

Shari'a Compliant Corporate Governance

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Agenda

- Importance of Corporate Governance: Business Case
- Overview of key issues and standards on corporate governance for Islamic financial institutions
- Hawkamah's work in addressing corporate governance in the Middle East and North Africa

Corporate Governance Defined

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

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

Source: OECD Corporate Governance Principles, 2004

“Corporate governance is about **promoting corporate fairness, transparency and accountability.**”

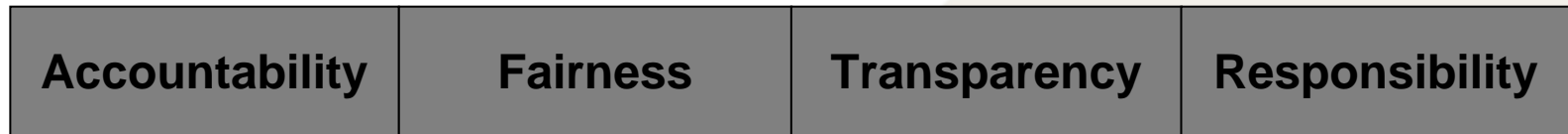
Source: J. Wolfensohn, president of the World Bank, 1999

Corporate Governance Codes

- CG Codes and Principles have been developed for major sectors of modern economies
 - Listed Companies (OECD, WB)
 - Banks and financial institutions (BIS)
 - Insurance Companies (IAIS)
 - Investment managers (IOSCO, Hermes, ICGN)
 - Family enterprises (Cadbury)
 - State Enterprises (OECD)
 - Islamic Financial Institutions (IFSB)
- Need to adapt to national legal and institutional conditions
- Codes & Principles apply to Shari'a compliant institutions

Principles of Corporate Governance

As put forth in the 2004 OECD Principles of Corporate Governance



These Principles should:

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

Why is the World Talking About Corporate Governance?

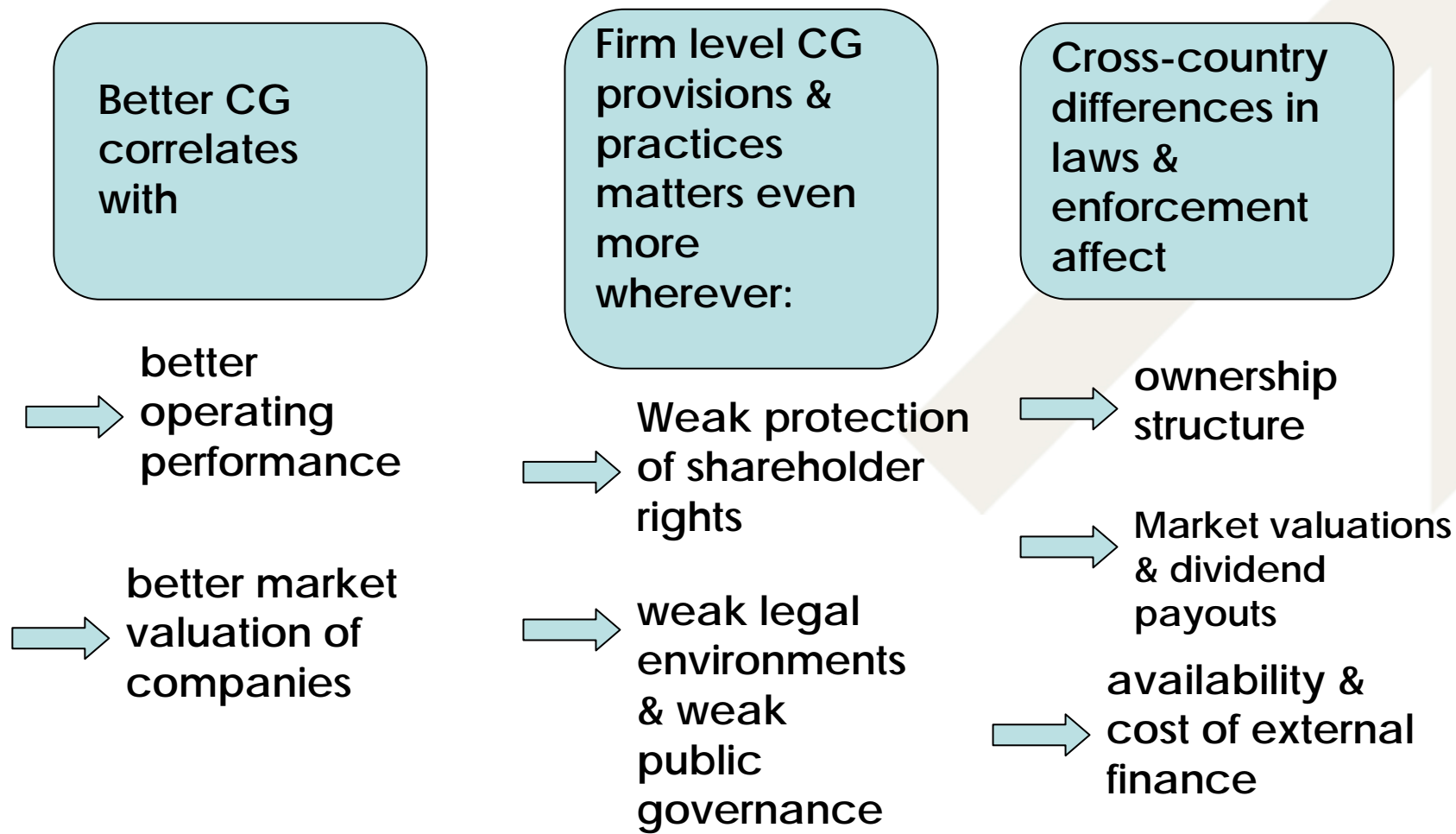
- Corporate failures
- Executive greed
- Economic stagnation
- The pension bomb
- Globalization
- Privatization
- Internal awareness of business case, i.e. creating long-term growth & shareholder value



