



HAWKAMAH
THE INSTITUTE FOR CORPORATE GOVERNANCE

...an autonomous international association promoting corporate governance in the Middle East North Africa, Central Asia and beyond

Welcome!

أهلاً و سهلاً!

Presentation Outline

- Corporate Governance Definition and Business Case
- Corporate Governance Trends in the GCC: Regulations and Extent of Private Sector Implementation
- Hawkamah and Hawkamah's Agenda

Why is the World Talking About Corporate Governance?

- Corporate failures
- Executive greed
- Globalization
- Privatization
- Internal awareness of business case, i.e. creating long-term growth & shareholder value

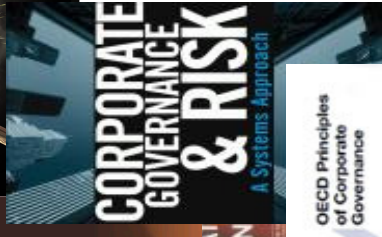


GEORGE

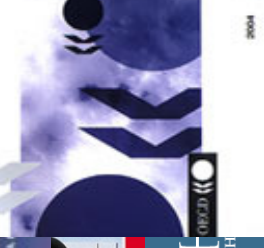


治理中心系列

公司治理改革:
中国与世界

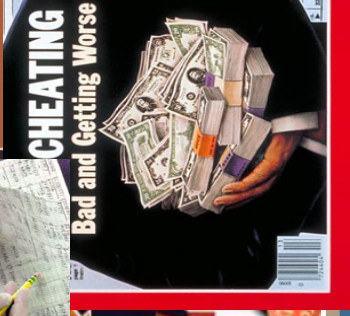


OECD Principles of Corporate Governance



THE

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VERNANCE



CHEATING
Bad and Getting Worse



THE

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VERNANCE



What does Corporate Governance
mean for you?

How others define CG -

The company's internal structure that will allow it to comply with domestic laws and regulations.

19,7%

It is the same thing as Corporate Social Responsibility

8,5%

A commitment to contribute to sustainable economic development by working with employees, the local community and society at large to improve their lives

18,3%

A set of tools to help management run the day-to-day activities of the company/bank

12,7%

A system by which companies are directed and controlled

40,8%

Corporate Governance Defined

“Corporate governance is the system by which companies are directed and controlled.”

Source: Sir Adrian Cadbury, UK Combined Code

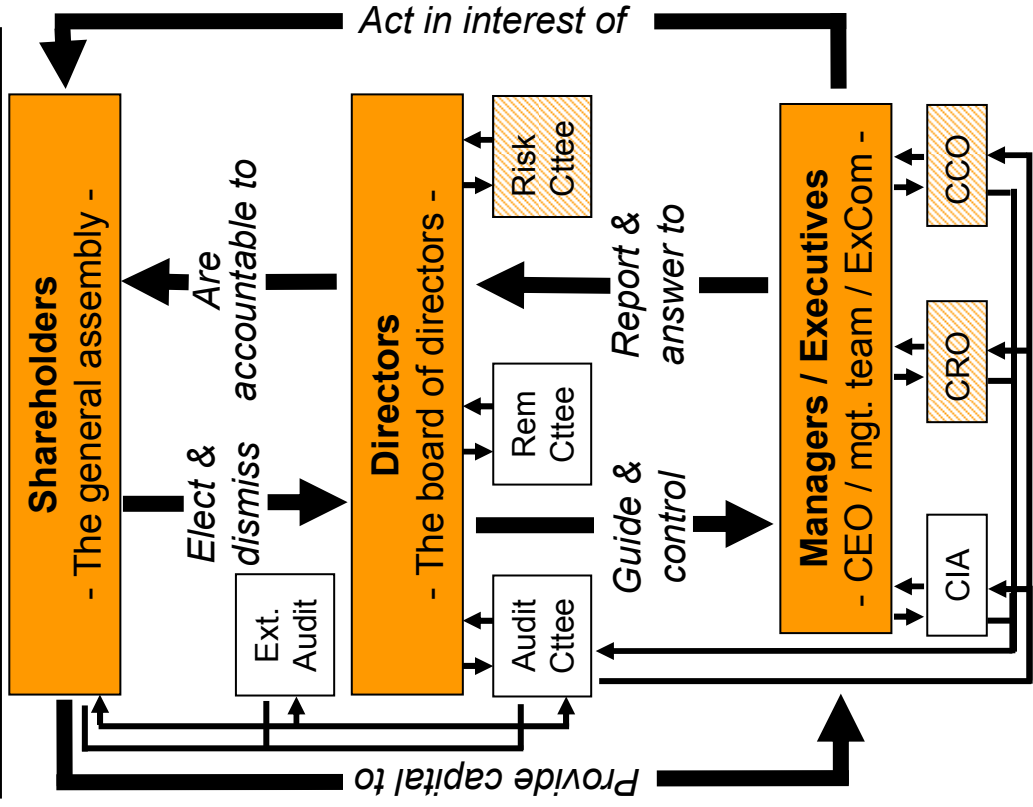
“Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders.

Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.”

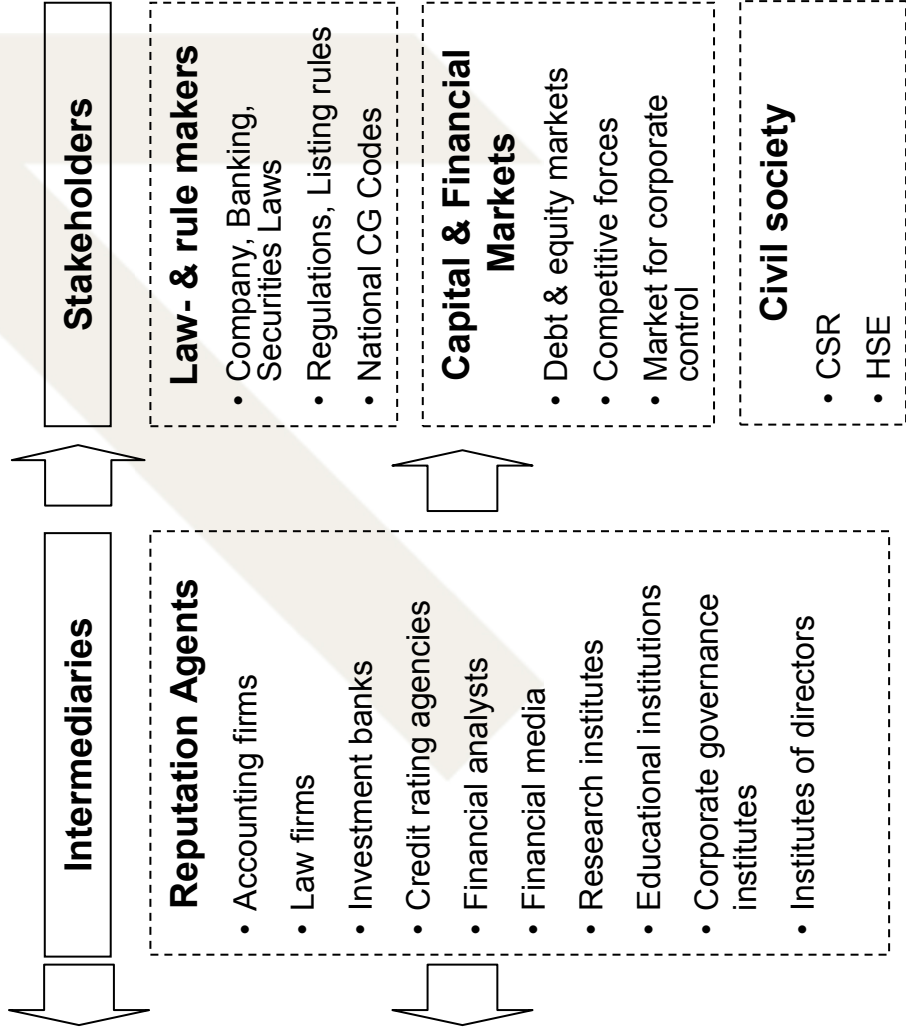
Source: OECD Corporate Governance Principles, 2004

