VOLUME 1

PERFORMANCE PAYS

A CASE FOR CHANGE FOR FINANCIAL INSTITUTIONS DIRECTORS' REMUNERATION

PRICEWATERHOUSECOOPERS

FIDE


“It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.”
Clarence Darrow, lawyer

Foreword

Strong oversight, good governance and robust risk management are key elements to ensure sound and resilient financial institutions. Of importance is the presence of an effective board to provide oversight and strategic guidance for long-term sustainability.

The recent global financial crisis highlighted the effects of weak governance and risk management practices, which were further compounded by the failure of boards to effectively perform their roles and responsibilities. Boards' limited understanding of the myriad of risk issues in a dynamic and complex operating environment has been cited as one of the key reasons which resulted in less than optimal strategic decisions. Insufficient attention towards longer-term viability and inadequate internal control mechanisms also contributed towards the unprecedented size and extent of the global financial crisis.

The Malaysian financial institutions proved to be resilient during this financial storm. However, we should not fall into a complacency trap and should continue with efforts to strengthen financial positions, particularly in light of increasing global integration and competition. As public interest entities, directors of financial institutions have the fiduciary responsibility to act in the interest of not just shareholders, but also the public at large. With the growing complexity of the financial industry, the performance of a financial institution is dependent upon having board members who are sufficiently well versed with financial and non-financial risks, and developments. At the same time, the board should be able to draw on a broad range of skills and experience to provide relevant perspectives on strategic issues confronting financial institutions.

The effective functioning of the board depends on the right mix of board members who act collectively in setting the strategic direction, in ensuring sound internal controls and in having a comprehensive functioning enterprise-wide risk management system. The board also needs to focus on the way in which the board provides oversight and interfaces with management, the extent to which constructive comments are encouraged at board meetings and processes that support and frame the functions of the board. Ultimately, the board has the responsibility to perform at the highest level discharging its oversight roles and responsibilities.

It is in this context that this report was commissioned under the Financial Institutions Directors' Education (FIDE) initiative to contribute towards on-going efforts to build board capacity and catalyse improvements in board performance. While executive remuneration is more clearly defined and linked to the level of performance, current approaches to the remuneration of non-executive directors should be objectively assessed in light of performance expectations and the heavy fiduciary responsibilities imposed on financial institutions' directors. This is also important to attract competent professionals to serve on boards of financial institutions.

This study is intended to provide a framework to assess and design appropriate remuneration policies for non-executive directors with the objective of achieving and sustaining an optimal level of board performance. In this light, boards will necessarily have to review the mandate of their committees and the realistic time commitment expected of directors.

We would like to take this opportunity to thank all who have contributed their views and insights into this study, in particular the directors from both financial and non-financial institutions who participated in interviews with the project team and members of the FIDE Steering Committee for valuable added inputs to the final report.

Thank you.

Dato' Mohd Razif Abd Kadir
Deputy Governor, Bank Negara Malaysia
and
Co-Chairman of FIDE Steering Committee

Jean Pierre Sabourin
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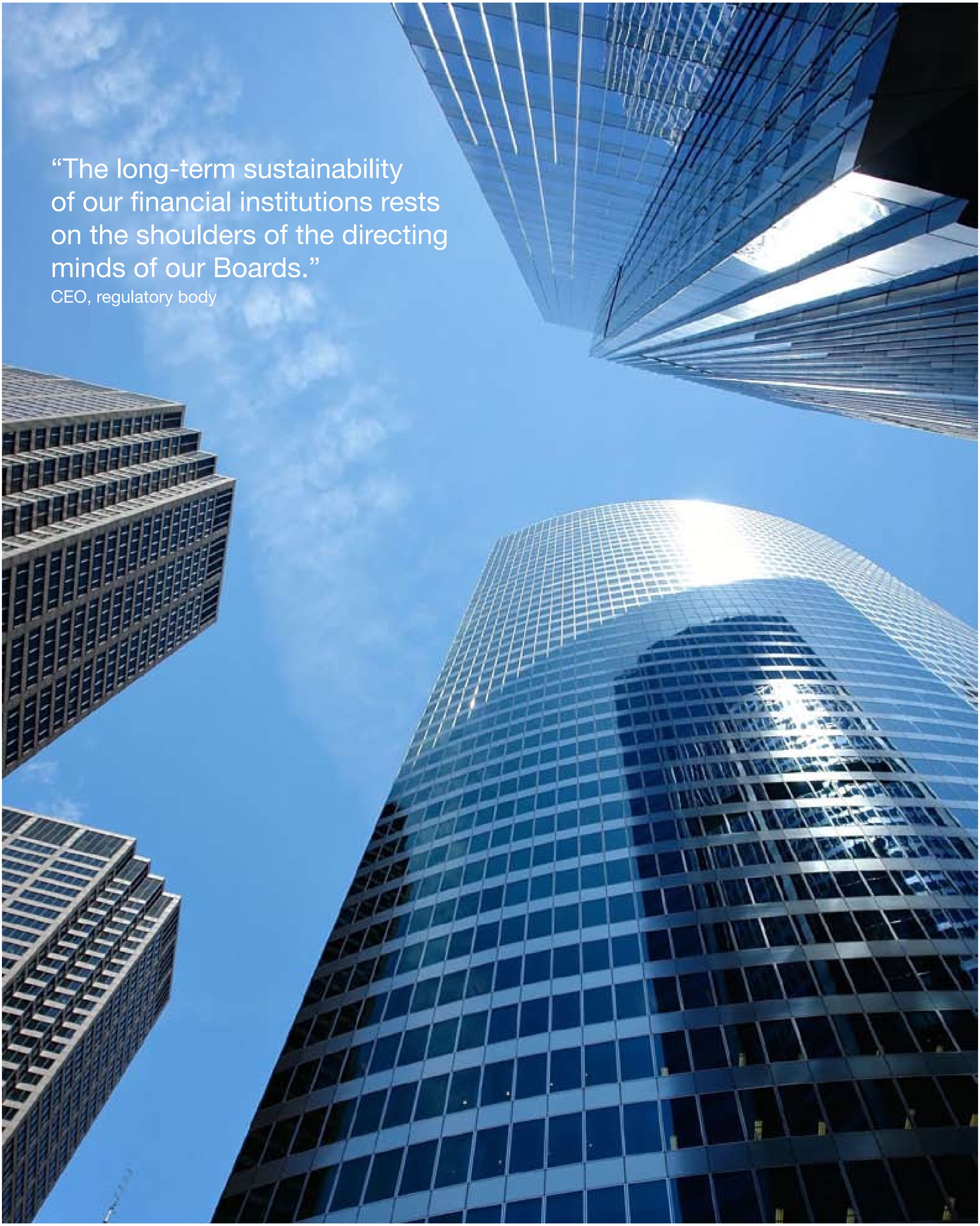

"The long-term sustainability of our financial institutions rests on the shoulders of the directing minds of our Boards."

CEO, regulatory body

ABOUT THIS STUDY

This report has been developed to provide Financial Institutions (FIs) with a framework for setting and structuring remuneration for Non-Executive Directors ("NEDs" or hereafter referred to as Directors unless otherwise described) in order to drive Board performance. It is designed to be easily applied by different FIs, irrespective of type, size and stage of development.

The results of our study are documented in two volumes:

Volume 1: A general volume for Chairmen and Directors which provides an overview of the case for change and the framework.

Volume 2: A technical volume for Remuneration Committee members which sets out the framework in detail, worked examples and how to apply them.

Coverage of the study

- 100 local and foreign FIs from the banking and insurance industry provided input into the study (77% of financial institutions in Malaysia)
- 364 individual Director survey responses were received (56% of FI Directors in Malaysia)
- 22 Chairmen and Directors gave feedback through interviews and group discussions
- International top-tier banks and insurance companies were included as practice comparisons

Definitions

Designations

CEO	Chief Executive Officer
Ch	Chairman
ED	Executive Director
MD	Managing Director
NED	Non-Executive Director
NEDI	Independent Non-Executive Director
NEDNI	Non-Independent Non-Executive Director

Statistical definitions

Lower Quartile (LQ)	Indicates the point at which a quarter of the sample is less than the LQ value
Median	Indicates the point at which half the sample is below, and half above the median value
Upper Quartile (UQ)	Indicates the point at which three-quarters of the sample is less than the UQ value

Country abbreviations

AU	Australia
HK	Hong Kong
IN	India
MY	Malaysia
SG	Singapore
TH	Thailand
UK	United Kingdom
US	United States of America

Others

AGM	Annual General Meeting
Audit Com	Audit Committee
BAFIA	Banking and Financial Institutions Act
BIK	Benefits-in-kind
BNM	Bank Negara Malaysia
Bursa	Bursa Malaysia
CG	Corporate governance
DFI	Direct Foreign Investment
FI	Financial institution
GLC	Government-linked company
GLIC	Government-linked investment company
HC	Human Capital
KPI	Key Performance Indicator
LBG	Local banking groups (covers Affin, Alliance, Ambank, CIMB, EON, Hong Leong, Maybank, Public and RHB)
M&A	Mergers and acquisitions
Nom Com	Nomination Committee
Other banks	All other banks which are not part of LBG
p.a.	Per annum
PCG	Putrajaya Committee on GLC High Performance
PLC	Public-listed company
Rem Com	Remuneration Committee
Risk Com	Risk Committee
RM	Ringgit Malaysia
The Code	Malaysian Code on Corporate Governance

CONTENT

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Board performance and role of Directors
explains the role and responsibilities of Directors for Corporate Governance of FIs, the importance of having good Directors for FIs, and the challenges and expectations of an FI Director. As this study focuses on raising the bar on performance, the role of remuneration needs to be understood in the context of supporting the Board agenda and performance objectives. This section may be used by Chairmen of Boards and members of the Nomination Committees to assist in framing Board responsibilities and targets.

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A performance-driven remuneration framework
sets out the proposed framework to address the issues raised in the Case for Change chapter. The main focus is the iterative 4-step "how to" approach which provides guidance to developing remuneration frameworks. This section should be read by all Chairmen and Directors to obtain a general understanding of the framework. Full details of the 4-step framework are found in Volume 2, which includes worked examples and a step-by-step guide in a case study format.

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Managing the transition
sets out the anticipated challenges and issues FIs will face as they review and reconfigure the remuneration for Directors. This section will provide a guide to Boards as they implement the framework and transition to their revised remuneration position.

EXECUTIVE

SUMMARY

What needs fixing?

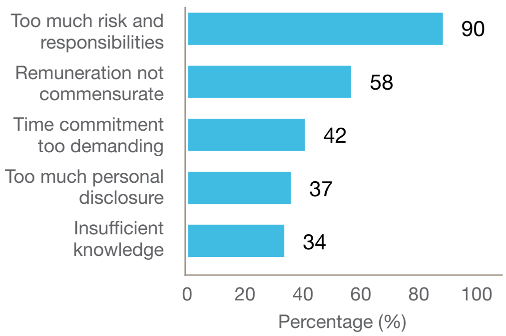
We found a range of expected and surprising outcomes in the course of this study. Overwhelmingly, Directors feel that performance must form the basis of discussing remuneration for themselves. Our findings indicate that a paradigm shift in the approach to decide a 'fair and equitable' remuneration is needed, namely to consider Director remuneration against time and responsibility commitments, as well as to consider this opportunity cost of Director time against discounted professional rates. Equally important is to address the structure, process and economic aspects that will drive Board performance.

