



TERMS OF REFERENCE



Objective, rationale and outputs for enhancing regulatory capabilities at GLCs

IMPROVE REGULATORY ENVIRONMENT

Enhance regulatory capabilities at GLCs

Number III.4.1.1

Objective

- Enhance GLCs' capabilities to develop regulatory strategy, dialogue with regulators, and ensure compliance to regulation.

Rationale

- The nature of the regulatory framework has a significant impact on the operating environment for many GLCs, for example in telecoms, airlines, and electricity distribution
- However, many GLCs that operate in regulated sectors lack the capabilities to shape and execute their regulatory agenda
- Therefore, at GLC level, there is a need to build a dedicated best-in-class regulatory management team that is credible and a key participant in regulatory dialogues

Outputs

- Strong regulatory teams in place at GLCs
- Enhanced level of syndication between GLCs and regulators, e.g., on the basis of industry-level frameworks proposed by GLCs



TERMS OF REFERENCE



| | | |
|--|--|-------------------------|
| Pre-conditions for success and risks of enhancing regulatory capabilities at GLCs | IMPROVE REGULATORY ENVIRONMENT | |
| | Enhance regulatory capabilities at GLCs | Number III.4.1.2 |

Pre-conditions for success

- Strong drive from CEO of GLC and support from Board
- Buy-in from the head of regulatory department
- Full-time team, composed of 2 to 3 members with appropriate skills
- Support of external experts wherever necessary

Risks

- Difficulty in sourcing or lack of availability of personnel with the appropriate required profiles

| | | |
|---|--|-------------------------|
| Next steps for enhancing regulatory capabilities at GLCs | IMPROVE REGULATORY ENVIRONMENT | |
| | Enhance regulatory capabilities at GLCs | Number III.4.1.3 |

Next steps for GLCs

- Review existing regulatory department and regulatory strategy
 - Map organisational structure, capabilities and processes of existing regulatory department
 - Review existing regulatory strategy and identify priority regulatory agenda items and relevant stakeholders
 - Receive Board approval on regulatory strategy

- Develop target organisational blue print
 - Based on international best practices and local context, draft target organisational blue print for GLC regulatory management department
 - Syndicate draft and finalise target organisational blue print
 - Receive Board approval

- Launch organisational change
 - Map gap between existing organisation and target blue print and plan implementation to close gap
 - Launch implementation

- Prepare industry-level framework to be discussed with regulator
 - Choose high priority regulatory topic
 - Have the regulatory team work on this topic to propose industry-level framework to regulator (in liaison with Regulatory Circle)

Best practice principles for building a high performing regulatory department at GLCs (1/5)

IMPROVE REGULATORY ENVIRONMENT

Enhance regulatory capabilities at GLCs

Number III.4.1.4 (a)

BEST PRACTICES FOR BUILDING REGULATORY CAPABILITIES AT GLCs

Mission

Key best practices in regulatory management involve building a regulatory organisation which:

- Has a clear mission of maximising value creation for shareholders by establishing a fair and favourable regulatory environment
- Executes three main functions: developing regulatory strategy, providing regulatory support and managing relationships with stakeholders

Staff & skills

- Has a typical size of 15 to 50 employees of the right skill profile to execute those functions

Structure

- Is very close to the CEO, with a level of centralisation across BUs depending on the context

Processes

- Functions with standard key processes, such as a monthly Strategy and Regulatory Leadership Committee meeting

Source: McKinsey analysis

Best practice principles for building a high performing regulatory department at GLCs (2/5)

IMPROVE REGULATORY ENVIRONMENT

Enhance regulatory capabilities at GLCs

Number III.4.1.4 (b)

THERE ARE TYPICALLY THREE MAIN FUNCTIONS IN A REGULATORY DEPARTMENT...



Mission

Maximize value creation for shareholders by establishing a fair and favorable regulatory environment

Main functions

Develop regulatory strategy

- Prioritise and manage regulatory agenda
- Conduct assessment of economic impact of regulation
- Coordinate regulatory projects

Provide regulatory support

- Address regulator's requests
- Provide assistance to the organisation regarding regulatory issues and concerns

Manage relationships with stakeholders

- Coordinate the relationship with stakeholders, in particular with the regulator

Main activities

- Prioritise and manage regulatory agenda based on assessment of economic impact of regulation
- On each regulatory theme, structure fact-based argumentation to influence regulator and other stakeholders
- Coordinate multifunctional regulatory projects
- Answer regulator's requests and requirements
- Handle regulatory requests and concerns posed by the organisation
- Ensure each business unit's compliance with regulation
- Disseminate regulatory knowledge throughout the organisation
- Manage the relationship with the regulator and other stakeholders
- Coordinate lobbying
- Coordinate communication on regulatory issues to public opinion
- Monitor regulatory issues (at national and international level)

Source: McKinsey analysis

...WITH DISTINCT PROFILES AND CAREER PROPOSITIONS



Key functions

Develop regulatory strategy

Provide regulatory support

Manage relationships with stakeholders

Profiles

"Consultant"

