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New Members

Hawkamah welcomes our NEW corporate members, and looks forward to working with them in advancing corporate governance in the region:

- Abraaj Capital

First Batch of Directors On The Way Towards Certification

Hawkamah Delivers Part I and Part II of its Director Development Programme

Hawkamah's Director Development programme offered the second part of its four-part programme on October 24-25, 2007 at the Emirates Towers. The second part focused on Practical Tools for Strategic Guidance

The second part provided practical advice to the Board members on their role in setting strategy, managing the interaction between Board and management, choosing and evaluating the CEO, what every director needs to know on accounting and finance, and a guide to succession planning.

Participants, from Hawkamah's two previous programmes introducing the Directors on the basics of corporate governance, participated in the October meeting. This programme was organized back-to-back with a third introductory session for Directors.



Hawkamah is offering the third part of the Director Development programme, focused on the Role of the Board in Disclosure and Transparency, on December 5-6, 2007.

The fourth and final part of the Director Development programme, focusing on the Role of the Board in Protecting Shareholder Rights, will be offered in January 2008.

Directors completing the four-part programme may choose to take tests on the materials presented during the programme. Directors satisfactorily passing the examination will get a certification. The certification will help build up a new class of directors in the region.

For more information on the Director Development Programme, go to www.hawkamah.org

Hawkamah's 2nd Annual Conference: Wednesday, 21st November 2007

The Corporate Governance conference, part of DIFCweek, dedicates a half-day session to family business topics

The challenges and opportunities for Gulf family conglomerates will be the focus of an extended session at this year's conference, which will be held at Dubai International Financial Centre (DIFC) as part of DIFCweek.

Joseph A Field, senior international partner, Withers Bergman, will give a keynote speech on *Institutionalising the Family and Avoiding the Abyss*. His session will address the need for

succession planning, as well as the move towards selling equity in family businesses and having external directors on the board.

In the dedicated panel session on risk management and succession planning, Hussain Al Qemzi, Noor Investment Group, joins Richard Goldman, International law firm Bingham; Stuart Crocker, HSBC; Dr Ayman Hashem, Savola Group; and Dr Adnan Soufi, SEDCO.

The conference finishes with a panel session on managing and diversifying the family portfolio. Confirmed speakers are: Yousef Al-Essa, Addax Investment

Bank; Aman Merchant, Dubai 9 Group; Mailesh Shah, Mercer Consulting; and a senior executive from Acropolis Capital.

The full-day conference has been organised by Hawkamah - The Institute for Corporate Governance. Among the high-profile speakers participating in the Hawkamah conference are representatives from the World Bank, OECD and IFC. It forms part of DIFCweek, a week of headline conferences, lectures and seminars to be held at DIFC, November 17 – 23.

For registration details, please call +971.4.362.2559 or visit us on www.hawkamahconference.org or www.difcweek.ae



Hawkamah in News

Confirmation of the Expert Jury for Corporate Governance Bank Award

The Hawkamah Institute for Corporate Governance and the Union of Arab Banks (UAB), named the three expert jury members who will be assessing the bank submissions prior to the Hawkamah-UAB Bank Corporate Governance Award announcement on November 7th in Doha, Qatar.

Jury panel members will include Charles Freeland, a well-respected international banking consultant, former Deputy Secretary General, Basel Committee on Banking Supervision at the Bank for International Settlements in Basel. Chairing several Committee task forces, Freeland also acted as the BIS representative on the OECD's Steering Group on Corporate Governance and was a drafting member of the Basel Committee working group that developed its February 2006 Corporate Governance for Banks.

Michael Stevenson, Middle East Senior Partner (PWC) and Ambassador John Bohn, who is currently Commissioner at California Public Utilities Commission and Chair of Globalnet Venture Partners have also been named as jury members. Bohn was also recently elected as a Director of the National Endowment for Democracy in Washington, D.C. and to the Advisory Board of the Yale Institute for Corporate Governance and Performance. He is also a member of The Council on Foreign Relations in New York, and a director of the World Affairs Council in San Francisco.

