



**HAWKAMAH**  
THE INSTITUTE FOR CORPORATE GOVERNANCE

***Beyond BASICS***  
***An alternative look at liquidity***  
***volatility and transparency***

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## Financial Crises and Corporate Governance

- Corporate Governance failures & mal-governance facilitated or did not prevent practices that resulted in poor performance leading to banking & financial crises
- Corporate governance failure occurred at 3 levels:
  - Boards
  - Risk management
  - Regulators
- Political backlash will lead to new Regulatory & Supervisory framework and Corporate Governance reforms
- CG reform should be an economic policy imperative to address pressing CG issues in MENA/GCC: related party ownership, related party lending, stock market regulation, disclosure & transparency, minority rights
- Financial crisis puts implementation of CG standards and principles at a premium, a priority

## Hawkamah-IFC 2008 Survey: Information contained in Annual Reports

	% of respondents
Report of the chairman	85
Financial statements	82
Market share, sales and marketing	77
Ownership structure and dividend policy	72
Future plans of the company	64
Dividend history	54
Remuneration	44
Biographical details of the board	41
Beneficial owners	36
Management discussion/analysis	30
Corporate governance policies	28
Environment, social and economic sustainability	27
Share options policy	13

# Disclosure and Transparency basics

- **There is a symbiotic relationship between market information and market efficiency**
- **Better quality information available to the market improves resource allocation and the economic efficiency of workers, consumers, and producers.**
- **Transparency and disclosure are key elements in enhancing investor confidence and improved credit ratings, in turn these result in: lower capital costs, increased attractiveness to FDI, greater financial stability and long-term growth.**

# BASIC methodology and CG

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

# Usefulness of the BASIC metric

## ➤ Investors

- Allows investors to assess the liquidity, volatility, disclosure and transparency of GCC companies.

## ➤ Companies

- The methodology criteria offer companies identifiable functional areas for improvement.

