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HAWKAMAH
THE INSTITUTE FOR CORPORATE GOVERNANCE

Corporate Governance in Oman

– An Investor Perspective



*Task Force Report
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Corporate Governance in Oman— An Investor Perspective

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PREFACE

In view of the importance of portfolio equity flows to emerging markets, the Institute of International Finance (IIF) established in January 2001 the IIF Equity Advisory Group (EAG), consisting of senior executives from leading asset management firms throughout the world. The EAG, chaired by Edward Baker, Chief Investment Officer of Global Emerging Markets, AllianceBernstein L.P., is seeking implementation of its Code of Corporate Governance (the “IIF Code”) in key emerging market countries that are of particular interest to the Institute’s membership base. The IIF Code, which was first released in February 2002 and revised in May 2003,¹ endeavors to improve the investment climate in emerging markets by establishing practical guidelines for the treatment of minority shareholders, the structure and responsibilities of the board of directors, and the transparency of ownership and control of companies.

The strategy for promoting the implementation of the IIF Code, as the standard by which the company/ shareholder relationship is measured, is country and regional focused. Country Task Forces have been set up for Brazil, China, India, Lebanon, Mexico, Poland, Russia, South Africa, South Korea, and Turkey. Reports on all these countries have been published, including second reports on several countries.

In June 2006, the IIF entered into a partnership with Hawkamah, the Institute for Corporate Governance,² to jointly conduct a two phase corporate governance survey of countries in the MENA region. Phase 1 of the survey covers countries in the Gulf Cooperation Council (GCC) – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). The motivation for such a survey was prompted by the extraordinary growth in GCC equity markets over the past few years, growing international interest in the region and the importance of helping officials in the GCC identify areas of weakness and potential improvements in current corporate governance frameworks. For Phase 1 of the project Hawkamah provided IIF with financial support to defray most of the cost of the work. In phase 2, the survey will be extended to other countries of the MENA region.

In July 2006, the GCC Task Force held meetings in Abu Dhabi, Manama, Doha, Dubai, Kuwait, Muscat and Riyadh to assess the corporate governance practices in GCC countries. Meetings were held with senior officials from the capital market authorities, central banks and stock exchanges, local fund managers, lawyers, experts, accountants and management consultants involved in corporate governance in GCC countries. Keith Savard, Director Global Economic Analysis, IIF and Dr. Nasser Saidi, Executive Director, Hawkamah, co-chaired the GCC Task Force. Other Task Force members include Nicolai Nadal and Rashid Bin Shabib of the Hawkamah staff and Rakhi Kumar of the IIF staff.

¹Investors’ poor experience in a generally weak corporate governance environment in many emerging markets led to relatively strict and comprehensive original IIF guidelines. Nevertheless, more detailed standards were considered desirable in a few areas in light of far-reaching new legislation such as the Sarbanes-Oxley Act passed by the U.S. Congress in the summer of 2002. The revised standards offer guidance to emerging market officials as they decide what rules and regulations must be put in place to satisfy investors.

²The Hawkamah Institute for Corporate Governance is an autonomous, international association, hosted by the Dubai International Financial Center (DIFC), and serving the MENA and Central Asia countries. Hawkamah was launched in partnership with the Organisation for Economic Cooperation and Development (OECD), the International Finance Corporation (IFC), the Dubai International Financial Centre (DIFC), the World Bank Global Corporate Governance Forum, the Center of International Private Enterprise (CIPE), the Union of Arab Banks (UAB), Young Arab Leaders (YAL) and the countries participating in the OECD-MENA Investment Programme. Its mission is to assist the countries and companies of the region to develop sound and globally well-integrated corporate governance frameworks. It provides technical assistance and cooperates with decision makers to coordinate and sequence the designing, planning and implementation of corporate governance reforms and monitoring the outcome of corporate governance policies at the private sector level. See www.Hawkamah.org

The aim of this report is to offer an assessment as to where countries in the GCC stand relative to the investment environment that members of the IIF Equity Advisory Group would like to see develop in key emerging market countries. Since this is a first-time survey of corporate governance frameworks in the region, the report does not treat all relevant corporate governance matters in depth. Instead, it focuses on the important initial steps that need to be taken to improve the investment environment in GCC countries. We will review at a future date the corporate governance regimes in more detail to assess progress. This report focuses on corporate governance standards and practices only in GCC countries. It is not meant to provide an exhaustive survey of corporate governance in the GCC and, as with other Task Force Reports, neither the Task Force nor the IIF or Hawkamah can in any way attest to or guarantee the accuracy or completeness of the information in the report despite the best effort that has been made. To the extent guidance is given, or advice is inferred, the reader is urged to fully apprise him/herself of the relevance of such content to current or contemplated operations.

TENETS OF THE IIF CODE AND BASIC DIFFERENCE WITH THE OECD PRINCIPLES OF CORPORATE GOVERNANCE

Through its Equity Advisory Group (EAG), the IIF published a code of corporate governance in February 2002 which was revised in May 2003. IIF's analysis of a country's corporate governance framework focuses on five broad areas – (i) minority shareholder rights, (ii) structure and responsibilities of the Board of Directors, (iii) accounting and auditing, (iv) transparency of ownership and control, and (v) the regulatory environment. A detailed explanation of these areas can be found in the "Comparative Analysis of Corporate Governance Frameworks in the GCC" section. These key ideas appear in the OECD Principles of Corporate Governance and the OECD Corporate Governance Guidelines that accompany it. However, the IIF Code has constructed a more detailed set of guiding principles in order to enhance their practical usefulness.

For example, with regards to minority shareholder rights, the IIF Code clearly endorses the one-share one-vote principle and proxy voting. In addition, the IIF Code supports cumulative voting for director elections. However, while the OECD Principles emphasize the importance of giving equal voting rights to all shareholders and allowing votes to be cast by nominees when agreed upon with the share owner, cumulative voting is not addressed. Furthermore, the IIF Code clearly defines independent directors and requires that at least one-third of the board be independent. The OECD Principles require that board members disclose whether they are regarded as independent by the company, but do not specifically identify how many members should be independent, nor what characteristics classify them as independent.

The IIF Code also requires that conflicts of interest for board members and key executives be disclosed publicly and that the head of the audit committee never have a conflict of interest. The OECD Principles agree that this information must be disclosed, however, they limit the scope of disclosure to the board of directors. Because it views accurate accounting and auditing as the core of transparency and good corporate governance, the IIF Code requires that semi-annual reports be filed in addition to the annual audited financial report. The OECD Principles, in contrast, only require an annual audited financial report.