A. The pool of FI Directors

Talent pool

- 68% of Directors of local banking groups (LBG) and 44% of Directors felt that there is an insufficient pool of FI Directors in Malaysia

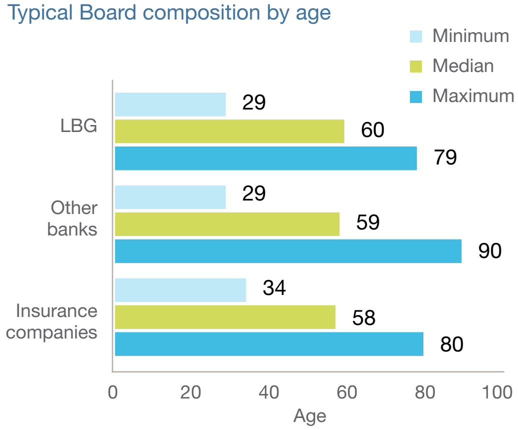
Perceived reasons for individuals not joining the Board of an FI



Board composition

- The UK's Walker Report recommends a maximum tenure of three terms (or nine to 12 years)
- 25% of surveyed FI Directors have served more than nine years; the median age of Directors is 60
- Approximately 150 new Directors will likely be needed to rejuvenate FI Boards

Typical Board composition by age

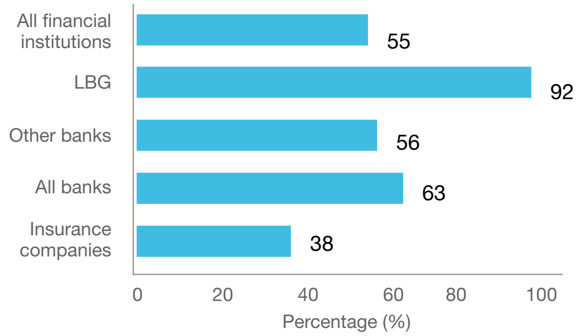


B. Clarity of role and expectations of Directors

Expectations

- A typical Board size of seven to nine means a Director often sits on at least two Committees
- Terms of references for Board and Committee members are not always formally described and communicated to Directors

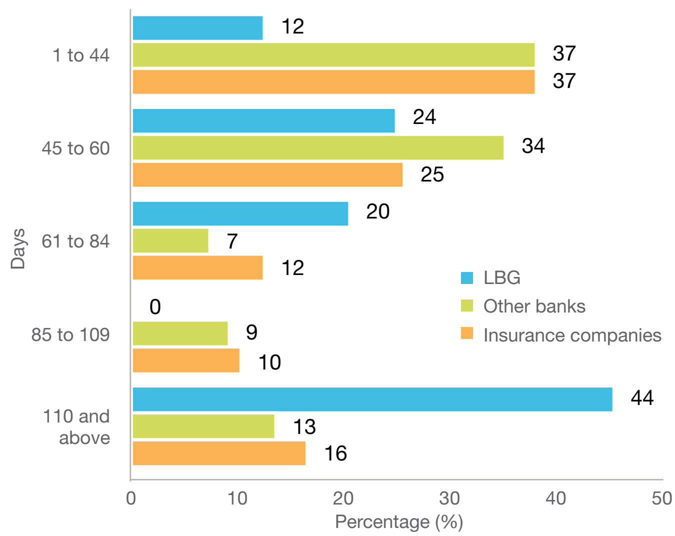
Directors who suggested an increase in Board size



Time commitment

- A Director spends on average 60 days p.a. (twice the figure suggested by the Walker Report), while a significant proportion spends more than 110 days (about 50% of yearly work days) on Board and Committee work

Time spent preparing and attending meetings



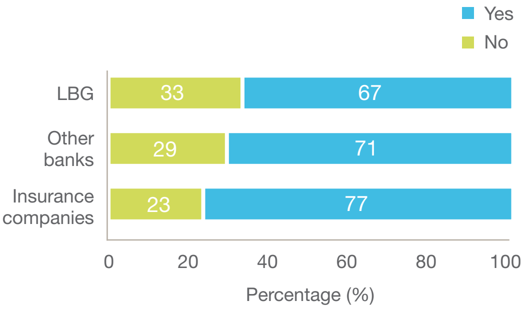
C. Efficiency of Board structures and processes

Structure

- Boards need to consider how to be more efficient and effective, not just increasing fees for time spent
- This will involve setting clear terms of reference and KPIs for the Board and each Committee, reviewing modes of engagement with management and making improvements

Process

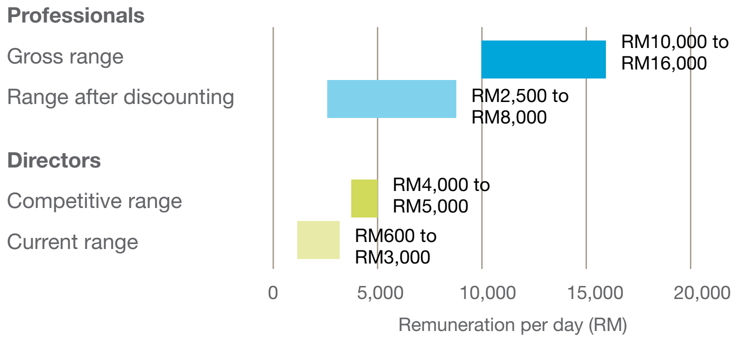
- A majority of FI Directors feel that improving Board practices and processes will increase Board performance



D. Remuneration levels and structure

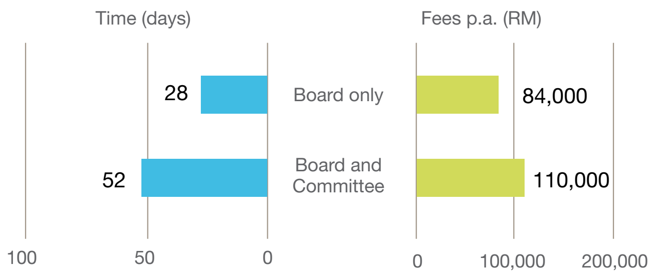
Levels (opportunity cost)

- Current practice is to use benchmarking of absolute amounts as a basis for setting Director remuneration
- Inequity results once time commitment (need to compare 'per day' rates) and opportunity cost (need to consider professional 'per day' rates) is considered
- 83% of all Directors felt that increasing remuneration will make a difference in increasing the talent pool



Structure mechanism

- Committee fees are typically only a fraction of the Board fees. As a result, typical Directors who sit on both Board and Committee receive lower remuneration of RM2,000 per day compared to RM3,000 per day for Directors who sit on Board only
- Time spent by Directors on Committee meetings can increase considerably by two to three times compared to their counterparts who sit on the Board only
- Remuneration on a Group basis needs to consider multiple responsibilities of Directors and the accompanying risks



How to fix

Addressing the issues raised in this study, improving corporate governance and lifting Board performance require a spectrum of actions, of which remuneration is an important component. We recommend that Boards do the following:

- FIs to review Board structure and composition and increase diversity based on their business strategy, the workload of Directors, and the opportunity for Board rejuvenation
- Boards to continuously re-examine their existing structure and processes, including structuring of Committees and modes of engagement
- Director time commitment to be properly assessed and optimised while ensuring that the Board's requirements and objectives continue to be met
- Overall remuneration framework to result in significant differentiation between Directors depending on commitment and skill and expertise
- Alternative remuneration mechanisms to be examined and included as part of the overall framework
- Groupwide remuneration to provide the final input in determining whether fees and time commitment are reasonable

In reviewing the specific Board remuneration component, we have developed the following iterative 4-step framework which will be applicable to any FI. This framework provides a basis for an FI to establish the link between Board performance and remuneration for Directors. Details of this framework are in Volume 2, which includes worked examples.

1 Assess context to determine Board mix and time requirements	2 Set remuneration level	3 Determine remuneration structure	4 Validate remuneration
• Assess FI and Board context (e.g. position, strategy, challenges and plans) • Assess Board talent requirements, including skills and expertise and Board mix, based on context • Where skill requirements can be addressed by training, identify suitable training programmes to upskill talent • Estimate and determine time commitment required, as well as changes and improvements to Board practices, to optimise time commitment	• Assess current levels of fees for Board membership at holding company and in subsidiaries • Conduct opportunity cost analysis and peer group analysis to benchmark fees • Assess current levels of fees for Board membership and contributions in Committees • Set target total fees for each individual Director and Chairman	• Review remuneration structure objectives to achieve and remuneration tools to consider • Select and configure appropriate remuneration tools accordingly to achieve desired objectives	• Aggregate time commitments and fees earned for each Director at Board, Committee and subsidiary levels • Review reasonableness of aggregate time commitments and fees • Make adjustments to memberships in Boards, Committees and subsidiaries

Expected outcome

For many FIs, the application of the framework is a departure from current practices and will have major impacts on the FI. Proper application of this framework can be expected to result in improved Board performance and effectiveness, greater clarity and higher expectations of Directors and more equitable and competitive Directors' remuneration.

Improved Board performance and effectiveness

- Attraction of new talent will address skill and expertise gaps, invigorate Boards, and provide fresh perspective
- Achievement of performance objectives will be monitored and remuneration will be based on performance
- More effective and efficient Boards through improved Board structure and processes

Greater clarity and higher expectation of Directors

- As Boards assess and identify their requirements, there will be greater clarity on performance and contribution levels required of Directors
- The development of charters, terms of reference, and KPIs will define roles and responsibilities and provide clear expectations of Directors
- Directors will need to spend the required time to meet the performance expectations and be remunerated for it

Equitable and competitive Directors' remuneration

- Application of the framework should result in fairer remuneration, commensurating with skill and expertise required, roles and responsibilities, and complexity and intensity of the work
- It should result in remuneration levels which are competitive from an opportunity cost perspective and from a peer group benchmarking perspective
- Incremental adjustment to Board fees and effective per day rates commensurate with risk, responsibility and opportunity cost

Managing the transition

Designing and agreeing on a new remuneration framework is only the first step. A successful framework requires a successful implementation. There will be many interested parties with different views and agendas, most of which need to be managed. This will then ideally be translated into a transition plan that the Board can work through.

Stakeholder to be managed

Internal stakeholder	External stakeholder
Shareholders Senior management Employees Human Capital	Institutional investors Analysts Regulators Public FI industry

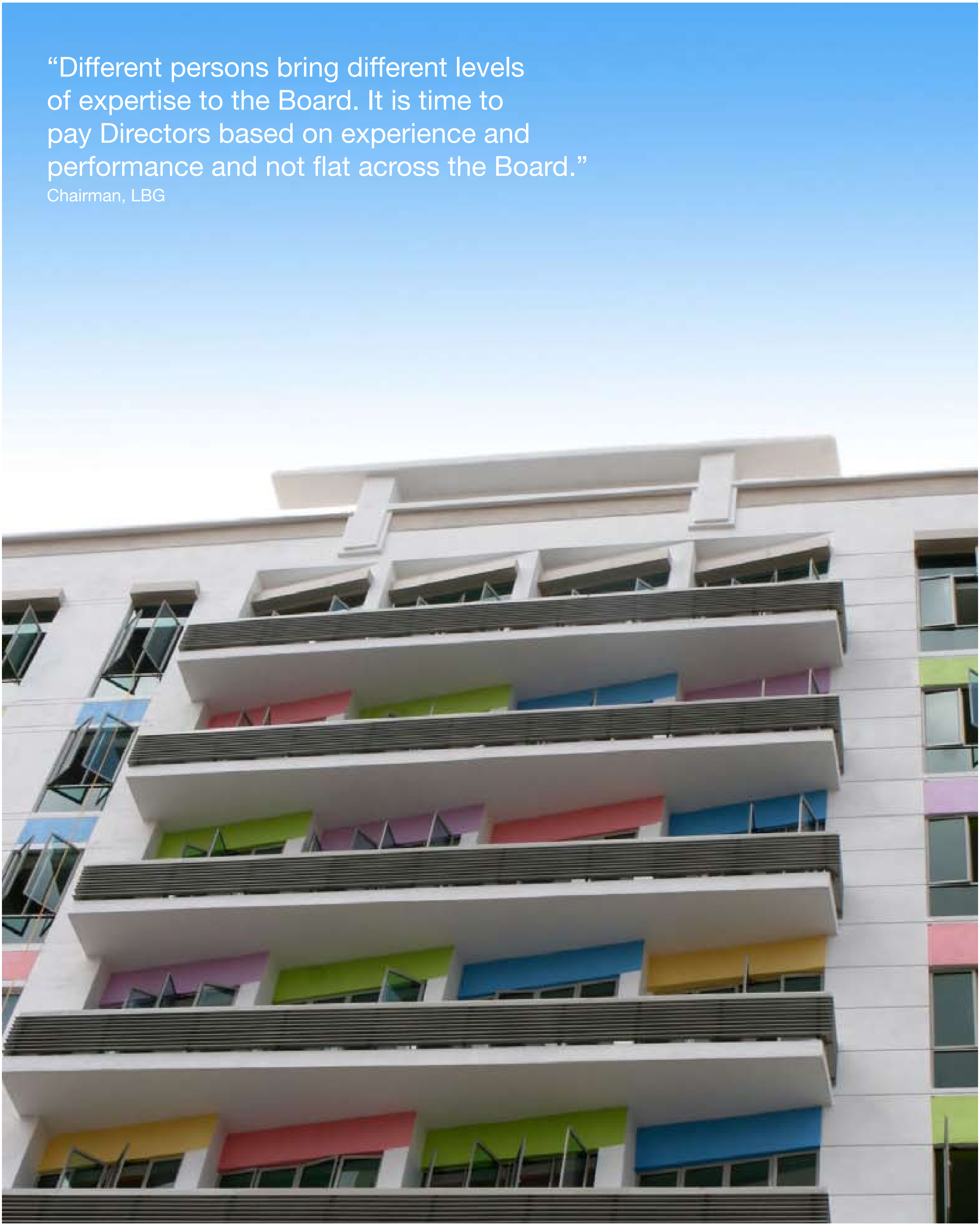
Illustrative transition plan

Milestone	**Nomination/Remuneration Committee meeting**	**Board of Directors meeting**	**Stakeholder engagement**	**AGM**
Minimum timeline	4-6 months before AGM	3-4 months before AGM	2-3 months before AGM	Date of AGM
Milestone description	Develop revised remuneration levels and expectations	Board review and endorsement	Meet with key shareholders, obtain support	Conduct AGM and approve changes

Note:
Each FI will need to review and adjust the suggested time frames to suit their specific circumstance, while still complying with relevant statutory and regulatory requirements. For example, if the FI is listed in Malaysia, then changes in remuneration must be approved at the AGM and notice of the resolution must be circulated to shareholders in accordance with statutory requirements.

