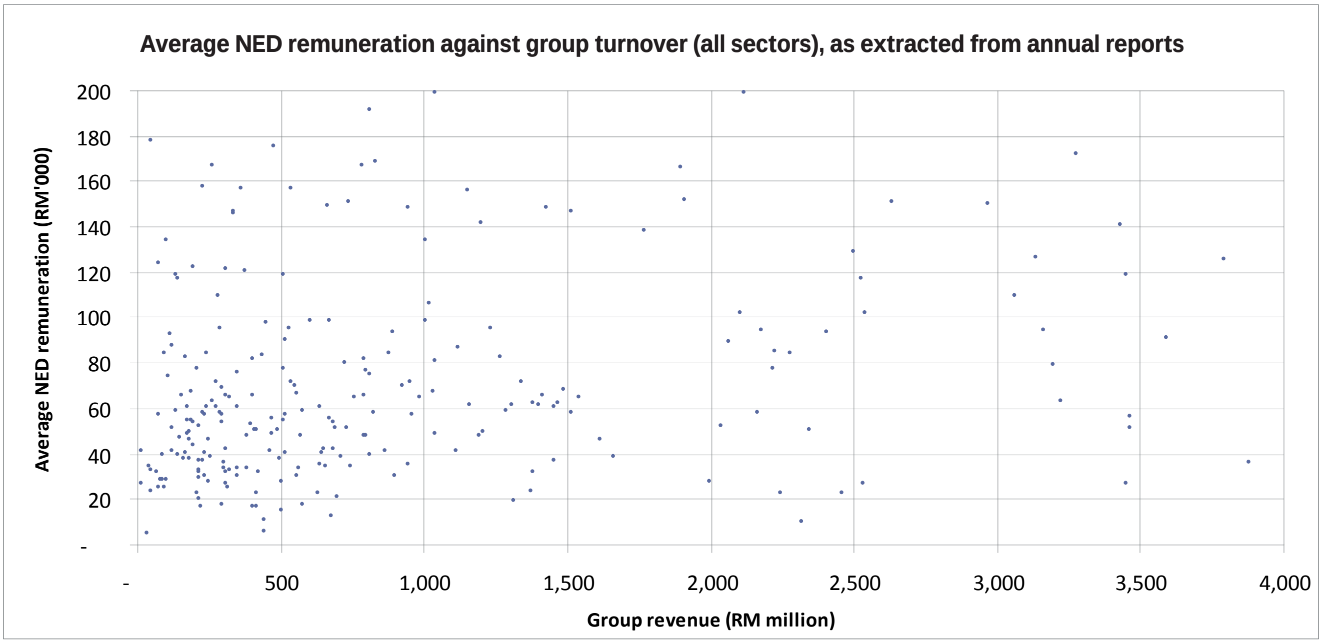
Note: The above averages have been adjusted to exclude the "de-facto executive directors" element, the rationale of which is explained in the next section of this study.

Is there a relationship between NED remuneration and the company's performance indicators?

The NED's remuneration can be attributed to a few key factors, amongst them, his qualification, experience and his responsibilities on the board and board committees.

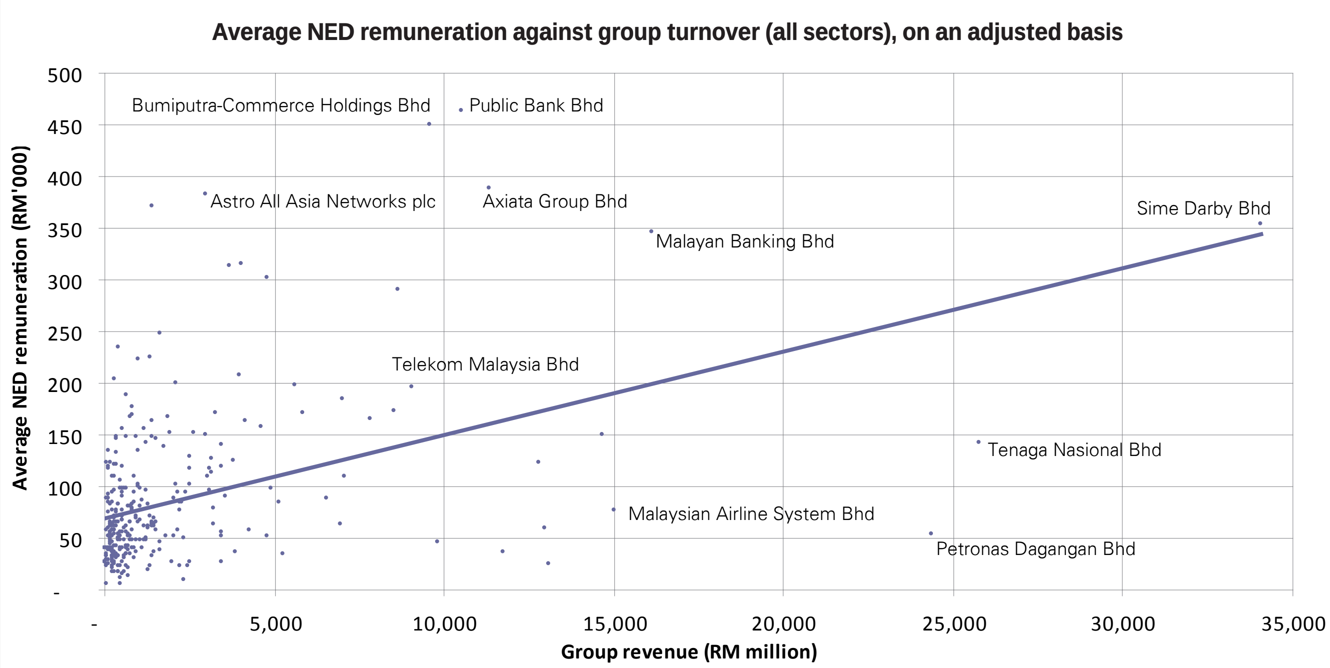
A question frequently asked by corporate governance observers is whether remuneration is influenced by turnover, financial results or perceived risk in a particular sector. Previous studies conducted on remuneration of (executive) directors offered no linkage between payouts and financial results (e.g. profit before tax or price-earnings ratio).

