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 **HAWKAMAH**
THE INSTITUTE FOR CORPORATE GOVERNANCE

Corporate Governance in Saudi Arabia

– An Investor Perspective



*Task Force Report
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Corporate Governance in Saudi Arabia— 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 (Saudi Arabia, Bahrain, Kuwait, Oman, Qatar 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

Saudi Arabia's corporate governance framework complies with about one-half of IIF's corporate governance guidelines. However, the adoption of a new code of corporate governance for listed companies promises an improvement in the country's corporate governance framework. Moreover, Saudi Arabia will have to undertake further economic and financial policy reforms to change investor perceptions as being the least transparent and investor friendly country in the GCC. In practice, capital markets in Saudi Arabia are closed to foreign nationals, and have only recently been opened to non-GCC residents. Meaningful changes in the country's corporate governance environment will depend importantly on the authorities further opening and integrating the Saudi capital markets with other GCC and global financial markets.

Established only five years ago in 2001, Tadawul, Saudi Arabia's equity market is the youngest but largest equity market in the region. With a market capitalization of \$345 billion in mid-November the Tadawul is about two and a half times larger than the Kuwait Stock Exchange, the next largest stock market in the GCC. Despite the extraordinary growth of Saudi Arabia's equity market, its capital market and governance structures are still in the developmental stage. Authorities are in the process of strengthening both the regulatory and corporate governance frameworks of the country.

In May 2006, the Capital Market Authority of Saudi Arabia (CMA) issued a draft code of corporate governance inviting public comments. The finalized version of this code was recently adopted and came into effect on November 12, 2006. Further, authorities spun off the stock exchange as a separate entity and are in the process of strengthening surveillance and enforcement functions at the regulator level. Plans have also been announced for an IPO of

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Tadawul in the near future. The new Corporate Governance Code will increase the level of Saudi compliance with the IIF's 56 guidelines from one-half to slightly more than two-thirds. New requirements in the Code include:

- Cumulative voting rights in director elections
- The majority of the board of directors must be non-executive members. Two members or one-third of the members of the board of directors must be independent, whichever is higher
- Creation of board-level audit and nomination and remuneration committees
- At least one member of the audit committee must be a financial and accountancy specialist
- Disclosure of directors' and executives' remuneration in the board of directors' report to shareholders

For the past year, the CMA has clamped down on insider trading, tightened disclosure rules for listed companies and imposed fines on traders disseminating false information. Nevertheless, the equity culture in Saudi Arabia remains weak as investors lack sophistication. The bulk of investors manage their own portfolios, usually without access to investment research, and much of their activity is driven by incomplete information and rumor. During the bull market of 2004 and 2005, many non-professional investment management firms were set up, which charged lower fees compared to established and reputable financial institutions. Poor monitoring by the authorities of these companies allegedly allowed them to make profit by front-running. Regulators need to improve investor education, the monitoring of insider trading/broker dealings and develop a market mechanism for IPO pricing if they want to strengthen the equity market.

In general, there is a lack of transparency associated with corporate governance practices in Saudi companies. Most listed companies do not provide web links to financial reports or information regarding their board of directors and corporate actions. Some companies provide basic financial information but this is often only available in Arabic. Furthermore, little effort is made to provide English translations of information or new rules and regulations. Similarly, little company-specific information is provided on the Tadawul website. If Saudi Arabia wishes to make its

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equity market more attractive to investors, it needs to adopt better transparency and disclosure standards, including requiring companies to publish reports and information in Arabic and English for international investors.

Another concern is the judicial system in the country. In most cases, the Shari'a courts are the courts of general jurisdiction. Shari'a judges preside over almost any dispute, except those in specialized areas of Saudi law. With the enactment of the Capital Markets Law the structure and legal framework of the Saudi Arabian financial market has improved. The Capital Markets Law provides for the establishment of two committees to settle securities disputes. However, the financial courts are only three years old and the soundness of the court system has yet to be tested.

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

- Require mandatory compliance with the new Code of Corporate Governance
- Strengthen anti insider-trading rules and regulations and improve surveillance of insider trades
- Strengthen surveillance and regulation of broker-dealers and other market makers to minimize front-running problems
- Open Saudi financial markets to international investors
- Undertake investor relations efforts to increase transparency of corporate governance practices in Saudi Arabia
- Increase investor awareness by strengthening existing investor education programs for small investors

KEY CORPORATE GOVERNANCE ISSUES

Improvement in corporate governance framework is imminent

The Capital Market Authority (CMA) has recently adopted a code of corporate governance and issued draft takeover rules. With appropriate implementation and enforcement, the new code of corporate governance and takeover rules could further strengthen minority shareholder rights, increase transparency and improve board practices. Specific improvements in the code of corporate governance include:

Minority Shareholder Rights

- Allowing cumulative voting in director elections
- Requiring the board of directors to call an AGM if shareholders representing a minimum of 5 percent of the outstanding shares request a meeting
- Empowering shareholders owning at least 5 percent of outstanding capital to add items to meeting agendas

Board Practices

- Defining the concept of independent directors
- Requiring that at least two directors or one-third of directors, whichever is higher, be independent and that a majority of directors be non-executive members
- Highlighting roles and responsibilities of directors
- Requiring boards to have an audit, nomination and remuneration committee and detailing duties of the committees
- Requiring that the audit committee be composed of at least three directors all of whom should be non-executive directors, and

that at least one member be a financial and accountancy affairs specialist

Disclosure

- Requiring companies to establish written policies, procedures and regulations for disclosure in accordance with the Capital Markets Law
- Providing details of the rewards and remunerations to the board of directors and senior executives in the board of directors' report

The draft takeover rules include the following:

- Restrictions on future trades and implementing a mandatory offer to all shareholders if ownership exceeds 30 percent
- Provision that within a three month period prior to the commencement of a merger/takeover the offer to shareholders of the same class shall not be on less favorable terms than any purchase in the preceding three month period
- Further, during the merger/takeover period if an offeror purchases shares at above the offer price (being the current value of the offer) he shall increase his offer to not less than the highest price paid for the shares.
- A cash offer requirement where shares of any class in the company were previously purchased for cash by an offeror during the merger/takeover period or in the 12 months prior to it
- Provision that once a shareholder acquires and owns 90 percent of outstanding shares, the offeror is entitled to acquire any remaining shares from minority shareholders

The authorities have given no indication as to when the corporate governance rules will become mandatory.

