

BURSA MALAYSIA SECURITIES BERHAD

GUIDANCE NOTE 11

RISK MANAGEMENT AND INTERNAL CONTROL, CORPORATE GOVERNANCE AND SUSTAINABILITY STATEMENT

Details	Cross References
Effective date:	3 July 2006
Revision date:	Rules 15.25, 15.26 and paragraph 30 of Appendix 9C
	3 August 2009, 29
	November 2012, 3
	May 2016, 31
	December 2016, 31
	December 2017, 31
	December 2018

1.0 Introduction

1.1 Rule 15.25 of the Listing Requirements states that a listed corporation must make the following corporate governance disclosures:

- (a) an overview of the application of the Principles set out in the MCCG (“**Principle**”) by its board of directors to be included in its annual report (“**CG Overview Statement**”); and
- (b) the application of each Practice set out in the MCCG (“**Practice**”) during the financial year to be disclosed to the Exchange in a prescribed format (“**CG Report**”) and announce the same together with the announcement of the annual report.

The listed corporation must state in its annual report, the designated website link or address where the CG Report may be downloaded.

1.2 Rule 15.26(b) of the Listing Requirements requires a listed corporation to ensure that its board of directors make a statement in its annual report about the state of risk management and internal control of the listed corporation as a group (“**Risk Management and Internal Control Statement**”).

1.2A Paragraph 30 of Appendix 9C of the Listing Requirements provides that a listed corporation must include in its annual report, a narrative statement of the listed corporation’s management of material economic, environmental and social risks and opportunities (“**Sustainability Statement**”).

1.3 This Guidance Note clarifies the obligation of the listed corporations in making the CG Overview Statement, the CG Report, the Risk Management and Internal Control Statement and the Sustainability Statement.

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2.0 General principles

2.1 [Deleted]

2.2 [Deleted]

2.2A If a subject matter is required to be disclosed in the annual report pursuant to the Listing Requirements which relates to a Practice, the disclosure will be deemed made if the information is disclosed in the CG Report. In this case, the listed corporation need not repeat the disclosure in the annual report.

2.3 A listed corporation must ensure that the CG Overview Statement, the CG Report and the Risk Management and Internal Control Statement are approved by the board of directors of the listed corporation.

PART I – CORPORATE GOVERNANCE DISCLOSURES**3.0 Contents of the corporate governance disclosures**General

3.1 [Deleted]

CG Overview Statement

3.1A In making the CG Overview Statement, a listed corporation must provide a summary of its corporate governance practices during the financial year with reference to the 3 Principles, which are -

- (a) board leadership and effectiveness;
- (b) effective audit and risk management; and
- (c) integrity in corporate reporting and meaningful relationship with stakeholders.

3.1B A listed corporation should highlight its key focus areas and future priorities in relation to its corporate governance practices through the CG Overview Statement.

CG Report

3.2 A listed corporation must provide specific disclosures on its application of each Practice in the CG Report. The listed corporation must ensure that the CG report provides a fair and meaningful disclosure of the company's corporate governance practices.

3.2A In disclosing the application of each Practice in the CG Report, a listed corporation must provide meaningful explanation on how it has applied the Practice. If the listed corporation has departed from a Practice, it must –

- (a) provide an explanation for the departure; and
- (b) disclose the alternative practice it has adopted and how such alternative practice achieves the Intended Outcome as set out in the MCCG ("**Intended Outcome**").

3.2B In explaining the departure from a Practice as required under paragraph 3.2A(a) above, a listed corporation must not merely state that it has complied with the requirements under the

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Listing Requirements as the reason for the departure. The listed corporation must still provide an explanation for the departure and disclose the alternative practice and how the alternative practice achieves the Intended Outcome as required under paragraph 3.2A(b) above.

3.3 In making the disclosures in the CG Report, a listed corporation must carefully consider and be closely guided by the Guidance set out in the MCCG (“**Guidance**”).

3.4 A listed corporation must also ensure that the CG Report covers the practices for the whole financial year. If a practice had been in place for only part of the financial year, the listed corporation must state so and the period during which it had been in place.

3.5 [Deleted]

3.6 [Deleted]

Additional considerations

3.7 In making the CG Overview Statement and the CG Report, a listed corporation must also consider the following:

(a) Ensure that the CG Overview Statement and the CG Report –

(i) contain adequate information to enable an informed assessment by shareholders and potential investors of its corporate governance practices; and

(ii) align with the spirit and Intended Outcome of the MCCG.

For this purpose, a listed corporation should refer to the Corporate Governance Guide issued by the Exchange.

(b) Ensure that key messages on governance are clearly set out and avoid compliance box-ticking or boilerplate statements. The listed corporation must avoid taking a mechanical or legalistic approach in making the disclosures in the CG Overview Statement and the CG Report. For example, the listed corporation should not merely provide bare statements that -

(i) it has adopted the Practices without further elaboration on how the Practices have been applied during the financial year; or

(ii) the Intended Outcome has been achieved through adoption of the alternative practices by repeating the fact without explaining how such alternative practices meet the Intended Outcome.

(c) Report how the Practices have been applied, having regard to the listed corporation’s particular circumstances and business. The listed corporation must avoid -

(i) reporting in form over substance; or

(ii) vague or general statements without any real connection to the listed corporation’s situation.

(d) Provide a balanced report by describing key issues and incidences of failure, and explaining how the issues were managed, actions that were taken to remedy the failures and lessons learnt.

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- (e) Ensure that the information is easy to understand. This can be achieved by using simple, plain everyday language and avoiding legalistic or technical terms.
- (f) Use the listed corporation's website to add depth to the governance reporting and keep shareholders updated throughout the year. Avoid cluttering the CG Overview Statement and the CG Report with static information such as policies, charters and codes that have not changed, or long convoluted write-ups, so that the key information and messages are not lost in the volume of data presented. Where possible, publish such static information on the listed corporation's website.

PART II – RISK MANAGEMENT AND INTERNAL CONTROL STATEMENT

4.0 Contents of the Risk Management and Internal Control Statement

- 4.1 In making the Risk Management and Internal Control Statement, a listed corporation is required to address Part II of Principle B, Intended Outcome 9.0, Practices 9.1 and 9.2 read together with Guidance 9.1 and 9.2 as set out in the MCCG which relate to risk management and internal control framework.
- 4.2 The listed corporation should also be guided by the **Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers** which is issued by the Taskforce on Internal Control with the support and endorsement of the Exchange.
- 4.3 A listed corporation must ensure that the Risk Management and Internal Control Statement contains adequate information to enable an informed assessment of its state of internal control.

5.0 [Deleted]

PART III – SUSTAINABILITY STATEMENT

6.0 Contents of the Sustainability Statement

- 6.1 All listed corporations should ensure that the Sustainability Statement contains information that is balanced, comparable and meaningful by referring to the Sustainability Reporting Guide issued by the Exchange. In identifying the material economic, environmental and social risks and opportunities, the listed corporation should consider the themes set out in the Sustainability Reporting Guide.