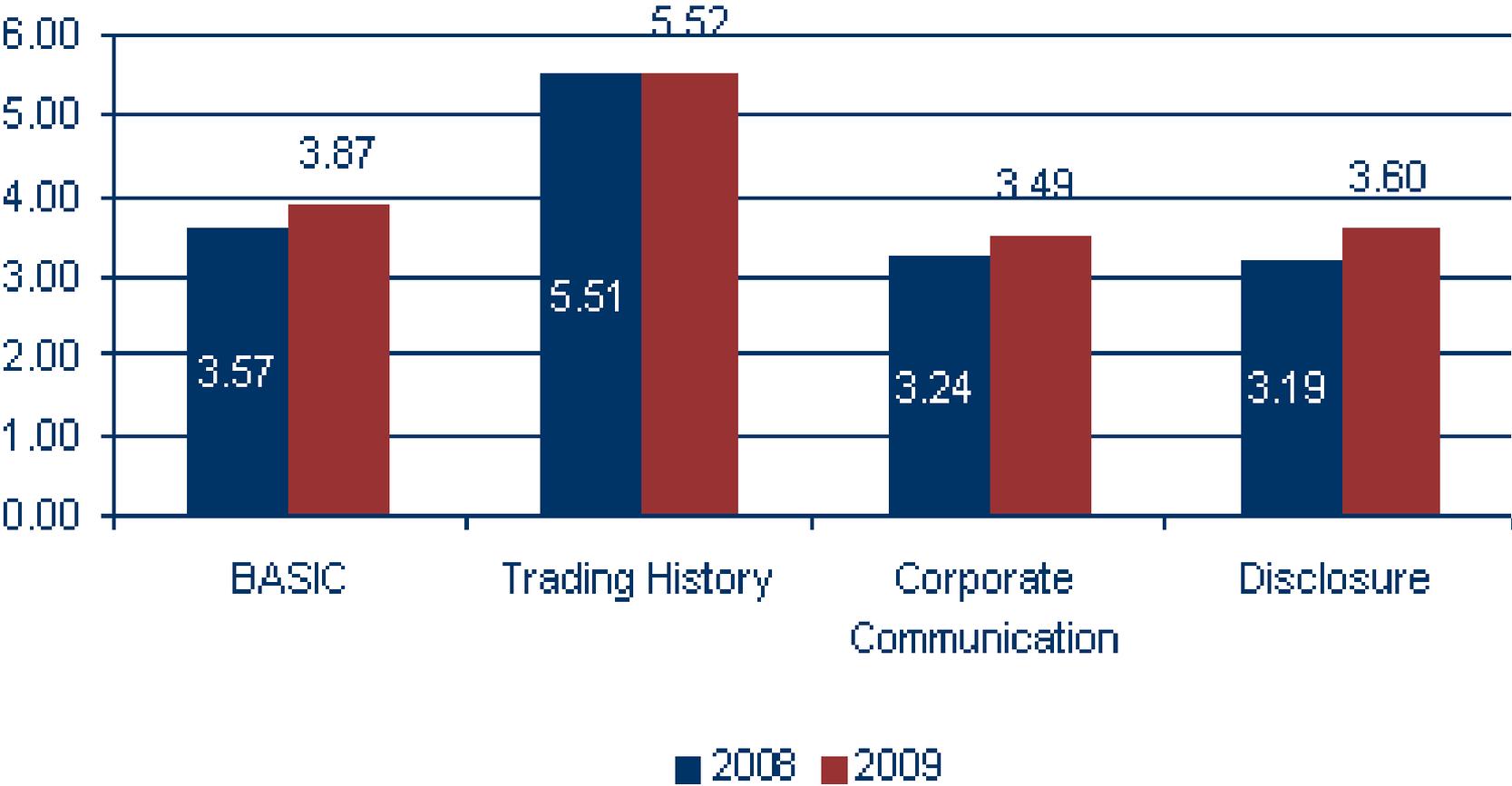
## ➤ Regulators

- A useful indicator for policy reforms, identifying measures that will enhance market liquidity.
- BASIC is a measure of investment risk

# BASIC 1 vs BASIC 2

- The methodology remains unchanged, but BASIC 2 covers more companies:
- Increase in the Universe from 581 to 607 companies (35 new listings and 14 de-listings)
- Inclusion of NASDAQ-Dubai

# BASIC by category



# BASIC by parameter

Significant improvement, albeit from a low base:

Availability of investor relations officer details: up 264.50%

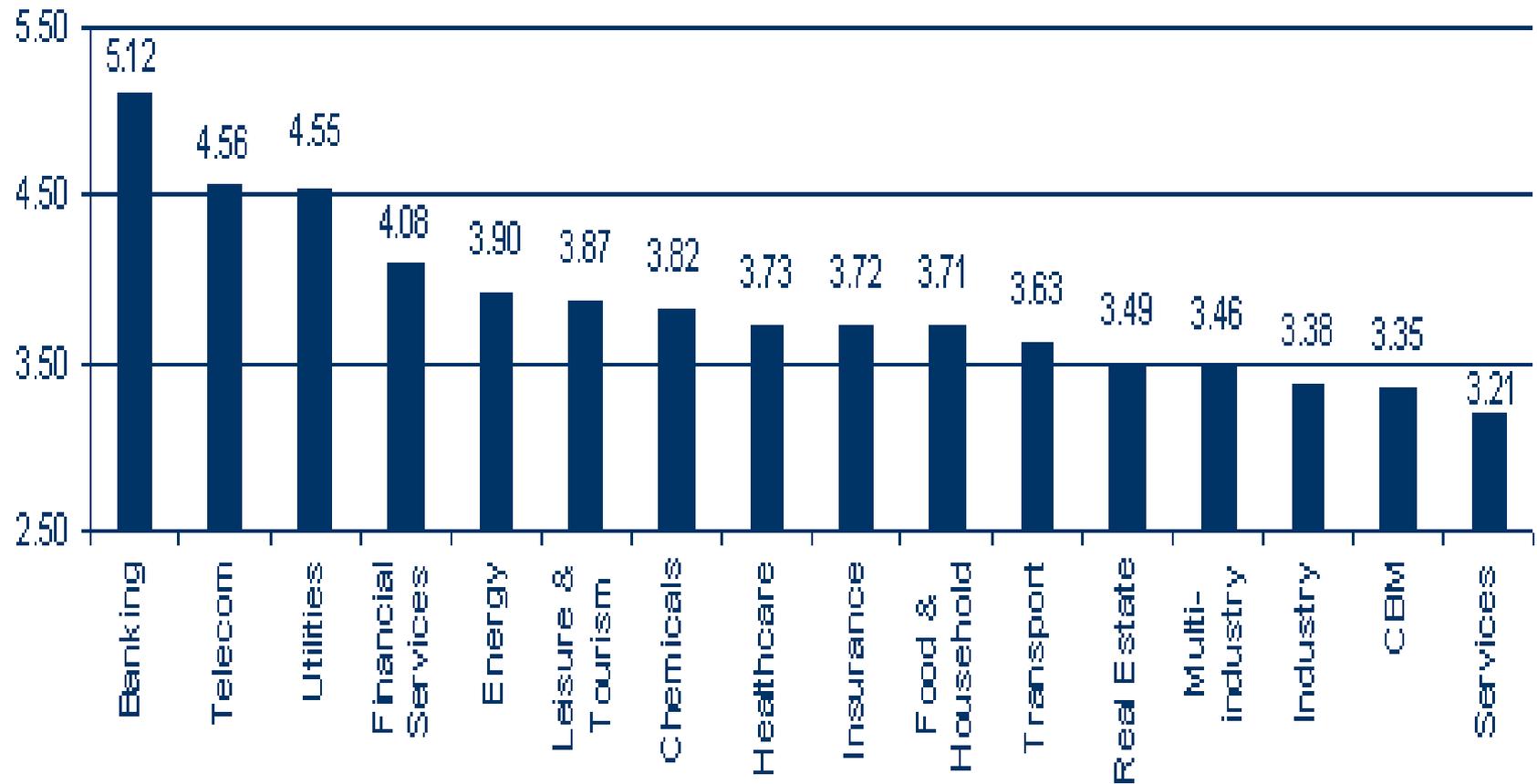
Holding of analyst meetings/conference calls: up 127.80%

Negative growth:

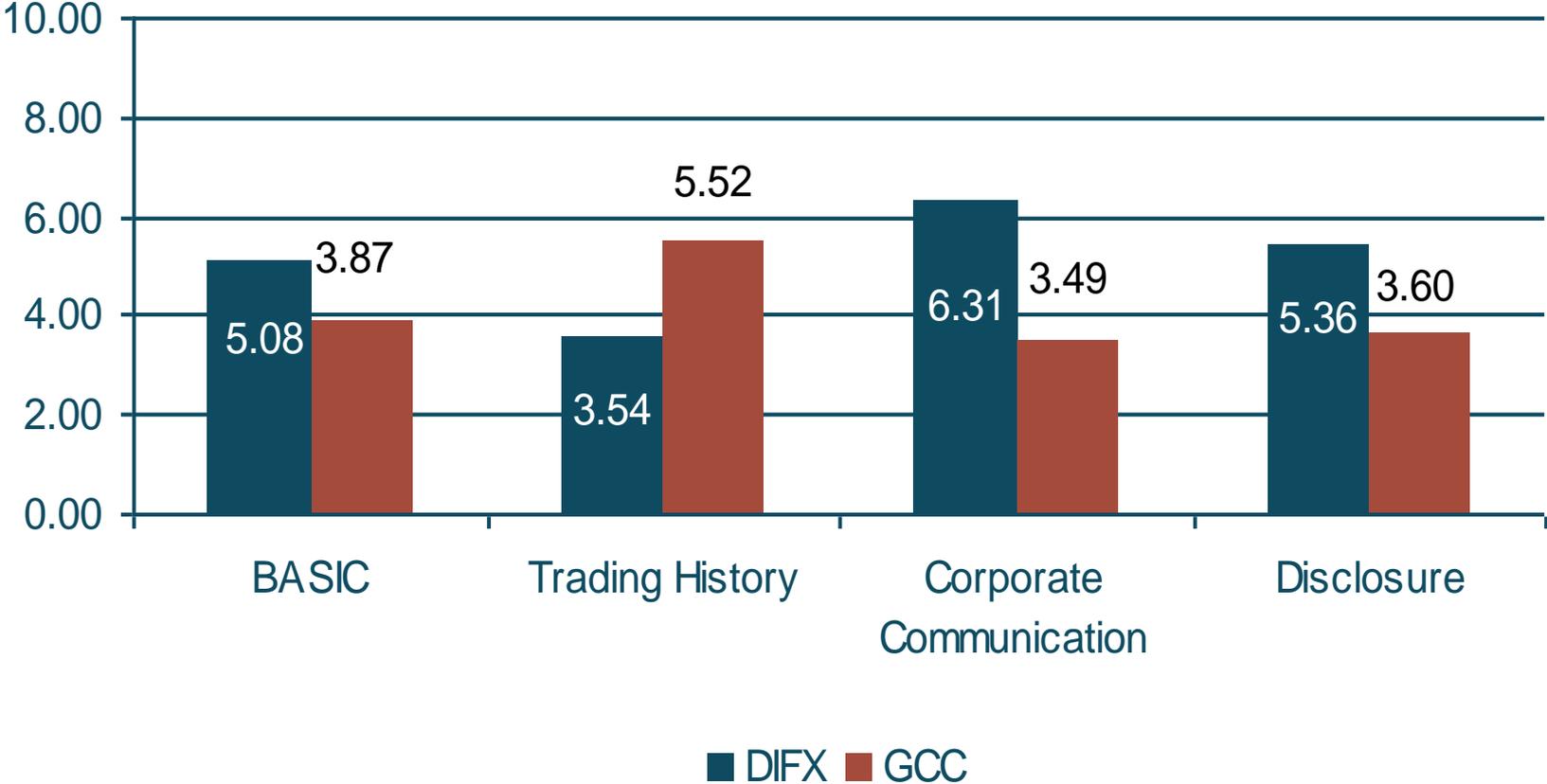
Availability of latest annual report on website: down -10.60%