The Internal vs. the External Perspective

Internal—Corporate—Perspective



External—Stakeholder—Perspective



External and Internal Framework Affecting a Company's Corporate Governance

External Laws, regulations

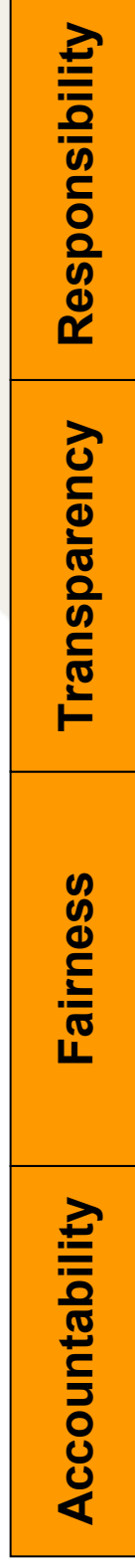
- **Mandatory:**
- Civil Law
- Company Law
- Specialized—Securities, Banking—Law
- Listing rules
- **Voluntary:**
- National corporate governance code

Internal company documents

- **Articles of Association**
- **Corporate governance code**
- **Code of ethics or conduct**
- **Board charter**
- **By-laws/charters/ToRs on:** (i) board Committees; (ii) general assembly; (iii) corporate secretary; (iv) internal auditor, etc.
- **Policies and procedures on:** (i) dividends; (ii) information disclosure; (iii) enterprise risk management; (iv) internal controls; (v) internal audit procedures; etc.

The Pillars of Corporate Governance

As put forth in the 2004 OECD Principles of Corporate Governance



These Principles should:

<ul style="list-style-type: none">▪ Ensure for mgmt.'s accountability to the Board▪ Ensure for the Board's accountability to SHs	<ul style="list-style-type: none">▪ Protect SH Rights▪ Treat all SHs, incl. minorities, equitably▪ Provide for effective redress for violations	<ul style="list-style-type: none">▪ Ensure for timely and accurate disclosure▪ On all material matters, incl. the:<ul style="list-style-type: none">▪ Financial situation▪ Performance▪ Ownership▪ Governance	<ul style="list-style-type: none">▪ Recognize the legal rights of stakeholders▪ Encourage co-op. between the Co. & stakeholders in creating<ul style="list-style-type: none">▪ Wealth▪ Jobs; and▪ Sustainability
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And while corporate governance issues will vary from company to company, these principles hold true for all companies.

Extent of Private Sector Implementation Hawkamah-IFC MENA CG Survey

□ Scope: Listed companies and banks

Survey respondents included about 150 Banks & Companies across the region in 2007.

□ 11 IFC member countries with stock exchanges:

Maghreb: **Morocco and Tunisia**

Mashrek: **Egypt, Jordan, Lebanon and West Bank**

GCC: **Bahrain, Kuwait, Oman, Saudi Arabia and the UAE**

□ Purpose:

- ✓ Understand the extent to which banks and listed companies in MENA follow good CG practices.
- ✓ Assist companies in closing the gap between current & best practice.
- ✓ Provide a baseline against which to measure future progress.