Equity markets in infancy—regulatory framework and equity culture need to be further developed

The Saudi stock market has grown rapidly since it opened in 2001. In five years market capitalization of the TASI index has grown to about 140 percent of total GDP. High domestic liquidity has been a key factor in pushing the market higher, although corporate performance has also been strong, with net profits of listed companies increasing by more than 40 percent in 2005. The benchmark Tadawul All-Share Index (TASI) peaked at 20,635 on February 25, 2006 representing an increase of more than 700 percent from the end of 2002. The number of shares traded in 2005 was more than twice that of 2003 and seven times that of 2002 (Table 1). The number of registered investors trading stocks on the exchange has increased from less than 500,000 at the end of 2003 to nearly 3 million in early 2006. However, stock market volatility continues to remain high.

The development of Saudi Arabia’s capital market regulatory structure has not kept pace with the growth of its stock market. The IIF’s corporate governance guidelines call for the regulatory body and the exchange to be independent from government and industry. However, in Saudi Arabia the regulator is not fully independent from the government. In 2003, the government created the CMA, which regulates the Tadawul. The CMA is a government organization whose senior management serves at the pleasure of the Council of Ministers, although the organization has financial, legal, and administrative independence. In early 2006, the Tadawul was spun off and granted independence from the CMA. Plans are underway to list the Tadawul as a public company. However, the GCC Task Force recommends further strengthening of the regulatory structure (see Outlooks and Recommendations) before the listing takes place.

The immature and rumor-driven equity culture in Saudi Arabia was on full display during the bull run of 2005 and early 2006. Attractive pricing resulted in heavy oversubscription of IPOs and sharply increased the number of shareholders. Nearly 6 million Saudi nationals (around 35 percent of the total population) applied for shares in a petrochemical company IPO in December 2005. Although there were five new listings during 2005 as well as additional share issuance by 18 already listed companies, this new supply absorbed only a fraction of the money poured into the market. Valuations became increasingly stretched with the average price-to-earnings ratio reaching a high of 47 in late February 2006; the ratio exceeded 100 for a number of companies. Limited oversight of broker/dealers and investment management funds resulted in front-running and

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	2002	2003	2004	2005
General index (end-period)	2518	4438	8206	16713
(% change)	(3.6)	(76.2)	(84.9)	(103.7)
Market cap. (\$ bn; end-period)	75.0	157.5	306.8	647.0
(% GDP)	(39.7)	(73.3)	(122.4)	(208.7)
Shares traded (million)	1736	5566	10298	12280
Value of shares traded (\$ mn)	35.7	159.3	473.7	1104.0

Source: SAMA.

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insider trading which increased speculative trading. Analysts became concerned that the market was overvalued, but small investors with little knowledge of valuation techniques continued to buy shares. Even after the sharp correction in equity prices this year, the bulk of investors continue to manage their own portfolios, usually without access to investment research and professional advice, which results in much activity still being driven by rumors.

The GCC Task Force notes that over the last year the CMA has clamped down on insider trading, tightened disclosure rules for listed companies and imposed fines on traders for disseminating false information. Further, since 2005 investor awareness workshops have been organized throughout the Kingdom and more than five million awareness investment booklets have been distributed. However, this has brought the CMA face-to-face with so-called speculative investors. These investors try to manipulate share prices and smaller investors, often through illegal trading. Stocks with small capitalization and large free floats have been particularly vulnerable to this activity, which has contributed to wild fluctuations in share prices. The CMA and the stock exchange need to do more in this area including strengthening investor education.

Corporate governance practices in Saudi companies opaque to outside world

In general, Saudi companies provide shareholders with the minimum information that they are legally required to disclose. Websites of the largest Saudi companies fail to provide information pertaining to biographies of its board of directors and senior management, financial information such as detailed annual reports, board of directors' report to the shareholders, and ethical and social policies. However, the new Code of Corporate Governance requires companies to provide director biographies and director compensation details to shareholders in the annual report. As Saudi companies integrate into the global economy – through trade, mergers/acquisitions, and investments, there will be pressure from the international financial community to increase transparency about corporate governance practices in individual Saudi companies. Moreover, as the authorities open the Saudi economy to international investors, local companies will come under increasing scrutiny by more sophisticated investors.

Regulators should require companies to improve the quality of financial disclosure and encourage increased transparency about corporate governance practices in the annual report to shareholders. In addition, the CMA and Tadawul should improve their websites by providing company

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Need for commercial court system

The Shari'a courts are the courts of general jurisdiction in the Saudi judicial system. Shari'a judges preside over almost all disputes unless Saudi law provides otherwise. Shari'a judges apply Islamic law to decide a case. Shari'a courts usually decide a case within a few months. Unlike some other legal systems, including the United States, there is no time limit within which a party must bring a lawsuit. All decisions of Shari'a courts may be appealed.