"Different persons bring different levels of expertise to the Board. It is time to pay Directors based on experience and performance and not flat across the Board."

Chairman, LBG



CASE FOR CHANGE

There is an overwhelming argument for current remuneration practices to change. From interviews and focus group discussions with FI Chairmen and our comprehensive survey of remuneration practices across the industry, we found six critical cases for change. If left unaddressed, they will affect the industry's ability to attract and retain the best talent going forward.

Case for change: Top 6 reasons

1. Current remuneration practices are based on peer group benchmarking, not performance drivers or consideration of risk and responsibilities
2. Fees vary widely but diminish with increasing time commitment and complexity, and are not always competitive
3. Structuring of fees is not aligned to reflect and remunerate membership on Committees
4. Fee expectations of Directors is three to four times higher than current levels
5. Limited use of innovative remuneration mechanisms
6. Remuneration is impeding ability to attract Directors to Boards of FIs

These 6 reasons present a compelling argument for the need to change current remuneration practices, but it must be in tandem with increased Board performance.

- If left unchecked, these anomalies will affect the industry’s ability to attract and retain the best talent
- Eventually, these remuneration issues will impact the composition and performance of Boards and have a knock-on impact on the governance and performance of FIs
- A blanket increase in fee levels is not the intention or desired outcome of this study. The intention is to highlight that Boards need to up their game and recognise that in delivering performance, Directors need to be fairly remunerated for their contributions

Reason 1:

Current remuneration practices are based on peer group benchmarking, not performance drivers nor consideration of risk and responsibilities

- In our discussions with Chairmen and Company Secretaries, the most common method of determining fees was market practice, in particular, peer group benchmarking (“what others are paying”)
- While there were some FIs that factored size and type of FI into remuneration, few based the remuneration on performance drivers such as expertise, responsibility and contribution, including complexity and intensity of work (number of meetings required)
- Remuneration received by Directors also does not reflect the roles and responsibilities of Directors. In particular, multiple legal risks and extra due diligence they need to exercise, where there is a heavy price for negligence. Case in point, under BAFIA and the Insurance Act, each Board membership carries with it the risk of up to 10 years imprisonment and RM10 million in fines
- These roles, responsibilities and risk exposures are further multiplied by Directors sitting on several Boards within an FI group
- Consequently, it is misleading to examine Directors’ remuneration only at group level as there are multiple entities involved
- Although remuneration quoted on a group basis appears high in absolute terms, on an entity by entity basis, the fee looks much less rewarding
- A “high end” remuneration fee of RM220,000 p.a. could cover up to three to four entities and up to 180 days of time

Board remuneration factors

Current practices	Recommended practices
Peer group benchmarking[1]	Targeted peer group benchmarking[2]
Limited application of size and type of institution	Board and Directors’ performance
	Roles, responsibilities and risks
Benchmarking on absolute fee basis	Time commitment adjustment and per day rate analysis
	Consider economic attractiveness to target directors

[1] Benchmark against general market practices

[2] Benchmark against targeted FIs to attract required Directors

Reason 2:

Fees vary widely but diminish with increasing time commitment and complexity, and are not always competitive

- Remuneration can range from RM15,000 to RM118,000 p.a. for directorship on one Board
- As time commitment and complexity increase, fees diminish, on a per day rate basis. For example, more than 50% of LBG Directors earn less per day than Directors of other banks, even though LBG may be more complex and have a higher time commitment

Remuneration on a per day rate basis – Board only

	Time spent p.a./RM per day					
	LBG		Other banks		Insurance companies	
	Time	RM/day	Time	RM/day	Time	RM/day
UQ	36	3,833	24	5,000	14	3,786
Median	28	3,000	16	3,500	12	2,650
LQ	24	2,893	12	1,252	12	875
Average	30	3,622	18	3,375	14	3,035

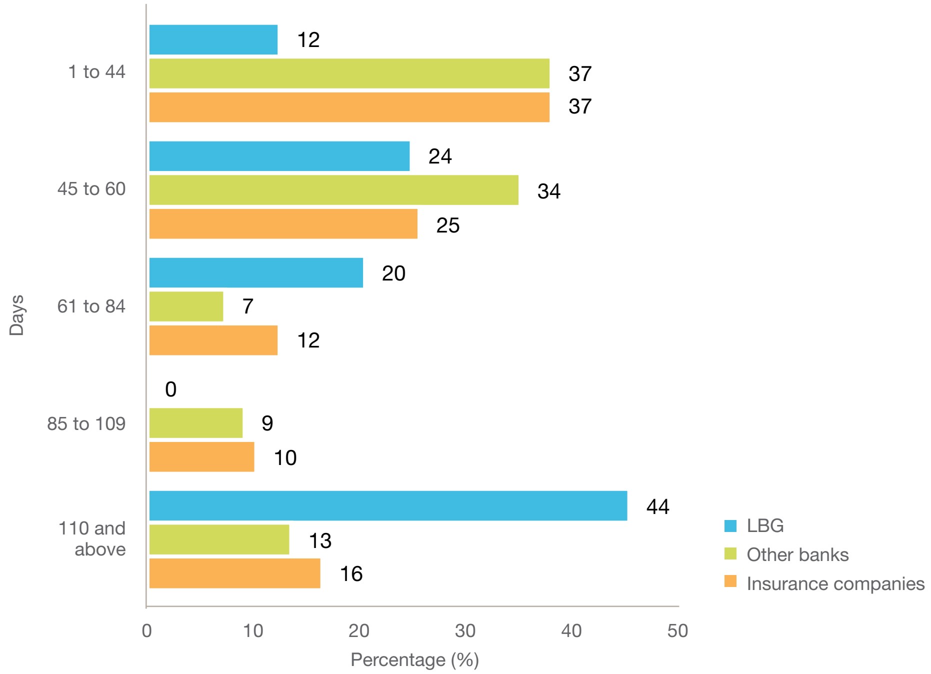
More than 50% of LBG Directors spent more time but earned less than Directors of other banks

Board remuneration factors

Current practices	Recommended practices
Discount on fees with increase in time commitment and complexity	Commensurate with: • expected time commitment requirements • work complexity
Fees diminish with increasing time commitment and complexity	Improve Board practices to increase time efficiency Benchmark against opportunity cost of executives and professionals

- In terms of time commitment, Directors are spending a significant amount of time preparing for and attending Board meetings
- The typical Director spends on average 60 days p.a. on Board and Committee work, which is twice the figure suggested by other studies
- A significant proportion of Directors spend more than 110 days on preparing and attending meetings for Boards and Committees (44% of LBG, 13% of other bank Directors and 17% of Directors of insurance companies)

Time spent preparing for and attending meetings



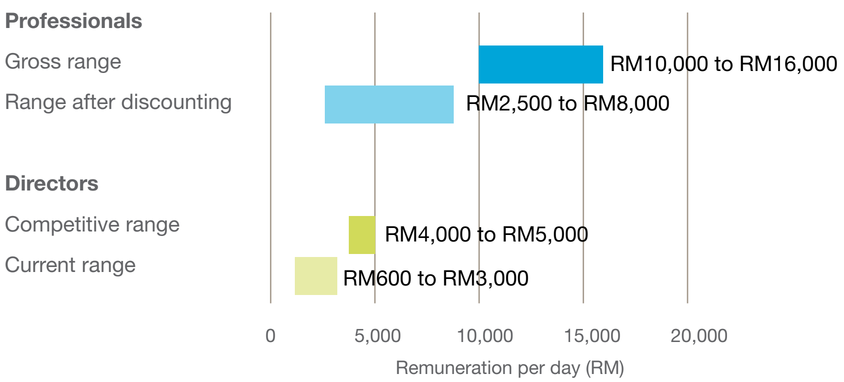
- Boards need to consider how to improve Board efficiency and not just increase fees for time spent
- Director fees also need to be attractive to draw the right Directors with the right experience and skill from the private and professional sectors
- Current daily rates of Directors are significantly below what executives and professionals of similar skills and experience are earning
- Based on a Board and Committee time commitment, the typical daily rate for Director is RM2,000 per day or RM250 per hour. The typical time commitment for banks is 24 to 74 days of work, with a median of 60 days

Remuneration on a per day rate basis – Board and Committee

	Time spent p.a./RM per day					
	LBG		Other banks		Insurance companies	
	Time	RM/day	Time	RM/day	Time	RM/day
UQ	74	2,932	43	2,835	30	2,697
Median	52	2,135	34	2,131	26	1,534
LQ	44	1,977	24	887	22	604
Average	64	2,362	35	2,294	28	1,912

- Comparable opportunity cost for Directors if they were in their respective executive and professional positions ranges from RM8,000 to RM16,000 per day, on a gross basis. For example, the gross charge out rate for a top-end professional ranges between RM10,000 to RM16,000 per day, depending on seniority, and RM8,000 to RM15,000 for a CEO of a major bank
- Even after discounting for overheads such as rental, business development and training (ranges from 50% to 75%), comparable executive and professional fees still range from RM2,500 to RM8,000 per day or averaging around RM4,000 to RM5,000 per day
- A competitive remuneration range of RM4,000 to RM5,000 per day from RM2,000 per day currently can mitigate the high opportunity cost and help FIs to attract the right Directors

Comparison of NED fees to opportunity cost

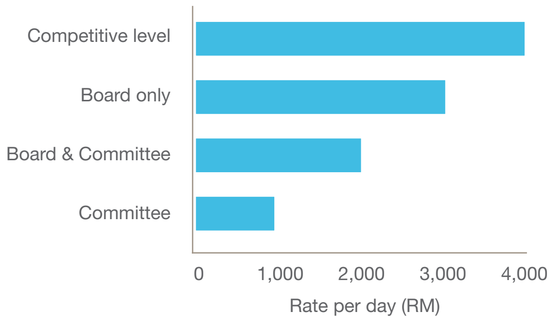


Reason 3:

Structuring of fees is not aligned to reflect and remunerate membership on Committees

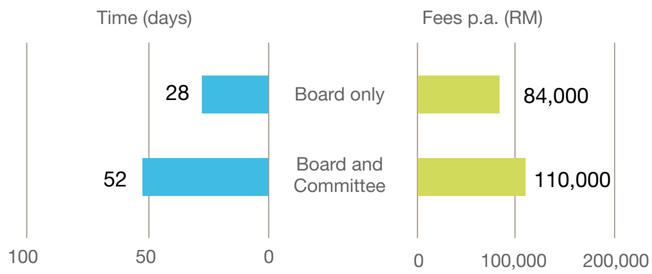
- Director fees typically comprise Board fees and Committee fees (where they are members of Committees in addition to Board)
- Committee fees are structured typically at only a third of the Board fees, or RM1,000 per day. As a result, Directors who sit on both Board and Committee receive lower remuneration (RM2,000 per day), compared to Directors who sit on Board only (RM3,000)

