

Keynote Address by

YB. Tuan Lim Guan Eng, Minister of Finance Malaysia

Launch of the Institute of Corporate Directors Malaysia

1 October 2018, Securities Commission Malaysia

Ladies and Gentlemen,

1. Salam Harapan to everyone. First, I would like to thank the Securities Commission for inviting me to officiate the launch of the Institute of Corporate Directors Malaysia. This is another milestone in Malaysia's corporate governance journey. The commitment by regulators, in particular the Securities Commission to drive 'Growth with Governance' has been a critical factor in maintaining the confidence in, and the integrity of our capital market.
2. Malaysia has entered a new phase which offers an opportunity to unlock its potential through bold structural reforms that can facilitate long-term growth. Malaysia continues to benefit from strong global demand for its exports despite increasing global trade uncertainty, and with Malaysia's diversified economic structure, strong external position, endowment of natural resources and human capital, the nation is on track in its mission to transition into a developed nation, supported by continuous economic and institutional reforms.
3. In order to achieve significant trajectory in our economic growth, deeper reforms are required to strengthen institutions and governance including enhancing public institutions, improving transparency and citizen engagement. These reforms are crucial to keep Malaysia competitive.
4. In this regard, the Government is undertaking several reform initiatives to strengthen the governance framework specifically in relation to accountability and transparency. These reforms are anchored on the fundamental principle of making Malaysia known for its firm commitment to integrity.
5. The Government has, for example, set up a Special Cabinet Committee on AntiCorruption and the National Centre for Governance, Integrity and Anti-Corruption (GIACC), which will coordinate and monitor all activities related to governance, integrity and combating graft. This committee will also be responsible for planning, formulating strategies and evaluating policies in ensuring all government affairs are done based on good governance and with integrity.
6. For instance, the previous administration used off-budget financing trick to hide government expenditure. In the review process by the MOF, 14 out of 17 public private partnership (PPP) projects were discovered to have been directly negotiated by the previous administration without undergoing an open tender process. Most of the 17 projects were land swap projects which essentially means the contractor will carry out a government project such as building new affordable housing, schools, police stations, fire stations and army camps, and get pieces of government land in return, instead of being

paid in cash. For the projects reviewed, the contractor would have negotiated directly with the government on the price of the project and the value of the government land at the same time.

7. Such a direct negotiated process not only perverts the model of PPP into a privatisation exercise or crony capitalism, it also puts the Federal government into deep debts. By direct negotiation, the real value of the government land is invariably underpriced whilst the cost of the public works project is over-priced. This is evidenced by the newly discovered additional RM201 billion debt that has to be borne by the Federal Government as a result of this perversion of the PPP model.
8. A clean PPP model based on open tenders would not only benefit the public through a project built at the best price but also benefits the government by not putting the government in debt but instead allows the government to earn extra revenue. For instance, Penang's adoption of the clean PPP model by open tender is the basis for its annual budget surpluses, increase in cash reserves by more than 100% and reduction in state government debts by 90%.
9. Taking into consideration that many Ministries wishes to undertake these land swap projects which are public works with positive economic multipliers, the Ministry of Finance is willing to proceed but with a new and clean PPP model in line with the new government's policy to conduct open tenders. The open tender process would ensure that all government projects are awarded to contractors who can deliver the best outcomes by getting the best value for money. This is one of the alternatives adopted by the Ministry to ensure that the projects will be carried out instead of taking the extreme approach of cancelling them altogether.
10. This new model will not only be applied to the 17 major projects which was reviewed, but for all PPP projects in the future. The Government recognises the benefits of PPP projects for the Malaysian public and will not take the extreme measure of cancelling all such projects carried out by direct negotiation of the previous administration. Instead, we are introducing the new model, a clean model, to ensure the interest of all stakeholders are taken into account. This move is anchored on the government's commitment to transparency and accountability and to find the best value in every single thing we do.
11. While rules and sanctions are important in improving integrity, they will not on their own deliver productive behaviour in the long-term. A healthy corporate culture anchored on accountability and transparency is key to delivering long term business and economic success. This responsibility rests on the board.
12. To strengthen the effectiveness of boards of government linked companies, I recently announced that no politicians will be appointed as directors to these boards. It is critical that GLC boards remain objective, progressive and skilled to take the company forward. The Government will take the necessary steps as announced by the Prime Minister, Tun Mahathir Mohamad, to alleviate potential conflicts of interest including enhancing transparency on allowances received by board members of national and state government linked companies.
13. It is also encouraging to see listed companies voluntarily adopt the best practices in the Malaysian Code on Corporate Governance. A key practice under the Code requires companies to disclose the remuneration of their senior management. This is important as it provides shareholders greater insights on pay and performance. Improving shareholder

engagement and remuneration disclosure can provide a strong monitoring mechanism on the role of boards in overseeing the remuneration process. Moving forward, I would like to see more companies embrace as well as subscribe to the best practices in the Malaysian Code on Corporate Governance.

14. There is a real need to encourage boards to keep pace with the evolving economic landscape, driven in part by technology, economic growth and business transformation. Boards are at the heart of good corporate governance – to remain both effective and objective, they will need to do more than merely react to events as they unfold.
15. Being a director is a challenging and demanding job. Uniquely positioned at the helm of companies, directors are expected to provide leadership, strategic direction, entrepreneurship and effective oversight. Much of the success of Malaysian companies depend on the efforts of boards and directors in not only embracing, but driving good corporate governance practices.
16. The establishment of the Institute of Corporate Directors Malaysia is therefore critical, as it focuses on raising the professional standards of boards. In this regard, the Institute of Corporate Directors Malaysia plays a pivotal role in leading the change in professional development of boards which must reflect the change in business models, attitudes and market conditions.
17. As boards continue to steer their companies forward in this challenging time, the Institute of Corporate Directors Malaysia will serve as a resource for boards – connecting, equipping, and inspiring its members to add value across business and society through thought leadership, extensive network and professional programmes.
18. In short, there will be three essential elements. First, as mentioned earlier, honesty and integrity are irreplaceable, it is not about doing the right thing when people are watching, rather it is about doing the right thing even when people are not watching. That, is what integrity is all about. Secondly, on performance. There is no point in being a seat warmer; we must deliver. That is the reason we try to extract the best from the best. And the final element is on creativity and innovation. Directors of boards are expected to keep track of all the latest developments. If you fail to do so, especially in today's environment of ever changing technology, you will be obsolete and left behind.
19. I strongly encourage directors, including those aspiring to be one, to subscribe to the ICDM, and be part of an institution that will provide an opportunity for growth and excellence for your board, business and companies. And of course, under the leadership of Tan Sri Zarinah, who would ensure there would be gender balance in the appointment of directors of companies. I would also like to commend Tan Sri Ranjit for spearheading this initiative; it would surely be one of the many legacies that would be remembered in a very long time.
20. With this, I would be pleased to launch the Institute of Directors Malaysia.
21. Thank you.