The Board of Grievances has the exclusive power to rule on disputes involving Saudi Government contracts and can rule on some types of commercial disputes. The Board of Grievances often uses outside technical experts when hearing cases, which can be helpful in dealing with complex cases. Unlike the Shari'a and other Saudi courts, the Board of Grievances observes a system of precedent. Decisions of the Board of Grievances may be appealed.

Several other tribunals resolve disputes in specialized areas of Saudi law. The Civil Rights Directorate has primary responsibility for enforcing the judgment of a Saudi Arabian court or tribunal. The Negotiable Instruments Committee decides cases involving bills of exchange, promissory notes, and checks. The SAMA Committee resolves certain disputes between banks and their customers. The Conciliation Committee at the Chamber of Commerce assists in settling problems that arise when a foreign company attempts to change commercial agents. Finally, the Preliminary Committee for the Settlement of Labor Disputes hears all matters related to labor and employee relations.

Efforts have been made through the new Capital Markets Law (CML) and Cooperative Insurance Law (CIL) to improve Saudi's judicial system and mechanisms for dispute resolution. The creation of a Commercial Business Court to enhance the dispute resolution mechanisms currently being used in the Committee for the Resolution of Banking and the Commercial Paper Disputes Committee has been proposed and would advance Saudi's compliance with the International Organization of Securities Commission (IOSC). The areas of contract law, competition law, and the enforcement of bankruptcy prevention have yet to be dealt with, however the CIL and the CML are calling for the establishment of specialized Committees for Dispute Resolution in each of these markets.

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Growing Economic Impact of Saudi Arabia's Equity Market

Saudi Arabia is the largest equity market in the GCC. The Tadawul stock market index remains unsettled after a sharp correction that followed an exceptional period of growth (Chart 1). The fall in the market coincided with announcements from the Capital Markets Authority (CMA), the regulator, that it would narrow the daily share price trading band from ± 10 percent to ± 5 percent and push listed companies to detail their investment activity in the stock exchange. It gained momentum as large investors realized profits. Falling share prices unnerved some small investors, who also began to exit from the market. This was compounded by annual results showing that many companies had invested heavily in the stock exchange and booked unrealized stock market earnings, artificially inflating their price-to-earnings ratios.

Given the role that increased participation in the stock market has played in the redistribution of the oil revenue windfall, the government came under pressure to intervene in the market. The authorities have confirmed that they did not directly step into the market, though there is anecdotal evidence that the state pension fund has increased its holdings as valuations have improved. Furthermore, a 30 percent cut in fuel prices in late April appeared designed to prevent the fallout from the crash impacting on social stability.

Plans have also been announced for a risk-free fund to encourage Saudis back to the market. Nationals would be able to invest a maximum of SR500,000 (\$130,000) over two years, with the state covering any losses. It is not clear when, or indeed if, this fund will be actuated. Should it go ahead, the practice of shielding investors from declines would be a setback in education efforts and generate unrealistic perceptions about future performance, in addition to representing a potential fiscal liability for the government.

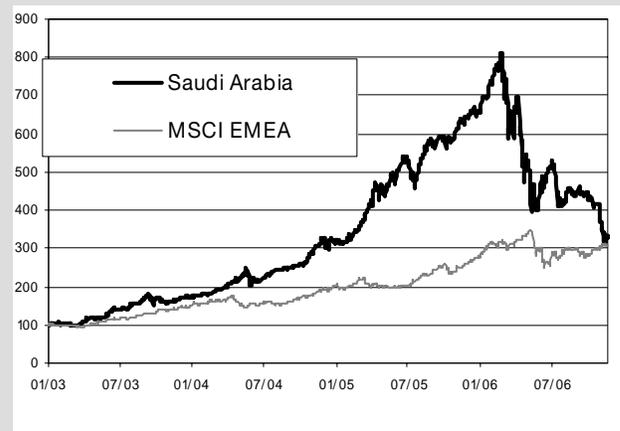
Various steps have been taken by the CMA to support the market. In March, expatriates living in the Kingdom were permitted to invest directly in the market, though they cannot participate in IPOs. This will give expatriates a stake in the economy and could keep money in the Kingdom that would otherwise

have been remitted. So far the inflow of funds from expatriates has been minimal because of uncertainty over the direction of the market and the large minimum purchase size of SR100,000. In addition, 5-for-1 share splits were implemented, making it cheaper for small investors to buy individual shares.

The CMA is moving ahead rapidly with further reforms to improve the market infrastructure. Provision of brokerage services has been liberalized, steps have been taken to allow nonbank financial institutions to run mutual funds and new trading and depository engines are under development. Mutual funds comprise less than 5 percent of the Saudi market. Enhancing their presence would curb the role of speculators and diversify the portfolios of small investors.

Chart 1

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



Despite high volatility in the stock market, there continues to be strong interest in IPOs. The Emaar Economic City IPO, the largest of this year, at \$680 million, was 182 times oversubscribed when the offer period closed in early August. Over 10 million people applied for shares, a record for a Saudi IPO. Earlier, in June, the Saudi Paper Manufacturing Company IPO was more than five times oversubscribed, with nearly 900,000 Saudis applying. The company's share price rose threefold on the first day of trading.

Further, IPOs are in the pipeline. The most prominent of these are minority stakes in conglomerate Kingdom Holding Company, which alone could raise \$5 billion, state mining company, Maaden; and Saudi Arabian Airlines. All are planned before the end of this year. Increasing the supply of shares is important since at present there are just 80 listed companies and only around 40 percent of the market is freely floating (around 40 percent is held by public sector bodies).