Both the IIF Code and the OECD Principles encourage the implementation of good corporate governance practices, however; the IIF Code was created to promote specific actions and criteria, which, if followed, will help promote the health and stability of emerging market economies.

This report forms part of a country-by-country analysis of corporate governance practices in each of the six member states of the Gulf Cooperation Council (Oman, Bahrain, Kuwait, Qatar, Saudi Arabia and the UAE), based on country missions by staff members of the IIF and Hawkamah. This report should be read in conjunction with a regional overview report—Comparative Survey of Corporate Governance in the GCC—published in September 2006.

EXECUTIVE SUMMARY

Compared to other countries in the GCC, Oman is further along in capital market development. It is the first country in the GCC to adopt a code of corporate governance and to establish an independent capital market regulator. Improvements in the corporate governance environment of the country were possible because of strong backing from the government, which is striving to diversify the country's economic base by building nonhydrocarbon sectors. A functional corporate governance infrastructure gives Oman an advantage over other GCC countries, whose corporate governance frameworks have yet to meet the threshold sought by international investors.

In 1998, government authorities established the Capital Market Authority (CMA) as an independent body. The CMA regulates the Muscat Stock Market (MSM), Oman's equity market. In 2002, the CMA introduced a code of corporate governance requiring all MSM listed companies to comply with the code. In 2005, it introduced a code of corporate governance for insurance companies. Oman's code of corporate governance focuses heavily on conflicts of interests that exist in many family-owned companies in Oman. It requires companies to provide greater disclosure on related-party transactions and to separate operations of the board and management by introducing structure to the board of directors.

Moreover, the code requires all companies to include a report on corporate governance in their annual report to shareholders. This report includes information pertaining to the board of directors, description and composition of board level committees, and director and officer remunerations. Oman's corporate governance framework complies with about two-thirds of IIF's corporate governance guidelines. Regulators can improve the existing framework by:

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- Increasing protection of minority shareholder rights
- Introducing and enforcing rules and regulations on issues such as insider trading and share buys
- Improving financial transparency by requiring disclosure of risk assessment and off-balance sheet transactions

Oman has also made efforts to develop an equity culture among local investors. The CMA has distributed brochures that inform small shareholders of their rights. These brochures also highlight the pitfalls of investing based on rumors. Improving Oman’s corporate governance environment is an ongoing effort at the CMA. The CMA is currently reassessing current corporate governance requirements. It is also considering privatizing the Muscat Securities Market.

To date, Oman has failed to capitalize on its relatively strong corporate governance environment. The MSM is the smallest equity market in the region by market capitalization. However, the underlying fundamentals of the stock exchange are strong. Oman’s stock market has been fairly insulated from the volatility experienced by other markets in the region during the past year and continues to trade at reasonable multiples. Despite having a corporate governance framework that complies with some international best practices, the small size of the MSM, compared to other stock markets in the region, offers limited investment opportunities for international investors.

Therefore, the authorities need to identify ways of growing the MSM. Regulators need to slowly diversify product offerings on the MSM. In addition, the MSM should consider entering into cross-listing agreements with other regional markets. To facilitate the possibility of cross-listing in the future, the CMA should take the lead in harmonizing capital market laws and corporate governance practices among GCC countries. Regulators should also improve the existing framework by increasing compliance with the IIF’s corporate governance guidelines.

Although the authorities have succeeded in creating a reasonably robust corporate governance framework, enforcement of laws continues to be weak. Regulators need to focus on strengthening surveillance

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mechanisms to increase compliance with existing laws. The authorities should also consider implementing targeted reforms aimed at improving the corporate governance of family-owned and state-owned companies. Most companies in Oman are owned by controlling families or the state and possess a particular set of corporate governance issues that can be addressed without legislation.

Based on its findings, the Task Force recommends that the following improvements be given priority to help strengthen the framework for corporate governance in Oman:

- Reduce state ownership
- Introduce insider-trading rules and regulations
- Set-up specialized financial courts to handle securities– and finance-related offenses
- Strengthen surveillance and enforcement
- Increase disclosure requirements in financial reports and establish an association of accountants
- Introduce sector-specific corporate governance best practices
- Pursue legal reforms to provide investors with a mechanism by which they can redress grievances in a timely and cost-effective manner
- Strengthen corporate governance infrastructure
- Undertake investor relations efforts to promote Oman as an investment destination for the international community

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KEY CORPORATE GOVERNANCE ISSUES

Strong government backing has led to the creation of a robust corporate governance framework

Oman is the only country in the GCC to have adopted and enforced a code of corporate governance for listed companies. Efforts have been made by the Capital Market Authority (CMA), Oman's regulatory authority, to introduce corporate governance-related international best practices by introducing structure to the board of directors. In particular, Oman is the only country in the GCC to:

- Define and require independent directors to serve on the board of listed companies
- Establish a board-level audit committee
- Recommend that companies create other board-level committees
- Require audit committees to oversee risk management systems
- Require significant disclosure of related-party transactions

Much of the push for the adoption of better corporate governance practices comes from Oman's political leadership, which strongly encourages the government to keep up with international practices. Thus, Oman's corporate governance framework is not static. The CMA periodically reviews and amends existing rules and requirements. The code of corporate governance was first introduced in 2002 and amended in 2003. The Capital Market Authority plans to reassess current corporate governance requirements by the end of 2006. It is also considering the privatization of the Muscat Securities Market. Although there is scope for further improvement in Oman's corporate governance framework (see Outlook and Recommendations), the CMA needs to avoid the pitfalls of overregulation and balance the cost of compliance for companies with the benefits of a better corporate governance environment.

Oman has invested a significant amount of time and effort in building a good corporate governance infrastructure. The CMA has undertaken projects such as

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introducing director training programs with the help of the NASD and increasing investor awareness by encouraging investor education. Nevertheless, more can be done by way of:

- Establishing an association of accountants that can regulate the industry
- Encouraging business schools to provide management training and promote business ethics
- Training journalists in financial and investigative reporting

Need to grow equity market

Oman has the smallest equity market in the GCC.

At \$12.9 billion, market capitalization of the Muscat Securities Market (MSM) accounts for about 50 percent of GDP. The MSM has the second largest number of listed companies in the GCC with 124 listed companies compared with 161 on the Kuwait Stock Exchange, 79 on the Tadawul (Saudi Arabia), 59 on the Abu Dhabi Securities Market, 47 on the Bahrain Stock Exchange, and 33 companies each on the Doha Securities Market and the Dubai Stock Exchange.