Daily remuneration rates



- Time spent by Directors on Committee meetings can increase considerably by two to three times compared to Board only meetings, while fee may only increase by 20% to 30%
- Time spent by Directors who sit on:
  - Board only: 12 to 36 days
  - Board and Committee: 22 to 74 days
- Remuneration for work on Committee is disproportionate to the increase in work required and effectively disincentivise contribution
- Committee fees are not being used effectively enough to differentiate Directors based on experience and time contributed through Committee work

Time vs Fees



Committee remuneration factors

Current practice	Recommended practice
Discount on Board fees with increased time commitment	Commensurate with: • expected time commitment requirements • work complexity Benchmark against opportunity cost of executives and professionals

Reason 4:

Fee expectation of Directors is two to four times higher than current levels

- Comparing average actual fees to expected fees, Directors' expectations are as much as two times the current levels
- Expectation gap between actual and expected fees increases at the lower quartiles (bottom 25% of Directors surveyed) to as much as three to four times more
- While we are not suggesting that FIs should immediately accommodate the levels proposed by Directors, such a wide expectation gap is indicative of a deeper problem which will impact performance of Directors if left unmanaged
- Notably, the rates suggested translate into per day rates that are more in line with professional per day rates

Actual vs Expected remuneration

	RM p.a. (assuming membership in two Committees)					
	LBG		Other banks		Insurance companies	
	Actual	Expected	Actual	Expected	Actual	Expected
UQ	217,000	375,000	122,000	195,000	81,000	120,000
Median	111,000	280,000	72,500	120,000	40,000	95,000
LQ	87,000	207,500	21,300	90,000	13,300	60,000
Average	80,000	312,000	80,300	147,000	53,500	104,000

Note:
Actual and expected remuneration are based on membership of Board of one entity only, not on group basis

Reason 5:

Limited use of innovative remuneration mechanisms

- Currently, fees are mainly delivered in the form of fixed or retainer fees topped up by per meeting fees
- While there is some evidence of use of benefits-in-kind (BIK), there is little evidence of use of other remuneration mechanisms/tools. For example, use of mechanisms like minimum (and maximum) shareholding requirements to align shareholder and Director interests are rare
- FIs need to understand the full range of tools available to achieve the desired objectives, and need to balance short and long-term Board requirements

Remuneration mechanisms

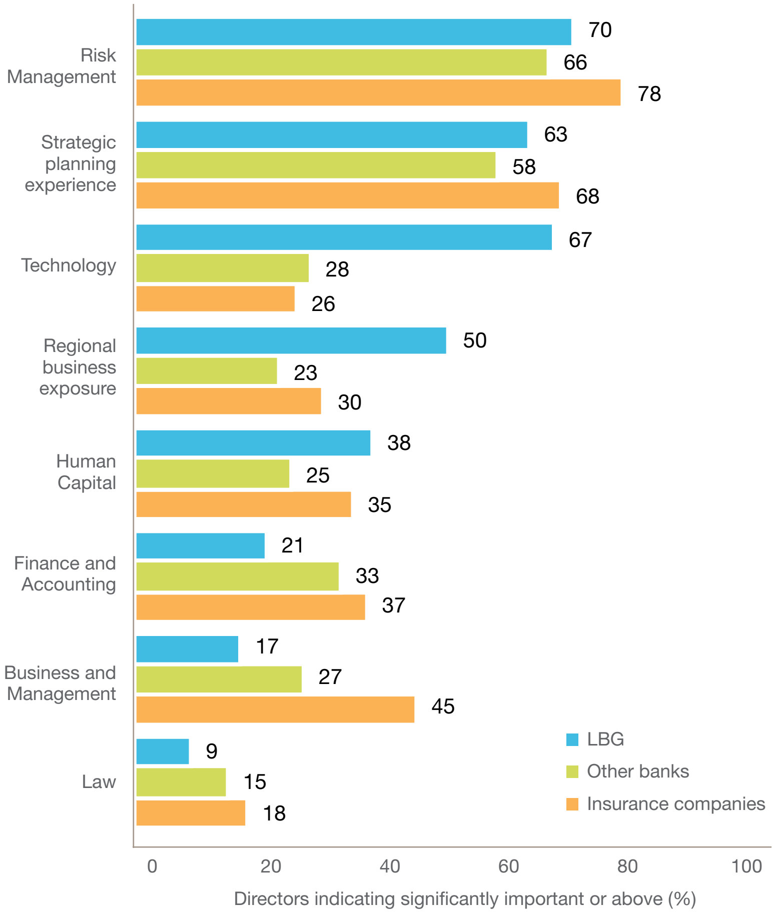
Remuneration tool	Desired objectives
Fixed fee	Motivate responsibility
Meeting fee	Encourage participation
Performance loading	Incentivise commitment
Ex-post and ex-gratia payments	Recognise long service and strong contribution
Stock awards	Cultivate long-term perspective and sense of belonging
BIK	Retain talent
Sign on “bonus”	Attract talent
Sign off “bonus”	Release talent

Reason 6:

Remuneration is impeding ability to attract Directors to Boards of FIs

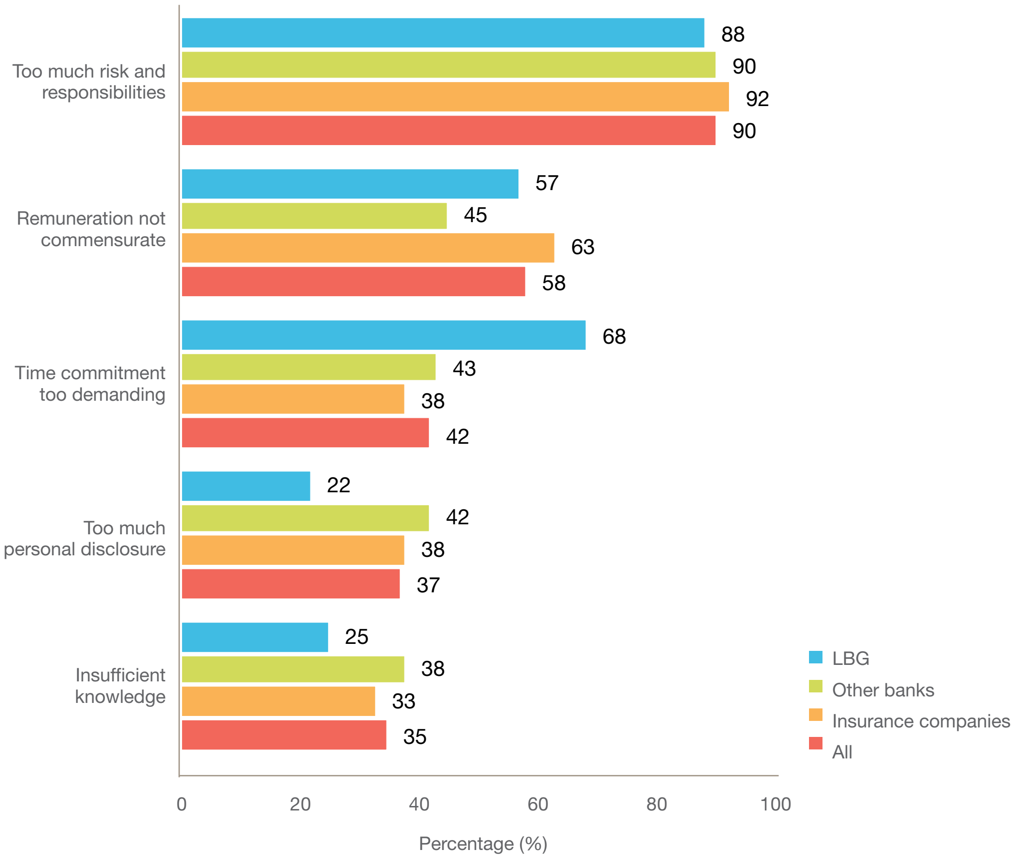
- Board demand for talent is going to grow, given increasing pressures from innovation, liberalisation and regionalisation, but current remuneration practices do not make remuneration attractive to potential candidates
- As the financial services sector gears up for the next stage of transformation, Boards are going to be faced with new challenges and increased demand for talent to navigate the future
- Immediate demand is for talent with functional/technical expertise, especially risk management and strategic planning skills. More than 60% of Directors also indicated the need for more Directors with regional expertise

Key competencies and skills that need to be developed



- While demand for talent is increasing, 68% of Directors of LBG and 44% of Directors of all FIs felt there is an insufficient pool of Directors on FI Boards in Malaysia
- The reasons for not wanting to join the Board of an FI include excessive risk and responsibility (90% of Directors), and remuneration not commensurate with risk and responsibilities (58% of Directors)
- 83% of all Directors felt that increasing remuneration will make a difference in increasing the talent pool

Perceived reasons for individuals not joining an FI Board




"The financial crisis highlighted gaps in the financial industry relating to management of risk and the need to align remuneration in order to shape long-term sustainable performance."
Chairman, major insurance company

INTERNATIONAL MARKET PRACTICE COMPARISON

How do remuneration levels and practices in Malaysia compare to other countries and international markets? We compared remuneration levels and practices in Malaysia to those in other global and regional markets. For each market, we compared the levels and practices for the top leading banks and insurance companies.

At-a-glance comparison with international markets

Basis for comparison[1]

- We compared remuneration levels and practices in Malaysia to those in other markets – Singapore, Thailand, Hong Kong[2], Philippines, India, Australia, UK and US. For each market we compared the levels and practices for the top three to four leading banks and insurance companies by size
- Countries selected for study are based on lessons to learn and good practices to understand, and countries considered part of Malaysia's regional peer group

Results of comparison

- Remuneration levels in Malaysia are low compared to FIs in UK and US, but actually moderate compared to FIs in the region. In the case of banks, higher than in Hong Kong but lower than in Thailand
- Remuneration practice of FIs in other countries appear to be similar to Malaysia - remuneration focused on "what others pay" rather than performance drivers, opportunity cost or even market capitalisation and asset size
- No global standard for structure of remuneration. Some pay a combination of fixed and meeting fees, some fixed fees only and some meeting fees only. Some use bonuses while others are not in favour of them

Note:

1 This comparison was conducted based on interviews and publicly available and disclosed information, and is affected by the level of disclosure in these countries

2 FIs in Hong Kong which are headquartered or listed in UK were not included in the study as the remuneration levels and practices for UK FIs have already been included

Remuneration in Malaysia is moderate compared to regional markets

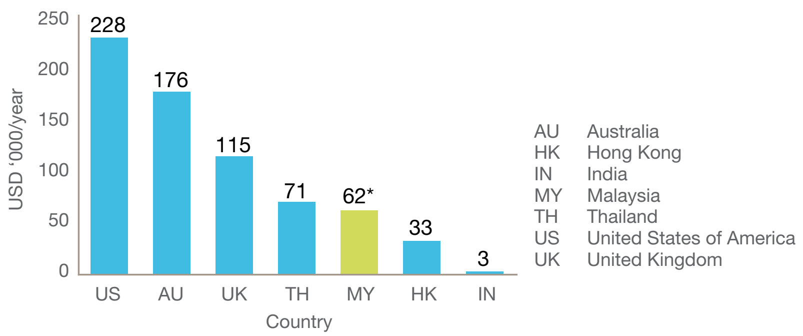
The charts depict the average remuneration levels for the leading banks and insurance companies in each market.

As indicated by the charts, remuneration levels in Malaysia are low compared to US and UK but moderate compared to FIs in the region. In the case of banks, remuneration levels in Malaysia are lower than in Thailand, but actually higher than in Hong Kong which is a centre for banking and finance in the region.