Steps are being taken to develop the bond market in order to provide an alternative vehicle to absorb the liquidity in the financial system as well as to deepen the financial markets. The CMA has unveiled rules for corporate bond trading and Sabic issued the first domestic sukuk in late July. The issue, available to institutional investors only, was

one-and-a-half times oversubscribed and priced at 40 basis points over the three-month Saudi interbank offer rate. Maturing in 2026, the SR3 billion sukuk has the longest tenor of any Islamic bond. Other companies have also expressed interest in issuing sukuks, though they may face problems similar to Sabic, which took around a year to get its sukuk approved by the necessary Shaira boards.

Advancing the debt market will provide an avenue for local banks to raise long-term finance, thereby facilitating their participation in project finance deals, in addition to reducing the potential mismatch between assets and liabilities as government domestic debt is paid down. Strong demand for domestic debt is expected from pension funds and, as the industries develop, insurance companies and real estate financiers.

Saudi Arabia's Banking Sector

The banking sector recorded another year of strong performance last year. Profits of the ten commercial banks in the Kingdom for which an annual comparison is available (an eleventh bank began operations in 2005) grew by around 60 percent as a result of a doubling of income from fees and services, largely generated from stock market activity, and strong growth in commission income. Banks were the sole providers of stock brokerage services until midway through last year and still account for the bulk of this trade. In contrast, expenditure growth was only 12 percent. Key indicators reinforce the strength of the banking sector. The commercial bank capital adequacy ratio was 15.9 percent at end-March 2006, nonperforming loans are estimated to account for less than 5 percent of total loans and provisioning is high. Nonetheless, concerns have been raised about the impact of the slump in share prices on the banking sector (see below).

Lending to the private sector has grown dramatically in recent years. It is not possible to quantify how much lending was used for share purchases. Consumer loans for purposes excluding real estate, car and equipment financing surged by 75 percent last year and are up sevenfold since the start of the upswing in the equity market at the end of 2002, to the equivalent of 16 percent of GDP. It is clear that some investors have lost considerable sums of money through the recent fall in the stock market. On August 10, the benchmark Tadawul index stood at 11,318, down 45 percent from its peak in February. Furthermore, there is anecdotal evidence that investors are struggling to make payments on loans, particularly as some banks adopted aggressive margin

lending policies (that is, allowing investors to borrow against the value of their equity holdings).

However, margin lending accounts for no more than 7 percent of commercial banks' loan portfolios and the bulk of private investors that entered the market did so via IPOs. All but two of the 10 IPOs launched since 2003 were well above their initial value at July 4. Additionally, many investors that have lost money in the local equity market can call on bailouts from extended families or have money offshore.

Prudential regulation by the central bank further limits the impact of the fall in the stock exchange on the banking sector. On- and off-site supervision has been beefed up since SAMA adopted a risk-based supervisory approach in 2004 and criteria for commercial bank lending were tightened in November of last year. Under these regulations, the maximum maturity of loans was cut from 10 years to 5 years (meaning that borrowers have a smaller period over which to spread their repayments), the lending ceiling was reduced from 27 times monthly salary to 15-17 times and debt service payments were limited to one-third of salary, from 45 percent. The practice of salary-assigned lending gives further security to banks. This requires borrowers to pay their salary into an account at the bank that they wish to borrow from, allowing their financial position to be monitored. Further, banks are on course to implement the standardized approach to the Basel II capital adequacy requirements by the start of 2008. Once this is in place they will move toward more sophisticated internal rating-based approaches.

OUTLOOK AND RECOMMENDATIONS

Currently, Saudi Arabia’s overall corporate governance framework complies with only one-half of the guidelines recommended in the IIF’s *Policies for Corporate Governance in Emerging Markets*.

Despite having the largest equity market among the GCC countries, Saudi Arabia has one of the most opaque corporate governance frameworks in the region. Saudi companies need to become more transparent in their corporate governance practices and provide more information to investors and other market participants. This will help analysts and investors to improve scrutiny of companies and to make better financial decisions. A major commitment to implement and enforce good corporate governance practices is needed among regulators, companies and investors if the growth in Saudi Arabia’s equity market is to be sustained in the long-term.

For their part, Saudi regulators need to open equity markets to international investors, which would quicken the pace of capital market development in the country. By limiting international investors’ access to Saudi capital markets, authorities have failed to appreciate the lessons learned by capital market regulators in other countries that experienced similar boom-and-bust cycles. Nevertheless, the GCC Task Force acknowledges the efforts of the regulators to improve the existing corporate governance framework by introducing a new code of corporate governance applicable to all listed companies. If implemented on a mandatory basis, the code will help strengthen the country’s corporate governance framework and increase compliance with more than two-thirds of IIF’s guidelines. The Task Force recommends the following items to further strengthen the corporate governance framework of the country:

- Open equity markets to foreign investors

- Require large companies to hold regular board meetings at least every quarter and audit committee meetings at least every six months
- Require that the quorum for board meetings consist of executive, non-executive and independent, non-executive members
- Require companies to have an investor relations program and issue statements on environmental issues and social responsibilities

While the GCC Task Force welcomes the decision to list the Tadawul as a publicly traded company, it recommends that the government give full autonomy to the CMA and strengthen surveillance and enforcement mechanisms at the regulator and stock exchange level before listing Tadawul. In addition, the Task Force recommends that the Tadawul work with other stock exchanges in the region to establish a common platform to facilitate cross-listing of companies on other stock exchanges. This will help, inter alia, to provide a better gauge for IPO valuations.

