Corporate governance standards in GCC undergoing major development, says Hawkamah/IIF report

Downward corrections in Gulf Co-operation Council (GCC) stock markets and increased corporate activity by GCC corporations in Western markets are driving improvements in corporate governance standards, according to a report released today by Hawkamah, the Institute for Corporate Governance, and the Institute of International Finance (IIF). The report is part of a co-ordinated strategy toward the harmonization of corporate governance standards in the GCC and their alignment with international best practice.

The report, *'Corporate Governance in the GCC – An Investor Perspective',* is the first study to benchmark standards in the region. It is the result of a series of meetings held with senior officials from capital market authorities, central banks and stock exchanges, local fund managers, lawyers, experts, accountants and management consultants involved in corporate governance in the GCC.
His Excellency, Dr. Omar Bin Sulaiman, Governor of the Dubai International Financial Centre (DIFC), said:
"Hawkamah and the DIFC are dedicated to improving standards of corporate governance in the region, thus supporting sound financial markets development. The findings of this survey will help GCC policy makers identify key areas for reform and promote awareness of the benefits good corporate governance brings to companies and markets".
Dr. Nasser Saidi, Executive Director, Hawkamah, said: "The Hawkamah-IIF survey shows that corporate governance in the GCC is generally at an early stage of development. However, it also notes that real progress is being made as countries amend

existing company laws, strengthen accounting frameworks, and introduce corporate governance requirements for companies. Good corporate governance is a key factor in sustaining economic growth and development in the GCC. Policy makers are taking the lead and committing to secure significantly higher standards of corporate governance in the member countries of the GCC (UAE, Saudi Arabia, Kuwait, Oman, Qatar and Bahrain)”.

Charles Dallara, IIF Managing Director, said, “We welcome this first joint report with Hawkamah. We are encouraged by the co-operation we received across the GCC while collecting information for this report. Corporate governance practices across the GCC are lagging behind global standards in a number of areas. However, there appears to be considerable agreement that a stronger equity culture needs to be fostered and that high priority should be assigned now to programs to enhance corporate governance. We are encouraged by the determination of Hawkamah, the DIFC and national authorities in this area.”

Developments have been largely driven by four key factors:

- **Capital market regulators are using the recent price correction in GCC stock markets to ‘upgrade’ corporate governance frameworks.** While authorities recognise that price corrections were not directly related to poor standards of corporate governance, there was public pressure to intervene, due to their past encouragement of widespread public participation in IPOs. Corporate governance codes are being drafted and introduced by capital market authorities in the GCC. The Muscat and Abu Dhabi exchanges introduced codes in 2003 and 2006 respectively, while regulators in the UAE, Saudi Arabia, Bahrain, Qatar and Kuwait have draft codes that are expected to be implemented in 2007.
- **Increased corporate activity by GCC corporations in international markets is contributing to improvements in private sector standards, in-line with international best practice.** GCC corporations have conducted USD25.9

billion of acquisitions in the UK, Europe and North America so far this year, according to Bloomberg. This trend is expected to continue as the private sector in the GCC continues to expand through the acquisition of foreign assets.

- **The banking sector in the GCC has made a significant contribution, following undertakings by central banks to comply with Basel I and II requirements.** Central banks in all six GCC countries have amended their banking regulations to include corporate governance-related requirements such as establishing transparency and disclosure in financial statements, establishment of a board level audit, nomination and compensation committees and improved risk management.
- **The opening of GCC stock markets to foreign investors is expected to improve standards in GCC-listed companies, due to higher expectations from these investors.**

Mr. Edward Baker, Chairman of the IIF’s Equity Advisory Group (EAG) and Chief Investment Officer of Global Emerging Markets, AllianceBernstein Ltd., noted: “In the case of the GCC report, as has been the practice in all EAG reports, we have reviewed corporate governance frameworks through the lens of professional investors active in global markets, with assessments based on the IIF Code of Corporate Governance. From an investor perspective, it is important that there is visible movement in the right direction across the region, which can contribute to building confidence. We are hopeful that the public and the private sectors in the region can work together in the period ahead to secure improvements in the GCC’s overall corporate governance framework.”

Mr. Ibrahim Dabdoub, Chairman of the IIF’s Equity Advisory Group (EAG) Middle East Task Force, a member of the IIF Board of Directors and Chairman of the National Bank of Kuwait, S.A.K, said, “This new report is based on a landmark IIF-Hawkamah survey of corporate governance practices, which will serve as a vital benchmark to measure progress towards higher international standards, which are needed and which the IIF and Hawkamah are encouraging."

While corporate governance standards in the region are being raised, the report highlights a number of recommendations to bring the GCC into compliance with the IIF's corporate governance code:

- **A stronger commitment to better corporate governance from political authorities as well as from senior government officials involved with capital market development is needed for real change to take effect.** Regulators should quickly introduce corporate governance reforms in state-owned enterprises (SOEs), which are major contributors to the economies of the GCC. By requiring good standards of corporate governance from suppliers and private sector companies wishing to conduct business with SCCs, corporate sector reform can be expedited.
- **Regulators in the GCC need to work more closely together to strengthen the region's equity markets.** With the exception of Saudi Arabia and Kuwait, equity markets in the region are relatively small and lack depth. Establishing a regional GCC corporate governance task force, comprised of regulators and market participants, would help to promote standardised, best-practice laws and regulations that would apply across all stock markets in the region. Standardisation would help eliminate systemic risks by requiring companies issuing debt to obtain credit ratings, introduce stronger book building measures for IPOs, and promote the development of insider trading laws and investor education.
- **Specialised courts to deal with the enforcement of securities laws also need to be established.** This will expedite the delivery of justice for securities and finance-related offences and reduce the cost of

litigation.

- **Increase financial transparency by harmonising financial reporting requirements.**Standardised financial reporting is especially needed for annual reports to shareholders.
- **Establish a registrar of companies, requiring all companies (from sole proprietorship to joint stock companies) to provide information.** This will help non-listed companies to develop better financial reporting practices.

The report is the first part of a co-ordinated effort by Hawkamah and its partners to harmonise corporate governance standards in the GCC and the greater MENA region. The GCC survey will be followed by a survey of corporate governance regimes in other MENA countries. Once a clear assessment of overall standards in the region has been achieved, recommendations will be presented to policy makers to create a single set of standards for the private and public sectors in the region.

“While today’s report shows corporate governance standards in the GCC are improving, more needs to be done. Strong leadership and tough enforcement is required by authorities if corporate governance in the GCC is to meet international standards and bring with it increased FDI and market efficiencies. We believe the political will is there to achieve this and expect further developments in the coming years”, added Dr. Saidi.

Hawkamah provides co-operation and technical assistance to a number of countries in the GCC, including in the UAE, Oman, Kuwait, Bahrain and Saudi Arabia.