- Strong analytical skills
- Capable of working in and managing multifunctional teams
- Good knowledge of local regulation and industry dynamics

"Process manager"

- In-depth knowledge of regulation and industry dynamics (preferably with previous experience working for the regulator)

"Relationship manager"

- Specialist in both telecommunications and regulation
- Previous experience in lobbying, and capable of developing top-level relationships with key decision and opinion makers

Career propositions

- Allocated on a project basis (3-5 projects per employee)
- High mobility across different types of projects and business units
- Evolution from analyst to managerial role
- Deep specialisation in regulation at a detailed level
- Temporary allocation to business units in order to develop knowledge of operations
- Develop high internal and external credibility

Source: McKinsey analysis

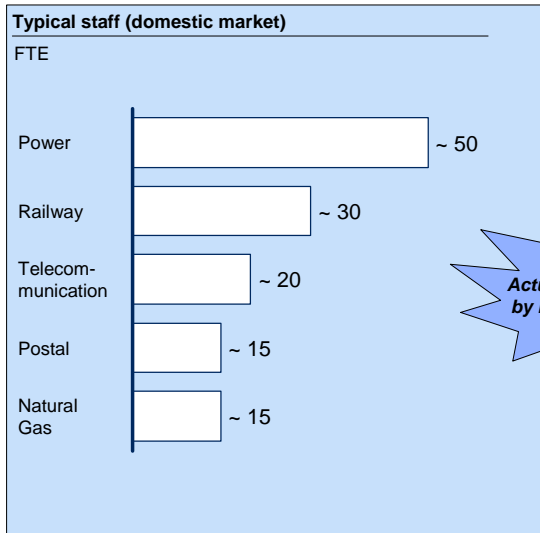
Best practice principles for building a high performing regulatory department at GLCs (3/5)

IMPROVE REGULATORY ENVIRONMENT

Enhance regulatory capabilities at GLCs

Number III.4.1.4 (c)

A REGULATORY DEPARTMENT NEED NOT TO BE VERY LARGE...



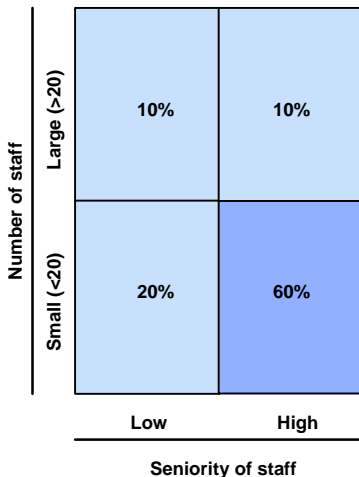
Estimates Actual size will be driven by industry and country context

Source: McKinsey analysis

...BUT SHOULD BE STAFFED WITH HIGH PERFORMING SENIOR STAFF

Size/ seniority of regulatory staff in US and UK utilities

% of companies reviewed



"It is only natural to favour those utilities that appear more professional" (UK regulator)

"We put our best people into regulation" (US utility)

"Most high fliers have a stint in regulation." (US utility)

"Regulation staff have to be credible with the rest of the business or they simply cannot do their job." (UK utility)

"Most of our regulation staff have built up their skills over many years." (UK utility)

"In regulation I have the authority to set prices for the whole company, nobody queries my decisions or goes over my head" (US utility)

Source: McKinsey analysis

Best practice principles for building a high performing regulatory department at GLCs (4/5)

IMPROVE REGULATORY ENVIRONMENT

Enhance regulatory capabilities at GLCs

Number III.4.1.4 (d)

THE HEAD OF REGULATORY DEPARTMENT SHOULD HAVE A HIGH LEVEL PROFILE



Functions and responsibilities for head of corporate affairs

- Formulate regulatory strategy
- Oversee and support business unit regulatory management
- Oversee and support business unit regulatory management
- Manage, build, and maintain relationships with highest government and regulatory authorities
- Serve as negotiator and conflict solver of last resort for regulatory topics

Required skill profile

Qualifications

- Post-graduate education level (i.e., MS, Ph.D.)
- Excellent presentation, interpersonal, and communication skills
- Ability to influence

Experience

- 7-10 years experience in regulatory arena and industry
- Substantial experience in negotiation with government authorities and regulators
- Substantial experience in managing and motivating people