The following scatter graph plots the average NED remuneration paid by each company against its group turnover (on group basis), and shows a fairly wide distribution with **no apparent** correlation.



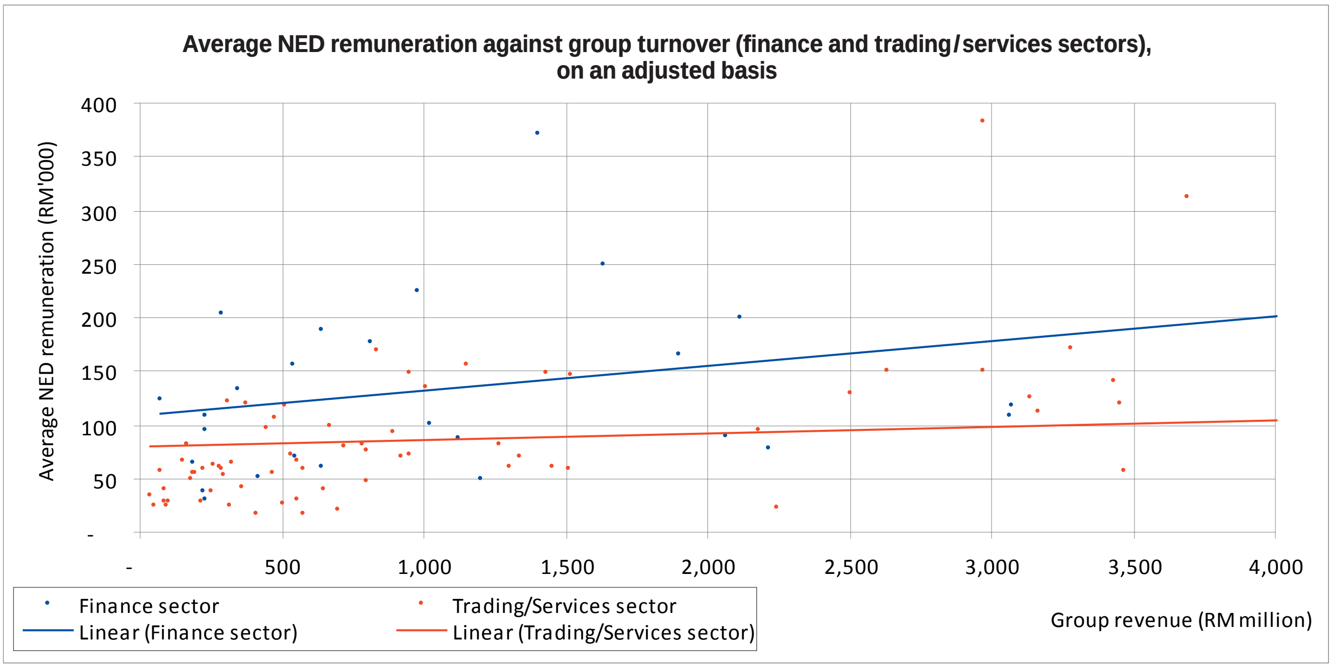
Note: Group revenue was limited to RM4 billion or less, as the majority of companies (90%) lie within this parameter.

However, when the scatter graph is rebuilt after eliminating the "de-facto executive director" element (i.e. rationale of which is explained in the next section of this study), a trendline can be demonstrated, and provides an idea, albeit a general one, of how much an NED is remunerated for any given level of a company's turnover.



Note: This is on an adjusted basis (see next section for rationale)

Furthermore, by stratifying the scatter graph into industry sectors, it is possible to establish general trendlines in NED remuneration, by sector. For example, the graph below combines finance and trading/services industries, where it can clearly be seen that the NED's position in a finance sector company carries a "premium" over his counterpart in the trading/services sector, which widens as the turnover of the group increases.



Note: This is on an adjusted basis (see next section). Group revenue was limited to RM4 billion, as the majority of companies (90%) lie within this parameter.

The leaders: Main Market's Top 30 in NED remuneration (as extracted from annual reports)

The following table represents an extract from the annual reports of the companies concerned. We wish to highlight that the remuneration per NED in this table includes the "de-facto executive director" element. **For a more equitable presentation of NED remuneration, refer to the table shown on page 21, where the "de-facto executive director" element has been adjusted, thereby reducing the NED remuneration.** Accordingly, some of the companies in this table are removed as their NED remuneration is correspondingly reduced (see page 20 for elaboration of the "de-facto executive director" element).

Rank	Company	Industry sector[1]	NED remuneration			Number of NEDs[2]	Remuneration per NED
			Fees	Others	Total		
			RM'000	RM'000	RM'000		RM'000
1	Public Bank Bhd	Fin	2,018	7,444	9,462	6.4	1,478
2	OSK Holdings Bhd	Fin	435	6,237	6,672	5.3	1,259
3	Hong Leong Financial Group Bhd	Fin	462	4,257	4,719	6.0	787
4	Alliance Financial Group Bhd	Fin	1,227	5,840	7,067	9.0	785
5	Hong Leong Industries Bhd	C-Pro	150	2,891	3,041	4.0	760
6	Hwang-DBS (Malaysia) Bhd	Fin	620	3,281	3,901	6.8	574
7	• Bumiputra-Commerce Holdings Bhd	Fin	1,106	3,119	4,225	8.0	528
8	MMC Corporation Bhd	T/S	711	2,366	3,077	6.6	466
9	Zelan Bhd	Con	543	1,707	2,250	5.8	388
10	Astro All Asia Networks plc	T/S	1,229	315	1,544	4.0	386
11	• Axiata Group Bhd[3]	T/S	1,826	205	2,031	5.3	383
12	AMMB Holdings Bhd	Fin	1,260	2,750	4,010	10.7	375
13	S P Setia Bhd	Prop	-	2,157	2,157	5.9	366
14	Sunway Holdings Bhd	Con	54	1,752	1,806	5.0	361
15	• Sime Darby Bhd[4]	T/S	2,533	714	3,247	9.2	353
16	• Malayan Banking Bhd	Fin	1,755	1,108	2,863	8.3	345
17	DRB-Hicom Bhd	IP	859	1,353	2,212	7.0	316
18	Tanjong Public Limited Company	T/S	1,170	83	1,253	4.0	313
19	LPI Capital Bhd	Fin	655	796	1,451	4.9	296
20	• RHB Capital Bhd	Fin	1,054	585	1,639	5.6	293
21	EON Capital Bhd	Fin	1,708	271	1,979	7.2	275
22	Cahya Mata Sarawak Bhd	IP	728	1,533	2,261	8.4	269
23	White Horse Bhd	IP	310	1,540	1,850	7.0	264
24	• MNRB Holdings Bhd	Fin	1,751	163	1,914	7.3	262
25	Pacificmas Bhd	Fin	607	1,159	1,766	7.0	252
26	YTL Land and Development Bhd	Prop	95	878	973	4.0	243
27	• TDM Bhd	Plant	527	1,226	1,753	7.5	234
28	Naim Holdings Bhd	Prop	502	893	1,395	6.0	233
29	• Proton Holdings Bhd	C-Pro	948	544	1,492	6.7	223
30	• Affin Holdings Bhd	Fin	699	730	1,429	6.7	213
					85,439	195.6	
				Top 30 weighted average (RM'000)	437		