Note:
- Analysis based on information disclosed in annual reports. One of the insurance companies in India implemented a bonus scheme based on profit, thus affecting the average NED remuneration figures for insurance companies in India
- Chairman fees have been excluded from the analysis
- Fees for Malaysia include Committee fees as these figures are not disclosed separately
- Fees for Directors of insurance companies in Philippines have not been included because of lack of publicly available information

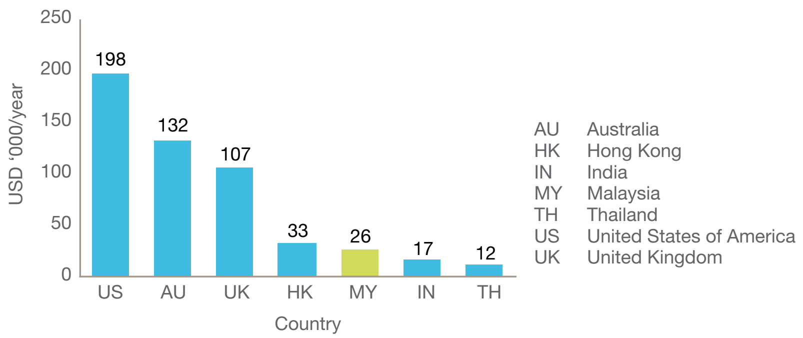
At-a-glance comparison of NED remuneration excluding Committee fees

Leading banks



* Fees for Malaysia include Committee fees

Leading insurance companies

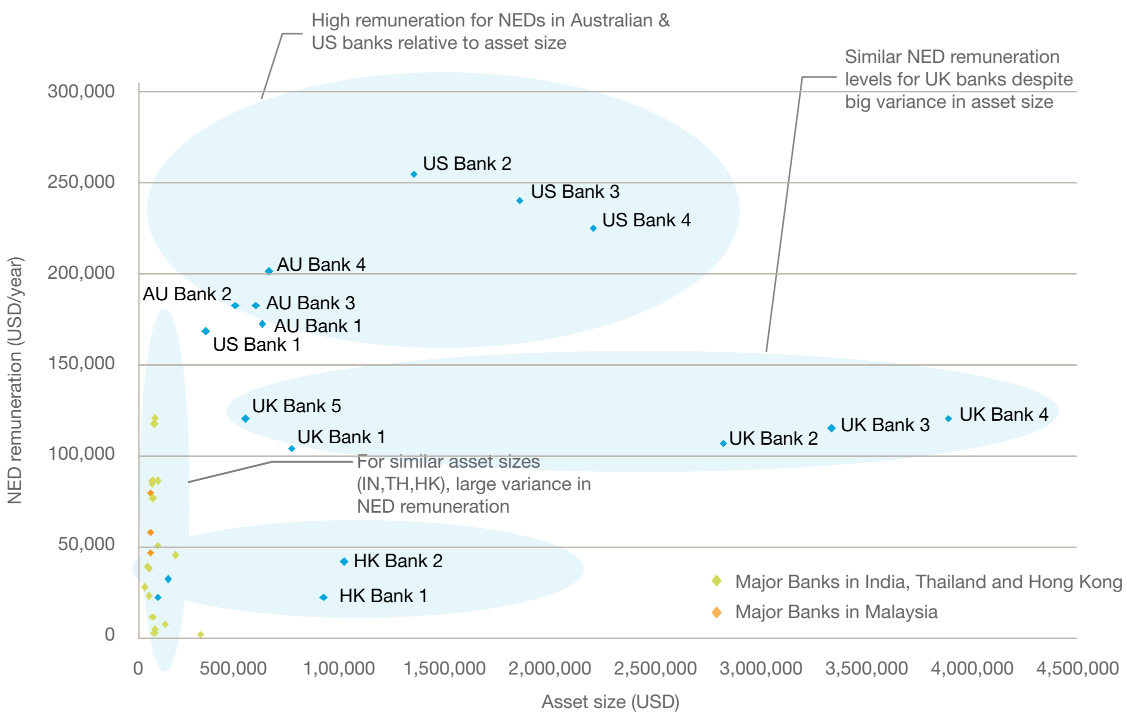


Analysis suggests that remuneration practices tend to be based on "what others are paying"

The chart below shows the remuneration levels and asset sizes of the leading banks in each market.

There is no clear correlation between remuneration level and asset size. However, remuneration levels are similar within countries, indicating that FIs are benchmarking remuneration against each other to set remuneration.

At-a-glance comparison of remuneration levels and asset sizes



Source: Annual reports; Bloomberg

No global standard for structure of remuneration

- There is a variety of practices in the different countries, reflecting differences in perspectives, history and culture and the prevailing thinking in those countries
- In terms of fixed and meeting fees, some markets use a mixture (Singapore, Thailand and USA), some use only fixed fees (Australia, UK and HK), while others use only meeting fees (India)
- Typically, all FIs in the countries studied provided additional remuneration for contributions as Chairman and member of Committees, and we observed higher fees for Audit and Risk Committees than other Committees in general
- While FIs in some countries provide bonus payments (Thailand and Singapore), most do not
- Fees in the form of stocks were found in US and Australian FIs, and some Singapore FIs. Use of stocks in Australia is expected to decrease as these were mainly used for tax reasons and the tax provisions are now being tightened

At-a-glance comparison of remuneration practices

Country	Remuneration practice
Thailand	Typical remuneration structure comprises fixed fee, meeting fee and variable bonus (for banks). Variable bonus for the banks studied could represent as much as 50% of total remuneration.
Singapore	Typical remuneration structure comprises base Board fee and additional Committee fee. Some incidence of bonus payment. NEDs generally do not receive benefits on top of fees. Non-Executive Chairmen receive benefits, typically in the form of bonuses (cash/variable) and stock-based remuneration.
Hong Kong	NED remuneration typically comprises Director fees and Committee fees. NEDs do not receive retirement scheme, share plan or meeting fees.
India	NED remuneration based on “sitting” or meeting fee and number of meetings, with differentiation in sitting fee between Board or Committee meeting.
Australia	Comprises base fee, Committee fee, and superannuation. No incentive/bonus payments or meeting fees. Retirement allowance scheme has been discontinued but accrued retirement benefits still valid. Existence of NED Share Plan participation on voluntary or mandatory basis, ranging between minimum of 10% to maximum of 80% of annual fee.
UK	Comprises base Board fee and additional Committee fee. No meeting fees. NEDs (with the exception of Non-Executive Chairmen) do not receive non-cash benefits. Non-Executive Chairmen receive non-cash benefits, typically in the form of private medical insurance, company cars and company driver.
US	NED remuneration comprises base Board fee, additional meeting fee and stock-based remuneration. Common practice is to remunerate Directors approximately one-third cash and two-thirds stock-based remuneration. Committee Chairmen generally receive additional remuneration, but members of the Committee do not.

"There needs to be structure in terms of linking Director remuneration to Board performance."
Chairman, LBG

BOARD PERFORMANCE AND ROLE OF DIRECTORS

The fundamental role of the FI Board is to ensure sustainable, long-term success of the institution. While getting the right Directors is a given, sustainable Board performance will depend on good structuring, effective supporting processes and a healthy culture. Board performance then forms the foundation of the remuneration framework proposed in this study.

Board performance and role of Directors

Rules, regulations and expectations of Directors

As set out in the Case for Change section, much is expected of FI Directors. Clearly, from our interviews and focus group sessions, Directors feel that expectations of performance have been raised. While the current economic situation and global climate make the role of an FI Director extremely challenging, the role has always been a demanding one. Various acts, regulations and best practice guides spell out the expectations of Directors including:

- Bank Negara Malaysia's regulations and guidelines (GPs)
- Companies Act 1965 (Amended 2007)
- Capital Markets & Services Act (2007)
- Securities Commission Act (2007)
- Thought leadership (PCG GLC Transformation Manuals)

Major responsibilities of the Board (BNM Guidelines on CG)

1. Review and approve strategies, business plans and significant policies and monitor management's performance in implementing them
2. Set corporate values and clear lines of responsibility and accountability that are communicated throughout the licensed institution
3. Ensure competent management
4. Ensure that the operations of the licensed institution are conducted prudently, and within the framework of relevant laws and policies
5. Ensure that the licensed institution establishes comprehensive risk management policies, processes and infrastructure, to manage the various types of risk
6. Set up an effective internal audit department, staffed with qualified internal audit personnel, covering the financial and management audit
7. Establish procedure to avoid self-serving practices and conflicts of interest including dealings of any form with related entities
8. Establish and ensure effective functioning of various Board Committees
9. Ensure that the licensed institution has a beneficial influence on the economic well-being of its community

Boards needs to remain continuously engaged

The key to sustainable Board performance is to remain engaged in different situations. Although a Board should never assume the responsibilities of management, it must be cognisant of situations where it needs to pay more attention to guiding the executive team, and in other situations where it can assume more of a pilot role.

The Board will need to be flexible in terms of identifying its role on an issue by issue, year by year and Committee by Committee basis. In addition, the Board needs to balance consideration of short and long-term organisational performance.

Short-term performance:

- Governance, risk management and compliance
- Support development of short-term strategy and monitor its execution
- Attend to material events as they arise

↔

Long-term performance:

- Support development of long-term strategies
- Monitor progress against long-term targets
- Monitor management of key operational indicators including talent, R&D and controls

Board performance is the result of the right mix of Board composition, Board structuring & practices and aligned supporting remuneration

Getting the right composition and structure form the basis of a performing Board…

Getting the most out of a Board involves more than assembling the best Directors in one team. The structuring of the roles and responsibilities to ensure that the right skills are put in the right place is important, as is considering the spread of the responsibilities between Directors. The objective is to manage the dynamics of the team by considering individual strengths and characteristics and balancing this against creating a sustainable workload. At a minimum, structuring of the Board will cover:

- A Board charter and terms of reference for all Board Committees that fully describe the responsibilities of the Board as well as its link and relationship with the management team
- Creating yearly targets and objectives for the Board and all Committees, i.e. defining 'performance' and estimated time commitment
- Identifying the optimal size of the Board to ensure that the workload of Directors is managed

… which needs to be continuously improved…

On an ongoing basis, the requirements of and challenges faced by Boards change. It is critical to ensure that the Board mix and capabilities are continuously updated through internal and external training.

This study shows that the median tenure for FI Directors is 6 years, and they typically receive three training events p.a. The survey results indicate that Directors are satisfied with the training provided. Top on the list of areas to be addressed is technical or functional expertise which reflects the often technical nature of FIs and the need for Directors to stay relevant.

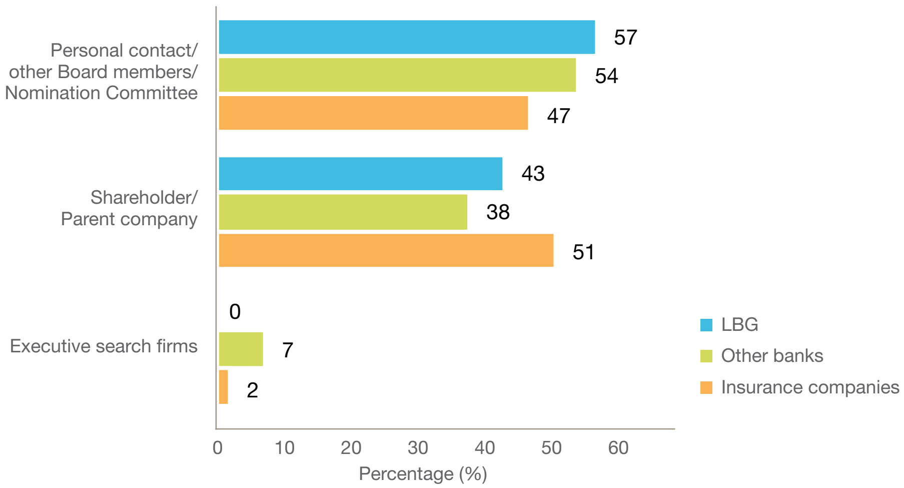
… and needs to be supported by well designed Board processes

In as much as the Board composition and structure are important in creating a performing Board, the Board cannot be effective if its supporting processes are not up to the mark. While all processes are important, the following are the most critical to ensure that Board meetings are optimised:

- Agenda management: Within the context of an Annual Agenda Calendar, individual meetings with clear agenda items, with tightly managed timing as the objective
- Information management: Thorough yet concise Board papers to be provided to Directors with sufficient reading time, with informed decision-making as the objective
- Director selection: Periodic assessments of additional skills/experience that will add to the Board's performance together with Director suitability evaluation