Hawkamah and UAB have revealed there has been a high level of interest in the newly created Hawkamah – UAB Bank Corporate Governance Award with banks from Middle Eastern countries including Bahrain, Egypt, Iraq, Jordan, KSA, Kuwait, Lebanon, Morocco, Qatar, Sudan, UAE and Yemen submitting award applications.

The Award, which is being presented in association with MasterCard Worldwide, is the first of its kind in the Arab world. It has evoked great interest among banks in the region who acknowledge the importance of corporate governance in the financial sector.

The high level of interest demonstrates the importance banks are placing on corporate governance principles within their own organizations. The members of the international expert jury panel who have had many years experience in developing guidelines on corporate governance, face a challenging task in deciding the Award winning bank from among the nearly 40 submissions.

Dr. Nasser Saidi, Executive Director, Hawkamah Institute for Corporate Governance commented, "As we are nearing the announcement of the Hawkamah - UAB Bank Award for Corporate Governance, the Hawkamah Institute for Corporate Governance would like to acknowledge the great interest received from banks in the region. Corporate governance holds the key to the region's economic growth prospects and sustainability. The Hawkamah Institute develops regionally



relevant corporate governance frameworks and offers high value benefits to its member organizations. We are pleased to foster better corporate governance with our partner the Union of Arab Banks and are thankful for the support of MasterCard."

Dr. Fouad Shaker, Secretary General, Union of Arab Banks, commented, "As we are approaching the milestone occasion of announcing the first corporate governance award in the Arab world, which UAB promotes and advocates, the UAB would like to extend our appreciation to the members of the expert jury panel. We are delighted that the special task of determining the five finalists, and ultimately the winning bank, is being handled by a jury of outstanding caliber. We believe the Hawkamah – UAB Bank Corporate Governance Award will reinforce the importance of corporate governance initiatives in the banking industry and send our best wishes to the final five banks who will be in contention for the Award." [↗](#)

Draft Policy Brief on Bank Corporate Governance Issued

After a series of regional consultations and a regional bank corporate governance survey, Hawkamah and the MENA-OECD Working Group on Corporate Governance have released a draft policy brief on bank corporate governance.

The draft policy brief which covers a discussion on the importance of banks in the Middle East and North Africa market and the main issues and reform priorities for corporate governance of banks in the region will be further discussed in Doha on November 6, 2007 at a regional bank corporate governance task force meeting.

The policy brief is an output of the regional bank corporate governance task force convened last year as a result of the Dubai Declaration. We invite bank practitioners and experts to provide input on the policy brief to shape the bank corporate governance agenda for the region. The draft policy brief is available upon request by contacting info@hawkamah.org [↗](#)

Sukuk vs. Eurobonds: Is There a Difference in Value-at-Risk?

The IMF published a Paper on Sukuk vs. Eurobonds in October 2007, prepared by Selim Cakir and Faezeh Raei, which assesses the impact of bonds issued according to Islamic principles (*Sukuk*), on the cost and risk structure of investment portfolios by using the Value-at-Risk (VaR) framework. It does not necessarily represent the views of the IMF. A summary of the paper are reproduced below.

The market for *Sukuk* has grown tremendously in recent years, from less than \$8 billion in 2003 to \$50 billion by mid-2007. The paper analyzes whether secondary market behavior of Eurobonds and *Sukuk* issued by the same issuer are significantly different to provide gains from diversification.

Sukuk are in many aspects similar to conventional Eurobonds. *Sukuk* are also considered to serve as security instruments that provide a predictable level of return (fixed or floating); they are traded in the secondary market albeit less than conventional bonds; they are assessed and rated by international rating agencies; and are mostly cleared under Euroclear (listed in Luxemburg).