Notes: • indicates GLC

[1] Sectors: C-Pro (Consumer Products); Fin (Finance); IP (Industrial Products); Plant (Plantation); Prop (Properties); T/S (Trading/Services)

[2] An NED who serves on the board for less than the full financial year is pro-rated accordingly.

[3] Directors who were on the board of Axiata Group Bhd prior to its listing and first board meeting were not factored in.

[4] The directors of Synergy Drive Sdn Bhd, a special purpose vehicle to facilitate the merger of Sime Darby Bhd with two other PLCs, were included in the computation for Sime Darby Bhd.

The "de-facto executive director" element

In one of Malaysia's well known conglomerates, a non-executive director of the PLC received RM2.8 million as the managing director of a principal subsidiary. The total remuneration paid to all NEDs by the group was RM3 million.

At a plantation and timber group, the package of three NEDs, who are family members of the chief executive, amounted to RM800,000 out of a total of RM950,000 paid out to NEDs.

At a major construction group, RM1.6 million was paid to two NEDs as salary for work at a main subsidiary. The total NED payout for that year was RM1.8 million.

Bands or names?

Should companies be required to disclose directors' remuneration by name? There is not yet a unified stand judging from the corporate governance codes of major countries:

Country	By name
Australia	Silent
Japan	Silent
Hong Kong	Yes
Malaysia	**Yes**
Singapore	Yes
South Africa	Yes
Sweden	Silent
United Kingdom	Silent
United States (NYSE)	Silent

There are a few reasons why averages for certain companies are exceptionally high:

- founders who remain with the company as non-executive directors are able to command significant levels of remuneration;
- there are NEDs who are family members of executive directors and they may receive remuneration that is comparatively higher than their fellow NEDs;
- some NEDs are representatives of major or controlling shareholder(s); and
- there are directors who are classified as non-executive directors at the holding company level, but serve as chief executives, executive directors or executive advisors of the PLC's principal subsidiary(ies), where the core activities/ operations of the group reside in.

Whilst the NED definition may technically be correct when maintained at the PLC level, these directors are in substance executive directors ("EDs") of the group. Accordingly, we have classified these NEDs as "de-facto executive directors" (see sidebar).

In order to arrive at a more equitable view of the NED's remuneration, we have adjusted amounts to exclude those paid to these "de-facto executive directors". It is not always possible to identify this category of directors for each entity, as only a handful of companies have disclosed remuneration by name. Where such specific information is lacking, disclosure by way of bands of RM50,000 in respect of the "de-facto ED" remuneration is used in quantifying the adjustment.

Where names are not disclosed, the director's profile, his history with the company, especially when it is indicated that he is an executive director of key subsidiaries, have enabled us to surmise that the NED is, for all intents and purposes, equated to an executive director.

Companies with the "de-facto ED" element, after recalculating the remuneration to exclude them, return markedly lower averages. The outcome is presented in the next table, and is more reflective of actual remuneration paid to an NED.

The leaders: Main Market's Top 30 in NED remuneration (as adjusted)

This table represents the NED remuneration **after adjusting** for the "de-facto executive director" element.

Rank	Company	GLC	Industry sector[1]	Total NED remuneration, adjusted where appropriate	Number of NEDs[2]	Remuneration per NED
				RM'000		RM'000
1	Public Bank Bhd °		Fin	2,501	5.4	463
2	Bumiputra-Commerce Holdings Bhd °	•	Fin	2,702	6.0	450
3	Astro All Asia Networks plc		T/S	1,544	4.0	386
4	Axiata Group Bhd[3]	•	T/S	2,031	5.3	383
5	Sime Darby Bhd[4]	•	T/S	3,247	9.2	353
6	Malayan Banking Bhd	•	Fin	2,863	8.3	345
7	DRB-Hicom Bhd		IP	2,212	7.0	316
8	Tanjong Public Limited Company		T/S	1,253	4.0	313
9	RHB Capital Bhd	•	Fin	1,639	5.6	293
10	Cahya Mata Sarawak Bhd		IP	2,261	8.4	269
11	MNRB Holdings Bhd	•	Fin	1,914	7.3	262
12	Alliance Financial Group Bhd °		Fin	1,991	8.0	249
13	TDM Bhd	•	Plant	1,753	7.5	234
14	EON Capital Bhd °		Fin	1,429	6.2	230
15	S P Setia Bhd °		Prop	1,094	4.9	223
16	Proton Holdings Bhd	•	C-Pro	1,492	6.7	223
17	Affin Holdings Bhd	•	Fin	1,429	6.7	213
18	Kulim (Malaysia) Bhd	•	Plant	1,864	9.0	207
19	Bursa Malaysia Bhd	•	Fin	2,372	11.6	204
20	Telekom Malaysia Bhd +	•	T/S	1,698	8.4	202
21	Berjaya Sports Toto Bhd		T/S	687	3.4	202
22	Genting Bhd		T/S	982	5.0	196
23	Boustead Holdings Bhd	•	Plant	811	4.4	184
24	MMC Corporation Bhd °		T/S	961	5.6	172
25	AMMB Holdings Bhd °		Fin	1,660	9.7	171
26	LPI Capital Bhd °		Fin	659	3.9	169
27	Ta Ann Holdings Bhd		IP	669	4.0	167
28	Allianz Malaysia Berhad		Fin	999	6.0	167
29	Kuala Lumpur Kepong Bhd		Plant	996	6.0	166
30	British American Tobacco (Malaysia) Bhd		C-Pro	540	3.3	164
				48,253	190.8	
	Top 30 weighted average (RM'000)			253		

Notes: [1] Sectors: Con (Construction), C-Pro (Consumer Products); Fin (Finance); IP (Industrial Products); Plant (Plantation); Prop (Properties); T/S (Trading/ Services)

[2] An NED who serves on the board for less than the full financial year is pro-rated accordingly.