Typical Board/Committee Charter components	
Terms of Reference • Composition • Members • Objectives • Duties & Responsibilities • Power • Frequency of meetings	Position description • Chairman • Executive members • Non-Executive members

Processes employed for identifying potential NEDs



The Chairman and Nomination Committee are jointly responsible for continuously creating and implementing Board improvement programmes

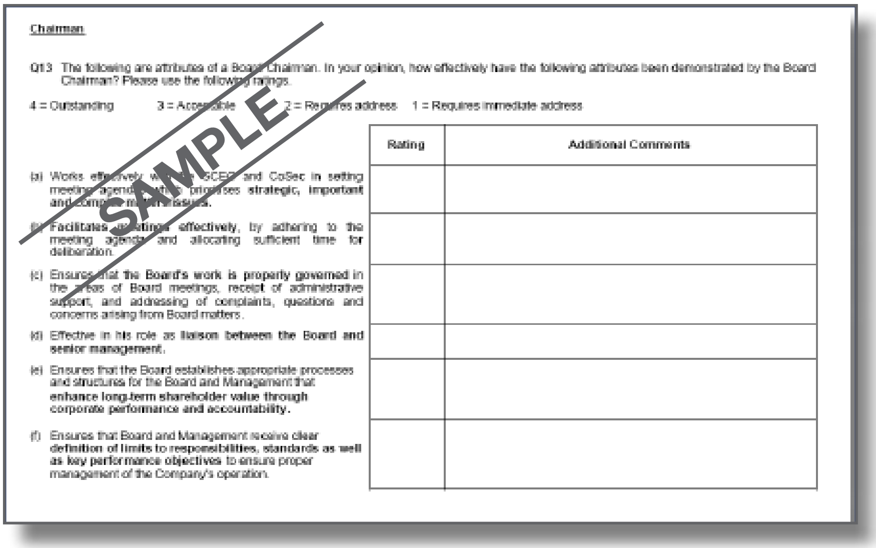
The Chairman plays a key role in maintaining Board performance and culture…

The ability of the Board to elevate itself from merely ticking boxes to truly adding value is principally influenced by the culture in which it operates. Robust debates can only occur in a trusting, respectful and candid climate, where views are shared honestly in a professional manner. The Chairman plays a significant role in creating this atmosphere and is the primary driver of Board culture. One Chairman indicated that he didn't have problems attracting individuals to join his Board because of the reputation of the Board's culture in the industry.

… with the Nomination Committee supporting this through updated performance evaluations

Although most FIs reported that formal Board performance evaluations are in place, the Nomination Committee needs to ensure that these result in actionable Board improvement programmes to be jointly managed by the Chairman and the Nomination Committee.

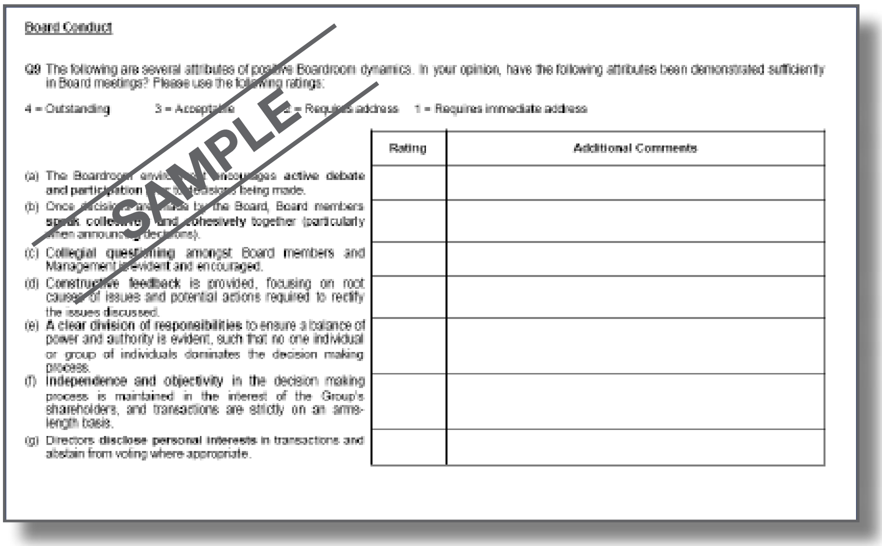
Extracts of Chairman and Board evaluation questionnaire


Chairman

Q13 The following are attributes of a Board Chairman. In your opinion, how effectively have the following attributes been demonstrated by the Board Chairman? Please use the following ratings.

4 = Outstanding 3 = Acceptable 2 = Requires address 1 = Requires immediate address

	Rating	Additional Comments
(a) Works effectively with the CEO and CoSec in setting meeting agendas that prioritises **strategic, important and complex matters/issues.**		
(b) **Facilitates meetings effectively**, by adhering to the meeting agenda and allocating sufficient time for deliberation.		
(c) Ensures that **the Board's work is properly governed** in the areas of Board meetings, receipt of administrative support, and addressing of complaints, questions and concerns arising from Board matters.		
(d) Effective in his role as **liaison between the Board and senior management.**		
(e) Ensures that the Board establishes appropriate processes and structures for the Board and Management that **enhance long-term shareholder value through corporate performance and accountability.**		
(f) Ensures that Board and Management receive clear **definition of limits to responsibilities, standards as well as key performance objectives** to ensure proper management of the Company's operation.		


Board Conduct

Q9 The following are several attributes of positive Boardroom dynamics. In your opinion, have the following attributes been demonstrated sufficiently in Board meetings? Please use the following ratings:

4 = Outstanding 3 = Acceptable 2 = Requires address 1 = Requires immediate address

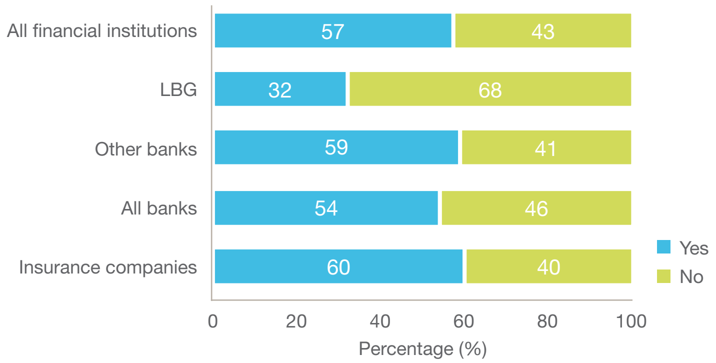
	Rating	Additional Comments
(a) The Boardroom environment encourages **active debate and participation** prior to decisions being made.		
(b) Once decisions are made by the Board, Board members **speak collectively and cohesively** together (particularly when announcing decisions).		
(c) **Collegial questioning** amongst Board members and Management is evident and encouraged.		
(d) **Constructive feedback** is provided, focusing on root causes of issues and potential actions required to rectify the issues discussed.		
(e) **A clear division of responsibilities** to ensure a balance of power and authority is evident, such that no one individual or group of individuals dominates the decision making process.		
(f) **Independence and objectivity** in the decision making process is maintained in the interest of the Group's shareholders, and transactions are strictly on an arms-length basis.		
(g) Directors **disclose personal interests** in transactions and abstain from voting where appropriate.		

In addition to managing performance at the individual FI level, the industry as a whole needs to actively manage the Director talent pool

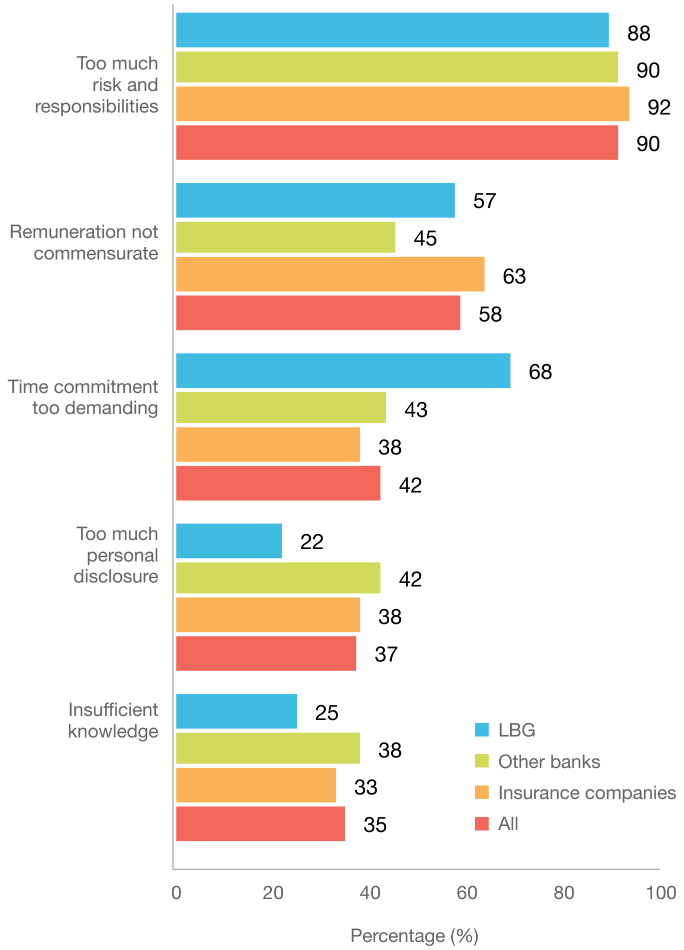
The FI industry has a need to create a strong value proposition to top professionals, businessmen and individuals

- There is likely to be a talent deficit in the next few years - 43% of Directors felt that the current talent pool is not sufficient
- 25% of Directors have been on Boards for more than nine years, presenting an opportunity to rejuvenate Boards. In addition, given their workloads, Directors felt the optimal Board size needs to increase from between seven to nine currently to eight to 13. This will require approximately 300 more NEDs or 50% more than the current pool
- The top reasons for not wanting to be an NED include too much risk and responsibility, remuneration not commensurate with risk and responsibility, and time commitment too demanding
- At the individual FI level, implementation of the recommended framework will require FIs to address the remuneration and time commitment issues
- However, with the gap that currently exists, this is not just an issue for individual FIs to solve but for the industry as a whole to address