Do *Sukuk* provide the expected benefit from diversification to investors and issuers? If so, how significant are the gains from diversification? Alternatively, is the secondary market behavior of Eurobonds and *Sukuk* so similar that there is limited value in issuing *Sukuk* instead of Eurobonds? In order to shed light on these questions, this paper models the impact of *Sukuk* on hypothetical bond portfolios consisting of both *Sukuk* and Eurobonds and compares them to bond portfolios consisting only of Eurobonds. The application is limited to international issues of *Sukuk* and conventional bonds by the governments of Malaysia, Pakistan, Qatar, and Bahrain.

This paper shows evidence that *Sukuk* are different types of instruments than conventional bonds, as evidenced by their different price behavior. If an investor is ready to allocate certain amount of funds in the bonds of a certain issuer, diversification by including *Sukuk* in the investment portfolio could significantly reduce the portfolio's VaR compared to a strategy of investing only in conventional bonds of that issuer.

The results were broadly the same in both methods that were used in this analysis, namely the delta-normal approach and the Monte-Carlo simulation. Although international issues of *Sukuk* are similar to conventional bonds when it comes to such features as rating, issuance and redemption procedures, coupon payments, and default clauses, correlations of *Sukuk* returns with returns on conventional bonds are much smaller than the correlations of returns on conventional bonds with each other. If an instrument is not perfectly correlated with other assets in the portfolio, by definition one should expect some reduction in VaR.

Given data limitations, the authors have stated that rather than being conclusive, the paper constitutes a contribution to the debate on the issuance of *Sukuk* as alternative investment / financing instruments.

[Source: IMF] [↗](#)

Did You Know?

As part of Hawkamah's ongoing efforts to collect information and data to assist in building the business case for corporate governance using latest research produced by various institutions, Hawkamah is introducing this part as a regular feature of its newsletter for your reference.

■ Did You Know... that self-dealing is one of the most common ways minority shareholders are harmed in developing countries?

Self-dealing is the practice of transferring money or assets from a company to a dominant corporate owner, manager, or director. It is common in developing countries, where firms are often closely held by families or a group of founders. Self-dealing often refers to related-party transactions, but it can also refer to insider trading or unethical dilution of share holder.

Luckily, companies can take steps to keep self-dealing at bay. These include:

- Improving the transparency of corporate reporting. Internal controls are the first step. Reporting of beneficial ownership is also critical, as is good financial reporting.
- Active corporate boards. Minority shareholders can nominate directors and participate actively in board elections.

And other market participants can keep tabs on company practices:

- Monitoring by creditors and large investors. Investors like IFC can insist on procedures for reporting and Board approval items such as of:
- Naming and shaming by the media: A free media has been shown to help pressure companies into improving their corporate governance practices.
- Activist shareholders: Prodding by local and foreign equity investors has led to big improvements in corporate governance in many countries.

[Source: IFC] [↗](#)

Nuts & Bolts of Corporate Governance

Hawkamah and World Bank supported by INSOL and OECD's initiative on Developing Sound Insolvency and Creditor Rights Systems

In order to raise awareness of international best practices on insolvency, Hawkamah Institute for Corporate Governance and the World Bank supported by INSOL International and the OECD are establishing a Task Force on Insolvency and Creditor Rights Systems.

The Task Force aims to conduct an assessment of Country Level Insolvency and Creditor Rights systems in the MENA region and will propose recommendations on improving the systems and making them more effective. The Task Force will develop a MENA Policy Brief based on an individual country analysis of the Legal Framework for Insolvency and Creditor Rights, along with recommendations and policy options for consideration by MENA policy makers.

The issue of insolvency will be further discussed at this year's Hawkamah conference, to be held on November 21, 2007 at Dubai International Financial Centre (DIFC) as part of DIFC week. [↗](#)

Member Contributions

Hawkamah welcomes the contributions of members to highlight corporate governance trends and practices in the region. This section reflects the opinion of the author and does not necessarily reflect Hawkamah's views.

Turkey: Strong Steps towards A Solid Infrastructure for Corporate Governance

The article sent by the Corporate Governance Association of Turkey

The past six years have brought Corporate Governance in Turkey from management textbooks to boardroom agendas. The Turkish Corporate Governance Association has played a particularly significant role in the development of Corporate Governance in Turkey.