[3] Directors who were on the board of Axiata Group Bhd prior to its listing and first board meeting were not factored in.

[4] The directors of Synergy Drive Sdn Bhd, a special purpose vehicle to facilitate the merger of Sime Darby Bhd with two other PLCs, were included in the computation for Sime Darby Bhd.

° The total remuneration has been adjusted to exclude the earnings of one or more "de-facto ED".

+ Excludes fees of RM730,000 paid during the year in respect of a previous financial year.

Perspectives from the Green Book

Although the Green Book was aimed squarely at boards of GLCs, non-GLC boards and, in particular NEDs, may want to take a leaf or two out of it:

- † variable performance-linked incentive schemes are disallowed for NEDs;
- meeting agendas should be circulated at least 14 calendar days in advance of meetings, with board papers furnished at least 7 calendars days in advance; and
- a maximum of two executive directors is allowed on the board.

† *The Listing Requirements only prohibit payment of fees that is directly linked to performance of the company (Paragraph 7.23).*

It would also make interesting reading when the top remunerators in the following key categories are presented:

- GLCs;
- financial services companies;
- Malaysian companies (non-finance, non-GLC); and
- foreign-controlled companies.

The Top 10 government-linked companies

As seen earlier in this study, a significant gap exists even within the GLC category, where NEDs in the finance sector are remunerated at levels higher than their peers in other sectors, i.e. RM218,000 versus RM121,000 per annum. The top ten GLCs are presented in the table below.

Rank	Company	Industry sector[1]	Adjusted where appropriate		
			Total remuneration RM'000	Number of NEDs[2]	Average per NED RM'000
Top 5 finance GLCs					
1	Bumiputra-Commerce Holdings Bhd °	Fin	2,702	6.0	450
2	Malayan Banking Bhd	Fin	2,863	8.3	345
3	RHB Capital Bhd	Fin	1,639	5.6	293
4	MNRB Holdings Bhd	Fin	1,914	7.3	262
5	Affin Holdings Bhd	Fin	1,429	6.7	213
				Top 5 weighted average	**311**
				Finance GLCs weighted average	**218**
Top 5 GLCs in other sectors					
1	Axiata Group Bhd[3]	T/S	2,031	5.3	383
2	Sime Darby Bhd[4]	T/S	3,247	9.2	353
3	TDM Bhd	Plant	1,753	7.5	234
4	Proton Holdings Bhd	C-Pro	1,492	6.7	223
5	Kulim (Malaysia) Bhd	Plant	1,864	9.0	207
				Top 5 weighted average	**276**
				Non-finance GLCs weighted average	**121**

Notes
[1] Sectors: C-Pro (Consumer Products); Fin (Finance); Plant (Plantation); T/S (Trading/Services)
[2] An NED who serves on the board for less than the full financial year is pro-rated accordingly.
[3] Directors who were on the board of Axiata Group Bhd prior to its listing and first board meeting were not factored in.
[4] The directors of Synergy Drive Sdn Bhd, a special purpose vehicle to facilitate the merger of Sime Darby Bhd with two other PLCs, were included in the computation for Sime Darby Bhd.
° The total remuneration has been adjusted to exclude the earnings of one or more "de-facto EDs".

Sir, will that be fees, allowances or others?

Directors' fees and share-based payments need to be approved by shareholders at the annual general meeting, but other forms of remuneration do not. Is that a reason why in some companies, the "allowances and other remuneration" portion outstrip the fees by a wide margin?

The Top 10 in financial services (non-GLC)

It is no surprise that banks and investment banks dominate this sector, with only LPI Capital Berhad as the sole representative from the insurance industry. As a matter of interest, GLCs from the finance sector that recorded higher remuneration than the tenth-ranked company (i.e. Hong Leong Financial Group Berhad) are also disclosed, in a greyed-out colour.

Rank	Company	GLC	Adjusted where appropriate: Total remuneration RM'000	Number of NEDs[1]	Average per NED RM'000
1	Public Bank Bhd °		2,501	5.4	463
	Bumiputra-Commerce Holdings Bhd °	•	2,702	6.0	450
	Malayan Banking Bhd	•	2,863	8.3	345
	RHB Capital Bhd	•	1,639	5.6	293
	MNRB Holdings Bhd	•	1,914	7.3	262
2	Alliance Financial Group Bhd °		1,991	8.0	249
3	EON Capital Bhd °		1,429	6.2	230
	Affin Holdings Bhd	•	1,429	6.7	213
	Bursa Malaysia Bhd	•	2,372	11.6	204
4	AMMB Holdings Bhd °		1,660	9.7	171
5	LPI Capital Bhd °		659	3.9	169
6	UBG Bhd		1,234	7.8	158
7	Hwang-DBS (Malaysia) Bhd °		901	5.8	155
8	OSK Holdings Bhd °		423	3.3	128
9	ECM Libra Financial Group Bhd		620	5.0	124
10	Hong Leong Financial Group Bhd °		469	4.0	117
				Top 10 weighted average	**201**
				Financial services weighted average	**146**

Notes: [1] An NED who serves on the board for less than the full financial year is pro-rated accordingly.
° The total remuneration has been adjusted to exclude the earnings of one or more "de-facto EDs".