Despite its small size, Oman's stock market appears to be built on strong fundamentals. MSM listed companies continue to trade at reasonable multiples and the stock market has been relatively protected from the volatility experienced in other GCC equity markets. However, at its current size, Oman's stock exchange is too small to attract a significant number of international investors. Moreover, other countries in the GCC are in the process of strengthening their corporate governance frameworks and in time Oman will lose its advantage over its neighbors. Therefore, the Capital Market Authority should raise the status of Oman within the international finance community by marketing Oman as a country with strong equity markets and good corporate governance.

Oman has recently entered into Memoranda of Understanding with stock exchanges in London, Malaysia and Egypt. Within the GCC it has an MoU with the Abu Dhabi Securities Market and dual listing agreements with Kuwait and Bahrain. Oman can benefit by increasing cooperation between equity markets in the region. Oman's

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regulators should take the lead in harmonizing corporate governance-related laws and requirements within the GCC to facilitate unifying all GCC equity markets. This would raise the status of all GCC equity markets in a global context and would be of significant benefit to Oman, which has limited growth opportunities.

Weak enforcement

Weak enforcement of rules and regulations has been a perennial concern of investors in emerging markets and has been cited as a major problem in many of our corporate governance reports. The situation in Oman is no exception. Although the CMA has a surveillance system in place and has legal and enforcement departments, investors in Oman have been calling on the CMA to further strengthen these functions.

Wrongdoing by directors is subject to both criminal and civil penalties. However, fines are generally not punitive. The Capital Markets Law provides for a maximum fine of OMR 50,000 (~US\$ 130,000) for breach of listing rules. Also, Oman does not have specialized financial courts to handle securities- and finance-related offenses. The GCC Task Force recommends the establishment of separate courts for white-collar crimes, which will help dispense justice in a quick and efficient manner.

Targeted reforms required for state-owned and family-owned businesses

Oman's government owns significant stakes in businesses ranging from banks to oil and gas companies. The government is accelerating its plans to privatize most parts of the economy. The GCC Task Force recommends that the government undertake corporate governance-related reforms in the public sector. Better corporate governance structures in state-owned companies will likely increase the sale value of these companies, thereby realizing greater revenues for the exchequer. Corporate governance-related reforms that need to be implemented in the public sector include:

- Increased autonomy for management with the introduction of appropriate accountability standards
- Independent board-level nomination committees to appoint directors

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- Set-up of sector regulatory authorities and reduced interference from sector ministries
- Focus on profitability by linking senior management compensation to performance

In the private sector, most MSM listed companies are family-owned businesses. Despite some improvements in disclosure, the broader corporate governance structure in family-controlled companies generally remains poor. It is important that corporate governance reforms in family-controlled companies focus on:

- Voluntarily adopting mechanisms for governance of the family's ownership stake; for example, creating family councils that deal with family disputes
- Reforming company boards by increasing overall board independence and reducing the number of family member-directors
- Limiting the role of family members in senior management and devolving power and authority by introducing professional non-family executives
- Increasing transparency of ownership structure and related-party transactions

Targeted reforms in state-owned and family-owned businesses will help strengthen corporate governance practices in listed companies. This should help Oman retain its advantage over other GCC countries, which are currently improving their corporate governance frameworks.

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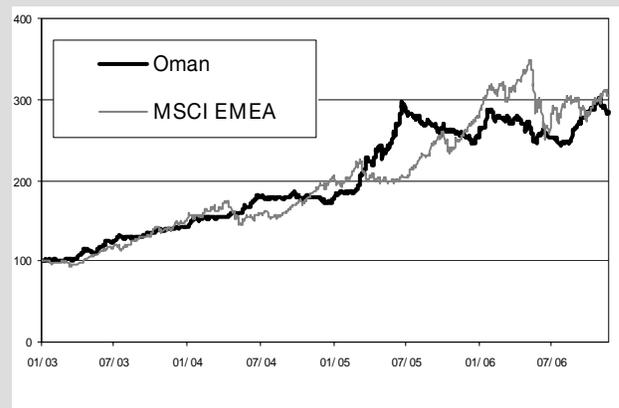
Growing Economic Impact of Oman's Equity Market

Established in 1988, Oman has the second oldest equity market in the GCC after Kuwait. The Muscat Securities Market (MSM) has been fairly insulated from the volatility experienced by other stock markets in the region over the past 12 months. The MSM 30 Index, which rose 44.4 percent last year (a fairly modest increase compared with triple digit gains in Saudi Arabia, Qatar and the UAE), continued to rise at the beginning of 2006 before dropping back from its peak on January 26 (Chart 1). With the MSM trading at reasonable multiples (P/E of less than 11) and a fairly modest market capitalization of less than 50 percent of GDP, the price decline this year is probably a reaction to events in other regional markets that precipitated selling by GCC nationals who needed to raise funds to cover margin calls in their home markets.

Prospects for a rebound in the MSM appear favorable. The market is supported by sound economic fundamentals, relatively low interest rates and solid corporate earnings. Furthermore, controls on the level of consumer debt relative to total bank lending in Oman (see Monetary Policy section) should help reduce any systemic risk to the banking

sector arising from gyrations in the stock market. At the end of June, the MSM 30 Index was broadly unchanged from the end of 2005, a 4.1 percent gain in the services and insurance index being offset by a 4.8 percent decline in the banking and investment index (which led the market in 2005 with a 51.5 percent gain) and an 8.4 percent drop in the industrials index.

Chart 1
Comparison of the Oman stock market index with the MSCI EMEA index from January 1, 2003 to November 15, 2006



Oman's Banking Sector

The banking sector in Oman had a good year in 2005 with record profits, strong growth in assets and a significant improvement in asset quality. Gross non-performing loans as a percentage of total loans fell to 7.3 percent at the end of 2005 from 11.1 percent at the end of the previous year and 12.8 percent in 2003, and the loan-loss coverage increased from 82.7 percent to 95.3 percent over the same two year period. Reflecting this improvement, the overall capital adequacy ratio of the commercial banks rose to 18.5 percent last year, well above the required minimum ratio of 12 percent.

