



**International Corporate Governance Network
Annual Conference 2017
Keynote Address
By
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Distinguished Guests

Ladies and Gentlemen,

1. A very good morning. It gives me great pleasure to be here with such a diverse group of experts today. Firstly I would like to thank the International Corporate Governance Network for inviting me to deliver the Keynote Address at this year's ICGN Annual Conference. To our foreign visitors I would like to extend a warm welcome to you and hope that you will find your stay in Kuala Lumpur most enjoyable.

2. I would also like to take this opportunity to congratulate the ICGN on their continued success in this impressive thought leadership collaboration which is well recognised for influencing corporate governance policy decisions all across the globe. I would also like to congratulate and acknowledge the country host Kumpulan Wang Persaraan (KWAP) (Retirement Fund Incorporated) and the event's premier partner the Malaysian Shareholder Watchdog Group (MSWG).

Dissonance in the global economy, and the value of pragmatism to achieve sustainable capital

Ladies and Gentlemen,

3. Governance principles have shaped the economy with revolutionary ideas formed out of philosophy and discourse. It has rallied the interests of many great minds, and has conceived ideas aimed at preserving the wellbeing of our social, economic and financial landscapes. As times change, there are higher expectations and greater demands for the reconciliation of governance norms.
4. Presently today, the discourse on governance is often accompanied with a notion promulgated under what we have defined as "sustainability". Sustainability has worked its way to prominence as a consequence of human wisdom and foresight – prompted by events like the financial crisis a decade ago and the Asian financial crisis, and two decades ago, and a few others in between – which conveyed lessons of major market failures and systemic risk. It is a notion which not only considers the economic needs and wellbeing of our current generation but those of the future.
5. Today, a flicker of the news, a quick browse on the internet or perhaps even a listen on the radio may impress upon us the perception of a global mood experiencing disenchantment towards globalisation. Evidence of rising income

inequality,¹ surging costs of climate change² and the consequential impact on overall trust and confidence³ have played in my view to the rise of economic nationalism and populist movements across various economies – most notably within the developed countries. Against this backdrop, protectionist policies, heightened macro-policy uncertainties, geo-political conflicts coupled with other market developments have imposed considerable stress on the global economy, including those in the emerging markets. These developments are viewed by many not only as disruptions to the interconnectivity, integrity and sustainability of our markets but also to the wider global economic order.

6. From cross border collaborations, trade relationships to financial markets – we continuously see a narrative today of the tradeoff on integration versus fragmentation. In the midst of such discourse, it is absolutely important to ascertain that the challenge of this discussion is not so much about what’s “right” and “wrong” as it is about **fostering pragmatism in our aspiration to create economic opportunity and sustainability**. Being pragmatic necessitates an intricate knowledge and understanding of the wider stakeholder groups within the entire ecosystem. Through understanding, it is then possible to achieve collaboration and, collaboration itself, will serve to catalyse the reconciliation and harmonisation of differing goals and objectives. In the words of Isaac Newton “We build too many walls and not enough bridges”. Bridges, a metaphor for opportunity holds significance – if and only if – it offers safe passage and leads to meaningful destinations for those on both sides.
7. As we continue our pursuit towards sustainably building “bridges” of convergence, we must be cognisant upon the thematic implications of each “bridge” within the realms of policy-making, economics and society. The tenet of meaningful convergence ensures that efforts can continue to link policy-makers, prudential

¹ Oxfam (January 2017), “An economy for the 99%” Briefing Paper

² Harvard Business Review, (2017), “If You Think Fighting Climate Change Will Be Expensive, Calculate the Cost of Letting it Happen”

³ Edelman Trust Barometer 2017, “Trust in Crisis”

regulators and conduct regulators, markets of varying developmental stages and ultimately, the opportunities for socio-economic mobility. Indeed, this aspiration is not solely the task of regulators alone and, as we continue to champion integration of our markets, each stakeholder must also embrace their **duties as stewards of sustainable capitalism.**

Reorienting the investment value chain toward long-term value creation

Ladies and Gentlemen,

8. The diversity of stakeholders present here today – including pension funds, fund managers, academics, CG influencers, regulators as well as large corporations – undoubtedly testifies to the significance of corporate governance to the overall global economic agenda. We know and understand, that modern corporations are an essential part of a well-functioning capital market and economic system – and today, we are well aware that the failings of companies could lead to significant negative systemic consequences, harming the delicate fabric which holds markets in harmony.
9. It has always been the case that businesses, large and small, bear within them the innate ability to exercise impact over a wide variety of stakeholders beyond that of shareholders. The direction of this impact is therefore greatly dependent upon the actions of businesses steered through the internalisation of good corporate governance. Herein lies the challenge. The challenge of consolidating regulatory logic with corporate objectives – a necessary unity serving to optimise and sustain the mechanisms of capitalism to offer shared prosperity, opportunity, innovation and ultimately – wellbeing.
10. As a result, there has been much inclination towards the embracing of “long-termism”, a concept which anchors the consideration of wider stakeholders in the development of corporate strategy. For regulators, long-term thinking is

particularly important as it accounts for the greater scope of economic profits that encompasses goodwill, opportunity cost and the preservation of ultimately trust and confidence in the market.