Five Key Corporate Governance Attributes

Commitment

- Substance over form
- Full set of documents
 - Public recognition
- Officer and Board committee to implement & review cg

Good Board Practices

- Independent directors
- Expertise, competence & skill
 - Proper organization
- Presence of specialized committees

Shareholder Rights

- Well organized GMS
 - Cumulative voting
- Dividend policy in place
- Protection of minority rights
 - Independent registrar

Disclosure & Transparency

- Ownership structure disclosed
- Financial + non-financial info
 - Board & committees composition
 - Compensation info

The Control Environment

- Financials prepared with IFRS
 - Internal control procedure
- External, independent auditor
 - Risk mgmt. policy implemented

From a Board Perspective, Do you:

- Commitment to Good Corporate Governance
- ✓ Understand the company's ownership structure?
- ✓ Understand the company's governance structure?
- ✓ Have access to the company's organic documents?
- ✓ Understand the company's policies towards corporate governance?
- ✓ Have a company corporate governance code?
- ✓ Have a Code of Ethics?
- ✓ Know what your company is disclosing in its annual report?
- ✓ Have designated officer responsible for corporate governance policies and practices?

From a Board perspective, do you:

- Structure of Functioning of the Board
 - ✓ Have a board charter and policies related to corporate governance?
 - ✓ Keep a list of current board and senior executives, and have access to their CVs?
 - ✓ Assess whether the Board follows procedures and follows through on key decisions as evidenced in Board meeting minutes?
 - ✓ By-laws on CEOs and management boards?
 - ✓ Understand policies on non executive director remuneration and executive director compensation, as well as other employee compensation schemes?
 - ✓ Assess your Board effectiveness?
 - ✓ Have a succession plan?

From a Board perspective, do you:

- Control Environment and Processes
 - ✓ Understand your company's risk management and internal control policies?
 - ✓ Understand your company's compliance programme?
 - ✓ Know whether previous audit findings have been responded to or followed through?
- Transparency and Disclosure
 - ✓ Have you reviewed and generally understand your company's financial statements?
 - ✓ Understand your company's information disclosure policy?
 - ✓ Have access to shareholder agreements?

From a Board perspective, do you:

- Treatment of Minority Shareholders and Stakeholders
 - ✓ Understand the ultimate beneficial structure for your company?
 - ✓ Ensure that minority shareholder rights are upheld during shareholder meetings?
 - ✓ Understand any related party transactions that may have occurred during the past three years that require shareholder approval?
 - ✓ Know how the company protects minority shareholder rights, to include during cases of corporate acquisitions, mergers, restructurings, and sales or purchases of major assets?
 - ✓ Understand who your stakeholders are and your companies responsibility towards them

Another Transparency Measurement Tool: BASIC methodology and CG

- Behavioral Assessment Score for Investors and Corporations
- BASIC provides systematic insight into a number of essential parameters which constitute the backbone of Corporate Governance
- The methodology developed by The National Investor supported by Hawkamah is split into three distinct components:
 - Trading history
 - Corporate communication
 - Disclosure

Measures for Trading History

- Stock volatility
- Market volatility
- Trading History
- Trading Frequency
- Average daily turnover
- Bid/Ask spread
- Number of shareholders
- Possibility of foreign ownership
- Proportion of foreign ownership

Measures for Corporate Communication

- History of Publicly Available Accounts
- Availability of Corporate Website
- Availability of latest annual report on the website
- Availability of Investor Relations contact details
- Pre announcement of result publication dates
- Holding of analyst meetings/conference calls
- AGM Pre-announcement date
- AGM's notice period in days
- Disclosure of EPS calculations

Measures for Disclosure

- Disclosure number of shareholders
- Disclosure of whether foreign ownership is allowed
- Disclosure of percentage of foreign ownership allowed
- Disclosure available in English
- Disclosure typed
- Disclosure in non-alterable format
- Complete interim results disclosure
- Annual report items
 - Management/chairman’s report
 - Financial performance summary
 - Summary of operations
 - Corporate governance policies
 - Board sub committees
 - Director independence
 - Executive/Non-Executive Directors
 - Disclosure of accounting policy
 - Management profiles
 - Board member profiles
 - Revenue breakdown by profile
 - Revenue breakdown by geography
 - Revenue breakdown by biz line
 - Director shareholding
 - Voting policies
 - Auditor’s Approval