

Business Case for Transparency, Disclosure and Good Corporate Governance in the Region

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Welcome! أهلاً و سهلاً!

Hawkamah-Arabia CSR Network MoU

- The Memorandum of Understanding represents a strategic partnership that will allow Hawkamah and CSR Arabia Network to drive our common goal of catalyzing ESG development in the region through:
 - sharing best practices
 - exchanging ideas and experiences; and
 - combining resources
- First joint event

12 Core Standards for Sound Financial Systems

Macro Standards

1. Data Dissemination
2. Monetary Policy
3. Fiscal Policy Transparency

Market Integrity and Infrastructure

4. *Governance*
5. *Accounting*
6. *Auditing*
7. *Insolvency*
8. *Money Laundering*

Financial System

9. Core Principles of Bank Supervision
10. Core Principles of Insurance Supervision
11. Core Principles of Securities Supervision
12. Systemically Important Payment Systems

Agency

IMF

IMF

IMF

OECD/ World Bank

IFAC

IFAD

WB

FATF

BIS

IAIS

IOSCO

BIS

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 and credit costs, increased attractiveness to FDI, greater financial stability and long-term growth.**

Transparency and disclosure in the region 2008-2010

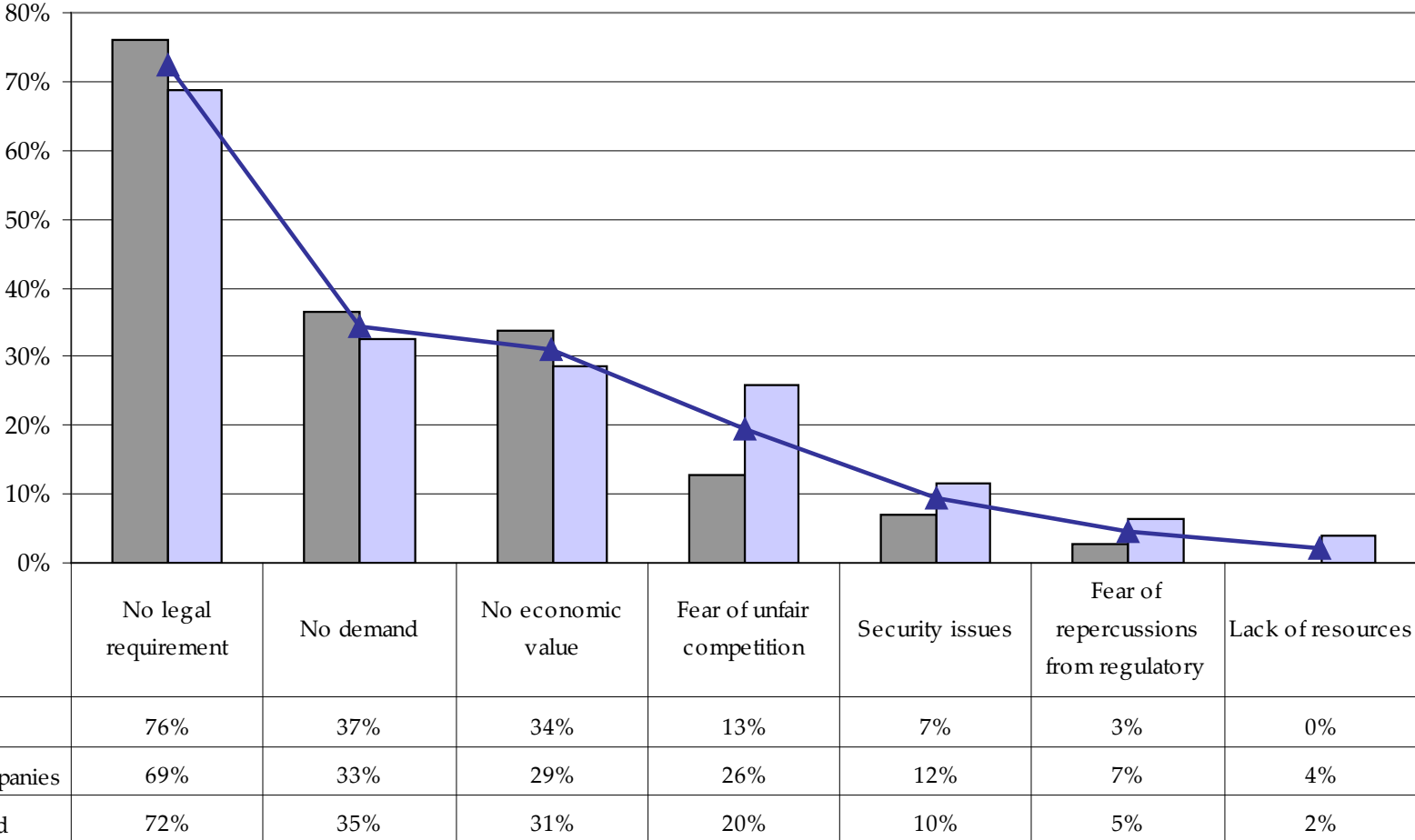
Hawkamah studies:

- **Hawkamah-IFC Survey 2008 (MENA)**
- **BASIC 1 2008 (GCC)**
- **BASIC 2 2009 (GCC)**

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

Hawkamah-IFC Survey: Main reasons preventing disclosure

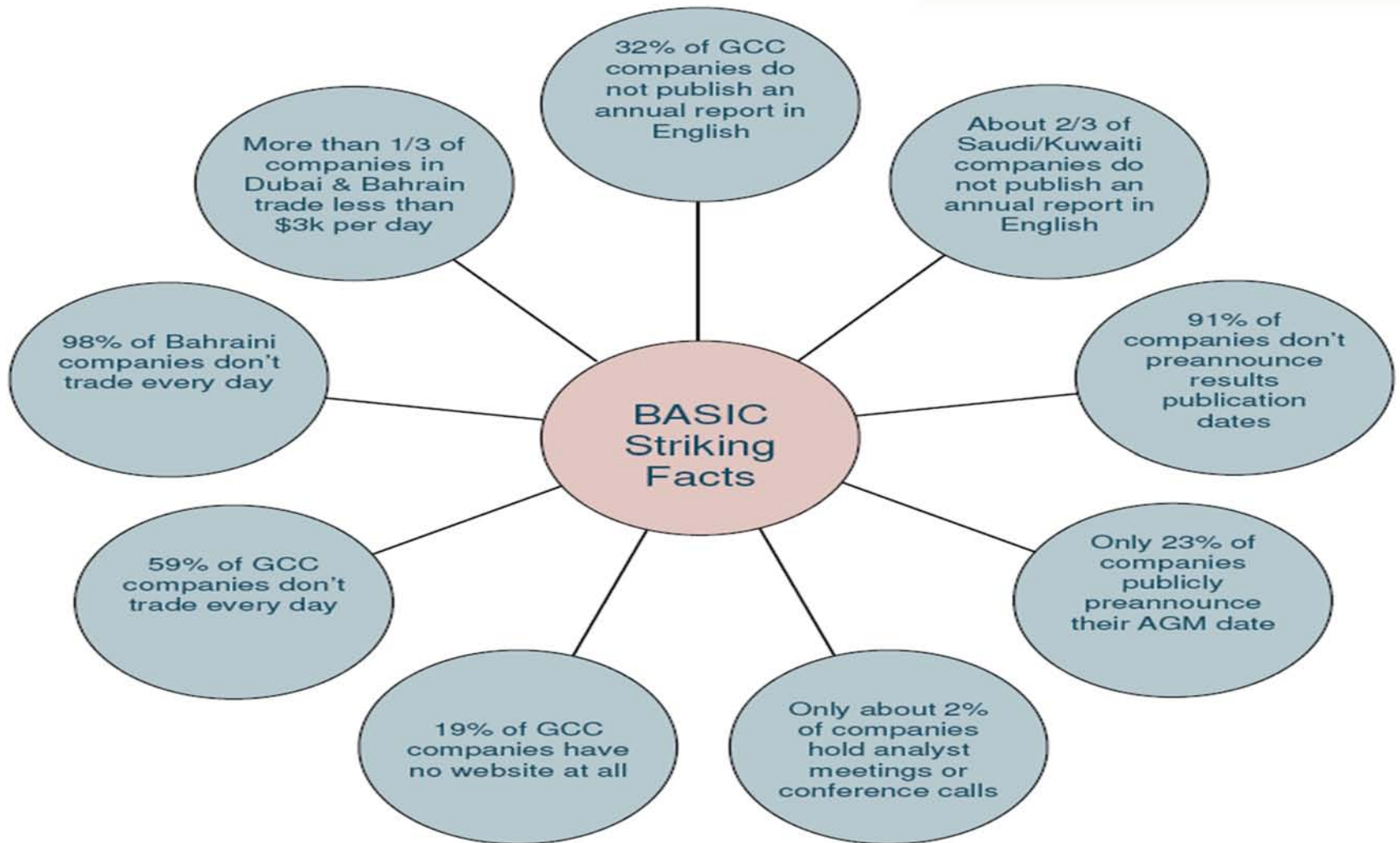


■ Banks ■ Listed companies ▲ Aggregated

BASIC methodology and CG

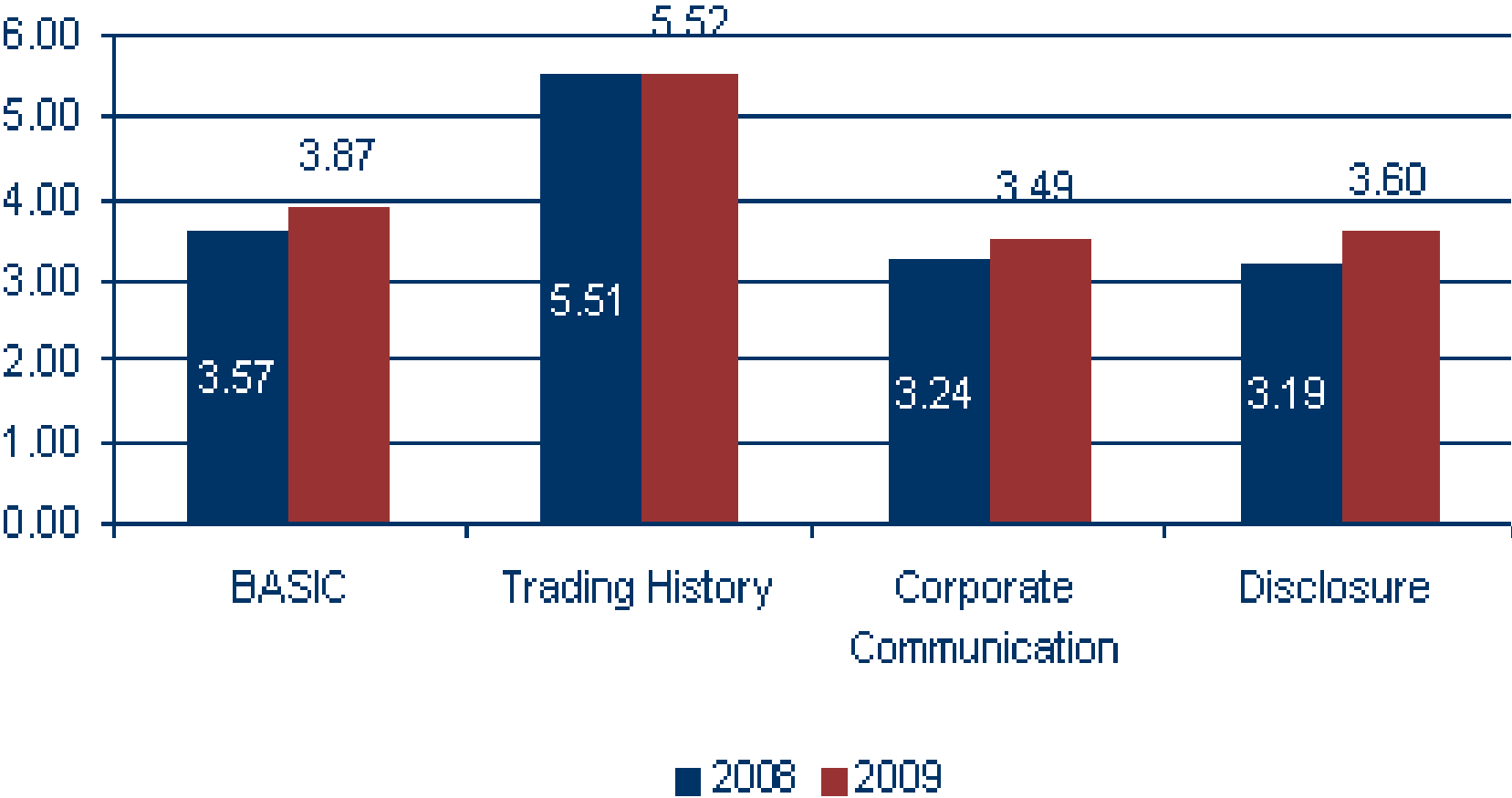
- **Behavioral Assessment Score for Investors and Corporations**
- BASIC provides systematic insight into a number of essential parameters which constitute the backbone of Corporate Governance
- The methodology developed by The National Investor and Hawkamah is split into three distinct components:
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