Other recommended corporate governance-related reforms include:

- Promote shareholder activism in the country through those who can take up corporate governance-related causes as significant shareholders
- Require board members to participate in director training programs to develop a pool of trained independent directors
- Introduce ethics and corporate governance courses in business school curriculums to create awareness and educate future business leaders on best practices

APPENDIX

Saudi Arabia's corporate governance-related legislation and rules comply with just over half of the IIF guidelines. Saudi Arabia has above average disclosure requirements that help to increase transparency of ownership of companies. Areas of weakness include accounting and auditing standards, regulatory environment and board structure.

The recently adopted Saudi Arabian Corporate Governance Code (Code), if enforced on a mandatory basis, will help significantly strengthen the corporate governance in the Kingdom.

Minority Shareholder Protection

The Saudi Companies Law, which gives rights to minority shareholders, complies with about two-thirds of IIF's guidelines pertaining to minority shareholder protection. The new Corporate Governance Code increases minority shareholder rights by introducing cumulative voting in director elections. Also, the existing Companies Law complies with only one-half of IIF's shareholder meeting guidelines.

Voting Rights

Proxy voting is permitted by the Saudi Arabian Companies Law. A shareholder may authorize in writing another shareholder who does not serve on the board to represent him/her at the company's Annual General Meeting (AGM).

The Saudi Companies Law does not explicitly call for a one-share, one-vote principle. However, in practice most companies follow a one-share, one-vote principle. It stipulates that a shareholder may use his/her voting right in the AGM as per the company's Memorandum of Agreement (MOA). A company's MOA may limit the number of votes a shareholder may have, but each shareholder is entitled to at least one vote. A company's MOA must also disclose the shareholders who can attend the AGM and vote. Nevertheless, a shareholder who owns twenty shares is automatically entitled to attend the AGM.

The Saudi Companies Law does not provide for cumulative voting. However the new Code calls for cumulative voting in the selection of board of directors members in the AGM. The GCC Task Force recommends that the provisions for cumulative voting in the Code be codified in the Companies Law to give it the legal backing required for better enforcement.

Capital Structure

Saudi Arabia's Companies Law complies with all of IIF's guidelines protecting shareholder rights that pertain to changes in a company's capital structure. This includes gaining shareholder approval on major corporate changes such as takeovers, buyouts and mergers, pre-emptive rights for shareholder and share buybacks.

With regard to takeover and merger procedures, Saudi Arabia's Companies Law requires the approval of three-fourths of the shares represented in the meeting. Companies are also required to invite existing shareholders through public newspaper notices to offer their shares if the company's share capital is decreased through share buybacks.

In addition, companies are required to notify the CMA immediately about several issues, including any proposed change in the capital of the issuer, any significant change in the holdings or identity of those persons with more than 5 percent of the issuer's listed securities, and any decision to declare, recommend or pay dividends or to make any other distributions to the holders of its listed securities.

Shareholder Meetings/Other Rights

The Companies Law provides some structure to general shareholder and interim shareholder meetings, but complies with only about one-half of IIF guidelines in this area.

The Companies Law does mention that the AGM notice invitation must be published in public newspapers 25 days before the meeting. Furthermore, with respect to a quorum, the Companies Law states that an AGM or extraordinary AGM will not be valid unless shareholders representing 50 percent of the company's capital (or a higher percentage as determined by the company's MOA) attend the meeting. In the extraordinary AGM, if the number of shareholders is not sufficient, a second meeting must be held with shareholders representing 25 percent of the company's capital present. For the AGM any number of shareholders will be sufficient for a quorum in the second meeting. In addition, the board of directors must call for a meeting if shareholders representing 5 percent of the outstanding shares request them to do so.

The greatest weakness in this area is the treatment of foreign shareholders. The IIF Code calls for equal treatment of foreign and domestic shareholders. Saudi Arabia's equity markets are closed to individual foreign shareholders.

Structure and Responsibilities of the Board of Directors

The Saudi Arabian corporate governance framework complies with about one-third of IIF guidelines pertaining to the board of directors. Major elements underpinning the functioning of the board of directors like independent directors are left un-addressed, although disclosure requirements are strongly emphasized.

In contrast, the new corporate governance code addresses several key IIF guidelines in this area. If enforced on a mandatory basis, the Code would improve the overall compliance with IIF guidelines from one-third to nearly three-fourths.

Board Structure

Saudi Arabia's existing corporate governance framework is weak with regard to board structure and complies with less than one-fifth of IIF's guidelines in this area. Significant deficiencies include the lack of a definition of independent director, the absence of a specified number/percentage of independent directors on the board and the failure to establish various board-level committees. The new corporate governance Code will improve the board structure in Saudi companies by introducing requirements that meet over two-thirds of the IIF's guidelines in this area.

Disclosure

The Capital Markets Law and listing rules require Saudi companies to disclose information in a timely manner. In addition to disclosing mandatory information, companies are requested to voluntarily disclose all other information that may have a material effect on the decisions of shareholders and stakeholders. This includes information on performance assessment and compensation of directors, independent directors' opinions on related-party transactions, and controlling shareholder's interests.

Other Responsibilities

The Tadawul listing rules require Saudi companies to provide information on related-party transactions in the board of directors' report to shareholders. Moreover, the board of directors' report must also address the system of internal controls in the company. The IIF Code stipulates full disclosure of related-party transactions and requires the audit committee to oversee the integrity of internal controls and risk management systems.

The Capital Markets Law and listing rules fail to require companies to have an investor relations program or to make a statement on policy concerning social responsibility of the company. However, the new corporate governance Code addresses these deficiencies.

Accounting/Auditing

Saudi Arabia's corporate governance requirements are weak with regard to accounting and auditing of financial information. Existing laws comply with about one-half of the IIF's guidelines in this area.