A three-layered cake

The average remuneration of Malaysian PLC NED in the top 300, at RM72,000 per annum, would obviously be higher at the top and gradually reduce in quantum down the ladder:

- average for Malaysian PLCs in the top 100: RM136,000
- average for Malaysian PLCs ranked between 101 – 200: RM64,000
- average for Malaysian PLCs ranked between 201 – 300: RM32,000

The Top 10 Malaysian PLCs (non-finance, non-GLC)

Rank	Company	Industry sector[1]	Adjusted where appropriate		
			Total remuneration RM'000	Number of NEDs[2]	Average per NED RM'000
1	Astro All Asia Networks plc	T/S	1,544	4.0	386
2	DRB-Hicom Bhd	IP	2,212	7.0	316
3	Tanjong Public Limited Company	T/S	1,253	4.0	313
4	Cahya Mata Sarawak Bhd	IP	2,261	8.4	269
5	S P Setia Bhd °	Prop	1,094	4.9	223
6	Berjaya Sports Toto Bhd	T/S	687	3.4	202
7	Genting Bhd	T/S	982	5.0	196
8	MMC Corporation Bhd °	T/S	961	5.6	172
9	Ta Ann Holdings Bhd	IP	669	4.0	167
10	Kuala Lumpur Kepong Bhd	Plant	996	6.0	166
				Top 10 weighted average	**242**
				Malaysian PLCs weighted average	**72**

Notes [1] Sectors: IP (Industrial Products); Plant (Plantation); Prop (Properties); T/S (Trading/Services)
[2] An NED who serves on the board for less than the full financial year is pro-rated accordingly.
° The total remuneration has been adjusted to exclude the earnings of one or more "de-facto EDs".

It is no secret that the leaders in this table are controlled by a few prominent, yet low-profile tycoons. Even when the total remuneration is adjusted by removing the "de-facto ED" element, the remaining NEDs are still considered handsomely remunerated. One may conclude then, that these tycoons continue to retain the "cream of the crop" NEDs by remunerating at market leading levels.

Hidden factors

Apart from time commitment, knowledge and expertise, what other factors should the NED consider in evaluating his remuneration package?

He may want to ensure that the company has procured directors and officers liability insurance, the coverage of which is at a reasonable level.

The Australian corporate governance code recommends that professional indemnity insurance be addressed in the director's appointment letter, whilst the FRC Combined Code (UK) recommends companies to obtain insurance cover for directors.

Certain companies may choose to integrate the NED, especially the senior independent non-executive director or the audit committee chairman, into their whistle-blowing policy and fraud risk management programmes. By doing so, the NED becomes the conduit to receive information from whistle-blowers. The NED may again wish to explore how this additional responsibility affects his remuneration.

The Top 10 foreign-controlled companies

Rank	Company	Industry sector[1]	Adjusted where appropriate		
			Total remuneration RM'000	Number of NEDs[2]	Average per NED RM'000
1	Allianz Malaysia Berhad	Fin	999	6.0	167
2	British American Tobacco (Malaysia) Bhd	C-Pro	540	3.3	164
3	Aeon Co. (M) Berhad	T/S	985	7.0	141
4	Pacificmas Bhd °	Fin	566	6.0	94
5	Fraser & Neave Holdings Bhd	C-Pro	803	8.8	91
6	Cycle & Carriage Bintang Bhd	C-Pro	429	6.3	68
7	Aeon Credit Services (M) Bhd	Fin	383	6.0	64
8	Digi.Com Bhd	Infra	264	5.0	53
9	Manulife Holdings Berhad	Fin	365	7.0	52
10	JT International Bhd	C-Pro	294	6.0	49
				Top 10 weighted average	**92**
				Foreign-controlled PLCs weighted average	**66**

Notes [1] Sectors: C-Pro (Consumer Products); Fin (Finance); Infra (Infrastructure); T/S (Trading/Services)
[2] An NED who serves on the board for less than the full financial year is pro-rated accordingly.
° The total remuneration has been adjusted to exclude one or more "de-facto EDs".

Perhaps one of the more intriguing findings of this study is that foreign-controlled entities do not necessarily pay more. This may shatter the myth that the NED of a foreign-controlled company can look forward to a comfortable package with all the "bells and whistles" that come with the position.

It is interesting to note that average remuneration paid by the top two foreign-controlled companies leads the pack by a wide margin and that both these companies are from the West, a feat which may be hard pressed for the Asian counterparts to emulate.

Good corporate governance or invasion of privacy?

Corporate governance advocates often cite companies that disclose directors' individual remuneration as benchmarks of transparency. However, many companies continue to resist disclosing such information, insisting that these practices are unnecessary and may result in a loss of privacy or security.

In our Top 300 companies, only 36 disclosed levels of remuneration received by each director, by name.

Industry sector	Number of companies
Trading/Services	12
Finance	7
Properties	4
Consumer products	4
Industrial products	4
Construction	2
Plantation	2
Infrastructure	1
Total	36

Remuneration and the audit committee

Another key issue on NED remuneration concerns amounts paid to NEDs who are also chairmen of audit committees. Since all AC members, from a legal perspective, have the same responsibility, should the chairman be remunerated more than his fellow members? The response is an unqualified "yes". This largely stems from the additional responsibility of having to engage, on a continuous basis, with the senior management, such as the chairman, the chief executive officer, the finance director, the head of internal audit and the internal auditor in order to be kept informed of matters affecting the company.

Because disclosure of exact levels of remuneration and name is presently not mandatory, only a smattering of the Top 300 had done so (amounting to a dismal 36 companies). For these companies, the fee paid to an NED who is the audit committee chairman exceeds that paid to his fellow committee members by 19%.

	Average remuneration paid to the NED (RM'000)
NED who is an ordinary member of the audit committee	85
NED who is the audit committee chairman	101 (+19%)

The ACE Market Top 30: Highlights

ACE-ing the board committee duties

By virtue of the smaller number of non-executive directors per ACE Market company, a higher proportion of NEDs (77%) are members of the audit committee. This compares to the Main Market statistic of 59%.