Hawkamah-TNI Survey, August 2008

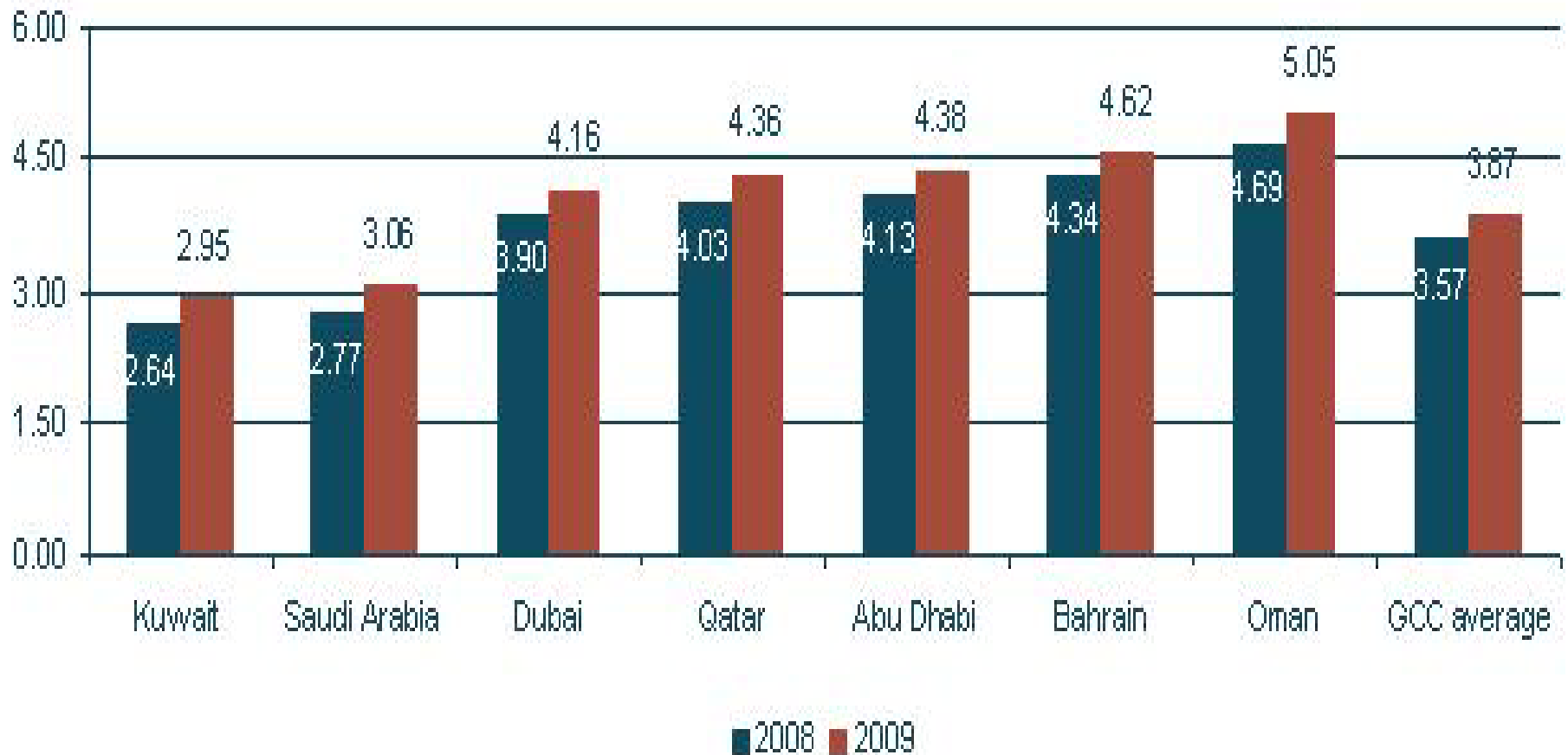