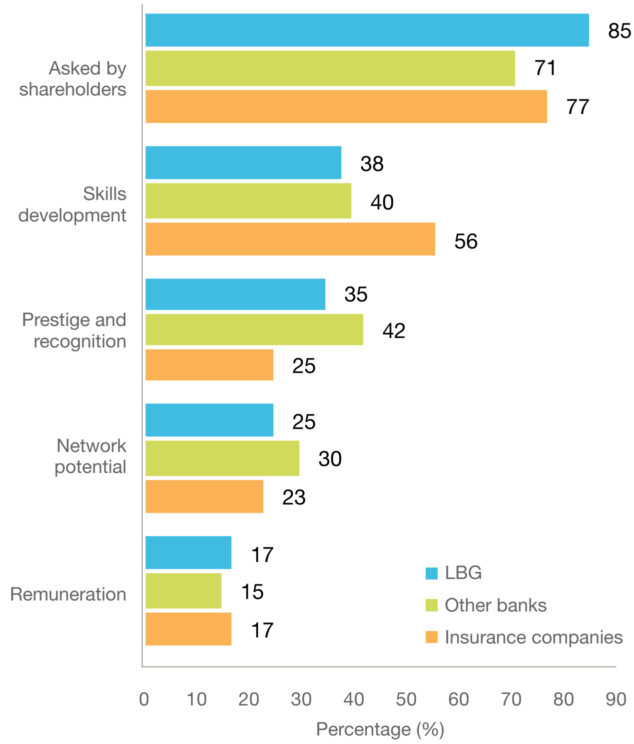
Sufficiency of current talent pool

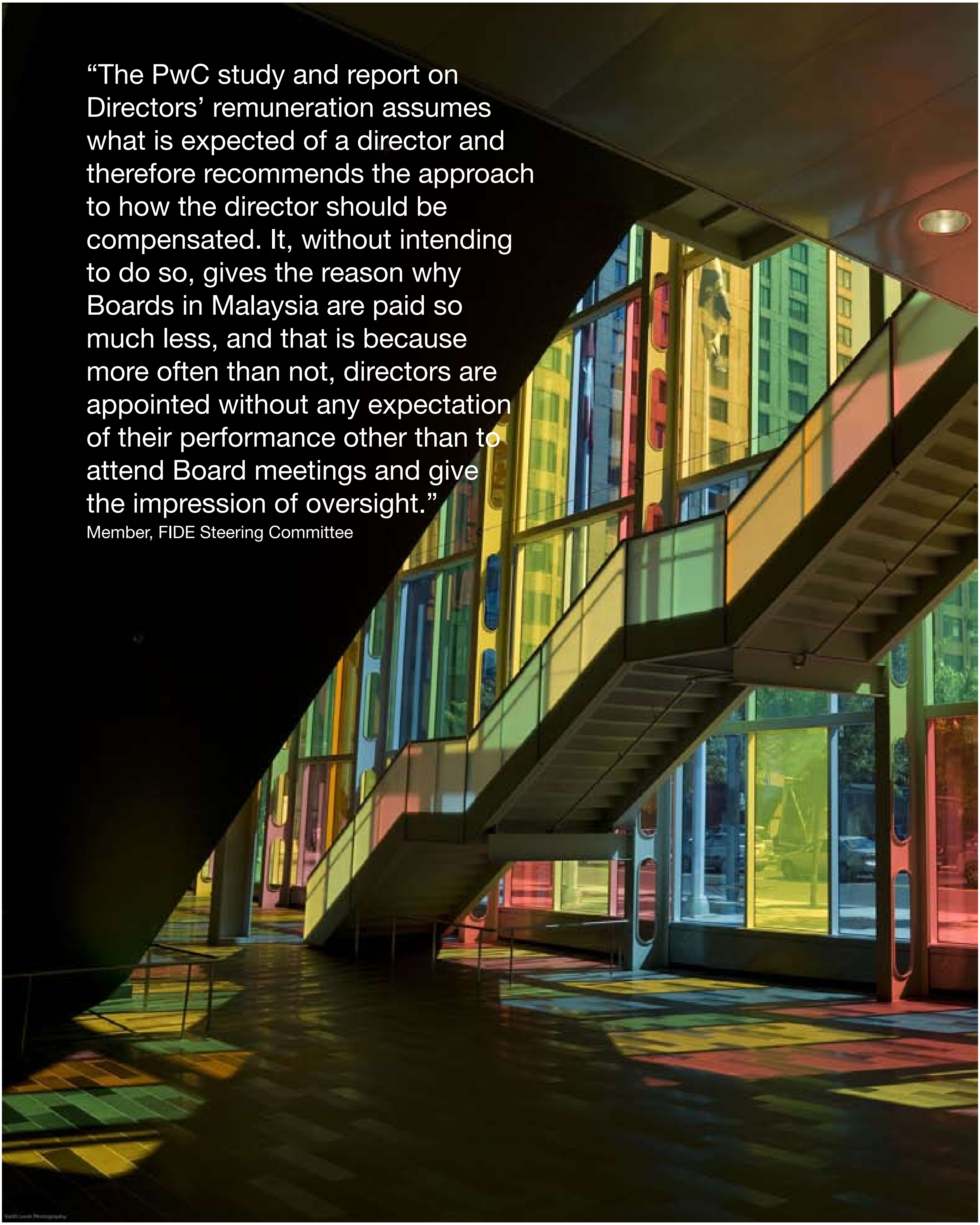


Perceived reasons for individuals not joining the Board of an FI



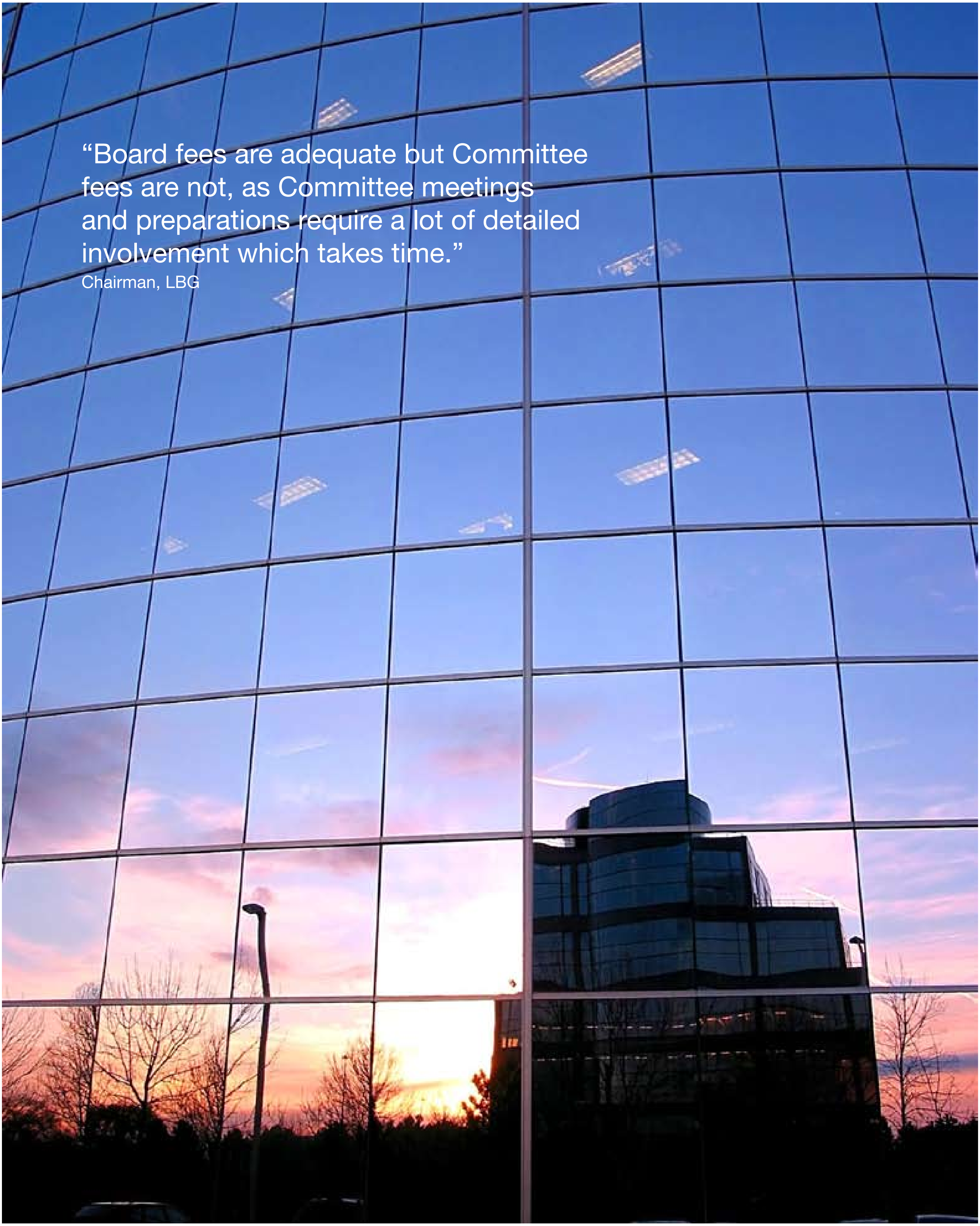
Reasons for NEDs to join the Board





"The PwC study and report on Directors' remuneration assumes what is expected of a director and therefore recommends the approach to how the director should be compensated. It, without intending to do so, gives the reason why Boards in Malaysia are paid so much less, and that is because more often than not, directors are appointed without any expectation of their performance other than to attend Board meetings and give the impression of oversight."

Member, FIDE Steering Committee



"Board fees are adequate but Committee fees are not, as Committee meetings and preparations require a lot of detailed involvement which takes time."
Chairman, LBG

A PERFORMANCE-DRIVEN REMUNERATION FRAMEWORK

The remuneration of Directors is directly linked to expectations of them and sustainable performance as set out in the previous chapter on ‘Board performance and role of Directors’. While remuneration is not the key motivation for Directors, it does need to fairly reflect responsibility and contribution and address the cases for change set out in earlier sections. These include considering opportunity cost and not just market practice, differentiating more significantly Committee responsibilities, extending the range of remuneration mechanisms used and consideration of Director time commitment across individual and group scenarios.

Board performance is the result of right mix of Board composition, Board structuring & practices and aligned supporting remuneration

The traditional approach to setting remuneration levels for Directors has primarily been driven by an analysis of market practice. This means that the Remuneration Committee usually obtains a copy of the latest remuneration survey, after which they will assess among themselves the possible market position that they feel “makes sense” and proceed to put this through. Sometimes an external consultant is commissioned to validate the desired levels, again, usually against market practice.

While this approach ensures parity with other Board practices, it usually ignores the individual situation of the Board – such as risk and responsibility undertaken, skill and expertise required and time to commit. It also ignores additional work or work out of the ordinary such as during mergers and acquisitions (M&A) and business transformations. In addition, it ignores the opportunity cost for the Directors who are spending their time on the Board.

We propose a 4-step framework to setting remuneration to address the shortcomings of the current practice and put in place the enablers of Board performance. The 4-step framework is summarised in this section and set out in detail in Volume 2 of this study.

Framework principles

The development of this framework is guided by the following set of principles to ensure the framework is fair and comprehensive:

1. Remuneration levels should be described in relation to skill/experience requirements and expected time commitment
2. Remuneration levels must be considered from both the perspectives of market practice as well as opportunity cost
3. Remuneration structures must utilise the full range of mechanisms as deemed suitable to fit the situation the FI is in
4. Remuneration structures must be validated against group as well as individual experience under various scenarios

The 4-step framework is designed to achieve the objectives of remunerating for role, responsibility and contribution of Directors

Objective of remuneration

The fundamental objective of remuneration is to reflect the ongoing responsibility of Directors as well as to ensure that different contribution levels (in terms of work, effort and time) are considered. This means that the complexity and intensity of roles need to form the basis for the setting of remuneration. The different roles include the Chairman of the Board, Committee Chairmen and members, and need to be suitably reflected on an individual basis. Differences in roles and responsibilities between Committees also need to be reflected e.g. between Audit and Nomination Committees. This achieves the objective of differentiating contribution of work, effort and time between Directors. At the same time, the levels and different remuneration mechanisms need to be able to manage potential conflicts of interest.

In order for Board performance to improve, it is not enough for remuneration to change, but all Directors also need to be involved in the 4-step framework and understand the rationale behind the change.

The 4-step framework to setting remuneration

1 Assess context to determine Board mix and time requirements	2 Set remuneration level	3 Determine remuneration structure	4 Validate remuneration
• Assess FI and Board context (e.g. position, strategy, challenges and plans) • Assess Board talent requirements, including skills and expertise and Board mix, based on context • Where skill requirements can be addressed by training, identify suitable training programmes to upskill talent • Estimate and determine time commitment required, as well as changes and improvements to Board practices, to optimise time commitment	• Assess current levels of fees for Board membership at holding company and in subsidiaries • Conduct opportunity cost analysis and peer group analysis to benchmark fees • Assess current levels of fees for Board membership and contributions in Committees • Set target total fees for each individual Director and Chairman	• Review remuneration structure objectives to achieve and remuneration tools to consider • Select and configure appropriate remuneration tools accordingly to achieve desired objectives	• Aggregate time commitments and fees earned for each Director at Board, Committee and subsidiary levels • Review reasonableness of aggregate time commitments and fees • Make adjustments to memberships in Boards, Committees and subsidiaries

Note:
Detailed guidance with a step by step description of the framework and worked examples are provided in Volume 2 to illustrate the application of the framework.

Non-cash mechanisms also need to be considered

There are other mechanisms which the Board should also consider to improve their performance. These include tenure limits, appointment letters and performance evaluations. A full list and description is provided below.

List of non-cash tools to be considered

Tool	Description
Tenure limits	Specifying maximum limits to the tenure of Directors. Tenure limits are seen as tools to encourage independence (so that Directors do not become entrenched) and also provide Boards with a means of refreshing talent.
Appointment letters	Developing appointment letters which specify expectations of Directors such as their role, responsibility, expected number of meetings and expected time commitment. Appointment letters help to develop, set and communicate expectations of Directors to avoid misunderstanding and optimise Director performance.
Performance evaluation	Evaluating the performance of Directors, using the results to identify improvement opportunities, and linking to remuneration to drive good behaviours and performance.
Timing of payments	Increasing the frequency and regularity of payments so that Directors do not just receive payment once a year after the AGM and Directors do not feel like they are “subsidising” FIs.
Training	Providing Directors with training at prestigious and well recognised institutions. Many FIs send their Directors for executive training at Ivy League universities and Directors value this training.

