BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Corporate Governance

Applicable to:
Prescribed development financial institutions

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PART A OVERVIEW

1 Introduction

1.1 The adoption of sound corporate governance standards and practices by prescribed development financial institutions (DFIs) serves to protect the critical role of DFIs in intermediating funds to support the real economy. It ensures that DFIs are able to discharge their specific responsibilities for the development of identified priority sectors and effective management of public funds, with due regard to the interests of depositors. This policy document sets out the Bank's requirements and expectations for DFIs to have in place effective corporate governance arrangements consistent with these objectives.

1.2 A DFI's corporate governance arrangements represent a fundamental component of the Bank's supervisory assessments and are a key factor in determining the level of supervisory intensity applied to a DFI. The board should have the competence, confidence and objectivity to challenge senior management and hold it to account. Accordingly, this policy document sets out strengthened expectations on directors' oversight responsibilities and the composition of the board. This is expected to be demonstrated through evidence of effective challenge by the board, particularly in relation to key strategic decisions, including material exposures of the DFI. In turn, senior management is responsible and accountable for the sound and prudent day-to-day management of the DFI in accordance with the direction of the board.

1.3 Good corporate governance also needs to be rooted in a corporate culture that reinforces ethical, prudent and professional behaviour. This begins with the right "tone from the top", where the example set by the board and senior management shapes the core values for the DFI.

1.4 The Bank expects DFIs to implement the minimum standards set out in this policy document and demonstrate that their governance arrangements are operating effectively. Such arrangements should commensurate with the size, nature of business, complexity and respective mandate of a DFI. DFIs should also strive to continuously enhance these arrangements to reflect changing conditions and emerging sound practice~~s~~, as appropriate. The Bank expects each DFI to discharge its own legal and governance responsibilities as a separate entity, notwithstanding any group-wide arrangements that the DFI may be relying on.

2 Applicability

2.1 This policy document is applicable to DFIs prescribed under the Development Financial Institutions Act 2002 (DFIA).

3 Legal provisions

3.1 This policy document is issued pursuant to sections 5, 5A, 6, 6A, 7, 8, 41, 116 and 126 of the DFIA.

4 Effective date

4.1 This policy document comes into effect on 13 December 2019 subject to the transitional arrangements set out in Part G.

5 Interpretation

5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the DFIA, as the case may be, unless otherwise defined in this policy document.

5.2 For purposes of this policy document –

"S" denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

"G" denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

"active politician" refers to an individual who is a member of any national or state legislative body, or who is an officer bearer of, or holds any similar office or position in a political party;

"affiliate", in relation to an entity, refers to any corporation that controls, is controlled by, or is under common control with, the entity;

"appointment" includes a reference to election, reappointment and re-election;

"board" refers to the board of directors of a DFI;

"board committee" refers to any committee of the board that is required to be established under paragraph 12.1;

"**control function**" refers to a function that has a responsibility independent from business lines to provide objective assessments, reporting and assurance on the effectiveness of a DFI's policies and operations, and its compliance with legal and regulatory obligations. This includes the risk management function, the compliance function, and the internal audit function;

“executive” refers to any individual who has management responsibilities in the DFI or any of its affiliates (whether or not he is an officer of the DFI or any of its affiliates);

“executive director” refers to a director of a DFI who has management responsibilities in the DFI or any of its affiliates;

“external auditor” refers to an auditor of a DFI that has been appointed pursuant to section 63 of the DFIA;

“fit and proper requirements” refer to the requirements set out in the First Schedule of DFIA and the policy document on *Fit and Proper Criteria*;

“independent director” refers to a director who is assessed to be-independent in accordance with paragraph 11.7;

“**internal control framework**” refers to the set of rules and controls governing a DFI’s organisational and operational structure, including reporting processes and control functions;

a person is **“linked”** to another person where –

(a) one person is accustomed to represent, or take instructions from, the other person;

(b) they are relatives; or

(c) one person is an entity, and the other person is a partner, shareholder, director or officer of that entity or its affiliate;

“other material risk taker” refers to an officer who is not a member of senior management of a DFI and who –

(a) can materially commit or control significant amounts of the DFI’s resources or whose actions are likely to have a significant impact on its risk profile; or

(b) is among the most highly remunerated officers in the DFI;

“reappointment” includes a reference to re-election;

“remuneration" includes salary and benefits of any kind;

“risk appetite” is the aggregate level and types of risk a DFI is willing to assume, decided in advance having regard to its financial and operational capacity, to achieve its business objectives and strategies;

“senior management” refers to the CEO and senior officers;

“stakeholder Ministry”, in relation to a DFI, means the Ministry in charge of the DFI’s policy direction and if applicable, the Ministry in charge of finance; and

“substantial shareholder” refers to a person that holds an aggregate interest of 5% or more in the shares of a DFI.

6 Related legal instruments and policy documents

6.1 This policy document must be read together with other relevant legal instruments and policy documents that have been issued by the Bank, in particular –

(a) *Fit and Proper Criteria*;
(b) *Risk Governance*;
(c) *External Auditor*;
(d) Guidelines on Internal Audit Function of Licensed Institutions; and
(e) *Shariah Governance Framework for Islamic Financial Institutions*.

7 Policy document superseded

7.1 This policy document supersedes the *Guidelines on Corporate Governance for DFIs* issued on 19 November 2011.

PART B THE BOARD

8 Key responsibilities

G 8.1 The board responsibilities outlined in this policy document should be read together with section 5 of the DFIA.