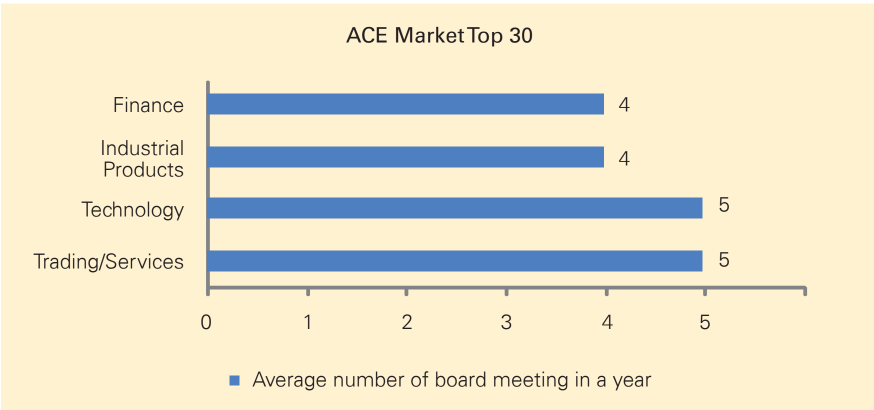
Similarly, more ACE Market directors chair all three board committees, i.e. audit, nominating and remuneration, than their Main Market counterparts (15% compared to 12% for Main Market).

The ACE Market, previously known as MESDAQ Market, has seen growth over the years and, at the date of our study, almost 120 companies are listed on this board.

Whilst the educational background of ACE Market NEDs closely resembles their peers on the Main Market (i.e. those with degrees in business disciplines, law, and engineering make up the bulk), they are far younger with about half aged 50 years or below.

Given the relative "youth" of the ACE Market (which was established in 1997), an NED from this market has only served an average of three years on the board.

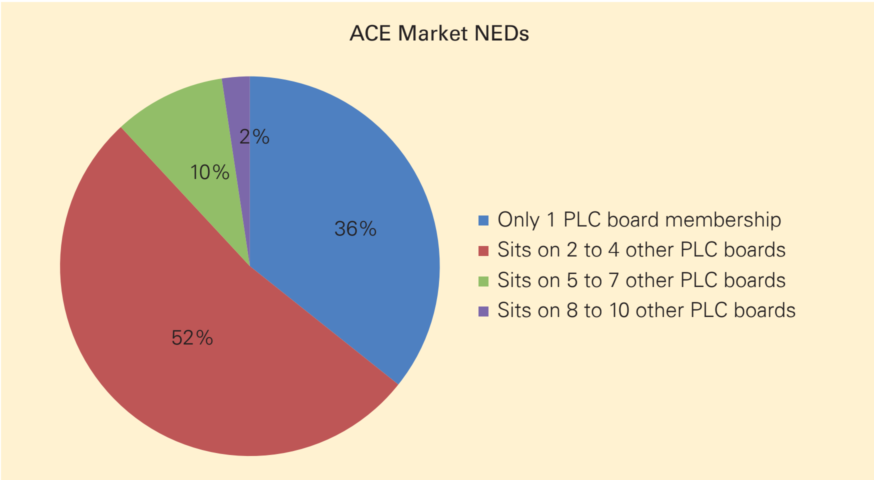
Boards meet on average five times a year, whilst the audit committee meets about four times annually.



Piece of the pie: Remuneration for ACE Market NEDs

Remuneration paid to ACE Market non-executives was almost entirely in the form of fees (95%) with the balance comprising allowances and benefits-in-kind. This is a major difference from the Main Market NEDs, who are paid almost equal in fees and non-fee portions. This suggests that ACE Market companies prefer simplicity in their remuneration structures.

Whilst a significant portion of NEDs (36%) from the ACE Market limited themselves to only one board, the remaining (64%) sat on 2 boards or more.



On average, the audit committee comprises three members. As the sizes of ACE Market boards are relatively smaller, the pool of NEDs therein is correspondingly reduced resulting in many NEDs (77%) having to serve as members of the audit committee. Again, due to its smaller number, some NEDs (15%) are chairing all key board committees, i.e. audit, nominating and remuneration.

The average remuneration received by an NED, i.e. at RM28,000 per annum is, understandably, lower than that paid to his Main Market peers. This could be attributed to a relatively simpler group structure often seen in an ACE Market company.

Insights

With regulators and other stakeholders playing an increasingly bigger role in the corporate governance process of a public-listed company, the role of the NED in providing an effective counter "check and balance" to the executive directors can only grow in importance. In tandem with the added responsibilities being given to NEDs, one would expect that the remuneration package would have to be commensurate with these added risks and responsibilities.

Crucially, for the NED to contribute in a meaningful way, his skillset needs be continually renewed and must encompass, as a minimum, the following:

- a holistic understanding of risk management;
- an appreciation of the purpose, importance and application of internal controls;
- keeping abreast with regulatory changes affecting the company;
- a capability to fathom the intricacies of financial reporting; and
- the ability to evaluate transactions and proposals from a business viewpoint.

As NEDs are required to commit an increasing amount of time, another pertinent question is, "how many non-executive director positions can an individual realistically expect to hold?". This is something for the individual NED to assess and an optimum number of positions will be one that will not curtail his ability to discharge his role effectively.

There is currently no hard and fast rule on the tenure of an NED's service. Clearly, what is called for is the independence of mind of the NED, coupled with the process which the board has in place for assessing performance of the NED.

Some salient observations arising from this study are:

- the level of disclosure on directors' remuneration, by name and amount, is still discouragingly low. In one instance, not only were names obscured, bands of up to RM300,000 were used, and not RM50,000 as prescribed;
- there are NEDs who are in substance "de-facto executive directors", since they have executive functions at subsidiary company level. These NEDs may distort the board composition, thereby diluting the raison d'être for the NED, i.e. to serve as a "check and balance" to the executive directors;
- no disclosure is made or required for directors' professional indemnity insurance, particularly NEDs who spend a fraction of time compared to their executive counterparts, but are exposed to the same level of risk. On this note, the NED may wish to explore the need for directors and officers liability insurance;
- should the NED be limited in terms of board committee membership, given the increasing amount of time required to sit on each committee?; and
- allowances and other forms of payment (save for share-based payments and fees) do not need to be approved by shareholders. Hence, is it the case that many companies are using that classification to skirt the approval requirement?