To ensure the Framework is robust and relevant, the 4-step framework needs to be applied iteratively

Framework considerations

We have developed the 4-step framework following numerous interactions with Directors, Chairmen, internal specialists and industry experts. The 4-step framework is meant to highlight key considerations and principles in developing individual frameworks for FIs, and needs to be implemented on a case by case basis. Boards should feel confident to introduce additional perspectives in coming up with a framework that works for them. A few points to remember:

- Although each of the 4 steps have been described as being essential, FIs do not have to apply them in the same depth and breadth, for example, when remuneration frameworks are being maintained in the second year of implementation. We are not suggesting that every remuneration adjustment that is being considered be predicated on hundreds of hours of technical analysis. It is important to understand the principles behind the steps and to consider them when appropriate
- The 4-step framework is meant to be used to set remuneration for each individual Director and for all Directors. The fees may differ significantly between Directors depending on responsibility and expertise, and need to be managed carefully
- It is meant to provide an iterative approach to finally arrive at a robust framework. It is likely that at least three cycles of Steps 2 to 4 need to be completed before the framework developed can be deemed to have been tested properly
- Remuneration is not the primary reason why Directors decide to sit on the Board on an FI - this study indicates that it is of medium priority. Other higher-ranking reasons include prestige, networking opportunities and learning and development. FIs need to consider these factors when reviewing Directors' remuneration

Once the remuneration has been determined, Boards need to clearly understand the impact of the changes and benefits, and manage communication with all relevant stakeholders.

Some questions Boards can ask themselves include:

- Is there a significant change in time commitments, remuneration level or structure?
- Is it clear how the changes will impact individual Directors and Chairman?
- Have all the changes been identified, determined and communicated?
- Will the changes really improve performance?
- Can the changes in remuneration be substantiated?
- What will be the reaction of key stakeholders such as Directors, shareholders, minority shareholders, investors, depositors and the media?
- What communication processes and messages need to be developed to ensure all stakeholders understand the rationale and benefit of the changes?

Going forward, the FI needs to maintain the remuneration framework for changes in the business. Each FI will need to determine the appropriate level of detail with which to revisit each step in order to maintain the remuneration. We suggest that a reasonable approach would be to revisit the remuneration levels and time commitment annually or biannually, and revisit the structure every three years.


"NEDs must be well prepared for meetings, contribute to discussions, keep abreast of developments, and show integrity and commitment to the organisation by participating in non-Board activities."
Chairman, GLIC

MANAGING THE TRANSITION

The changes in the remuneration framework need to be accompanied by enhanced Board performance. This combination of remuneration against performance will form the basis for all communications to explain adjustments to shareholders and regulators. Changing through the transition well will also require that Directors' buy in to understand the new expectations of them individually and collectively.

Approach the transition in a structured manner

This framework serves as a guide and was developed based on our study and survey. While we are not prescribing a change, the application of this framework will likely result in changes to the remuneration levels and structure for FIs, and the degree of change will vary according to institution. To effect the changes to the remuneration and reap the full benefit, the impact to different stakeholders needs to be identified, assessed and managed.

If the transition is not properly managed, FIs may not be able to obtain the relevant shareholder approvals for the changes in remuneration, or if changes in remuneration are not described in tandem with requirements in performance, the desired effect in terms of Board performance will not be achieved. Discussed below are the following key transition issues to address, and the questions which FIs need to ask to identify and assess those transition issues.

This study found that it is not common for expectations of Directors, in terms of commitment and responsibility, to be formally articulated. Boards which implement the recommendations of this study will need to develop and articulate expectations of Directors for the first time, and need to be wary that these expectations might be different from those that Directors currently hold. This will be easier for Directors who already perceive that they are spending large amounts of time but feel that they are not remunerated commensurately. However, there is the other situation where Directors need to spend more time than currently contributed.

Whatever the case may be, the Chairman needs to consider meeting with each Director individually and discuss and agree on the expectations upfront. Key areas to address for Boards will include:

- Fee adjustments need to be accompanied by a specification of expectations of Directors
  - Have requirements of Directors (from a time and responsibility perspective) been articulated in the past?
  - What are the changes in the expectations and requirements of Directors?

Boards will need to develop communication messages for Directors that explain and justify the changes in remuneration and expectations, and ensure that Directors have “bought in”. Key areas to address for Boards will include:

- How will remuneration levels and structure change for each Director?
- Will remuneration increase or decrease? By how much?
- Is the change in remuneration level commensurate with, and proportionate to, the change in expectations of Directors?
- How will each Director respond to the changes in remuneration levels and structure in relation to the change in expectations?

Perception of shareholders and external stakeholders needs to be managed, chief of which is to link fees with performance

In getting the new framework implemented, there are multiple stakeholders to be considered, which can be broadly compartmentalised into external and internal (see diagram). While these are not exhaustive, it is clear that different stakeholders will have different perspectives to purposed framework adjustments against their own agendas.

To secure shareholder approval for the changes in remuneration, for example, Boards will need to answer certain questions and demonstrate clear justification and benefits to shareholders which will likely include:

- Why is remuneration increasing or decreasing and what can I now expect from the Directors?
- Will there be tangible improvements in performance?

The views and perspectives of the various stakeholders will need to be carefully considered

In addition, it can be expected that specification of performance targets for the Board, the challenges faced by the Board, as well as a clear description of the roles played by each Director will need to be specified.

To ensure that performance of the Board is tracked and maintained, Boards will need to ensure that a functioning Board performance evaluation system is in place and able to measure and monitor improvements in performance as a result of changes in remuneration and expectations.

Managing perception of shareholders and stakeholders

Internal stakeholder/key concern		External stakeholder/key concern	
Shareholders	Will it improve company performance and increase value?	**Institutional investors**	Will this help attract the right Board to achieve our targets?
Senior management	Is this equitable against executive pay?	**Analysts**	Is the Board deserving of these levels?
Human Capital	How will this tie in with overall remuneration policies for senior management and the staff?	**Regulators**	Has the revision been done in a rigorous and transparent manner?
Employees	The rich get richer	**Public**	Bankers continue to be self-serving
		FI industry	Can we afford this?

Managing the transition requires a plan

A structured transition plan will help in aligning stakeholders to the new framework

Addressing all these issues will take time and requires a considered and well thought out transition plan. Illustrated below is a proposed transition plan for identifying, assessing and addressing these issues, implementing the changes to the remuneration and suggested time frames for the activities.

The plan and time frames are developed on the basis that the final approval for changes in remuneration needs to be obtained from shareholders at the AGM, while the schedule of activities is determined working backwards from that date.

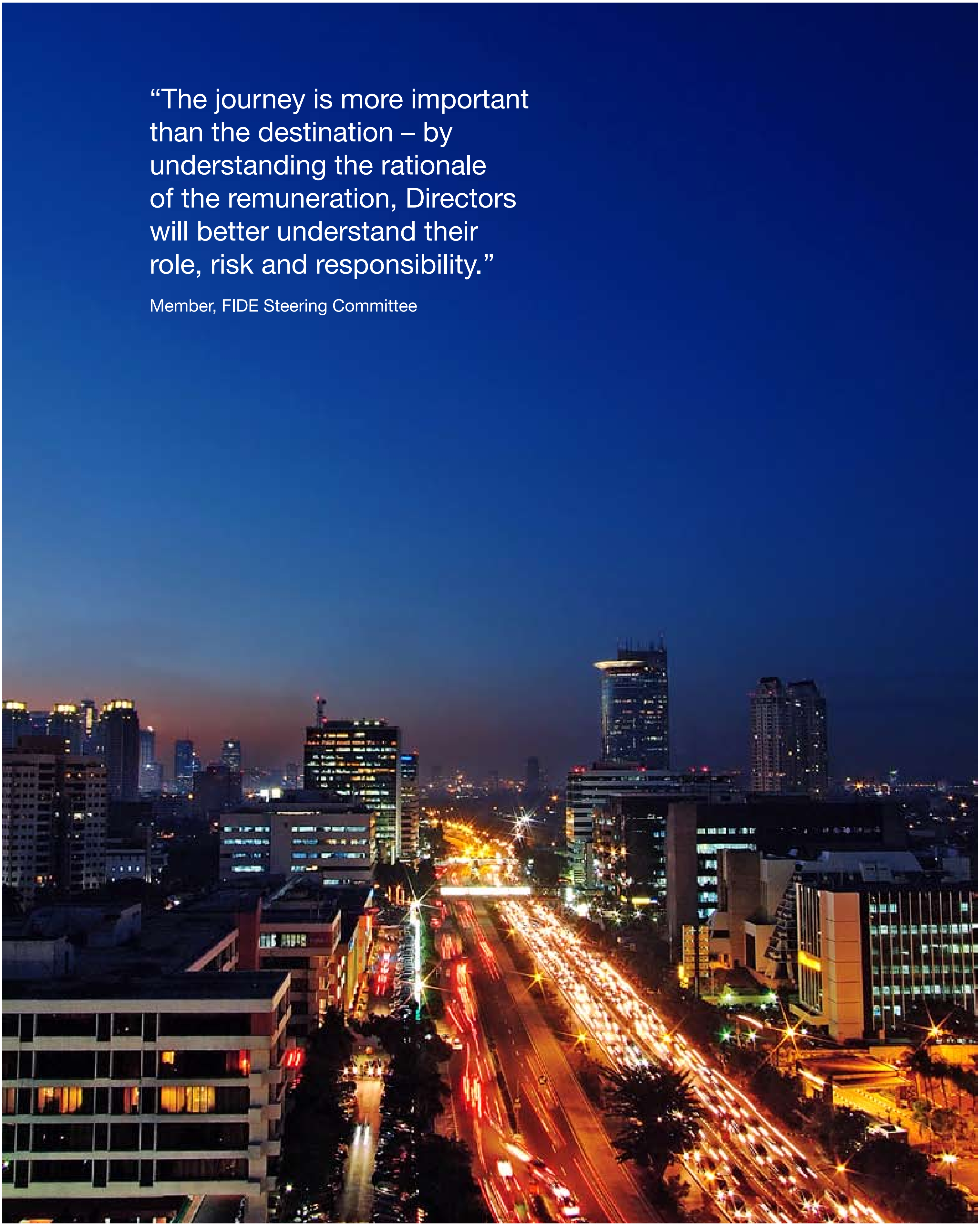
Illustrative transition plan

Milestone	**Nomination/ Remuneration Committee meeting**	**Board of Directors meeting**	**Stakeholder engagement**	**AGM**
Minimum timeline	4-6 months before AGM	3-4 months before AGM	2-3 months before AGM	Date of AGM
Milestone description	Develop revised remuneration levels and expectations	Board review and endorsement	Meet with key shareholders, obtain support	Conduct AGM and approve changes
Detailed transition activities	Determine changes in remuneration levels and structure, and expectations including time commitment Assess impact for each Director in terms of time commitment, responsibility and fees Develop communications for each Director to advise of changes and rationale Adapt performance evaluation system where necessary	Ensure each Board member understands and accepts the changes in levels, structure and expectations Develop clear justification and benefits to shareholders Develop communications plan for shareholders, depositors and public	Present proposed changes to key shareholders including justification and benefits Obtain support and feedback, make revisions to proposal where necessary Prepare necessary statutory and regulatory communications such as notices to shareholders	Obtain approvals and clearances Execute changes to remuneration levels, structures and payments

Note:
Each FI will need to review and adjust the suggested time frames to suit their specific circumstance, while still complying with relevant statutory and regulatory requirements. For example, if the FI is listed in Malaysia, then changes in remuneration must be approved at the AGM and notice of the resolution must be circulated to shareholders in accordance with statutory requirements.

"The journey is more important than the destination – by understanding the rationale of the remuneration, Directors will better understand their role, risk and responsibility."

Member, FIDE Steering Committee



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