S 8.2 The board must have a board charter that sets out the mandate, responsibilities and procedures of the board and the board committees, including the matters reserved for the board's decision.

S 8.3 The board has overall responsibility for promoting the sustainable growth and financial soundness of a DFI in fulfilling its mandate, and for ensuring reasonable standards of fair dealing, without undue influence from any party. This includes a consideration of the long-term implications of the board's decisions on the DFI and its customers, depositors, members, officers and the general public. In fulfilling this role, the board must –

(a) regularly review and affirm the DFI's mandate, taking into account changes in the economy and financial system. Where relevant, the board shall make recommendations to the Government in consultation with the Bank, for a review of its mandate;

(b) approve the risk appetite, business plans and other initiatives which would, singularly or cumulatively, have a material impact on the DFI's risk profile[1] and continuing ability to support its mandate;

(c) oversee the selection, performance, remuneration and succession plans of the CEO, control function heads and other members of senior management, such that the board is satisfied with the collective competence of senior management to effectively lead the operations of the DFI;

(d) oversee the governance arrangements, which should promote transparency and accountability in the management and decision-making processes within the DFI, and ensure that the CEO effectively implements the governance arrangements across all functions of the DFI;

(e) oversee the implementation of the DFI's internal control framework, and periodically review whether these remain appropriate in light of material changes to the size, nature and complexity of the DFI's operations;

(f) oversee the development and effective implementation of a performance measurement framework for the DFIs that is aligned with its mandate;

(g) promote, together with senior management, a sound corporate culture within the DFI which reinforces ethical, prudent and professional behaviour. This shall include ensuring that senior management establishes, implements and monitors policies and procedures that prevent activities and relationships that are inconsistent with sound

[1] This would include initiatives which affect the financial soundness, reputation or key operational controls of the DFI.

governance, effectively address conflicts of interest situations, strictly prohibit corrupt practices and ensure arm's length dealings with connected parties and other interested entities;

(h) promote sustainability through appropriate environmental, social and governance considerations in the DFI's business strategies;

(i) oversee and approve the business continuity plans for the DFI to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress;

(j) promote through appropriate communication policies and practices, timely and effective communication between the DFI and the Bank and stakeholder ministries on matters affecting or that may affect the safety, soundness and mandate of the DFI; and

(k) act in the best interest of DFI, free from any undue external influence which could undermine the DFI's approved mandate and financial soundness.

S 8.4 For the board of a DFI that carries on any Islamic financial business, the overall responsibilities outlined in paragraph 8.3 includes the responsibility to promote Shariah compliance in accordance with expectations set out in the policy document on *Shariah Governance Framework for Islamic DFIs* and ensure its effective integration with the DFI's business and risk strategies. In this respect, the board must clearly define its relationship with the DFI's Shariah Committee. While the Shariah Committee has distinct responsibilities in relation to Shariah matters, the board remains responsible for the direction and control of the DFI's business and risk strategies.

S 8.5 The board must establish appropriate arrangements to ensure that it has access to all relevant information, advice and resources necessary to enable it to carry out its role effectively, which may include obtaining advice from third party experts in accordance with paragraph 9.8. As part of these arrangements, the board must ensure that significant issues and developments are brought before the board for its information and consideration.

Non- independent and non-executive director

S 8.6 A non-independent and non-executive director representing the interests of a stakeholder Ministry on the board of a DFI shall have the same duties and responsibilities as other board members, to act in the best interest of the DFI, with due regard to the interest of customers and depositors, in line with its approved mandate. In the event of any conflict between his duty to act in the best interest of the DFI and his duty to the stakeholder Ministry which he is representing, his duty to the DFI will prevail[2].

[2] This requirement is consistent with the Minister of Finance Incorporation (MOF Inc.) Guidelines "*Garis Panduan Ahli Lembaga Pengarah Lantikan Menteri Kewangan (Diperbadankan)*" issued in December 2014 which outlines the duties and responsibilities of the stakeholder ministry representative in boards of government-linked companies (GLCs) including the DFIs.

9 Board meetings

S 9.1 The chairman, in leading the board, is responsible for the effective overall functioning of the board. In fulfilling this role, the chairman must –

(a) ensure that appropriate procedures are in place to govern the board's operation;

(b) ensure that decisions are taken on a sound and well-informed basis, including by ensuring that all strategic and critical issues are considered by the board, and that directors receive the relevant information on a timely basis;

(c) encourage healthy discussion and ensure that dissenting views can be freely expressed and discussed; and

(d) lead efforts to address the board's developmental needs.

S 9.2 A director must devote sufficient time to prepare for and attend board meetings, and maintain a sound understanding of the business of the DFI as well as relevant market and regulatory developments. This must include a commitment to on-going education.

S 9.3 A director must attend at least 75% of the board meetings held in each financial year, and must not appoint another person to attend or participate in a board meeting on his behalf such as an alternate director.

S 9.4 A DFI must ensure that attendance at a board meeting, by way other than physical presence, remains the exception rather than the norm, and is subject to appropriate safeguards to preserve the confidentiality of deliberations.

S 9.5 In respect of the quorum for board meetings, a DFI must require at least half of the board members to be present, of which a majority must be represented by independent directors[3].

S 9.6 The number and frequency of board meetings should be commensurate with the size and the complexity of the DFI's operations, having regard to the responsibilities of the board as set out in paragraph 8.3.