Without Good Corporate Governance ...

- Too much power is centred on one individual without proper oversight
... e.g. **Enron, Banque du Caire**
- You enter markets that you do not understand and fail to properly set strategy and manage your risks
... e.g. **HSBC**
- Board fails to ensure controls are robust or question the unusual or the unrealistic
... e.g. **Barings/Amaranth**
- Poor disclosure and transparency becomes commonplace
... e.g. **WorldCom**
- Shareholder rights are mistreated
... e.g. **Parmalet et al**

Corporate Governance : Performance in Emerging Markets



An Emerging Trend: Islamic Financial Services Board Guidelines

- The IFSB has developed seven guiding principles collectively referred to as **the Guiding Principles**, of prudential requirements in the area of corporate governance for institutions offering only Islamic financial services (**IIFS**).
- The Guiding Principles are divided into four parts:
 - (i) general governance approach of IIFS;
 - (ii) rights of investment account holders (**IAH**);
 - (iii) compliance with Islamic *Shari'a* rules and principles; and
 - (iv) transparency of financial reporting in respect of investment accounts.
- The Guiding Principles are designed to facilitate IIFS in identifying areas where appropriate governance structures and processes are required, and to recommend best practices in addressing these issues.

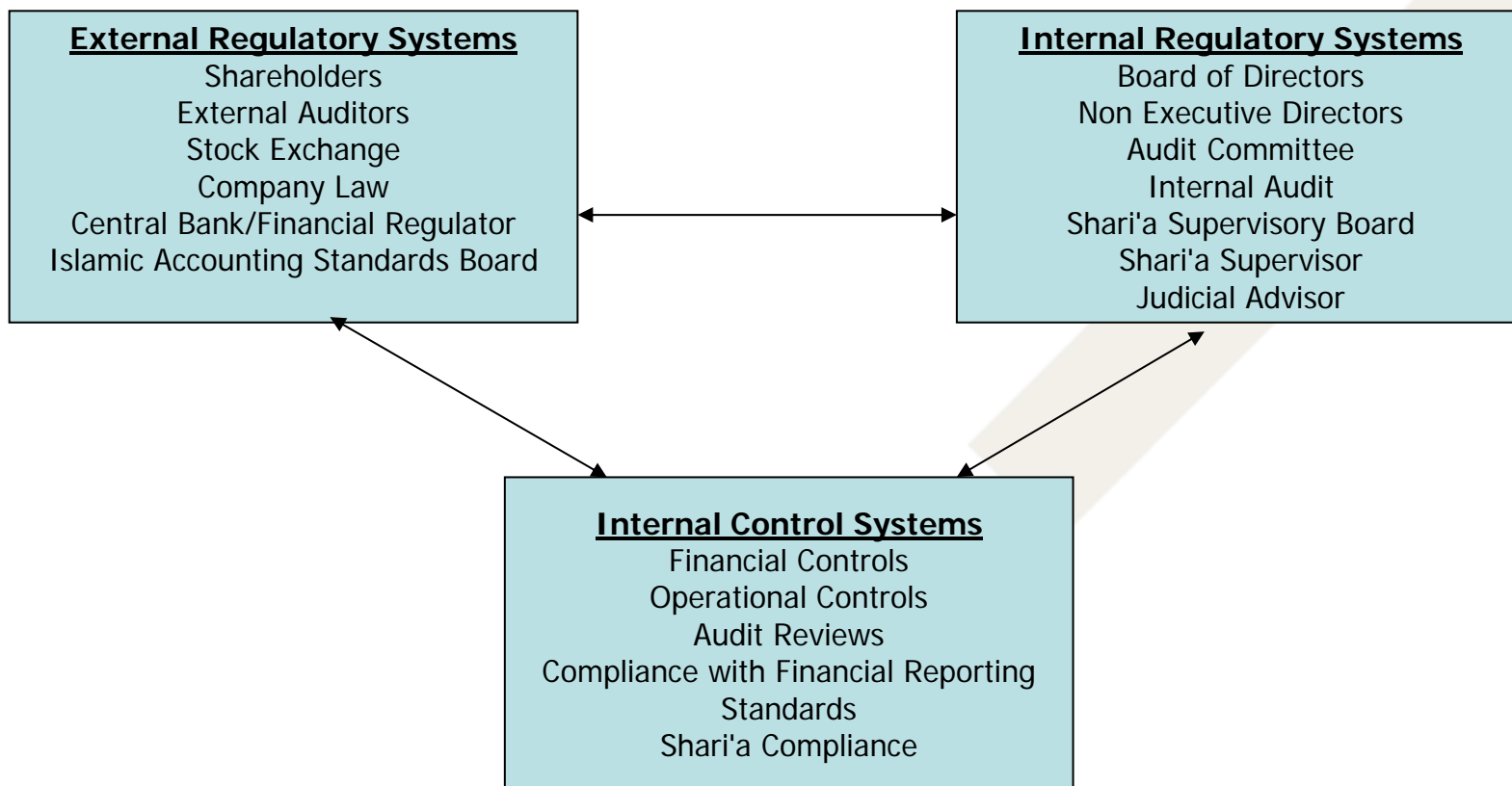
Investment Account Holders

- The IFSB CG Standard treats Investment Account Holders as quasi-shareholders.
- The DFSA regulatory module for Islamic Finance, the ISF module (attached below) extends the obligations to provide periodic statements to Investment Account Holders setting out the performance of the investments being managed by the Mudarib on behalf of the Investment Account Holder

Corporate Governance Structure in Institutions Offering Islamic Financial Services IIFS

- Islamic bank is subject to an additional layer of governance since the suitability of its investments and financing must be in strict conformity with Shari'a.
- For this purpose, Islamic banks employ an individual Shari'a Advisor and/or Board
- The Governance Structure in Islamic Banks is depicted in the Chart below which sketches the conceptual framework of CG for Islamic bank.
- Central to such a framework is :
 - The *Shari'a Supervisory Board (SSB)*
 - The *internal controls* which support it.