Source: TNI Investment Research

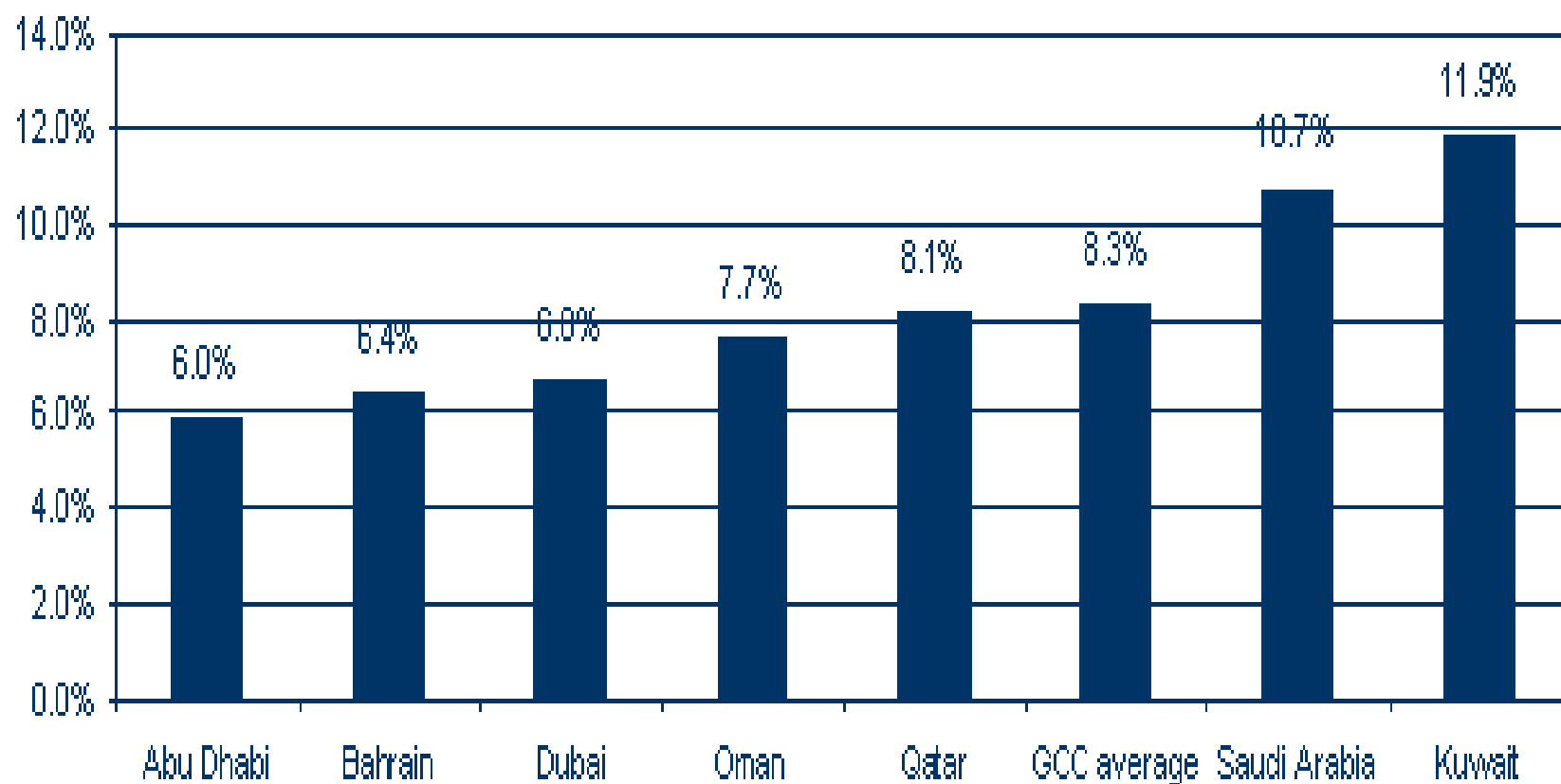
BASIC 2 by category