Banking supervision has improved and last year a Prompt Corrective Action framework was put into place for early identification of banks in distress. The central bank also made minor changes to the regulation that governs the size of a bank's consumer loan book. Commercial banks are now permitted to provide mortgage finance up to a maximum of 5 percent of its total outstanding credit. The ceiling for personal loans (excluding mortgages) was reduced to 40 percent, which meant that the percentage for all consumer loans increased to 45 percent from 42.5 percent previously. The interest rate cap on

consumer loans remains unchanged at 9 percent, despite the increase in market interest rates.

The standardized Basel II framework will be adopted at the beginning of 2007. This will transform the current approaches and tools of supervision by the central bank as well as audit and risk management practices of banks. The former will soon adopt risk-based supervision and the latter are being encouraged to plan in advance and migrate to more advanced approaches to risk assessment.

Increased competition among banks in Oman is expected to put further pressure on banks to improve their performance on an international level. Local banks in Oman have begun expanding into other parts of the region and Bank Sohar, Oman's sixth locally incorporated commercial bank, is expected to open by the end of the year. At the same time, Oman signed a free trade agreement with the United States earlier this year, which requires Oman to allow full access to U.S. financial services, as well as allowing the unrestricted establishment of U.S. financial institutions in Oman.

OUTLOOK AND RECOMMENDATIONS

Oman has strengthened its corporate governance framework by amending laws and introducing rules and requirements that incorporate some of the best practices sought by international investors. In addition, the government has established an independent regulator to oversee development of the capital markets and plans to list the stock exchange as an independent company. Nevertheless, weaknesses still exist in Oman's corporate governance framework. Moreover, the quality of surveillance and enforcement by the Capital Market Authority and the Muscat Securities Market remain weak.

Specific changes that would strengthen the existing corporate governance framework and make it fully compliant with the IIF's Policies for Corporate Governance in Emerging Markets-Revised Guidelines include:

- Introducing cumulative voting in director elections
- Requiring shareholder approval for mergers and major asset transactions such as takeovers
- Establishing a trigger that will instigate a public offer when ownership exceeds 35 percent
- Introducing rules regarding share buybacks
- Requiring that the quorum for board of director meetings consist of executive, non-executive and independent directors
- Requiring the board to create compensation and nomination committees
- Advising large companies to adopt formal board evaluation procedures
- Requiring board members to abstain from voting if they have a conflict of interest pertaining to the matter being considered

- Mandating companies to have an investor relations program and to make a statement on social responsibility and ethics
- Introducing disclosure requirements for off-balance-sheet transactions in the annual report
- Requiring audit committees to address business risks facing the company in the annual report to shareholders
- Strengthening enforcement

To aid its efforts in diversifying its economy away from the hydrocarbon sector and to grow its equity market, the GCC Task Force recommends that the CMA and MSM undertake an investor relations campaign to increase the profile of the MSM and Oman as an investment destination. This will allow Oman to compete with other GCC countries that have established special investment zones that market themselves as having higher standards of corporate governance compared to the local market.

The GCC Task Force also recommends that the CMA take the lead in creating a regional task force. In our *Comparative Survey of Corporate Governance in the Gulf Cooperation Council Countries* report, the Task Force called for the creation of a regional GCC corporate governance task force comprised of regulators and market participants. We believe that the mandate of the task force should include harmonizing capital market laws to help build a GCC standard of corporate governance, on par with international best practices and promoting cross-listing of stocks on multiple exchanges within the GCC with the long-term aim of creating a unified GCC equity market. Other regulators in the region are only now strengthening corporate governance related requirements for listed companies. The CMA should assist other regulators with problems that arise with implementation of the laws. This would help eliminate structural weaknesses and pave the way for enabling cross-listing of shares on other GCC stock exchanges.

The GCC Task Force proposes that the CMA and MSM pursue board based corporate

governance related reforms while strengthening the equity culture in the country. This includes:

- Providing educational training to regulatory staff
 - Establishing specialized commercial courts and specialized financial courts to handle securities– and finance-related offenses
 - Promoting director training programs to develop a pool of trained independent directors
- Establishing an association of accountants who can spearhead development of accounting practices and regulations in the country
 - Promoting shareholder activism in the country through those who can take up corporate governance-related causes as significant shareholders
 - Introducing ethics and corporate governance in business school curriculums to create awareness and educate future business leaders on best practices

APPENDIX

SULTANATE OF OMAN CORPORATE GOVERNANCE FRAMEWORK

Oman's corporate governance framework complies with more than two-thirds of the guidelines in the IIF Code. The country's corporate governance framework is laid out in the Commercial Companies Law (CL), Code of Corporate Governance (Code) and the Capital Market Law (CML).

Minority Shareholder Protection

Oman's corporate governance framework addresses nearly two-thirds of the minority shareholder protection guidelines contained in the IIF Code. Scope for further improvement exists in strengthening rules by requiring shareholder approval for changes to the capital structure and by introducing cumulative voting rights in director elections.

Voting Rights

Proxy voting is permitted by the Commercial Companies Law which clearly states, "A shareholder may give a written proxy to another person to attend the General Meeting and vote on its resolutions. The shareholder may revoke such proxy at any time." Furthermore, it states that no board member may act on behalf of more than one member. This completely fulfills the IIF Code's requirement to allow proxy voting universally among shareholders.

The Commercial Companies Law also endorses the one-share, one-vote principle and complies with the IIF's Code by clearly stipulating, "Each shareholder has the right to attend the General Meeting and has one vote against each share held by him."

Provisions for cumulative voting, however, are absent from Oman's corporate governance framework. The adoption of cumulative voting practices in the election of the board of directors would further improve the rights of minority shareholders.

Company Capital Structure

Oman's corporate governance framework has a weak capital structure and complies with less than one-third of IIF's guidelines in this area.

The IIF Code provides that mergers and major asset transactions should require shareholder approval. In addition, offers made above a reasonable minimum threshold of outstanding stock should trigger a public offer of a significant portion of that purchase. The Commercial Companies Law only requires that, "the increase in capital of the incorporated company must be divided among the partners of the incorporated company in proportion with their shares." It makes no provisions for shareholder approval of changes in capital structure brought about through takeovers, mergers or buyouts.

The IIF Code also calls for a public offer to be made for the acquisition of all shares when ownership exceeds the 35 percent trigger level. Additionally, it encourages the disclosure of share buybacks. There are no provisions in Oman's corporate governance framework to address either of these issues.

With respect to capital increases, the IIF Code encourages companies to acquire shareholder approval and give preemptive rights to shareholders. Although the Commercial Companies Law states that each shareholder must be given priority rights to subscribe to new shares in proportion to the number of shares he owns during capital increases, there is no provision requiring shareholder approval. Instead, Commercial Companies Law states that approval from the Extraordinary General Meeting (EGM) is only required when the company has different categories of shares and the distribution of shares among them is unequal.