Standards

According to the listing rules, a company must provide annual accounts to the CMA and its shareholders. These accounts must be prepared and audited in accordance with the accounting standards issued by SOCPA. Saudi Arabia is the only country in the GCC to have an association of accountants—the Saudi Organization for Certified Public Accountants (SOCPA)—that regulates the accounting profession. Disclosure and frequency of notification are clearly dictated by the listing rules where annual accounts are required. Guidelines of the IIF code require that companies submit semi-annual audited reports.

A company's board of directors is expected to submit a report containing a description of the issuer's significant plans and decisions including any corporate restructuring, business expansion or discontinuance of operations, and the future prospects and risks facing the company. Monitoring must be covered by SOCPA accounting standards, which require companies to adhere to international accounting standards on their financial statements.

Audit Committee

The new Corporate Governance Code requires the board of directors to establish an audit committee comprising at least three non-executive directors. Moreover, it requires that at least one committee member be a Financial and Accountancy Affairs Specialist. The Code also clarifies the duties and responsibilities of audit committee members.

Transparency of Ownership and Control

Saudi Arabia's corporate governance framework touches on almost all of the IIF guidelines in the areas of company ownership and control. This includes: (i) defining a controlling shareholder as one who holds 30 percent or more of the voting rights of the company or one who has the right to appoint 30 percent or more of the members of the governing body; (ii) giving the Capital Market Authority the power to require owners who hold 50 percent or more of a class of voting shares to purchase shares of the same class on terms determined by the board, provided that the purchase price does not exceed the highest price paid to purchase any of the shares during the preceding 12 months; and (iii) providing regulations governing related-party transactions.

Regulatory Environment and Enforcement

Saudi Arabia's current regulatory and enforcement environment is weak. The Kingdom meets about one-half IIF guidelines in this area. The new Corporate Governance Code also does not address this fundamental weakness in the Saudi framework. Both the regulatory environment and enforcement need to be strengthened to ensure that Saudi Arabia can create a favorable environment for a market-based economy.

Oversight and regulatory responsibilities are primarily functions of the Capital Market Authority, which was created in 2003. The CMA regulates the Tadawul, Saudi Arabia's stock market. The CMA is a government organization with financial, legal and administrative independence. The CMA is responsible for issuing regulations, rules and instructions in the dealing of securities and for applying the provisions of the Capital Markets Law.

Guidelines of the IIF Code require that supervisory bodies like the CMA be independent of the influence of both government and industry.

**Comparison of IIF Code and
The Companies Law (CL), Capital Markets Law (CML), Capital Market Authority (CMA),
Listing Rules (LR), Code of Corporate Governance (Code)**

Note: The New Corporate Governance Code is intended for voluntary compliance

	IIF Code	The Companies Law (CL), Capital Markets Law (CML), Capital Market Authority (CMA), Listing Rules (LR), Code of Corporate Governance (Code)
Minority Shareholder Protection		
Voting rights		
Proxy voting	Firms are encouraged to allow proxy voting.	Shareholders may authorize in writing other shareholders who are not board members to represent them in the AGM. (CL Article 83) <i>A shareholder may appoint another shareholder in writing to represent him/her at an AGM. However, the appointed shareholder may not be on the board of directors or be an employee of the company. In addition, proxies must disclose their voting policy for represented shares and their vote.</i> (Code)
One share, one vote principle	“One share, one vote” should be a threshold requirement for new issues.	Shareholder may use his/her voting right in AGMs as per the company’s MOA. However, the shareholder who has the right to attend the AGM has at least one vote. The company’s MOA may limit the number of votes of a shareholder. (CL Article 107) A company’s MOA has to disclose shareholders who can attend and vote at the AGM. Shareholders who own 20 shares or more have the right to attend and vote at the AGM. (CL Article 83)
Cumulative voting	Cumulative voting should be permitted.	<i>The new Code of Corporate Governance provides for cumulative voting.</i> (Code)

Capital structure		
<p>Takeover/buyout/merger - Procedures on major corporate changes</p>	<p>Shareholder approval of mergers and major asset transactions should be required.</p> <p>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.</p> <p>Ownership exceeding 35% triggers a public offer in which all shareholders are treated equally.</p> <p>Under a merger or takeover, minority shareholders should have a legal right to sell shares at appraised value.</p>	<p>Issuers must notify the Authority without delay of the following information:</p> <ul style="list-style-type: none"> √ any proposed change in the capital of the issuer; any significant change in the holding or identity of those persons holding more than 5% of the issuer's listed securities; √ any decision to declare, recommend or pay dividends or to make any other distributions to the holders of its listed securities; √ any decision not to declare, recommend or pay dividends which would otherwise have been expected; √ any decision to call, repurchase, draw, redeem or propose to buy any of its securities and the total amount thereof; √ any decision not to make payment in respect of listed debt instruments; or any change in the rights attaching to any class of listed securities or to any securities into which any listed securities are convertible <p>(LR Article 32)</p> <p>If any person become the owner of 50% or more of a given class of voting shares listed on the Exchange, the Board of CMA shall have the right, within 60 days, if it believes it would achieve the safety of the market and the protection of shareholders, to order such person to offer to purchase the shares of the same class it does not own on such terms and conditions as the Board shall determine. In no case will the prospective purchaser be compelled to offer to purchase the remaining shares at a price exceeding the highest price he paid to purchase any of the shares of that company during the 12 months preceding the date of the Board order.</p> <p>(CML Article 54)</p>