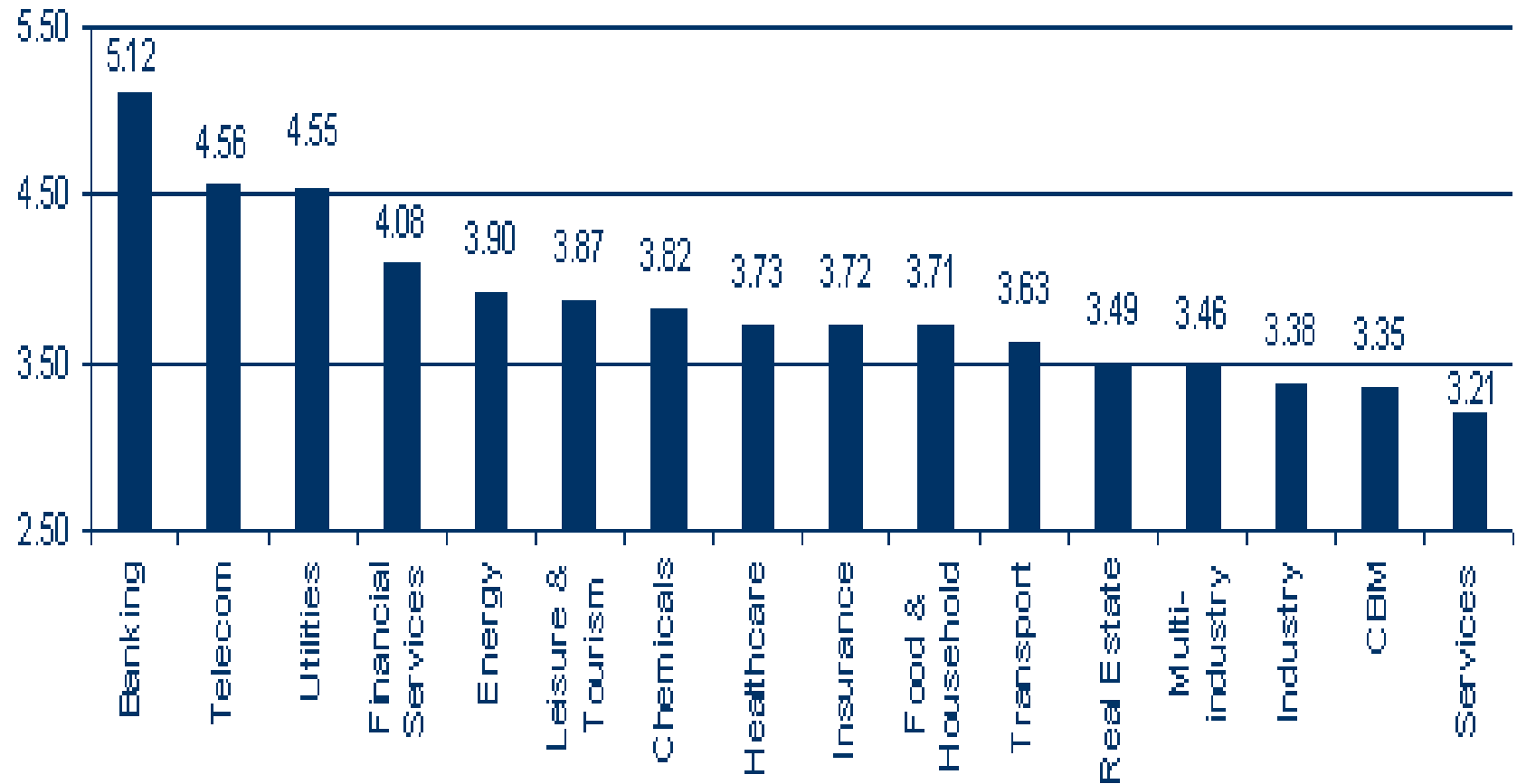
BASIC evolution by market, 2008-2009