Shareholder Meetings/Other Rights

Oman's corporate governance framework complies with roughly three-fourths of the guidelines set forth in the IIF Code in this area.

The Commercial Companies Law complies with the IIF Code by requiring companies to send a meeting notice and agenda to each shareholder by registered mail or hand delivery at least two weeks prior to the Annual General Meeting. In addition, the notice and agenda is required to be published in two daily newspapers on two separate occasions and be submitted to the Muscat Securities Market (MSM). Furthermore, the law requires the board to call a general meeting at the request of one or more shareholders representing 25 percent or more of the company's capital, and to include on the agenda any proposal put forth by shareholders representing more than 10 percent of the company's capital.

However, Oman's rules and regulations only partly comply with the IIF Code's recommendation to set a quorum at 30 percent and include some independent non-majority-owning shareholders. Under the Commercial Companies Law, the resolutions of the Annual General Meeting are only valid if the meeting is attended by shareholders or their proxies, who represent at least 50 percent of the capital of the company. If a quorum of this size is not formed, a second meeting must be called in the same manner as the first at least one week prior to the meeting and will be considered valid regardless of the number of shares represented.

The IIF Code stresses the importance of the equal treatment of domestic and foreign shareholders. According to the Commercial Companies Law and the Foreign Capital Investment Law, non-Omanis may not participate in any Omani company without first obtaining a license from the Ministry of Commerce and Industry. After receiving the license, non-Omanis may still not own more than 49 percent of shares of an Omani company unless receiving prior approval from the Foreign Capital Investment Committee.

Structure and Responsibilities of the Board of Directors

The Oman corporate governance framework encompasses slightly less than three-fourths of the IIF Code guidelines pertaining to the board of directors. Major aspects underpinning the functioning of the board of directors are relatively well addressed. However, adopting provisions to establish nomination and compensation committees, as well as, requiring the presence of independent shareholders to form a quorum would improve the board structure in Omani companies.

Board Structure

Oman's Commercial Companies Law and Code of Corporate Governance present a general principle that an independent director is one who has not, nor has his first-degree relative, occupied any senior positions in the company for the last two years. In addition, he may not have had any relations with the company, its parent company or its affiliated/sister companies that could result in financial transactions. A minimum of one-third of the total strength of the board shall comprise independent directors. The board is also to be comprised of a majority of non-executive directors.

Regarding the frequency of board meetings, the board shall meet at least four times per annum, which complies with the IIF Code recommendation of quarterly board meetings. However, while Oman law requires a secretary of the board to draw the minutes of each meeting and make disclosures according to various laws and regulations, it does not explicitly require the minutes to be made public as referenced in the IIF Code. In addition, Oman's laws and regulations specify that the meeting of the board shall not be valid unless the quorum comprises at least 50 percent of shareholders, but does not state, as the IIF Code does, that the quorum should include executives, non-executives, and independent non-executives.

The IIF Code recommends that new board directors be nominated by a committee which is chaired by an independent non-executive director. While there is no provision for a nomination committee in Oman's Corporate Governance Code, it they do state that the current board will recommend suitable names to shareholders for election. Shareholders retain the right of electing any candidate to the board, irrespective of whether his/her candidacy is recommended by the board.

Board Committees

The IIF Code recommends the establishment of audit, nomination, and compensation committees to enhance the board's efficiency and its effectiveness in the company. The IIF Code also suggests that an independent director chair each of these committees.

According to Oman's Corporate Governance Code, a listed company's board is required to form an audit committee to oversee the internal and external audits of a company. Although it is not required of the Board to form any other committee, Oman's Code does encourage the Board to nominate members for subcommittees and specify their roles, responsibilities and power. The Code also suggests that the Board must approve a formal delegation of power to the various levels of the executive committee, sub-committees and management and evaluate the functions of the sub-committees.

Disclosure

Oman's Code complies with all the guidelines of the IIF Code pertaining to disclosure. The Omani Code states that the board and audit committee are responsible for ensuring that notices are sent to shareholders for prior approval for related-party transactions. It also states that any information that could affect share price must be published on the company website or sent to MSM in such a format as to enable it to put the information on its website.

Oman's Corporate Governance Code also states that the remuneration of directors and to the top five officers, including salary benefits, perquisites, bonuses, stock options, gratuity and pensions must be provided in the

mandatory corporate governance report. In addition, the details of fixed and performance-linked incentives along with the performance criteria, service contracts, notice periods and severance fees must also be included.

Other Responsibilities

Oman's Code clearly states with respect to conflicts of interest that companies must disclose all financial and commercial transactions, where the management might have personal interest that could lead to a conflict of interest for the company at large. The IIF Code also states that board members should abstain from voting on issues where they have a conflict of interest. This provision is not mentioned in Oman's corporate governance-related requirements.

The Omani Code does make provision for the audit committee to monitor the company's internal control system and its external audit system, which is in line with IIF guidelines. But Oman's corporate governance framework makes no provision for either investor relation programs or for social responsibility statements.

Accounting/Auditing

Oman's laws and regulations are strong with regard to accounting and auditing of financial information. Current laws comply with three-fourths of the IIF Code's guidelines in this area. Scope for further improvement lies in disclosing off-balance sheet activities and including in the financial reports a statement from the audit committee on current business risks.

Standards

Company financial statements are prepared in accordance with standards issued by the International Accounting Standards Committee (IASC), interpretations issued by the Standing Committee of the IASC, and the requirements of the Commercial Companies Law, and the disclosure requirements of the Capital Market Authority (CMA). Companies are required to rotate auditors every four years, and directors can only be re-appointed after a two year "cooling-off" period.

In addition, companies are required to prepare half-yearly un-audited financial reports which include balance sheets, profit and loss accounts and cash-flow statements. The statements must also be published in two daily newspapers within three months from the end of each half of the company's financial year. External auditors are required to report to the shareholders the adequacy and efficacy of the internal controls systems in place, whether the business is a going concern, and the adequacy of the systems set up regarding their legal requirements.

The IIF Code also encourages companies to disclose off-balance-sheet transactions in the annual report, as well as, a statement from the audit committee addressing current business risks. Oman's laws and regulations lack these stipulations.