S 9.7 The board must ensure that clear and accurate minutes of board meetings are maintained to record the decisions of the board, including the key deliberations, rationale for each decision made, and any significant concerns or dissenting views. The minutes must indicate whether any director abstained from voting or excused himself from deliberating on a particular matter.

S 9.8 The DFI must provide the board with access to advice from third party experts on any matter deliberated by the board as and when required, and the cost of such advice shall be borne by the DFI.

[3] Where the specific establishment legislation of a DFI also imposes a quorum requirement for board meetings, the higher or stricter requirement shall apply.

10 Board appointments and removals

S 10.1 A director must fulfil the requirements set out in paragraphs 10.2 to 10.5 at the times of his appointment and on a continuing basis during his tenure of appointment[4].

S 10.2 Prior to the appointment or reappointment of a director, the director must have been assessed by the board nominations committee to have complied with the applicable fit and proper requirements. This should be read together with the policy document on Fit and Proper requirements which further elaborates factors to be considered in the assessment of candidates for appointment to the board.

S 10.3 A director must not have competing time commitments that impair his ability to discharge his duties effectively. The board must maintain a policy on the maximum number of external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the DFI's operations.

S 10.4 A director of a DFI must not be an active politician.

S 10.5 Where a firm has been appointed as the external auditor of a DFI, any of its officers directly involved in the engagement and any partner of the firm must not serve or be appointed as a director of the DFI until at least two years after -

(a) he ceases to be an officer or partner of that firm; or
(b) the firm last served as an auditor of the DFI.

S 10.6 The board must establish and regularly review succession plans for the board to promote board renewal and address any vacancies.

S 10.7 The board must establish a rigorous process for the appointment, reappointment and removal of directors. Such a process must involve the assessment of candidates against the requirements set out in paragraphs 10.2 to 10.5. Direct engagements between a candidate and the board nominations committee shall also be conducted to ascertain the suitability of each candidate for the board.

S 10.8 Each director must be assessed against the requirements set out in paragraphs 10.2 to 10.5, the fit and proper requirements, and the disqualification factors under section 7 of the DFIA, at least annually, and as and when the board becomes aware of information that may materially compromise the director's fitness and propriety, or any circumstance that suggests that the director is ineffective, errant or otherwise unsuited to carry out his responsibilities.

[4] These requirements are in addition to any requirements under DFIA which includes but not limited to the fit and proper requirements and the disqualification factor under section 7 of the DFIA.

S 10.9 A director must immediately disclose to the board any circumstance that may affect his ability to meet the above requirements.

S 10.10 The board must ensure that each director acknowledges the terms of his appointment or reappointment, which must include –

(a) the roles and responsibilities of the director, including those arising from his membership in any board committee;

(b) the tenure of the appointment or reappointment;

(c) provisions for the director's termination if he becomes disqualified by virtue of section 7(1) of the DFIA; and

(d) provisions for the director's removal if –

(i) he no longer meets the requirements set out in paragraphs 10.2 to 10.5, or the fit and proper requirements; or

(ii) has been assessed to be ineffective, errant or otherwise unsuited to carry out his responsibilities.

S 10.11 A DFI must not make an application to the Bank to appoint or reappoint a director unless the board is wholly satisfied, based on its objective assessment, that the candidate meets the requirements set out in paragraphs 10.2 to 10.5 and the fit and proper requirements, is not disqualified under section 7 of the DFIA, understands the expectations of the role and is able to meaningfully contribute to the board.

S 10.12 Unless the written approval of the Minister has been obtained –

(a) a DFI must not publicly announce the proposed appointment or reappointment of a director; and

(b) a director whose tenure has expired and is being proposed for reappointment must immediately cease to hold office and act in such capacity, including by participating in board meetings or holding himself out as a director.

S 10.13 A DFI must comply with the application procedures set out in Appendix 2 for the verification of a director.

S 10.14 A DFI must notify the Bank before the removal or resignation of an independent director. The notification shall include reasons for the removal or resignation of such director including where relevant, details of specific circumstances leading to the removal or resignation. The removal or resignation of the independent director shall not take effect unless the Bank has communicated to the DFI that it has no objection to the removal/ resignation.

S 10.15 Except where the removal, termination or resignation of an independent director is made pursuant to section 8 of the DFIA and notwithstanding paragraph 10.14 -

(a) the DFI shall not remove or terminate an independent director from his office; and

(b) an independent director shall not resign from his office,

if, by such removal, termination or resignation, the independent directors cease to be a majority of the board as required under paragraph 11.6 of this policy document.

11 Composition of the board

S 11.1 The board and the board committees must be of a size that promotes effective deliberation, encourages the active participation of all directors and allows the work of the various board committees to be discharged without giving rise to an over-extension of directors that are required to serve on multiple board committees.

S 11.2 The board must develop, document and regularly review the criteria and skill sets required of its members, both individually and collectively. The criteria and skill sets must reflect the fit and proper requirements and specific market or business knowledge required on the board. This should include a consideration of experience and knowledge in development finance on the board. It is important that the criteria and skill sets be reviewed regularly by the board to encourage diversity and ensure alignment with the mandate, strategic direction and emerging challenges faced by the DFI. The board must also take into account supervisory concerns highlighted by the Bank that require specific expertise on the board.

S 11.3 A DFI must have at least three directors (excluding executive directors) with finance-related or accounting experience. A board member who is qualified in finance-related disciplines should have acquired a minimum of five years working experience at a senior management level in the discipline of banking, insurance, takaful, or investment.