Corporate Governance Structure In A Shari'a compliant bank



Challenges for IIFS Governance

Internal & External CG Arrangements

SSBs

- Independence
- Confidentiality
- Competence
- Consistency
- Disclosure

Centralized
SSBs

- Independence
- Competence

External
providers

- Private mechanisms are Limited
- Financial Media not concerned
- External Auditors less concerned with assessments of Shari'a compliance.
- Market solutions are non existent

Challenges

These challenges and issues exist for all IIFS

Other Challenges Faced by IIFS

- Lack of Rating Agencies
 - Islamic Rating Agency of Bahrain (IIRA) is the first Islamic International Rating Agency which provides sovereign ratings, Credit Ratings and Shari'a Quality Ratings.
 - IIRA evaluates an entity's governance practices with respect to the relationships between management and the stakeholders and the extent to which they conform to the regulations and global 'best practices'. IIRA's Corporate Governance Rating (CGR) is an independent opinion on an organization's commitment to excellence in its managerial practices.

Recommendations On Enhancing IIFs CG Arrangements

- Internal Issues to be addressed:
 - ✓ Protection of minority shareholders;
 - ✓ Increased disclosure;
 - ✓ Commingling of resources;
 - ✓ Balancing UIA holders risks & rights;
 - ✓ Utilization of reserve funds;
- External Issues to be addressed:
 - ✓ Recognizing the specificity of IIFS within the broader institutional infrastructure would contribute to greater transparency;
 - ✓ Developing regulatory frameworks acceptable to IIFS;
 - ✓ Private self-regulatory initiatives providing channels to market discipline;

What Can Hawkamah Do For Shari'a Compliant Institutions?

Partnership to improve CG in Shari'a compliant institutions and markets

At the firm Level:

- Undertake an assessment of CG practices
- Conduct an Asset Managers CG Training program.
- Build capacity of Board through Board Development and Board Secretary Courses

At the institutional level:

- Set up a Task Force devoted to the development and fine tuning of Shari'a compliant corporate governance
- Development of corporate governance guidelines & criteria for loans and investments
- Develop a corporate governance rating system for Shari'a Compliant Banks and Financial Institutions
- Workshops, Seminars and Conferences.
- International IIFS Taskforces