Audit Committee

Oman's Code addresses all of the provisions set forth by the IIF Code regarding audit committees. Audit committees must meet four times a year and include at least three non-executive directors and a majority of

independent directors. At least one member of the board must have finance and accounting expertise. Audit committees are required to meet with the external and internal auditors separately, at least once a year without the presence of management, in order to better monitor the company's internal control system. The committee must also delegate non-audit consulting assignments to auditors to ensure their independence is not compromised.

Transparency of Ownership and Control

Oman's corporate governance framework abides by about three-fourths of the IIF guidelines in the area of firm ownership and control. The IIF Code maintains that significant ownership of 20-50 percent of shares of a company should be deemed in control. The Capital Market Law goes further to set boundaries on this type of significant ownership and states that the Executive President of the CMA must approve the purchase of more than 25 percent of the shares of a company by a single person when the shares are offered for public subscription.

The regulations governing related-party transactions, too, comply fully with IIF Code recommendations. Oman's Corporate Governance Code demands that a notice stating the full details of related-party transactions must be sent to shareholders for prior approval and that approval cannot be of a general nature. The procedure prescribed under the Works and Procurement Policy of a company shall be followed and a copy filed with CMA.

The IIF Code sets 35 percent ownership of a company as the trigger point for mandatory buyout offers. There are no provisions for buyout offers to shareholders in Omani Law. However, the Capital Market Law complies with the IIF Code by requiring significant minority shareholders who own shares amounting to 10 percent or more of a company's shares to notify the CMA.

Regulatory Environment and Enforcement

Oman's regulatory structure is strong and complies with the guidelines in the IIF Code. The Capital Market Authority is primarily responsible for the oversight and enforcement of the Muscat Securities Market. The CMA enjoys juristic personality, financial and administrative independence and is qualified to dispose of its funds, manage its business and carry out its activities in accordance with good commercial principles. CMA is also authorized to set policy, pass to the government all matters relating to the development of the market and protection of investor's monies, suspend dealing in a security listed at the market for a period deemed appropriate and empower the Executive President of the CMA to, suspend activities of the market and ratify guidelines for dealing in securities in the secondary market. Furthermore, the CMA is empowered to organize, license and monitor the issue and trading of securities, supervise the operations of the MSM, and supervise all companies operating in the field of securities.

Importantly, the Capital Market Law allows parties to appeal the decisions of the CMA, the Minister of Commerce and Industry or the Executive President before the Appeals Committee. The committee decides on the appeal within 30 days from the date of its submission. Its decisions are issued by majority vote.

**Comparison of IIF Code and
Commercial Companies Law (CL), the Capital Market Law (CML) &
Code of Corporate Governance for Muscat Securities Market (MSM) listed companies (Code)**

| | IIF | Commercial Companies Law (CL), the Capital Market Law (CML) & Code of Corporate Governance for Muscat Securities Market (MSM) listed companies (Code) |
|---|---|---|
| Minority Shareholder Protection | | |
| Voting rights | | |
| Proxy voting | Firms are encouraged to allow proxy voting. | A shareholder may give a written proxy to another person to attend the General Meeting and vote on its resolutions. The shareholder may revoke such proxy at any time. (CL Article 115) A member of the Board of Directors may delegate another person to attend any meeting and vote on its behalf, if it is exclusive and written. No board member may act on behalf of more than one member. (CL Article 100) |
| One share, one vote principle | “One share, one vote” should be a threshold requirement for new issues. | Each shareholder has the right to attend General Meetings and has one vote against each share held by him. (CL Article 115) |
| Cumulative voting | Cumulative voting should be permitted. | No provision. |
| Capital structure | | |
| Takeover/buyout/merger- Procedures on major corporate changes | Shareholder approval of mergers and major asset transactions should be required. If an offer is made above a reasonable minimum threshold of outstanding stock, a significant portion of that purchase must be through a public offer. Ownership exceeding 35% triggers a public offer in which all shareholders are treated equally. Under a merger or takeover, minority shareholders should have a legal right to sell shares at appraised value. | No provision. The increase in capital of the incorporated company must be divided among the partners of the incorporated company in proportion with their shares. (CL Article 13) |

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| <p>Capital increases (pre-emptive rights)</p> | <p>Shareholder approval is required. Any capital increase over a period of one year and above a minimum threshold must first be offered to all existing shareholders.</p> | <p>If the company has different categories of shares, then every increase in the capital shall lead to a proportionate increase in the number of the shares of each category unless a special meeting of each category and an Extraordinary General Meeting (EGM) of all the shareholders approve an unequal issue or the creation of a new category of shares.</p> <p>No decision made by the General Meeting shall affect the rights of any category, unless such a decision is approved by such class in a special meeting. The special meetings of each class shall be held by the members of the concerned class in accordance with the rules that govern EGMs. Shareholders of a certain category shall have the preferential right of subscribing only for the new shares of the same category. (CL Article 76)</p> <p>Each shareholder must be given priority rights to subscribe to new shares in proportion to the number of share he owns. (CL Article 83)</p> |
| <p>Share buybacks</p> | <p>Details of share buybacks should be fully disclosed to shareholders.</p> | <p>No provision.</p> |

| Shareholder meeting | | |
|-----------------------------------|--|--|
| Meeting notice and agenda | Meeting notice and agenda should be sent to shareholders within a reasonable amount of time prior to meetings. | <p>The board can convene the General Meeting at any time or at the request of one or more shareholders who represent at least 25% of the capital of the company.</p> <p>Notice to attend a General Meeting of the shall not be valid unless it includes the agenda and such a notice shall be published after its attestation by the Company Affairs Department and an attested copy thereof has been deposited with the MSM, in two daily newspapers and for at least two consecutive days.</p> <p>At the same time, a copy of the notice shall be sent to each shareholder by registered mail or delivered by hand to him/her or to his/her representative against signature, at least two weeks before the date specified for the meeting. (CL Article 116)</p> |
| Special meetings | Minority shareholders should be able to call special meetings with some minimum threshold of the outstanding shares. | <p>A General Meeting can be called by the board at the request of one or more shareholders who represent at least 25% of the capital of the company. (CL Article 116)</p> |
| Treatment of foreign shareholders | Foreign shareholders should be treated equally with domestic shareholders. | <p>Commercial Companies with non-Omani partners or investors shall comply with the Foreign Capital Investment Law. (CL Article 7)</p> <p>Non-Omanis may not participate in any Omani company without first obtaining a license from the Ministry of Commerce and Industry.</p> <p>Non-Omanis may not own more than 49% of shares unless approved by the Foreign Capital Investment Committee. (Foreign Capital Investment Law, Royal Decree No. 102/94)</p> |