S 11.4 The chairman of the board must not be an executive, and must not have served as a CEO of the DFI in the past five years.

S 11.5 The board of a DFI must not have more than one executive director on the board to promote effective independent oversight by the board.

S 11.6 The board must have a majority of independent directors at all times.

S 11.7 The board must determine whether an individual to be appointed as an independent director is independent in character and judgement, and free from associations or circumstances that may impair the exercise of his independent judgement. An individual must not be considered to be an independent director if he or any person linked to him –

(a) has been an executive in the last two years;
(b) is a substantial shareholder of the DFI or any of its affiliates;
(c) is a representative of the stakeholder Ministry of the DFI; or
(d) has had a significant business or other contractual relationship with the DFI or any of its affiliates within the last two years.

S 11.8 For the purpose of paragraph 11.7, the board must clearly define what constitutes a “significant business or other contractual relationship”, taking into account the nature, size and complexity of the DFI’s operations.

S 11.9 The board must set and disclose in its corporate governance disclosures a policy on the tenure for which an individual can serve as an independent director, to promote independent oversight by the board. The Bank expects that tenure limits for independent directors should generally not exceed nine years, except under exceptional circumstances or as part of transitional arrangements towards full implementation of the succession plans of the DFI.

S 11.10 An independent director must immediately disclose to the board any change in his circumstances that may affect his status as an independent director. In such a case, the board must review his designation as an independent director and notify the Bank in writing of its decision to affirm or change his designation.

12 Board committees

S 12.1 A DFI must establish the following board committees:
(a) board nominations committee;
(b) board remuneration committee;
(c) board risk management committee; and
(d) board audit committee.

G 12.2 A DFI may combine its board nominations committee and board remuneration committee.

S 12.3 Each board committee must –
(a) have at least three directors;
(b) have a majority of independent directors;
(c) be chaired by an independent director; and
(d) comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the board committee.

S 12.4 To promote robust and open deliberations by the board on matters referred by the board committees, the chairman of the board must not chair any of the board committees.

S 12.5 With the exception of the board nominations committee[5], board committees must not have any executive director in its membership.

S 12.6 Each board committee must assume the specific responsibilities enumerated for it in Appendix 1.

S 12.7 The board shall remain fully accountable for any authority delegated to the board committees.

[5] For the avoidance of doubt, a combined board nominations and remuneration committee must not have any executive director in its membership.

S 12.8 The board must ensure that the mandate and operating procedures for each board committee are set out in the board charter and clearly –
(a) delineate the areas of authority delegated to the board committee; and
(b) define reporting arrangements for keeping the board informed of the board committee's work, key deliberations and decisions on delegated matters.

S 12.9 The DFI must provide the board committees with sufficient support and resources required to investigate any matter within their mandates.

13 Board evaluations and development

S 13.1 The board must carry out annual board evaluations to objectively assess the performance and effectiveness of the board, board committees and individual directors. This is important to enable the board to identify areas for professional development and process improvements, having regard to the changing needs of the DFI.

S 13.2 The board shall establish and implement a systematic process for conducting board evaluations. The board must deliberate the results of the board evaluation and address areas for the development of individual directors and to improve the effectiveness of the board.

G 13.3 The evaluation of the board's performance under paragraph 13.1 should include the following areas –
(a) whether the collective experience and expertise represented on the board appropriately reflect the business priorities and needs of the DFI;
(b) whether individual board members are able to contribute and participate effectively in board deliberations;
(c) the dynamics and quality of board deliberations especially on key issues affecting the DFI, such that decisions taken at the board are reached with careful consideration of relevant inputs from board members and in the best interest of the DFI, with due regard to the interest of customers and depositors;
(d) whether the board's process for nominating and evaluating candidates for the board is sufficiently robust;
(e) areas for improvement in the overall functioning of the board, including the conduct of board meetings;
(f) whether adequate opportunities for learning and development are provided to support board members in performing their role;
(g) whether the board receives timely and relevant information on the operations of the DFI;
(h) issues and areas that need more attention at the board level, including whether the board devotes sufficient attention and time to discuss strategic issues; and
(i) the quality of the board's engagements with stakeholder ministries, management and regulators.

S 13.4 The board must dedicate sufficient resources toward the on-going development of its directors. This must include dedicating an adequate budget, having in place development plans for directors and regularly updating such plans to ensure that each director possesses the knowledge and skills necessary to fulfil his responsibilities.

S 13.5 The board must engage external consultants or experts to assist in and lend objectivity to the annual board evaluations at least once in every two years or such other intervals as may be approved by the Bank.

14 Conflicts of interest

S 14.1 The board must establish a written policy to address directors' actual and potential conflicts of interest. At a minimum, the policy must –
(a) identify circumstances which constitute or may give rise to conflicts of interests;
(b) clearly define the process for directors to keep the board informed on any change in his circumstances that may give rise to a conflict of interest;
(c) identify those responsible for maintaining updated records on each director's conflicts of interest; and
(d) articulate how any non-compliance with the policy will be addressed.

S 14.2 Section 11 of the DFIA imposes a legal obligation on a director to disclose to the board the nature and extent of his interest in a material transaction or material arrangement, and if such material transaction or material arrangement is being deliberated during a board meeting, to be absent from the meeting during such deliberations.