<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>Any corporate actions such as capital increase or decrease or extending the company life or merger or any other actions will not be valid unless three-fourths of the shares represented in the meeting have approved them. (CL Article 92)</p> <p>Shareholders have the subscription right in the new shares. The new shares will be distributed as per their subscription requests, and any excess shares will be offered for public offering. (CL Article 136)</p> <p>The issuer must send copies to the CMA of the circulars sent to shareholders and all documents relating to takeovers, mergers and offers, notices of meetings, reports, announcements or other similar documents, promptly after they are issued. (LR Article 35)</p>
<p>Share buybacks</p>	<p>Details of share buybacks should be fully disclosed to shareholders.</p>	<p>If capital decrease is through share buyback, all shareholders must be invited to offer their shares through public newspapers. (CL Article 146)</p>
<p>Shareholder meeting</p>		
<p>Meeting notice and agenda</p>	<p>Meeting notice and agenda should be sent to shareholders within a reasonable amount of time prior to meetings.</p>	<p>AGM invitation must be published in public newspapers 25 days before the meeting. The invitation must include the meeting agenda. (CL Article 88)</p> <p><i>The invitation and agenda for the AGM must be published in two public newspapers, the company website, and the CMA website at least 20 days before the meeting.</i> (Code)</p>
<p>Special meetings</p>	<p>Minority shareholders should be able to call special meetings with some minimum threshold of the outstanding shares.</p>	<p>The BOD must call for the AGM if shareholders representing 5% of the outstanding shares have called for a meeting. (CL Article 87 and Code)</p> <p>The Ministry of Commerce can call for the AGM if a number of shareholders representing 2% of the outstanding shares have called for it. (CL Article 87)</p>

Treatment of foreign shareholders	Foreign shareholders should be treated equally with domestic shareholders.	Foreign investors are not allowed to invest directly in the stock market. All holders of shares of the same class must be treated equally in respect of all rights attaching to such shares. (LR Article 39)
Conflicts between shareholders	Should have mechanisms whereby a majority of minority shareholders can trigger an arbitration procedure to resolve conflicts between minority and controlling shareholders.	General dispute settlement procedures in Saudi Arabia
Quorum	Should not be set too high or too low. Suggested level would be about 30% and should include some independent non-majority-owning shareholders.	The extraordinary AGM will not be held unless shareholders represent 50% of the capital (or a higher percentage as determined by the company's MOA) attend the meeting, If the number of shareholders is not sufficient, a second meeting can be held with shareholders representing 25% of capital. (CL Article 92) For the ordinary meeting any number of shareholders will be sufficient for the second meeting. (CL Article 92)
Petition rules/objection to majority shareholder actions	Minority shareholders should have the right to formally present a view to the board if they own some predefined minimum threshold of outstanding shares.	Any shareholder who has an objection in the minutes of the meeting or failed to attend the meeting can void the decision of the AGM. If agreed the decision will not be valid for all shareholders. (CL Article 97)
Structure and Responsibilities of the Board of Directors		
Board structure		
Definition of independence	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.	<i>Independent persons must not:</i> <ul style="list-style-type: none"> √ Owns shares in the company √ Be or have a family member who is a senior executive for the company or its subsidiaries in the last 2 years √ Be or have a family member who is a board member of the company or in a subsidiary of the company √ Be hired by the company in the last 2 years as an auditor or supplier (Code)
Share of independent directors	At least one-third of the board should be non-executive, a majority of whom should be independent.	<i>The majority of BOD should be non-executive and have at least 2 or 1/3 independent directors, whichever is higher.</i> (Code)

Frequency and record of meetings	For large companies, board meetings every quarter, audit committee meetings every 6 months. Minutes of meetings should become part of public record.	Board meets upon the chairman's invitation as per the company's internal regulations. At any time, upon the request of 2 board members, the chairman must call for a meeting. All board minutes of meetings must be approved by chairman and filed. (CL Article 80 & 82 and Code)
Quorum	Should consist of executive, non-executive, and independent non-executive members.	No provision.
Nomination and election of directors	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).	<i>The board of directors should set up Compensation and Nomination Committee.</i> (Code)
Term limits for independent directors	For large companies, re-election should be every 3 years with specified term limits.	<i>The term for directors should be 3 years. The re-election of directors is allowed unless the company's rules forbid it.</i> (Code)
Board committees	The board should set up 3 essential committees: nomination, compensation and audit.	<i>The board of directors should set up an Audit Committee and a Compensation and Nomination Committee.</i> (Code)
Formal evaluation of board members	For large companies, nomination committee must review directors ahead of formal re-election at AGM.	No provisions.
Disclosure		
Immediate disclosure of information that affects share prices, including major asset sales or pledges	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.	Covered by the listing rules (CML article 46) (LR Article 25), (LR Article 26), (LR Article 30), (LR Article 32) and (LR Article 34). Covered by the (CML Chapter 7 Articles 42, 43, 45, 46, 47 and 48). <i>Company should disclose any information that may influence an investors decisions.</i> (Code)
Procedures for information release	Through local exchanges, and as best practice, through company website.	Through Tadawul website & CMA web site.

<p>Remuneration of directors</p>	<p>Should be disclosed in annual report. All major compensation schemes, including stock options, should be fully disclosed and subject to shareholder approval.</p>	<p>Should be disclosed in the BOD report. (LR Article 27 b-11)</p> <p>Remuneration and compensation of directors and senior executives. (LR Article 26)</p> <p>Director remunerations cannot exceed 10% of company income and after distributions of not less than 5% of capital to shareholders. (CL Article 74)</p> <p><i>Companies must disclose the remuneration of the board of directors and the top five executives in the BOD reports.</i></p> <p>(Code)</p>
<p>Other responsibilities</p>		
<p>Conflict of interest</p>	<p>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.</p>	<p>BOD report must contain information relating to any contract to which an issuer is party and in which a director, the CEO, the CFO or any associate is or was materially interested. If there are no such contracts, the issuer must submit an appropriate statement. (LR Article 27 b-17)</p> <p>An issuer must disclose any transaction between the issuer and a connected person (outside the ordinary course of business of the issuer). (LR Article 25 b-9)</p> <p>Covered by companies' law articles 69, 70 and 71.</p> <p><i>Members of the BOD who do have conflicts of interest must disclose them to the BOD and may not vote or speak on issues involving the conflict of interest.</i></p> <p>(Code)</p>
<p>Integrity of internal control and risk management system</p>	<p>Should be a function of the audit committee.</p>	<p>The BOD report must contain a statement that the system of internal control is sound in design and has been effectively implemented. (LR Article 27 b-22 and Code)</p>
<p>Investor relations</p>	<p>Should have an investor relations program.</p>	<p>No provision.</p>