Management Structure and Role of the Board of Directors - In Turkey, boards of directors are unitary in structure, comprised of at least three members, appointed for a maximum period of three years in joint stock corporations. The Commercial Code provides that (i) only individuals may be members of a Board; and (ii) directors must be elected from amongst the Company's shareholders, or be representatives of legal-entity shareholders. The Code allows foreign citizens to be elected as directors. One caveat of the Code is that it does not set forth any expertise or education-related criteria for Board membership.

The Corporate Governance Guide of the Capital Market Board (the "Guide"), addressing publicly held companies, pays special importance to an effective election of the Board of Directors. The Guide requires companies to provide, to all shareholders, detailed information regarding the Board nominees' relations with the Company and other companies, their personal and educational backgrounds, their assets, and whether or not they meet the required criteria for independence.

The Guide also suggests that Board members be divided into two classes: (i) executive members; and (ii) non-executive members. More importantly, the Guide recommends the presence of independent Board members. Members of the Board have a general duty of due diligence, care, foresight and good faith. Board members are accountable to the Company for losses created by their actions, such as appointing incompetent managers, or tolerating their harmful acts, but they are not directly responsible for losses created by managers.

Under the Commercial Code, Board members are precluded from entering into transactions with the Company unless

specifically permitted by the shareholders. If any party to such a transaction suffers a loss, directors may be held liable to compensate the loss and damages incurred by the Company's shareholders or creditors.

Disclosure Requirements and Transparency - According to the CMB Communiqué on the Public Disclosure of Material Events, changes in the capital structure and management control, activities, investments, financial structure, financial fixed assets and the sale, purchase, and/or rental of the assets of publicly held companies must be disclosed. The Guide also requires publicly held corporations to disclose all significant information, which may influence stakeholders' investment decisions.

Corporate Governance Rating - In July 2007 the CMB's revised the Communiqué of December 2003 on Rating Activities and Rating Agencies in the Capital Market. The revised Communiqué sets forth principles and procedures for the activities of rating agencies, as well as conditions and criteria for the performance of rating activities. It defines Corporate Governance rating as the "the independent, impartial and fair evaluation and rating of corporations' compliance with the CMB's Guide on Corporate Governance Principles".

According to the Communiqué, rating of the implementation of Corporate Governance principles is to be based on varying degrees from 1 to 10; the criteria are stakeholders' interests; disclosure and transparency; shareholders' protection; and the Board of Directors. Only agencies authorized by the CMB are entitled to carry out rating activities in Turkey.

The long-awaited Corporate Governance Index of the Istanbul Stock Exchange was published by the Exchange on 31 Aug 07. Currently, there are five companies listed on this Index. According to the rules, only companies whose ratings are above 5 (i.e. at least six) are to be included in the Index.

Corporate Governance Association of Turkey - The Corporate Governance Association of Turkey (the "TKYD") was founded in 2003 to establish, develop and assist the Corporate Governance Best Practices in Turkey. Finally, the new Turkish Commercial Code, prepared by a commission, is expected to be approved by the Parliament this year. Introduction of the new Code is likely to result in the further development of Corporate Governance in Turkey. ↗

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If you are involved in capital markets, banking and financial services, investment and fund management, corporate strategy development, management consultation, and economic policy making, this publication is a 'must-read' to keep abreast of the changing investment and business environment in the GCC countries



Corporate Governance in the GCC: Country Reports and Comparative Survey

Forthcoming Events

Nov 07

Bank CG Awards, Doha

Nov 21

2nd Annual Hawkamah Conference
DIFCweek / Hawkamah, Dubai

Dec 03 – 04

Director Development Workshop
(Part I), Dubai

Dec 05 – 06

Director Development Workshop
(Part III), Dubai

Hawkamah Subscription Details

Become a Member of Hawkamah!
Are you an individual or organization looking to promoting good corporate governance?

For more information, please go to:
http://www.hawkamah.org/services/hawkamah_membership/becoming_member/

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