Pre-announcement of results publication dates: down -11.90%

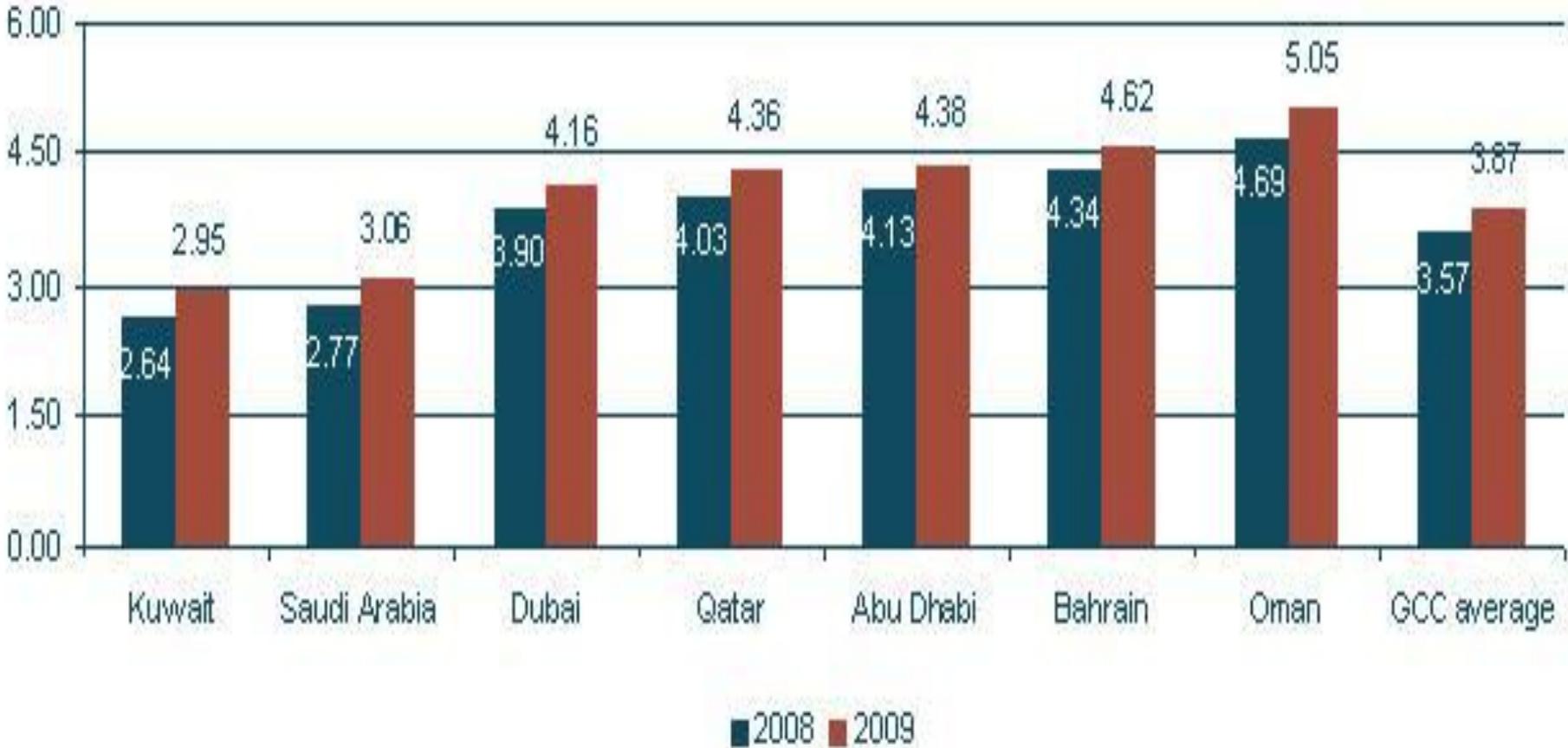
# BASIC 2 by sector



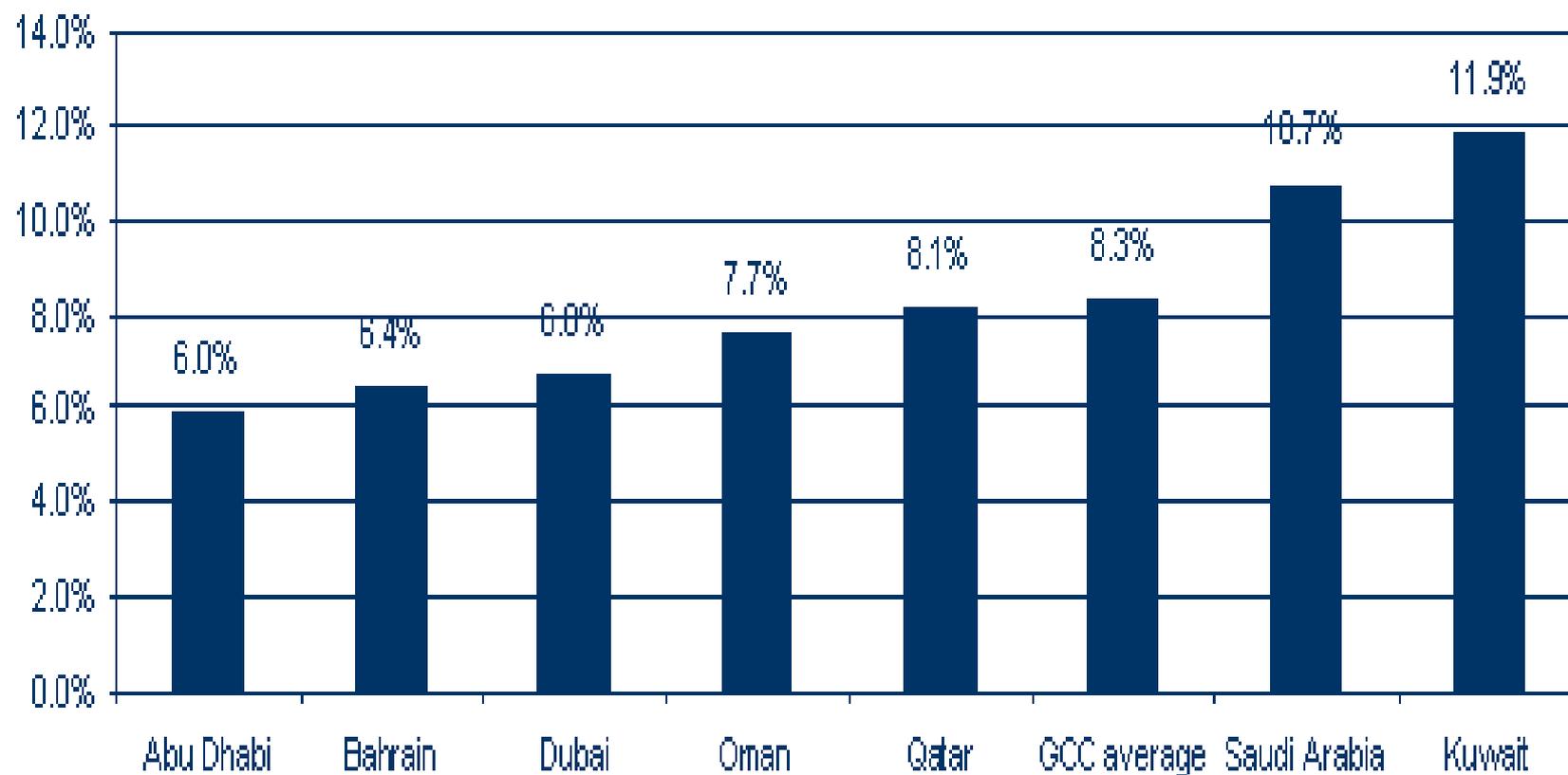
# BASICs: Nasdaq-Dubai compared to GCC



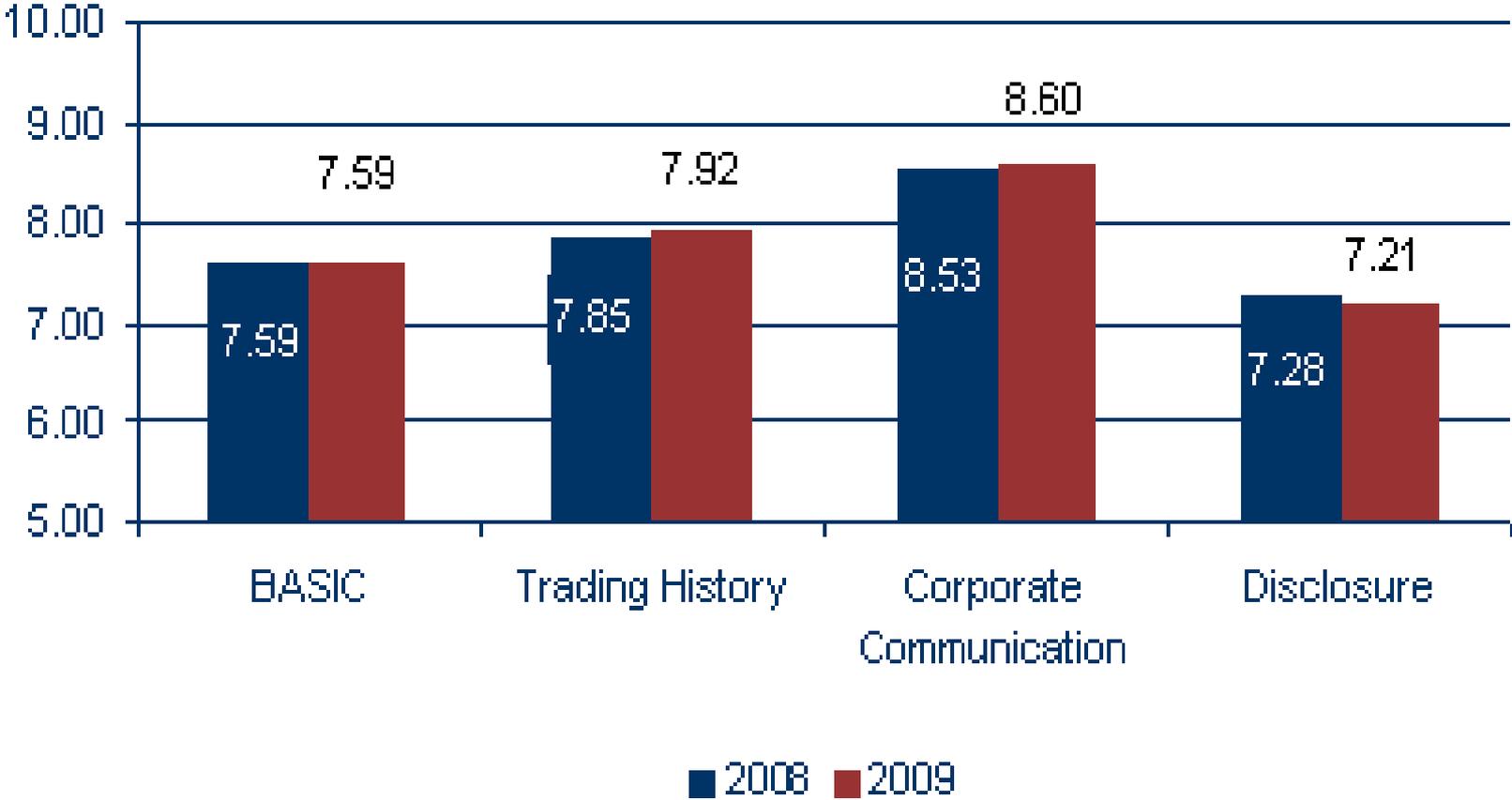
# BASIC evolution by market, 2008-2009



# Year-on-year improvement in BASIC by country



# International companies comparison



## Take away from BASIC II

- Results of BASIC II encouraging:
  - 2/3 of listed companies have shown some BASIC improvement and
  - 26 companies increasing their BASIC score by 100 percent
  - substantial improvements in disclosure on voting, ownership and management profiles, with more companies having investor/analyst meetings
- But no improvement in important areas such as availability of annual reports on websites, and pre-announcement of results publication dates.
- BASIC scores do not appear correlated with company size or length of existence
- Nasdaq-Dubai companies set a higher BASIC standard than their peers
- GCC practices still fall short of international standards.
- Country effects are clear: reform must come from regulators & authorities

## Next steps for BASIC

- Markets which will fare the best are those in which fundamental investor concerns are identified and addressed by the regulators and companies alike.
- BASIC is a metric: measure of investment risk - quantifying investor information requirements and identifying the gaps.
- Regional harmonization of stock-market regulation, disclosure standards.
- Hawkamah-TNI: will develop BASIC to cover other MENA markets
- Hawkamah-TNI are developing BASIC-improvement advisory services

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