

BURSA MALAYSIA SECURITIES BERHAD

PRACTICE NOTE 9

RISK MANAGEMENT AND INTERNAL CONTROL, CORPORATE GOVERNANCE AND SUSTAINABILITY STATEMENT

Details	Cross References
Effective date: 1 June 2001	Paragraphs 15.25, 15.26, paragraph 9.45(2) and paragraph 29, Part A of Appendix 9C
Revision date: 3 August 2009, 29 November 2012, 3 May 2016, 31 December 2016, 31 December 2017	

1.0 Introduction

1.1 Paragraph 15.25 of the Listing Requirements states that a listed issuer 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 issuer must state in its annual report, the designated website link or address where the CG Report may be downloaded.

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

1.2A Paragraph 9.45(2) and paragraph 29, Part A of Appendix 9C of the Listing Requirements provide that a listed issuer must include in its annual report, a narrative statement of the listed issuer's management of material economic, environmental and social risks and opportunities ("**Sustainability Statement**").

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

1.4 [Deleted].

Practice Note 9
Risk Management and Internal Control,
Corporate Governance and Sustainability Statement

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 issuer need not repeat the disclosure in the annual report.

2.3 A listed issuer 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 issuer.

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 issuer 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 issuer 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 issuer must provide specific disclosures on its application of each Practice in the CG Report. The listed issuer 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 issuer must provide meaningful explanation on how it has applied the Practice. If the listed issuer 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**").

Practice Note 9
Risk Management and Internal Control,
Corporate Governance and Sustainability Statement

- 3.2B In explaining the departure from a Practice as required under paragraph 3.2A(a) above, a listed issuer must not merely state that it has complied with the requirements under the Listing Requirements as the reason for the departure. The listed issuer 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.
- 3.2C In addition to the information in paragraph 3.2A above, a listed issuer defined as a Large Company under the MCGG ("**Large Company**") must also disclose the following if it departs from a Practice:
- (a) the actions which it has taken or intends to take; and
 - (b) the timeframe required,
- to achieve application of the Practice.
- 3.3 In making the disclosures in the CG Report, a listed issuer must carefully consider and be closely guided by the Guidance set out in the MCGG ("**Guidance**").
- 3.4 A listed issuer 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 issuer 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 issuer 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 MCGG.

For this purpose, a listed issuer 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 issuer 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 issuer 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.

Practice Note 9
Risk Management and Internal Control,
Corporate Governance and Sustainability Statement

- (c) Report how the Practices have been applied, having regard to the listed issuer's particular circumstances and business. The listed issuer must avoid -
 - (i) reporting in form over substance; or
 - (ii) vague or general statements without any real connection to the listed issuer'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.
- (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 issuer'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 issuer'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 issuer 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 issuer 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 issuer 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 issuers 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 issuer should consider the themes set out in the Sustainability Reporting Guide.

Practice Note 9
Risk Management and Internal Control,
Corporate Governance and Sustainability Statement

- 6.2 In making the Sustainability Statement, a listed issuer must include disclosures on the following:
- (a) the governance structure in place to manage the economic, environmental and social risks and opportunities (“**sustainability matters**”);
 - (b) the scope of the Sustainability Statement and basis for the scope;
 - (c) material sustainability matters and –
 - (i) how they are identified;
 - (ii) why they are important to the listed issuer; and
 - (iii) how they are managed including details on –
 - (aa) policies to manage these sustainability matters;
 - (bb) measures or actions taken to deal with these sustainability matters; and
 - (cc) indicators relevant to these sustainability matters which demonstrate how the listed issuer has performed in managing these sustainability matters.
- 6.3 For purposes of paragraph 6.2(c) above, sustainability matters are considered material if they:
- (a) reflect the listed issuer’s significant economic, environmental and social impacts; or
 - (b) substantively influence the assessments and decisions of stakeholders.
- 6.4 A listed issuer is not required to comply with paragraphs 6.1 to 6.3 above if the listed issuer prepares its Sustainability Statement in accordance with the GRI Sustainability Reporting Guidelines.

Notes:

1. A listed issuer must ensure that its annual report contains a Sustainability Statement as follows:
 - (a) In relation to a listed issuer with market capitalisation (excluding treasury shares) of RM2 billion and above as at 31 December 2015, or as at the date of its admission to the Official List in 2016, for annual reports issued for financial years ending on or after 31 December 2016.
 - (b) In relation to all the other listed issuers, for annual reports issued for financial years ending on or after 31 December 2017.
2. A listed issuer must comply with paragraphs 6.2 and 6.3 of Practice Note 9 in the manner set out in the table below:

Listed issuers	Effective dates for paragraphs 6.2 and 6.3 of Practice Note 9
(a) A listed issuer with market capitalisation (excluding treasury shares) of RM2 billion and above as at – <ul style="list-style-type: none"> (i) 31 December 2015 or 31 December of any subsequent calendar year; or 	Annual reports issued for financial years ending on or after 31 December 2016

Practice Note 9
Risk Management and Internal Control,
Corporate Governance and Sustainability Statement

Listed issuers	Effective dates for paragraphs 6.2 and 6.3 of Practice Note 9
(ii) the date of its admission to the Official List after 31 December 2015.	
(b) A listed issuer with market capitalisation (excluding treasury shares) of RM1 billion and above, but below RM2 billion as at – (i) 31 December 2015 or 31 December of any subsequent calendar year; or (ii) the date of its admission to the Official List after 31 December 2015.	Annual reports issued for financial years ending on or after 31 December 2017
(c) A listed issuer other than those stated above in items (a) and (b) above.	Annual reports issued for financial years ending on or after 31 December 2018

3. A listed issuer which falls within items 2(a) or 2(b) above must comply with paragraphs 6.2 and 6.3 of Practice Note 9 even if its market capitalisation (excluding treasury shares) subsequently decreases below the prescribed threshold.
4. A listed issuer is strongly encouraged to make a Sustainability Statement in its annual reports, and give effect to paragraphs 6.1, 6.2 and 6.3 of Practice Note 9 early, to the extent possible, prior to the relevant effective dates.
5. For the avoidance of doubt, a listed issuer referred to in item 1(b) above must continue to provide a description of its and its subsidiaries' corporate social responsibility activities or practices or if there is none, a statement to that effect, in its annual report issued for the financial year ending on or after 31 December 2016, unless it has made a Sustainability Statement in its annual report.