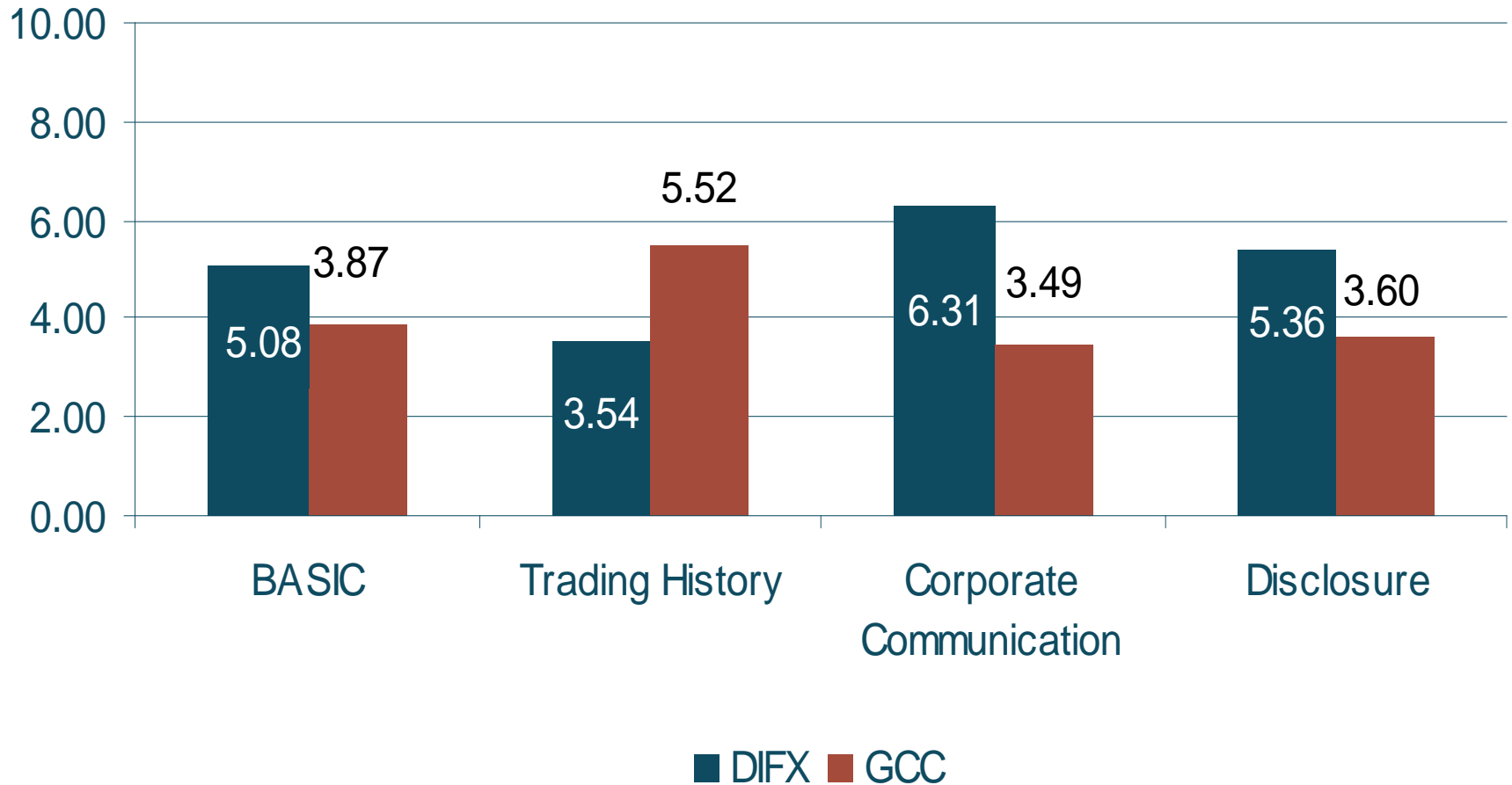
Year-on-year improvement in BASIC by country