S 14.3 For the purpose of section 11 of the DFIA, the Bank specifies the following:
(a) an existing or proposed transaction or arrangement will be considered "material" if it is one which a director is required to declare under section 221 of the Companies Act 2016[6] or in its specific establishment act/ legislation, whichever is the lower threshold, unless the director or any person linked to him cannot reasonably be expected to derive a benefit or suffer a detriment from the transaction or arrangement in a way that will place the director in a position of conflict; and
(b) an interested director must make the disclosure by way of a written notice to all members of the board and the company secretary –
(i) as soon as practicable after being aware or the relevant facts have come into his knowledge of his interest in the material transaction or arrangement; and
(ii) if the material transaction or arrangement is being deliberated at a board meeting, before the commencement of that deliberation.

[6] For the avoidance of doubt, this would include instances where the other directors are already aware of the interest.

15 Company secretary

S 15.1 The company secretary is responsible for supporting the effective functioning of the board. In discharging this role, the company secretary shall provide counsel to the board on governance matters and facilitate effective information flows between the board, the board committees and senior management.

S 15.2 The company secretary shall keep confidential the affairs of the DFI and its officers at all times. Accordingly, where the company secretary also serves as company secretary for a DFI's affiliates, he shall not disclose the affairs of the DFI or its officers to the affiliates except with the knowledge and consent of the DFI.

S 15.3 The company secretary must not have competing time commitments that may impair his ability to discharge his duties effectively. Unless the Bank approves otherwise in writing, the company secretary of a DFI must devote the whole of his professional time to the affairs of the DFI and its affiliates[7].

S 15.4 The appointment and removal of the DFI's company secretary must be approved by the board.

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[7] This does not preclude the company secretary from carrying out other responsibilities for the DFI or its affiliates that are also DFIs, where these responsibilities do not conflict with his responsibilities to the board.

PART C SENIOR MANAGEMENT

16 Key responsibilities

S 16.1 The CEO, in leading senior management, shall bear primary responsibility over the day-to-day management of the DFI. The responsibilities of senior management shall include –

(a) implementing the business and risk strategies, remuneration and other policies in accordance with the approved business strategies and funding plan as endorsed by the board;

(b) promoting, together with the board, a sound corporate culture within the DFI which reinforces ethical, prudent and professional behaviour;

(c) addressing actual or suspected breaches of regulatory requirements or internal policies in a timely and appropriate manner; and

(d) regularly updating the board with the material information the board needs to carry out its oversight responsibilities, particularly on matters relating to –

(i) the performance, financial condition and operating environment of the DFI;

(ii) internal control failures, including breaches of risk limits; and

(iii) legal and regulatory obligations, including supervisory concerns and the remedial actions taken to address them.

S 16.2 The CEO must establish an organisational structure that promotes accountability and transparency throughout the DFI's operations, and preserves the effectiveness and independence of control functions. To this end, the CEO must ensure accountability for all operations of the DFI including control functions are clearly identified and allocated to the appropriate key individuals who have the professional competence, authority and accountability to manage these operations. The allocation of responsibilities must be supported by documentation that is comprehensive, kept up-to-date and made readily available to the Bank upon request.

17 Senior management appointments and removals

S 17.1 A member of senior management must fulfil the requirements set out in paragraphs 17.2 to 17.5 at the time of his appointment and on a continuing basis throughout the tenure of his appointment[8].

S 17.2 Prior to the appointment or reappointment of a member of senior management, the member of senior management must have been assessed to have complied with the applicable requirements including but not limited to the fit and proper requirements.

S 17.3 A substantial shareholder and stakeholder, including their representatives and appointees, must not hold a senior management position to preserve an appropriate separation between ownership and management of DFIs. This serves to reinforce the public accountability of DFIs and promotes their professional management, free from undue influence.

S 17.4 A DFI must have a CEO at all times.

S 17.5 In line with paragraph 2(d) of First Schedule of DFIA, a CEO must devote the whole of his professional time to the service of the DFI and shall not carry on any other business or vocation, except as a non-executive director or shareholder of another company. In ensuring that a position of responsibility outside the DFI does not create conflicts of interest or demands on the CEO's professional time, a CEO[9] must not hold non-executive directorships in more than five entities other than the DFI unless the Bank's prior approval is obtained.

S 17.6 A DFI must have a robust succession plan for senior management and clearly defined processes for –

(a) the appointment, reappointment and removal of the CEO and senior officers; and

(b) assessment of the candidates against the requirements set out in paragraphs 17.2 to 17.5, the fit and proper requirements, and the disqualification factor under section 7 of the DFIA, where applicable.

S 17.7 Each member of senior management must be assessed against the relevant requirements set out in paragraphs 17.2 to 17.5, the fit and proper requirements, and the disqualification factor under section 7 of the DFIA, where applicable, at least annually, and as and when the board becomes aware of information that may materially compromise the individual's fitness and propriety, or any circumstance that suggests that the individual is ineffective, errant or otherwise unsuited to carry out his responsibilities.

[8] These requirements are in addition to any requirements under DFIA which includes but not limited to the fit and proper requirements and the disqualification factors under section 7 of DFIA.

[9] For avoidance of doubt, a CEO is not prohibited from holding a non-executive position in a professional body, industry association, statutory body, charitable body or other non-commercial public-interest entity, unless the Bank specifies otherwise.

S 17.8 A member of senior management must immediately disclose to the board any circumstance that may affect his ability to meet the requirements.

S 17.9 A DFI must not make an application to the Bank to appoint or reappoint the CEO unless the board is wholly satisfied, based on its objective assessment that such candidate meets the requirements set out in paragraphs 17.2 to 17.5 and the fit and proper requirements, and is not disqualified under section 7 of the DFIA.