Audit Committee Institute Roundtables 2009

Guest speaker, PEMUDAH Co-Chairman and Managing Director of Royal Selangor, YBhg Tan Sri Datuk Yong Poh Kon
Topic: PEMUDAH – The Taskforce to Facilitate Business

Kuala Lumpur

KPMG Managing Partner, Seow Yoo Lin and Datuk Muhammad Feisol Hj Hassan from LCTH Corporation Berhad

Kuala Lumpur

Guest speaker, Chairman of Shell Malaysia and President of Business Council for Sustainable Development in Malaysia (BCSDM) , YBhg Dato' Saw Choo Boon
Topic: BCSDM's role on Sustainable Development in Malaysia

Kuala Lumpur

Guest speaker, Senior Country Officer and Head of Equities Broking of JP Morgan Chase, Mr. Clement Chew
Topic: Outlook for Bursa Malaysia – Post Credit Crisis

Kuala Lumpur

KPMG Audit Partner, Mohamed Raslan, ACI Malaysia Chairman, David Lim and KPMG Internal Audit, Risk & Compliance Services Partner, Lee Min On

Kuala Lumpur

Guest speaker, Chairman of the Malaysian American Electronics Industry YBhg Dato' Wong Siew Hai
Topic: How does the Current Global Economic Crisis affect the E&E Sector in Penang

Penang

KPMG Penang Partner, Ooi Kok Seng, ACI Malaysia Chairman, David Lim and KPMG Internal Audit, Risk & Compliance Services Partner, Lee Min On

Penang

Guest speaker, Co-Director, Corporate Governance and Financial Reporting Centre, Professor Mak Yuen Teen

Topic: Issues Facing Independent Directors

Johor Bahru

Guest Speaker, Dr. Sharifuddin Bin Abdul Wahab, Deputy Managing Director of Naim Holdings Berhad

Topic: Succession Planning – Often Requested, Rarely Delivered

Kuching

KPMG Johor Partner, Ang Ah Leck, ACI Malaysia Chairman, David Lim and KPMG Internal Audit, Risk & Compliance Services Partner, Lee Min On

Johor Bahru

Mr. Steven Foong Choong Hong, YBhg Dato' Hj. Mizanur, Mr. Richard Azlan Abas and Mr. Yeoh Chong Keat

Kuala Lumpur

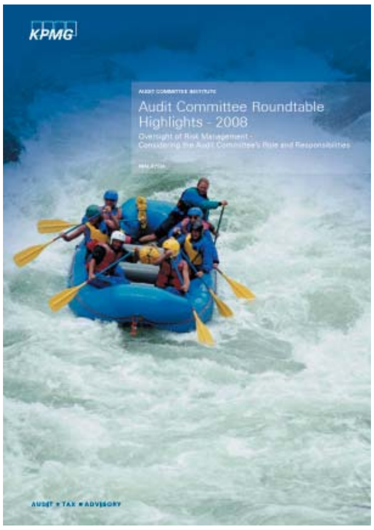
KPMG Kuching Partner, Chin Chee Kong, ACI Malaysia Chairman, David Lim and KPMG Internal Audit, Risk & Compliance Services Partner, Lee Min On

Kuching

ACI Thought Leadership

Audit Committee Roundtable Highlights – 2007: Building a Framework for Effective Audit Committee Oversight

In 2007, ACI Malaysia held five series of roundtable discussions where 90 audit committee members and directors attended to explore the audit committee framework and oversights. This is the first report by ACI Malaysia which is a compilation of the feedback provided by the participants at the roundtable discussion series.



Audit Committee Roundtable Highlights – 2008: Oversight of Risk Management - Considering the Audit Committee's Role and Responsibilities

To help audit committee members, directors and senior management gain a better understanding in the oversight of the risk management process, ACI Malaysia hosted a series of roundtable discussions in 2008 entitled, "Oversight of Risk Management: Considering the Audit Committee's Role and Responsibilities". This report is a compilation of the feedback provided by audit committee members and directors at the roundtable discussion series.

Ten To-Do's for Audit Committees in 2009

ACI's annual memo points to ten items for audit committee members to keep in mind as they consider - and carry out - their 2009 agendas.

Annex 1: Methodology and Assumptions

- This study is researched and data compiled based on market capitalisation of the top 300 Main Market and top 30 ACE Market listed companies on Bursa Malaysia Securities Berhad (as at 20 July 2009).

- The analysis in this study is based on the most recent annual report and financial statements of each company (financial years ending in year 2008 or 2009).

- In presenting the study, all data has been collated and categorised according to the industry sectors as set out by Bursa Malaysia Securities Berhad.

- Where certain information is unclear or not available, we have taken the approach not to use the relevant data or information in the assessment. Clarity of data is key to the assessment.

- Some insights on the various statutes and codes of other countries have also been provided in the various sections of this study.

- Where remuneration information between the financial statements and the corporate governance statements differed, the former was used.

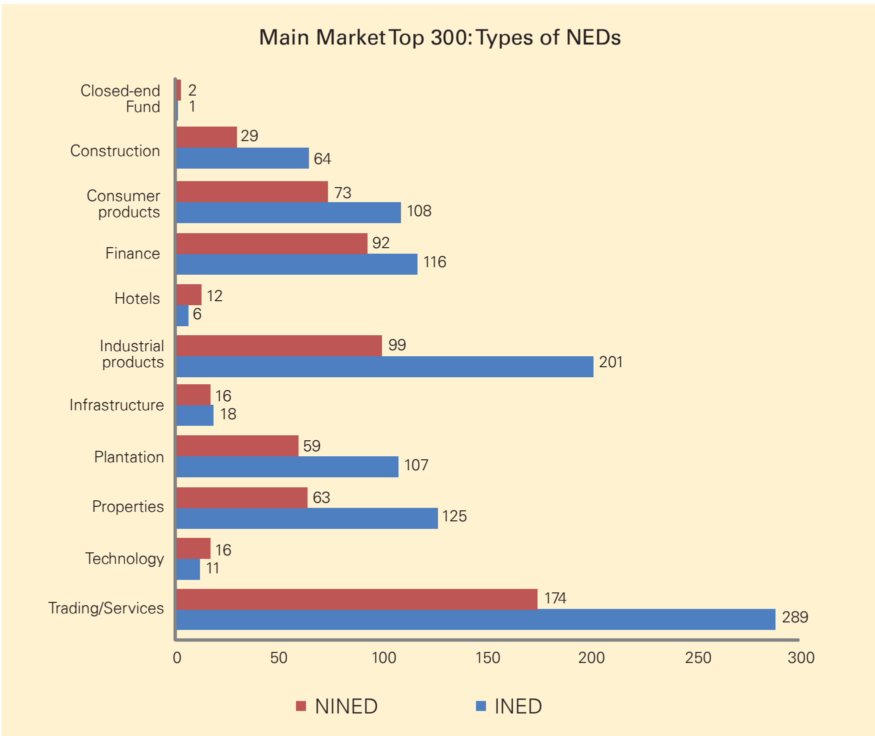
- The GLCs identified in the study are not only from the list maintained by the Putrajaya Committee on GLC High Performance, but also companies that are majority owned by state investment vehicles, and companies that were created as a result of government-mandated developments, e.g. Bursa Malaysia Berhad.