BASIC 2 by sector



BASICs: Nasdaq-Dubai compared to GCC



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**

Gulf Corporate Governance Codes

UAE	The corporate governance guidelines, introduced by the Emirates Securities and Commodities Authority in 2007, became mandatory for listed companies in 2010.
Bahrain	A corporate governance code was issued in March 2010.
Oman	The Capital Market Authority was the first in the region to issue a corporate governance code in 2002.
Qatar	Qatar Financial Market Authority issued a corporate governance code in 2009.
Saudi Arabia	A corporate governance code is in place, and the Capital Markets Authority has started a gradual process of making some corporate governance regulations compulsory.
Yemen	Corporate governance guidelines are in the pipeline

CG Code – a key milestone, but challenges remain

- Global financial crisis - investors are reconsidering their approach to risk management, asset allocation, and short-term investment strategies.
- Financial performance indicators have traditionally marked whether or not to invest in a company. Non-financial indicators, however, are also indicative of the future performance of companies.
- Investors are increasingly recognizing the role Responsible Investment can play in reducing risk and fulfilling fiduciary duty. Recent studies show that investment in emerging market socially responsible investment funds has reached \$300 billion in 2008, a more than five-fold increase since 2003.

Going beyond corporate governance – ESG/CSR

- Corporate governance is essentially about sustainability of businesses, and environmental and social aspects play a strong role in sustainability. Taking sustainability into account serves to secure long-term corporate value.
- In response to changing economic conditions and to the practices that played a role in sparking the current financial crisis, institutional investors are increasingly focusing on long-term risks in their investments, and environmental, social, and governance (ESG) factors play a significant role in making those assessments.
- UNPRI - over 670 signatories, USD 20 trillion assets under management.

ESG disclosure – benefits for companies

Financial benefits

- Lower cost of capital
- Access to international capital markets
- Longer term investors + better relationships
- Better risk management and internal controls

Commercial benefits

- Preferred supplier
- Increased faith

Human resource benefits

- Strengthen employer-employee relationships
- Attract better talent

Benefit of ESG for investors

- ESG issues can impact investor returns especially in the long-term and, therefore, deeper analysis should result in better investment decisions
- Companies that manage complex ESG issues well tend to be well managed overall
- Strong ESG performance can result in new opportunities and reduced risks for investee firms
- Investors can play an important role in promoting good corporate practice within their portfolio companies

The value of ESG



Hawkamah-S&P MENA ESG Index

- **Environmental, Social and Corporate Governance (ESG) index for 11 countries in the MENA region.**
- **The companies that are concerned about their customers, employees, communities, and the environment are more likely to be sustainable in the long run.**
- **Screen up to 400 companies of the MENA region giving them scores on environmental, social and corporate governance parameters.**
- **Raise the profile of those companies that perform well along the three parameters when compared to their market peers.**
- **Create a market incentive for companies, while providing investors with a viable product to invest in.**

Join us in
***BUILDING INSTITUTIONS
FOR THE REGION***

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