S 17.10 Unless the written approval of the Minister has been obtained –

(a) a DFI must not publicly announce the proposed appointment or reappointment of the CEO; and

(b) a CEO whose tenure has expired and is being proposed for reappointment must immediately cease to hold office and act in such a capacity, including by holding himself out as the CEO.

S 17.11 A DFI must comply with the application procedures set out in Appendix 2 for the verification of the CEO.

PART D CULTURE AND REMUNERATION

18 Culture

G 18.1 As public institutions, any conduct that undermines the integrity of a DFI should be taken seriously. Such conduct can have broader ramifications for public confidence in the Government apart from misdirecting development resources intended for the benefit of the country.

Code of Ethics

S 18.2 A DFI must adopt a code of ethics (COE)[10] approved by the board which provides guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, integrity in reporting, and the fair treatment of customers. A DFI must maintain a record of breaches of the code of ethics and address such breaches in a manner that upholds high standards of integrity.

S 18.3 The DFI shall ensure that the COE provides for declarations of assets by the Chairman, directors, CEO and officers of the DFI and procedures for dealing with gifts from external parties to avoid conflict of interest situation.

S 18.4 The board and senior management shall be responsible in ensuring the effective enforcement of COE, and its periodic review to take into account emerging issues concerning the DFI, including its internal and external relationships.

Whistleblowing policy

S 18.5 A DFI must establish a whistleblowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Individuals must be able to raise concerns about illegal, unethical or questionable practices in confidence and without the risk of reprisal. To this end, a DFI must –

(a) clearly indicate the parties to whom concerns can be escalated within the DFI;

(b) ensure that individuals are made aware of other avenues for whistleblowing to regulators or law enforcement agencies; and

(c) communicate the whistleblowing policy to third parties such as contractors, consultants and interns and allow them to report their concerns; and

(d) designate a non-executive director to be responsible for the effective implementation of the policy[11].

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10 In establishing the code of ethics, a DFI should consider established professional and ethical standards recommended by standard-setting bodies such as that issued by the Financial Services Professional Board.

11 This includes evaluating periodic reports that monitor and assess how concerns are escalated and dealt with, and overseeing periodic reviews of the effectiveness of the whistleblowing policy.

Policies and procedures on procurement and contracting processes

S 18.6 Clear internal policies, procedures and limits in respect of procurements, corporate sponsorships and donations must be established and complied with by the DFIs. Such policies, procedures and limits must be consistent with DFIs' responsible stewardship of public funds and subject to regular reviews of compliance to the policy by independent control functions such as DFI's internal audit.

19 Remuneration

G 19.1 Remuneration systems form a key component of the governance and incentive structure through which the board and senior management drive performance, convey acceptable risk taking behaviour and reinforce the DFI's corporate and risk culture. The provisions in this paragraph are not intended to prescribe particular system designs or levels of individual remuneration as DFIs differ in goals, activities and culture, as do jobs within an institution. However, any remuneration system must work together with other management tools in pursuit of prudent risk taking and fulfilment of the DFI's mandate.

S 19.2 The remuneration policy of the DFI must be approved by the board, and be subject to periodic board review, including when material changes are made to the policy.

S 19.3 The remuneration for each director, member of senior management and other material risk taker must be approved by the board annually. A DFI must maintain and regularly review a list of officers who fall within the definition of "other material risk takers".

S 19.4 The overall remuneration system for the DFI must –

(a) be subject to board's active oversight to ensure that the system operates as intended;

(b) reflect the mandate of the DFIs and be in line with the business, risk strategies and development priorities, corporate values and long-term interests of the DFI;

(c) promote prudent risk-taking behaviour and encourage individuals to act in the interests of the DFI as a whole, taking into account the interests of its customers and long-term financial sustainability of the DFI without recourse to the Government;

(d) accord appropriate emphasis to the DFIs' developmental outcomes taking into account demonstration, design and policy additionalities[12] in addition to financing outcomes; and

[12] Additionalities refer to the positive impact attributable to DFIs beyond that which is delivered under a fully commercial or profit-driven environment. It is categorised into four areas, namely demonstration additionality (crowding in private investments in new growth markets through innovative financial solutions), design additionality (positive economic spill-overs e.g. generate new employment, increase income and tax revenues), policy additionality (active contribution to sound design and implementation of public policies) and financing additionality (financing and investment to support strategic sectors and financial inclusion).

(e) be designed and implemented with input from the control functions and the board risk management committee to ensure that risk exposures and risk outcomes are adequately considered.

G 19.5 The overall remuneration policy should be sufficiently competitive to attract, nurture and retain high quality talents to deliver the DFI's mandate successfully. This should consider the different skill sets, knowledge and experience required to support the business and risk strategies of the DFI.

S 19.6 To safeguard the independence and authority of individuals engaged in control functions, the DFI must ensure that the remuneration of such individuals is based principally on the achievement of control functions objectives, and determined in a manner that is independent from the business lines they oversee.

PART E GROUP GOVERNANCE

20 Responsibilities as a holding company

S 20.1 A DFI is responsible for exercising adequate oversight over its subsidiaries while respecting the independent legal and governance responsibilities that apply to them.