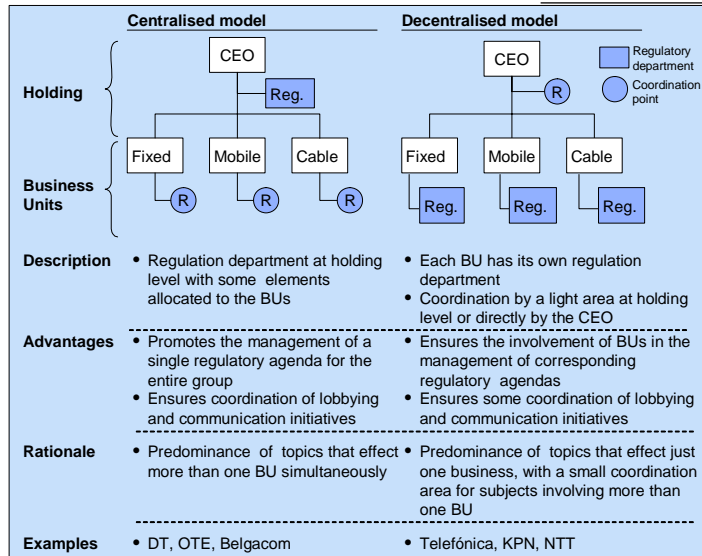
Source: McKinsey analysis

A REGULATORY ORGANISATION REQUIRES A CLOSE LINK TO THE CEO AND A CONTEXT SPECIFIC LEVEL OF CENTRALISATION



Principles in designing a regulatory organisation

- Guarantee regular and frequent access to top management, e.g., CEO
- Ensure close involvement of BUs in the development and management of the regulatory agenda
- Provide for coordination of communication for efficient stakeholder management
- Harmonise corporate and regulatory strategy development processes as much as possible



Source: McKinsey analysis

| | | |
|--|---|-------------------------|
| Objective and rationale for establishing a Regulatory Knowledge Network | IMPROVE REGULATORY ENVIRONMENT | |
| | Establish a Regulatory Knowledge Network | Number III.4.2.1 |

Objective

- Create a Regulatory Knowledge Network involving relevant GLCs, GLICs and other stakeholders in order to improve GLC performance and building nationwide regulatory capabilities

Rationale

- The regulatory economics knowledge at GLICs is scarce and typically not centralised within organisations (i.e., there is no focal point for knowledge development to assist GLC investee companies). Despite the strategic importance of regulatory matters to specific GLCs, their current regulatory capabilities are very limited both in terms of breadth and depth, resulting in varying levels of compliance, and a limited ability to shape the regulatory environment. Therefore GLCs have, to date, approached shifts in their regulatory environment in a “reactive” rather than a “proactive” manner
- The consequences of the above are at 3 levels:
 - At company level, limited regulatory knowledge may result in loss of competitiveness (e.g., higher transaction costs, poor positioning for medium term investment, etc.) – especially as internationalisation of GLCs requires them to better understand the regulatory requirements and risks
 - At industry level, suboptimal regulation and insufficient compliance to regulation may lead to suboptimal situations for the industry as a whole. The lack of cross-sector regulatory networking may also result in sector-convergence trend not addressed by regulators
 - At national level, these issues translate into inability for Malaysia to improve its competitiveness against its regional rivals
- Therefore there is a need to create a Regulatory Knowledge Network to address those issues by:
 - Establishing a Regulatory Knowledge Network linking relevant stakeholders
 - Codifying regulatory knowledge (database of international best practices models, manual of regulatory economics)
 - Building capabilities by disseminating regulatory knowledge to members of the Network and their staff

Outputs, expected impact, pre-requisites for success and risks of creating Regulatory Knowledge Network

IMPROVE REGULATORY ENVIRONMENT

Establish a Regulatory Knowledge Network

Number III.4.2.2

Outputs

- Regulatory Knowledge Network in place
- Initial codification of regulatory knowledge completed and codification ongoing
- Increased capabilities of staff at regulators and GLCs

Expected impact

- Increase level of understanding on how to manage/better collaborate with regulator
- Strengthen GLC position in managing regulators and shifts in regulatory environment

Pre-requisites for success

- Exhaustive identification of relevant stakeholders
- Cooperation from heads of regulation of GLCs

Risks

- Limited support from regulators
- Insufficient capacity in regulatory teams at GLCs

Next steps for creating Regulatory Knowledge Network

IMPROVE REGULATORY ENVIRONMENT

Establish a Regulatory Knowledge Network

Number
III.4.2.3

Next steps for PCG

- Launch Regulatory Knowledge Network
 - Identify, list and contact relevant stakeholders and gain agreement on their participation in the first Regulatory Knowledge Network meeting
 - Prepare material and logistics for first Regulatory Circle meeting
 - Hold first Regulatory Knowledge Network meeting (present objectives, get feedback and ideas, plan future meetings)
 - Hold regular Regulatory Knowledge Network meetings with various forms/topics (e.g., form Working Groups on competition law, price-setting, universal service obligations, etc.)

- Codify regulatory knowledge
 - Review international best practices in terms of regulatory designs, functions and cross-sector regulation
 - Identify key concepts taught in regulatory economics courses
 - Codify key concepts and best practices models into first release Regulatory Manual

- Build capabilities of Regulatory Knowledge Network members and their staff
 - Ensure dissemination of Regulatory Manual to members of Regulatory Knowledge Network and their staff
 - Identify key regulatory seminars and organise own workshops for members of Regulatory Knowledge Network (e.g., with Multimedia University)