11. Consequently, businesses are encouraged to prioritise sustainable value creation over a cavalier approach towards short-term earnings, the very same tenets advocated by the ICGN. This has been described as a form of corporate thinking which considers circumstances that go beyond the average tenure of directors, CEOs, including cycles both of products and investments. For public companies, long-termism calls for the reinforcing of board ability to govern like owners by solving issues stemming from dispersed and disengaged ownership.
12. Therefore, while the prospects surrounding 'long-termism' evokes considerable optimism, there are two important aspects to consider; firstly, long-termism must be kept relevant and its application needs to account for the avoidance of unintended consequences. In this regard, policy makers should recognise the nature and context in which businesses operate to bring about a better understanding in sensible corporate strategy – one which strikes balance in the combining of long-term and short-term approaches with the absence of abuse.
13. Secondly, the genesis of success also depends on the capabilities and values of those who are seated at the board level. Boards must be able to meet increasing expectations to demonstrate that they are adopting a more holistic and positive approach necessary to complement the strategic direction of the company. Boards therefore are under greater scrutiny as there are concerns that market forces and other exogenous factors are causing short-term priorities to compromise long-term interests. It is also important that boards consider the establishment of appropriate incentive structures which ensures that management is aligned with this approach. This is also echoed by the ICGN through its priority in "building effective boards amidst the changing boundaries of governance".

14. It is for these reasons that international standard-setters in corporate governance have recognised and continually campaigned for the appropriate selection and support of board members. This includes the championing of board diversity through aptitude, specialisation and gender, which studies have shown to contribute to superior financial performance, risk mitigation and stronger average growth of companies. The collective wisdom sourced through a well-supported and diverse representation allows board members to elevate their capabilities and fulfill good corporate governance practices much more effectively.

Malaysia's Agenda – Our Journey

Ladies and Gentlemen

15. The advocacy of good corporate governance has been a central theme within Malaysia's regulatory agenda, which adopts the principles of fairness, transparency, responsibility and accountability. In 2000, shortly after the Asian financial crisis, Malaysia formed its first Code on Corporate Governance (MCCG) and in the same year, the Minority Shareholder Watchdog Group (MSWG) – both of which were the earliest of its kind within the region. Around the same period, Malaysia had also established the Malaysian Accounting Standards Board (MASB), the first independent standards setting board in the region.
16. Within a decade, Malaysia enhanced its network of institutions by introducing the Audit Oversight Board, mandated to develop an effective audit oversight framework to promote confidence in the reliability of audited financial statements. In 2012, Malaysia furthered its commitment to the CG agenda by being the first in the region to adopt the International Financial Reporting Standards (IFRS). In 2015 the Securities Commission (SC) launched the Malaysian Code for Institutional Investors followed by the Institutional Investors Council (IIC), both of which culminated in providing an important platform for institutional investors to shape and influence good corporate governance culture amongst public-listed

companies. In many ways, our commitment to strong corporate governance is demonstrated in that we have not waited for others; we have not hesitated to pursue this agenda in the very initial stages. This year we introduced a new CG code and later this year, we are introducing the Institute of Corporate Directors Malaysia, which we believe will be a very important benchmark in our effort to strengthen board effectiveness in public-listed companies.

17. From a regulatory standpoint, our philosophy is all about a balanced posture, emphasising taking a pragmatic approach through the principles of proportionality that is echoed very strongly in the regulatory philosophy of the SC. On the one hand, we have taken great measure to ensure that our regulatory framework is conducive for capital formation, because ultimately it is about economic growth and wellbeing of societies but this must be done in the context to ensure investors are protected and market integrity is never compromised.
18. In April of this year, the SC released an enhanced version of the Malaysian Code on Corporate Governance (Code), an effort which expresses our use of regulatory proportionality, certainly reflected in the on the G20 OECD principles and many other aspects of the development of our CG ecosystem. Recognising that our listed corporations differ in size, ownership structure and stage of development, we have tailored the application of certain practices and reporting expectations to suit the unique circumstances of varying companies.
19. Another key feature of the new code is the introduction of the Comprehend, Apply and Report approach, which has an acronym CARE. We want everyone to care about corporate governance. CARE encourages companies to clearly identify the thought processes involved in practising good corporate governance including providing fair and meaningful explanation of how the company has applied the practices. The first word in the acronym, **Comprehend**, which stands for the understanding of the spirit and intention behind each principles and practices, including ultimately the intended outcomes. **Apply** implements the practices in

substance to achieve the outcomes of building and supporting a strong corporate governance culture throughout the company. And thirdly, **Report**, which aims to provide a fair and meaningful disclosure on the company's corporate governance practices.

20. Moving forward, we have also formulated strategic considerations in adopting a carefully calibrated and non-reactive approach to CG. These include several developing themes that are particularly significant to Malaysia's evolving CG landscape. For instance, the SC recognises the importance of incubating good governance practices amongst nascent Small and Medium Enterprises (SMEs) while continuing to leverage technology to enhance internal governance compliance and practices.

Conclusion

Ladies and Gentlemen,

21. In a world which continues to negotiate its relationship with change, the work of policy makers, institutions and CG proponents like ICGN must serve to ensure that the economic systems continually operate in favor of wellbeing. It is here, in events like the ICGN Annual Conference, where global industry leaders such as yourselves are able to synergistically collaborate and pragmatically contribute to sustain the integrity of our economic systems.
22. I am deeply grateful for the effort and contributions of all of you who have embraced the fiduciary role as stewards for a sustainable future. It has given me great pleasure to be among you today and I wish you the most successful of discourses over the next two days.
23. Thank you.