S 20.2 A DFI has overall responsibility for ensuring the establishment and operation of a clear governance structure appropriate to the nature, size and complexity of the group and its entities. In promoting the adoption of the sound corporate governance principles set out in this policy document throughout the group, the board and senior management of a DFI must –

(a) ensure that the group governance framework clearly defines roles and responsibilities for the oversight and implementation of group-wide policies;

(b) ensure that the differences in the operating environment, including the legal and regulatory regime for each jurisdiction in which the group has a presence, are properly understood and reflected in the group governance framework;

(c) have in place reporting arrangements that promote the understanding and management of material risks and developments that may affect the apex entity and its subsidiaries;

(d) assess whether the internal control framework of the group adequately addresses risks across the group, including those arising from intra-group transactions;

(e) ensure that there are adequate resources to effectively monitor compliance of the apex entity and its subsidiaries with all applicable legal and regulatory requirements.

G 20.3 Group structures can substantially increase the complexity of the organisation of a financial group. Complex structures involving a large number of legal entities can exacerbate group-wide risks, including risks arising from operational interdependencies, intra-group exposures, trapped collateral, counterparty concentrations and reputational associations.

S 20.4 A DFI must ensure that the group structure does not undermine its ability to exercise effective oversight. The board and senior management must know and understand the group structure, including its changes over time, and assess the implications for the capacity to identify and manage all material risks across the group. This must be supported by a sound understanding of risks associated with the group structure and an evaluation of whether group controls and policies are adequate to address those risks.

S 20.5 A DFI must establish a clearly defined process for approving the creation of new legal entities and other structures. This should serve to ensure that the proposed structure fulfils a legitimate business purpose and its associated risks are understood and managed.

S 20.6 A DFI is responsible to ensure that there are sufficient resources and supporting infrastructure to govern and monitor operations of subsidiaries including the adequacy of reporting requirements by subsidiaries to DFI for effective oversight.

21 Responsibilities as a subsidiary

S 21.1 A DFI must discharge its own legal and governance responsibilities as a separate entity, even if it is a subsidiary of a legal entity which is subject to prudential regulation. Accordingly, the board and senior management of a DFI must validate that the objectives, strategies, plans, governance framework and other policies set at the group level are fully consistent with the regulatory obligations and the prudential management of the DFI and ensure that entity-specific risks are adequately addressed in the implementation of group-wide policies.

PART F TRANSPARENCY

22 Corporate governance disclosures

S 22.1 A DFI must disclose information on its corporate governance policies and practices. Such disclosures must include –
(a) the information set out in Appendix 3;
(b) the particulars of, and the reasons for, any gaps in relation to the requirements set out in this policy document; and
(c) a description of the measures taken, or that will be taken, to address the gaps.

S 22.2 The board must ensure that the corporate governance disclosures are accurate, clear and presented in a manner that is easily understood by its shareholders, customers and other relevant stakeholders.

S 22.3 A DFI must ensure that the corporate governance disclosures are –
(a) laid before its annual general meetings or Parliament[13] as the case may be as an appendix to the directors' report;
(b) published on its website; and
(c) in the case of a DFI that is publicly listed, published in its annual report.

S 22.4 A DFI must publish on its website its constitution, board charter[14] and updated details on its board composition[15].

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[13] Applicable to Bank Simpanan Nasional
[14] Paragraphs 8.2, 9.5, and 12.8 set out minimum expectations on what should be included in the board charter.
[15] In accordance with paragraph 1 of Appendix 3.

PART G TRANSITIONAL ARRANGEMENTS

S 23.1 DFIs have until the following dates to comply with the specific requirements set out below:

Requirement	**Effective date**
Detailed requirements for remuneration[16]	Two years from the effective date of this policy document under paragraph 4.1
Corporate governance disclosure related to the remuneration requirements e.g. link between remuneration and performance of the DFI encompassing of both the risks and its development outcomes.	

[16] As required under paragraphs 19.4

APPENDIX 1 BOARD COMMITTEE RESPONSIBILITIES

Board nominations committee

1. Support the board in carrying out its functions in the following matters concerning the board, senior management and company secretary:
   (a) appointments, reappointments and removals;
   (b) composition;
   (c) performance evaluation and development; and
   (d) fit and proper assessments;

   as set out in paragraphs 10, 11, 13, 15 and 17.

2. In promoting the smooth functioning of the governance process for the appointment and reappointment of board members and senior management, the nominations committee is responsible for the:
   (a) Development and maintenance of the board profile detailing the desired size and composition mix, taking into account the DFI's mandate and the required expertise and background of the directors for the board to effectively discharge its responsibilities. The board profile must be updated from time to time;
   (b) establishment and maintenance of a potential pool of qualified individuals ready to serve as independent board directors; and
   (c) maintenance of comprehensive succession planning for board and senior management, consistent with the needs and priorities of the DFI.

Board remuneration committee

3. Support the board in actively overseeing the design and operation of the DFI's remuneration system as set out in paragraph 19.

4. Periodically review the remuneration of directors on the board, particularly on whether remuneration remains appropriate to each director's contribution, taking into account the level of expertise, commitment and responsibilities undertaken.

Board risk management committee

5. Support the board in meeting the expectations on risk management as set out in the policy document on *Risk Governance*.

6. In assisting the implementation of a sound remuneration system, examine whether incentives provided by the remuneration system take into consideration, risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the board remuneration committee.

Board audit committee

7. Support the board in ensuring that there is a reliable and transparent financial reporting process within the DFI.
8. Oversee the effectiveness of the internal audit function of the DFI. At a minimum, this must include –
   (a) reviewing and approving the audit plan, scope, procedures and frequency;

(b) reviewing key audit reports (including reports on internal controls, risk management processes, compliance with statutory requirements and governance practices) and ensuring that senior management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions;

(c) noting significant disagreements between the chief internal auditor and the rest of the senior management team, irrespective of whether these have been resolved, in order to identify any impact, the disagreements may have on the audit process or findings; and

(d) establishing a mechanism to assess the performance and effectiveness of the internal audit function.