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| <p>Conflicts between shareholders</p> | <p>Should have mechanisms whereby a majority of minority shareholders can trigger an arbitration procedure to resolve conflicts between minority and controlling shareholders.</p> | <p>Any shareholder or any other interested person may, within five years from the date of the General Meeting, apply to the Authority for the Settlement of Commercial Disputes to decide the annulment of any resolution if adopted by such General Meeting in violation of the law or the provisions of the company's Articles of Association or its regulations, if any, or if adopted by fraud or abuse of authority by any person. (CL, Article 126)</p> |
| <p>Quorum</p> | <p>Should not be set too high or too low. Suggested level would be about 30% and should include some independent non-majority-owning shareholders.</p> | <p>The resolutions of the ordinary General Meeting shall be void unless the meeting is attended by shareholders or their proxies who represent, at least 50% of the capital of the company. If a quorum of this size is not formed, a second meeting should be called. The shareholders must be notified of the second meeting in the same manner as the first at least one week prior to the meeting. This second meeting should be valid regardless of the number of shares represented. (CL Article 122)</p> |
| <p>Petition rules/objection to majority shareholder actions</p> | <p>Minority shareholders should have the right to formally present a view to the board if they own some predefined minimum threshold of outstanding shares.</p> | <p>The board, or auditors, if necessary, shall include in the agenda any proposal put forward by shareholders, who represent more than 10% of the capital of the company, provided that such proposal is submitted for inclusion in the agenda at least one month before the date of the meeting. (CL Article 117)</p> <p>The Capital Market Authority (CMA) may, if raised by shareholders who own at least 5% of the company's shares, suspend the resolutions of the General Assembly which are made in favor of or against a certain category of shareholders. (CML Article 8)</p> |

| Structure and Responsibilities of the Board of Directors | | |
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| Board structure | | |
| <p>Definition of independence</p> | <p>Cannot have a business or personal relationship with the management or company, and cannot be a controlling shareholder such that independence, or appearance of independence, is jeopardized.</p> | <p>Any person who holds at least 10% of the shares of the company has the right to be a member of the board.</p> <p>Remaining members will be elected from among the shareholders who hold the minimum number of shares specified by the company’s Articles of Association.</p> <p>The number of board members cannot exceed 12 and the member’s term of office cannot exceed 3 years or be subject to re-election more than once.</p> <p>A director cannot be a member of the board of more than 5 joint stock companies or be the chairman of more than 3 joint stock companies.</p> <p>A director cannot also be on the board of two banks or two insurance companies at the same time. (CL Articles 95, 97)</p> <p>A director shall be independent if he/she or any of his/her first-degree relatives have not occupied any senior positions (CEO/GM) in the company for the last 2 years.</p> <p>Also, he/she should not have had any relations with the company, its parent company or its affiliated/sister companies that could result in financial transactions. (Code Article 1)</p> |

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| <p>Share of independent directors</p> | <p>At least one-third of the board should be non-executive, a majority of whom should be independent.</p> | <p>A minimum of 1/3rd of the total strength of the board shall comprise independent directors.</p> <p>The board is also to comprise of a majority of non-executive directors. (Code Article 3)</p> |
| <p>Frequency and record of meetings</p> | <p>For large companies, board meetings every quarter, audit committee meetings every 6 months. Minutes of meetings should become part of public record.</p> | <p>The board shall meet at least 4 times per annum, with a maximum time gap of 4 months between any two consecutive meetings. (Code Article 4)</p> <p>A Secretary shall be appointed to the board. The Secretary shall draw the minutes of each meeting with all details of agendas, votes and decisions. The secretary and/or person authorized by the board will make disclosures according to various laws and regulations. (Code Article 6)</p> |
| <p>Quorum</p> | <p>Should consist of executive, non-executive, and independent non-executive members.</p> | <p>The meeting of the board shall not be valid unless it is attended by at least 50% of the representatives. (CL Article 100)</p> |
| <p>Nomination and election of directors</p> | <p>Should be done by nomination committee chaired by an independent director. Minority shareholders should have mechanism for putting forward directors at Annual General Meeting (AGM) and Extraordinary General Meeting (EGM).</p> | <p>Assessment of needs of future members of the board will be reviewed by the current board annually.</p> <p>Current board will recommend suitable names to shareholders for election. Shareholders retain the right of electing any candidate to the board, irrespective of whether his candidature is recommended by the board. (Code Annexure 1)</p> |
| <p>Term limits for independent directors</p> | <p>For large companies, re-election should be every 3 years with specified term limits.</p> | <p>Term for all directors on the board, including independent directors cannot exceed 3 years, subject to re-election once. (CL Article 95)</p> |

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| <p>Board committees</p> | <p>The board should set up 3 essential committees: nomination, compensation and audit.</p> | <p>The board must form an audit committee to oversee the internal and external audits of the company. (Code Article 7)</p> <p>Other than the formation of the audit committee, while it is not required for the board to form any other committee, the Code does mention that the board shall nominate the members of the subcommittees and specify their roles, responsibilities and power.</p> <p>The board shall approve a formal delegation of power to the various levels of executive committee, sub-committees and management.</p> <p>The board shall evaluate the functions of the sub-committees. (Code Articles 14-16)</p> |
| <p>Formal evaluation of board members</p> | <p>For large companies, nomination committee must review directors ahead of formal re-election at AGM.</p> | <p>No provision.</p> |
| <p>Disclosure</p> | | |
| <p>Immediate disclosure of information that affects share prices, including major asset sales or pledges</p> | <p>Any material information that could affect share prices should be disclosed through stock exchange. Material information includes acquisition/disposal of assets, board changes, related-party deals, ownership changes, directors' shareholdings, etc.</p> | <p>The board and audit committee are responsible for ensuring that notices are sent to shareholders for prior approval for related-party transactions.</p> <p>Timely notices must also be sent to MSM about information that could affect share prices. (Code Articles 19-25)</p> |
| <p>Procedures for information release</p> | <p>Through local exchanges, and as best practice, through company website.</p> | <p>Information shall be put on the company's website or may be sent to MSM in such a format as to enable it to put the information on its own website. (Code Article 18)</p> |