Hawkamah, the Institute for Corporate Governance

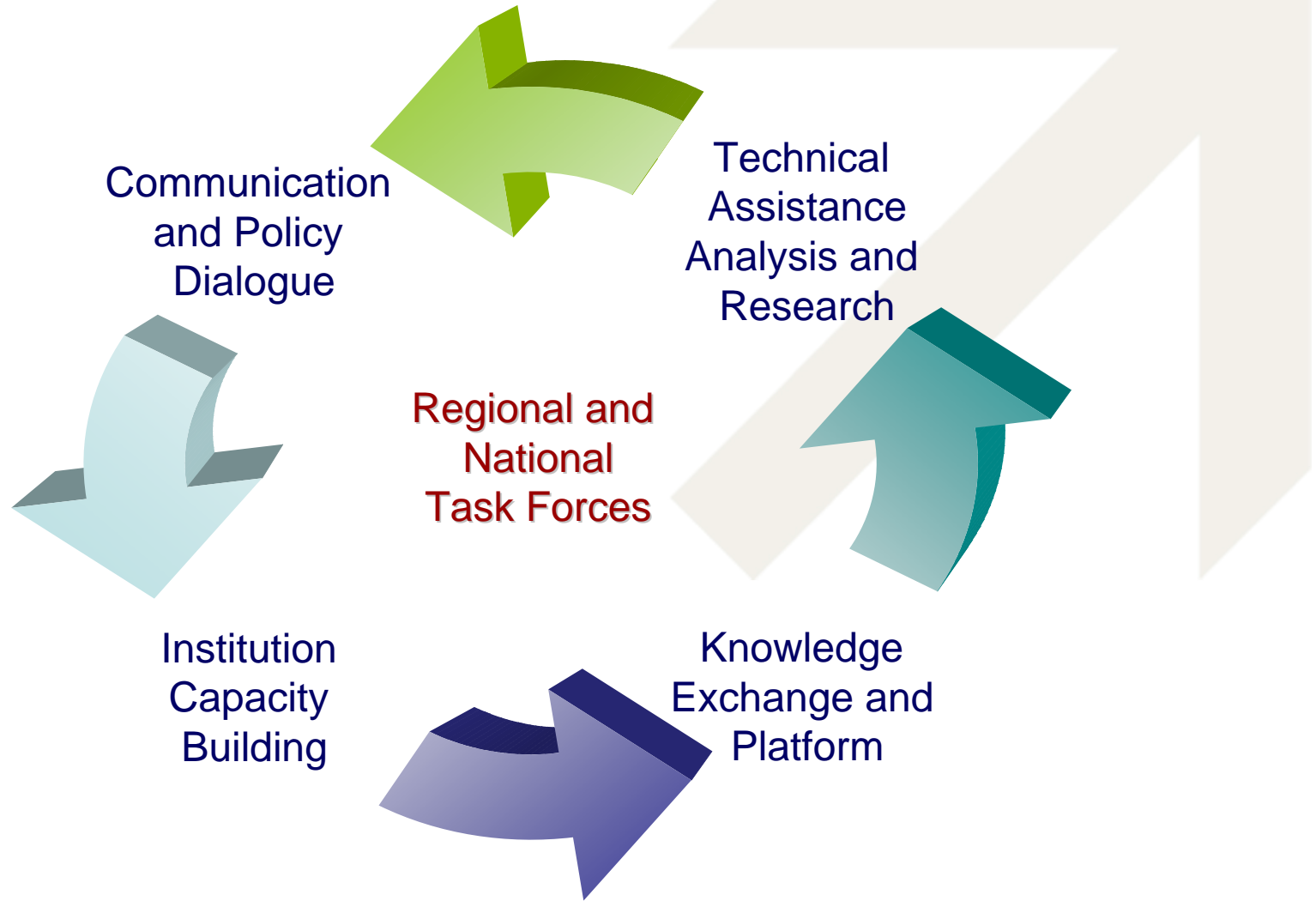
MISSION: Assists the countries and companies of the region to develop and implement sound and globally well integrated corporate governance frameworks.

VISION: Drives institution building, corporate sector reform, good governance, and sustainable economic development and growth in the region.

What we do...

- Provide technical assistance on regulatory and firm levels to develop the optimal corporate governance environment
- Conduct CG assessments and prepare CG improvement plans
- Provide advisory services
- Conduct consultations with various stakeholders
- Develop and implement training programs: Board Development Programme, Board Secretary Programme
- Serve as a knowledge centre and clearinghouse for corporate governance best practices from the region and beyond.
- Monitor & Report on the state of corporate governance

Our approach...



Hawkamah Strategic Partners

International Partners

- Organisation for Economic Co-operation and Development (OECD)
- World Bank-International Finance Corporation
- WB Global Corporate Governance Forum
- Center for International Private Enterprise
- Institute of International Finance (IIF)
- Financial Services Volunteer Corps (FSVC)
- INSOL (Insolvency Professionals)
- Information Systems Audit and Control Association (ISACA)
- Amsterdam Institute of Finance
- Institute for Internal Audit

Other Institutions

- Young Arab Leaders
- Dubai School of Government
- Countries participating in the MENA-OECD Investment Program
- Corporate Governance centers, universities

Regional Partners

- Dubai International Financial Centre
- UAE Ministry of Economy
- Yemen Ministry of Finance
- Emirates Securities and Commodities Authority
- Oman Capital Market Authority
- Union of Arab Banks
- Abu Dhabi Chamber of Commerce and Industry
- Dubai Chamber of Commerce and Industry
- Jordanian Corporate Governance Association
- Central Bank of Jordan
- Jordan's Insurance Commission
- Egyptian Institute of Directors/Ministry of Investment
- Egyptian Banking Institute/Central Bank
- Economic Research Forum
- Oman Economists Association
- Corporate Governance Association of Turkey
- Lebanese Corporate Governance Task Force
- American University of Sharjah