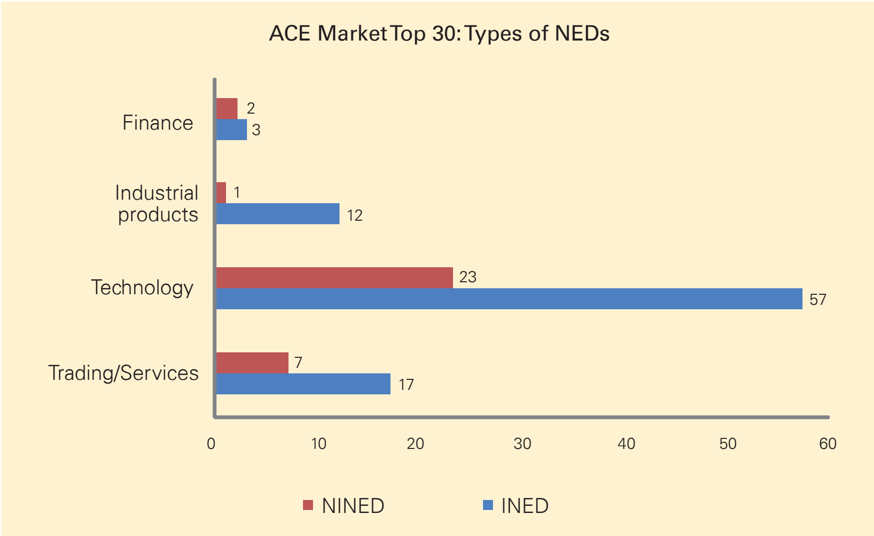
Annex 2: Industry categories and non-executive directors by industry

The 300 and 30 companies from the Main Market and ACE Market are analysed into the following industry sectors:

Industry	Main Market			ACE Market		
	Number of companies	Total number of NEDs	Average per company	Number of companies	Total number of NEDs	Average per company
Closed-end Fund	1	4	4	-	-	-
Construction	19	93	5	-	-	-
Consumer Products	33	181	5	-	-	-
Finance	31	208	7	1	5	5
Hotels	2	18	9	-	-	-
Industrial Products	58	300	5	4	13	3
Infrastructure	6	34	6	-	-	-
Plantation	29	166	6	-	-	-
Properties	38	188	5	-	-	-
Technology	4	27	7	20	80	4
Trading/Services	79	463	6	5	24	5
	300	**1,682**	**6**	**30**	**122**	**4**

The independent non-executive directors (INEDs) outnumber the non-independents (NINEDs) in almost all the industry sectors. Bearing in mind Bursa Malaysia's requirement that at least one-third of boards (or minimum two directors) are to be independent, the result is expected.





Government-linked companies (GLCs) typically have seven non-executive directors on their board. This is one more than the average of six.

Industry	GLC		
	Number of companies	Total number of NEDs	Average NED per GLC
Construction	1	7	7
Consumer Products	3	21	7
Finance	9	63	7
Industrial Products	4	27	7
Infrastructure	1	8	8
Plantation	4	29	7
Properties	2	13	7
Trading/Services	15	115	8
	39	**283**	**7**

Contact us

Should you have any feedback on this report, or wish to obtain a complimentary copy, please drop us a note at: aci@kpmg.com.my.

For further information, please contact:

David Lim
Partner, KPMG
Audit Committee Institute Malaysia
Phone: (603) 7721 3388, ext 3002
E-mail: davidlim@kpmg.com.my

Mohamed Raslan Abdul Rahman
Partner, KPMG
Audit Committee Institute Malaysia
Phone: (603) 7721 3388, ext 3014
E-mail: mraslan@kpmg.com.my

Lee Min On
Partner, KPMG
Audit Committee Institute Malaysia
Phone: (603) 7721 3388, ext 7092
E-mail: minonlee@kpmg.com.my

To learn more about Audit Committee Institute Malaysia or to access our resources, please visit our web site (www.kpmg.com.my/aci) or contact us by e-mail (aci@kpmg.com.my).

About ACI Malaysia

In recognising the importance of audit committees, the Audit Committee Institute Malaysia (ACI) is created to assist audit committee members adapt to their changing role.

Sponsored by KPMG in Malaysia, the Institute's primary mission is to communicate with audit committee members to enhance their awareness of, commitment to, and ability to implement effective audit committee processes.

ACI Malaysia engages in a variety of initiatives to assist audit committee members by providing a range of resources through its web site, publications and roundtables all designed to facilitate the exchange of views and insights on audit committee best practices and processes, and other topics of interest.

The Institute has developed a range of tools to assist audit committee members in meeting their oversight role. These tools include:

- Audit Committee Guide – a comprehensive reference for audit committee members. It captures KPMG's insights into what makes a best practice audit committee and provides practical tools to help improve audit committee processes.
- Regular updates – ACI Malaysia will publish regular newsletters to provide audit committee members with timely updates on significant reporting and regulatory changes, and emerging issues.
- Website (www.kpmg.com.my/aci) – Designed to provide audit committee members, board members, senior executives and other interested parties with timely access to a wide range of useful resources. ACI Malaysia's website provides you access to updates on current and emerging issues related to governance, risk management, internal and external auditing, accounting, financial reporting and a library of reference material.
- ACI Roundtables – ACI Malaysia facilitates interactive roundtable forums which provide a platform for the exchange of views and insights on topics of interest to board members, audit committees members and senior executives.

kpmg.com.my

Contact us

KPMG
Level 10, KPMG Tower
No. 8, First Avenue,
Bandar Utama,
47800 Petaling Jaya, Selangor.
Phone: +60 (3) 7721 3388
Fax: +60 (3) 7721 3399