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| Remuneration of directors | Should be disclosed in annual report. All major compensation schemes, including stock options, should be fully disclosed and subject to shareholder approval. | <p>The following must be covered in the Company report on Corporate Governance:</p> <ul style="list-style-type: none"> • Remuneration to directors and top 5 officers individually including salary benefits, perquisites, bonuses, stock options, gratuity and pensions. • Details of fixed component and performance linked incentives along with the performance criteria • Service contracts, notice period and severance fees <p>(Code Annexure 4)</p> |
| Other responsibilities | | |
| Conflict of interest | Any potential or actual conflicts of interest on the part of directors should be disclosed. Board members should abstain from voting if they have a conflict of interest pertaining to that matter. | Disclosure must be made relating to all financial and commercial transactions, where the management might have personal interest (for self or first-degree relatives) that might have potential conflict with the interest of the company at large, i.e. dealing in the company's shares and commercial dealings with bodies which have shareholding of management and their relatives. (Code Article 17) |
| Integrity of internal control and risk management system | Should be a function of the audit committee. | The Audit Committee will monitor the company's internal control system and its external audit system. (Code Annexure 3) |
| Investor relations | Should have an investor relations program. | No provision. |
| Social responsibility and ethics | Make a statement on policy concerning environmental issues and social responsibility. | No provision. |

| Accounting/Auditing | | |
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| Standards | | |
| National/International GAAP | Identify accounting standard used. Comply with local practices and use consolidated accounting (annually) for all subsidiaries in which sizable ownership exists. | Financial Statements are prepared in accordance with standards issued by the International Accounting Standards Committee (IASC), interpretations issued by the Standing Committee of the IASC and the requirements of the CL and the disclosure requirements of the CMA. |
| Frequency | Semi-annually audited report at end-FY. | Public joint-stock companies shall prepare half-yearly un-audited accounts which include the balance sheet, profit and loss account and cash-flow statement, provided such accounts are published within three months from the end of half the company's financial year in two daily newspapers. (CL Article 104) The Ministry shall have the right to instruct companies to provide an audited annual balance sheet according to the rules and on the dates declared by the Minister of Commerce and Industry. (CL Article 12) |
| Audit quality | Independent public accountant. As a best practice, auditors should adhere to the global standards devised by the International Forum on Accountancy Development (IFAD). | Auditors must be rotated every 4 consecutive years. He/She can be re-appointed after a 2 year "cooling off" period. (Code Article 9) |
| Off-balance sheet transactions | Listing requirements should specify disclosure of off-balance-sheet transactions in the annual report with materiality level for disclosure. | No provision. |
| Risk factors/ monitoring procedures | Should be statement from audit committee in reports and accounts addressing business risks. Need a mechanism for review by auditors. | External auditor shall report to shareholders the adequacy and efficacy of the internal controls systems in place, whether the business is a going concern, and the adequacy of the systems set up regarding their legal requirements. (Code Article 9) |

| Audit committee | | |
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| Audit committee | For large firms, must be chaired by qualified independent director with a financial background. | The audit committee must be comprised of 3 members, all of which are non-executive directors and a majority of whom are independent directors. An independent director must chair the committee. At least one member shall have finance and accounting expertise. The committee must meet at least 4 times per annum. (Code Article 7) |
| Relationship/communication with internal and external auditors | Committee should approve services provided by external auditor. Breakdown of proportion of fees paid for each service should be made available in annual report. As a best practice, communication with auditors should be without executives present. Contemporaneous provision of audit and non-audit services from the same entity should be prohibited. | The audit committee will interact with external and internal auditors and insulate them from management influence. The committee will award non-audit consulting assignments to auditors to ensure their independence is not compromised. (Code Circular No. (11/2002)) The audit committee shall hear the views of external and internal auditors separately, at least once every year without the presence of management. (Code Article 7) |
| Transparency of Ownership and Control | | |
| Majority ownership | Significant ownership (20-50% including cross-holdings) is deemed to be control. | No single person may own more than 25% of the shares in a joint stock company whose shares are offered for public subscription, save by the prior approval of the Executive President of the CMA or an acting person. (CML Article 7) The Authority may license companies to own more than 15% of voting shares. (CML Executive Regulations Article 27) |
| Buyout offer to minority shareholders | Ownership exceeding 35% triggers a buyout offer in which all shareholders are treated equally. | No provision. |

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| <p>Related-party ownership</p> | <p>Companies should disclose directors' and senior executives' shareholdings, and all insider dealings by directors and senior executives should be disclosed.</p> | <p>A notice to shareholders stating full details of related party transactions must be sent for prior approval.</p> <p>Approval shall not be of a general nature.</p> <p>The procedure prescribed under works and procurement policy of the company shall be followed and a copy filed with CMA.</p> <p>The AGM must be notified of normal contracts and transactions in the ordinary course of business on ex-post-facto basis every year.</p> <p>(Code Articles 19,21)</p> |
| <p>Minimally significant shareholders</p> | <p>Shareholders with minimally significant ownership (greater than 3-10%) of outstanding shares must disclose their holdings.</p> | <p>Any person/persons who own individually/together with his minor children shares amounting to 10% or more of shares in any joint stock company must notify the Authority.</p> <p>(CML Article 7)</p> |
| <p>Regulatory Environment</p> | | |
| <p>Enforcement powers</p> | <p>The supervisory authority and the exchange must have adequate enforcement powers. Exchanges should have the power to grant, review, suspend, or terminate the listing of securities. Enforcement authorities should have adequate training and an understanding of the judicial process.</p> | <p>CMA is empowered to:</p> <p>Organize, license and monitor the issue and trading of Securities, supervise the operations of the MSM, supervise all companies operating in the Field of Securities.</p> <p>(CML Article 48)</p> <p>CMA is also authorized to set policy, pass to the government all matters relating to the development of the market and protection of investor's monies, suspend dealing in an security listed at the market for a period deemed appropriate and empower the Executive President of the CMA to do so, suspend activities of the market, for a period not exceeding one week, ratify guidelines for dealing in Securities in the Secondary Market. Specify and exercise any other powers specified by the Regulations.</p> <p>(CML Articles 61,62)</p> |

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| <p>Independence of supervisory body and of exchange</p> | <p>The supervisory body and the exchange should be independent from government and industry.</p> | <p>The CMA enjoys juristic personality, financial and administrative independence and shall be qualified to dispose of its funds and manage its business and it shall carry on its activities in accordance with good commercial principles. (CML Article 47)</p> <p>Parties may appeal the decisions of the Authority, Minister or the Executive President before the Appeals Committee. The committee decides on the appeal within 30 days from the date of its submission. Its' decisions are issued by majority vote. (CML Article 63)</p> |
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