Hawkamah Outreach & Networking

Since its official launch in Q2-2006, Hawkamah has:

- Addressed over 5,000 market players in conferences, seminars, and workshops all over the Middle East, North Africa (to include Pakistan) advancing corporate governance reform and the role Hawkamah plays in achieving regional buy-in.
- Attracted over 200 members
- Signed 27 MOU's with international and regional partners
- Received institutional support from regulatory authorities and Central Banks of all GCC and ME countries. This diverse constituency includes regulators, banks, chambers of commerce and others.

CG Infrastructure & Surveys

- Conducted jointly with the IFC a CEO survey of over 400 firms from all over the Middle East and North Africa on the regional private sector's CG practices and perspectives
- Partnered with a capital market regulator in the Gulf to develop a corporate governance law and established a model for capital market corporate governance codes.
- Participated in the development of the 1st CG code for State Owned Enterprises in Egypt, the first such code of its kind in the Arab world.
- Working with family businesses firm and listed companies to develop codes of corporate governance based on international best practices.

GCC CG Assessments

Conducted an assessment of the corporate governance environment in the Gulf Cooperation Countries from an investor's perspective.

The publication, *IIF/Hawkamah GCC Comparative Corporate Governance Survey* and the six country specific reports, is a result of Hawkamah's meetings with over 100 stakeholders all over the GCC.



Hawkamah-UAB Bank CG Award



- Launched the Hawkamah-UAB Bank Corporate Governance Award (with support from MasterCard International) to highlight good CG practices in Banks.
 - Attracted 40 applications from 12 countries of the region
 - Announcement in Doha, Qatar on November 7th
 - Burgan Bank – Winner
Dhofar Bank, BK&ME runners up

Hawkamah CG Task Forces

- Hawkamah has set up the following CG Task Forces at the Regional Level with its International Partners:
 - Banks
 - State Owned Enterprises
 - Insurance
 - Insolvency and Creditor Rights
- Hawkamah has assisted in setting up National CG Task Forces for Lebanon, Egypt, Morocco, Jordan, Bahrain and is in the process of setting one up for the UAE
- Hawkamah in partnership with Zawya- Dow Jones recently conducted a 2 day 'Corporate Governance Revealed Economic Journalism Program' for journalists in Dubai and Amman. This program focuses on educating journalists on concepts like corporate governance, transparency, and accountability to further enhance the quality of economic/financial reporting in the Arab world.

Contact Us
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➤ Hawkamah, the Institute for Corporate Governance

Hawkamah, the Institute for Corporate Governance, constitutes a groundbreaking development for institution building, corporate sector reform, good governance, financial market development, investment and growth in the region.

Hawkamah was created for the region, by the region, and of the region to advance corporate governance reform.

What is Corporate Governance?

Events

- ▶ **22-23 October**
 Director Development Workshop
 An Introduction to Board and Corporate Governance
 Dubai, UAE
- ▶ **24-25 October**
 Director Development Workshop
 Practical Tools for Strategic Guidance and Managerial Oversight
 Dubai, UAE
- ▶ **06 November**
 OECD-MENA Working Group 5 Bank Corporate Governance Task Force Meeting
 Doha, Qatar
- ▶ **07 November**

➤ Media Centre

26 September 2007

Get Updates on Hawkamah's Activities: Hawkamah's Newsletter

[read more...](#)

06 September 2007

Corporate Governance Revealed: Hawkamah & Zawya Dow Jones Announces Corporate Governance Training Day for UAE Business Journalists

[read more...](#)

08 August 2007

PricewaterhouseCoopers signs sponsorship agreement with Hawkamah to promote Corporate Governance in the MENA region

[read more...](#)

03 July 2007

Hawkamah and UAB

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BUILDING INSTITUTIONS
FOR THE REGION*

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