Accounting/Auditing		
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.	An issuer must provide the CMA and announce to the shareholders its annual accounts which must be prepared and audited in accordance with the accounting standards issued by Saudi Organization for Certified Public Accountants (SOCPA). (LR Article 26e)
Frequency	Semi-annually audited report at end-FY.	Covered by CL Article 123. Covered by LR Article 26: Disclosure of financial information.
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).	External Auditor must adhere to SOCPA auditing standards and certified public accountants regulations. (SOCPA Rules)
Off-balance sheet transactions	Listing requirements should specify disclosure of off-balance-sheet transactions in the annual report with materiality level for disclosure.	The Board of Directors report must include the name of every subsidiary, its main business, its principal country of operation and its country of incorporation, and the particulars of the issued shares and debt instruments of every subsidiary. (LR Article 27)
Risk factors/ monitoring procedures	Should be statement from audit committee in reports and accounts addressing business risks. Need a mechanism for review by auditors.	The BOD report must contain a description of the issuer's significant plans and decisions (including any corporate restructuring, business expansion or discontinuance of operations), the future prospects of the issuer and any risks facing the issuer. (LR Article 27 b -2) <i>The BOD should monitor and assess the risk factors and internal controls for the company.</i> (Code) Companies are required to adhere to International accounting standards in preparation of financial statements. However these financial statements must be reviewed and approved by audit committee. (SOCPA Rules)

Audit committee		
Audit committee	For large firms, must be chaired by qualified independent director with a financial background.	<i>The audit committee should be comprised of at least 3 members, all of whom are non-executives and at least one who specializes in accounting.</i> (Code)
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.	No provision.
Transparency of Ownership and Control		
Majority ownership	Significant ownership (20-50% including cross-holdings) is deemed to be control.	<p>In case of a change in the ownership or interest objective that was previously disclosed, the relevant person must promptly notify the issuer and the CMA of such change and shall not dispose of any shares or debt instruments of that issuer except after the expiry of 10 days from the date of that notification.</p> <p>(LR Article 30e)</p> <p>Without prejudice to the provisions of this Article, a person who has become an owner of or interested in 10% or more of any class of voting shares or convertible debt instruments, must not dispose of the same without the approval of the CMA.</p> <p>(LR Article 30f)</p> <p>Control: the ability to influence the actions or decisions of another person through, whether directly or indirectly, alone or with a relative or affiliate (a) holding 30% or more of the voting rights in a company, or (b) having the right to appoint 30% or more of the members of the governing body; “controller” shall be construed accordingly.</p>

<p>Buyout offer to minority shareholders</p>	<p>Ownership exceeding 35% triggers a buyout offer in which all shareholders are treated equally.</p>	<p>If any person becomes the owner of 50% or more of a given class of voting shares listed on the Exchange, the Board of CMA shall have the right, within 60 days, if it believes it would achieve the safety of the market and the protection of shareholders, to order such person to offer to purchase the shares of the same class it does not own on such terms and conditions as the Board shall determine. In no case will the prospective purchaser be compelled to offer to purchase the remaining shares at a price exceeding the highest price he paid to purchase any of the shares of that company during the 12 months preceding the date of the Board order. (CML Article 54)</p>
<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>The board of directors' report must contain a description of any interest, options, and subscription rights of the issuer's directors, senior executives and their spouses and minor children in the shares or debt instruments of the issuer or any of its subsidiaries, together with any change to such interest and rights during the last financial year. (LR Article 27b -11)</p> <p>The board of directors' report must contain information relating to any contract to which the issuer is party and in which a director of the issuer, the CEO, the CFO or any associate is or was materially interested, or if there are no such contracts, the issuer must submit an appropriate statement. (LR Article 27b -17)</p> <p>Each issuer must ensure that the accounting firm that audits its financial statements and any partner in such accounting firm comply with the SOCPA rules and regulations in relation to the ownership of shares or securities of the issuer or any of its affiliates in order to ensure the accounting firm's independence and independence of any partner or employee of that firm. (LR Article 31 c)</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>The board of directors' report must contain a description of any interest in a class of voting shares held by persons (other than the issuer's directors, senior executives and their spouses and minor children) that have notified the issuer of their holdings pursuant to Article 30 of these Rules, together with any change to such interests during the last financial year. (LR Article 27b -10)</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>The CMA may require companies to comply with any corporate governance rules that it deems necessary or appropriate whether in relation to the qualifications of the directors, senior management, audit committee or external auditor of the issuer, or the competency of any of them or in relation to the responsibilities or powers of any of them, or in relation to the decision making process or otherwise. (LR Article 29)</p> <p>The CMA is responsible for issuing regulations, rules and instructions in the dealing of securities and for applying the provisions of the CML. (CML Article 5)</p>
<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 reports directly to the President of the Council of Ministers. It has legal personality and financial and administrative autonomy and is vested with the authorities necessary to discharge its responsibilities. (CML Art. 4)</p>



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