9. Foster quality audits of the DFI by exercising oversight over the external auditor, in accordance with the expectations set out in the policy document on *External Auditor*. At a minimum, this must include –

(a) making recommendations to the board on the appointment, removal and remuneration of the external auditor;

(b) monitoring and assessing the independence of the external auditor including by approving the provision of non-audit services by the external auditor;

(c) monitoring and assessing the effectiveness of the external audit, including by meeting with the external auditor without the presence of senior management at least annually;

(d) maintaining regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to the board audit committee on significant matters; and

(e) ensuring that senior management is taking necessary corrective actions in a timely manner to address external audit findings and recommendations.

10. Review and update the board on all related party transactions.

11. Review the accuracy and adequacy of the chairman's statement in the directors' report, corporate governance disclosures, interim financial reports and preliminary announcements in relation to the preparation of financial statements.

12. Monitor compliance with the board's conflicts of interest policy described in paragraph 14.1.

13. Review third-party opinions on the design and effectiveness of the DFI's internal control framework.

APPENDIX 2 APPLICATION PROCEDURES FOR DIRECTOR AND CEO APPOINTMENTS

1. Section 6(2) of the DFIA requires DFIs prior to obtaining the written approval of the Minister for the appointment or reappointment of any person as its Chief Executive Officer or director, to seek the Bank's verification on whether such person has complied with the criteria set out in the First Schedule of the DFIA.

The role of the board nominations committee

2. The board nominations committee will be the Bank's main point of contact for the verification process.

Elaboration on assessment

3. A DFI must provide in its application for verification of a director an elaboration of the board's assessment of the candidate, including –
   (a) a description of how the candidate is expected to address any gaps in the specific skills, knowledge or experience of the existing board members, if any;
   (b) in the case of a candidate who lacks specific skills, knowledge or experience, a description of the gaps and steps that will be taken to support the candidate in addressing the gaps; and
   (c) in the case of a reappointment, objective assessments of the candidate's past performance on the board.

4. A DFI must include in its application for verification of a CEO an elaboration of the board's assessment of the candidate and the contribution expected from him, having regard to the mandate, strategies, objectives and business plans of the DFI.

Electronic or physical submission

5. A DFI may submit an application for verification either electronically or physically, as follows:
   (a) electronic submissions may be made through the FI@KijangNet portal; and
   (b) physical submissions may be made by completing the Director and CEO application forms and sending them to the director of the Jabatan Penyeliaan Perbankan.

Timeline

6. A DFI must submit an application for verification to the Bank at least three months before it expects the individual to assume his proposed responsibilities. In the case of a reappointment, applications must be submitted three months prior to the expiry of the individual's existing term. The following documents are to be submitted by DFIs to the Bank:
   (a) recommendation and deliberation by the board nominations committee and board's approval; and
   (b) in the case of a reappointment of a director, details of such director's attendance to at board (including board committee) meetings.

APPENDIX 3 CORPORATE GOVERNANCE DISCLOSURES

Board of directors

1. Composition	• Name and designation (i.e. independent, non-independent non-executive, executive, chairman) of each director • Key personal details and background of each director including relevant experience, any shareholding in the DFI and external professional commitments • Chairman and members of each board committee • Appointments, resignations and removals of directors during the financial year • Description of training and education provided to the board • Number of meetings convened by the board and each board committee
2. Function and conduct	• Roles and responsibilities of the board and the board committees • Attendance of each director at board and board committee meetings during the financial year

Internal control framework

3. Overview	• Main features of the internal control framework, and the nature and frequency of any review and assessment conducted on the internal control framework • Key policies and procedures of the internal control framework, including any changes made to these policies and procedures during the financial year

Remuneration

4. Qualitative disclosures	(a) Information relating to the design and structure of the remuneration system, including – • an overview of the key features and objectives of the remuneration policy • an overview of the findings, recommendations and actions taken with respect to any review and assessment conducted on the remuneration system during the financial year • a discussion of measures taken to ensure that officers in control functions are compensated independently of the businesses they oversee
	(b) Description of the link between remuneration and performance during a performance measurement period including an overview of the main performance metrics for the DFI covering risk and development outcomes.

	(c) Description of the different forms of variable remuneration that the DFI utilises and the rationale for using these different forms, including – • an overview of the forms of variable remuneration offered • a discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across officers or groups of officers), a description the factors that determine the mix and their relative importance
5. Quantitative disclosures	(a) Breakdown of the total amount of remuneration awards for the CEO and directors for the financial year, disclosed individually for the CEO and each director, to show – • fixed and variable remuneration • the different forms of remuneration used (such as cash, shares and share–linked instruments)
	b) Remuneration information in two broad categories, namely in respect of senior management and other material risk takers, as follows: • breakdown of the total amount of remuneration awards for the financial year to show – – fixed and variable remuneration – the different forms of remuneration used (such as cash, shares and share-linked instruments)

Mandate and performance measurement framework

6. Overview	a) Description on how the DFI has discharged its developmental mandate b) Description on how PMF encourage stronger alignment between business operations, performance and developmental impact
7. Qualitative and quantitative disclosures	a) Broad assessment of the developmental impact achieved