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European Bank
for Reconstruction and Development

Corporate Governance in Transition Economies

Morocco Country Report

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The Report is based on information available at the end of April 2015.

If you believe that the information has changed or is incorrect, please contact Gian Piero Cigna at cignag@ebrd.com

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This Report – along with all other country reports prepared within this initiative – is available at: http://www.ebrd.com/what-we-do/sectors/legal-reform/corporate-governance/sector-assessment.html

Foreword

As part of its Legal Transition Programme, the European Bank for Reconstruction and Development ("EBRD") has been assessing the state of legal transition in its countries of operations. These assessments provide an analysis of the progress of reform and identify gaps and future reform needs, as well as strengths and opportunities.

In 2012, the Legal Transition team within the EBRD Office of the General Counsel (LTT) developed with the Assistance of Nestor Advisors a methodology for assessing corporate governance frameworks and the governance practices in the EBRD countries of operations. This assessment was implemented in 2014-2015 (the "Assessment").

The Assessment aims at measuring the state of play (status, gaps between local laws/regulations and international standards, effectiveness of implementation) in the area of corporate governance

The Assessment is meant to provide for (i) a comparative analysis of both the quality and effectiveness of national corporate governance legislation (including voluntary codes); (ii) a basis to assess key corporate governance practices of companies against the national legislation; (iii) an understanding whether the legal framework is coupled with proper enforcement mechanisms (e.g., sanctions) and/or with authorities able to ensure proper implementation; (iv) a support to highlight which are the major weaknesses that should be tackled by companies and legislators for improving the national corporate governance framework; and (v) a tool which will enable the EBRD to establish "reference points" enabling comparison across countries.

This country report is part of a series of 34 country reports. A general report synthesising all countries will close the Assessment.

Methodology

This Assessment is based on a methodology designed to measure the quality of legislation in relation to best practices requirements and the effectiveness of its implementation as evidenced by companies' disclosure, also taking into consideration the capacity of the institutional framework (e.g., courts, regulators) to sustain quality governance. The analytical grid developed for assessing the governance framework is based on international recognised best-practice benchmarks (e.g., OECD Corporate Governance Principles, Development Financial Institutions, EBRD, IFC and World Bank ROSC governance methodologies). The methodology is applied identically across all the countries reviewed. The process for gathering, analysing and reporting information is applied identically for each of the countries assessed, which allows comparing countries to each other across a long a set of benchmarking points.

For the purpose of the Assessment, the corporate governance framework and the practices were divided in five key areas: (i) Structure and Functioning of the Board; (ii) Transparency and Disclosure of company information; (iii) Internal Control; (iv) Rights of Shareholders; and (v) Stakeholders and Institutions. Each of these key areas is further divided in sections (for instance, the area "Structure and Functioning of the Board" is divided in five sections: Board composition; Gender diversity at the board; Independent directors; Board effectiveness; and Responsibilities of the board). Each section is further divided in subsections (for instance, the section "Independent Directors" is divided in three subsections: "Requirement to have independent directors"; "Definition of Independence"; and "Disclosed practices").

The assessment started by sending a questionnaire to law firms, audit firms, national regulator(s), ten largest (listed) companies, and stock exchange(s) in each country. Questions were different according to the respondents, which were asked to provide information on the legislation and on how they believe the legislation is implemented.

Responses were assigned to the corresponding subsection(s) and validated by the EBRD corporate governance specialists by looking at the applicable framework and at the disclosure offered by the ten largest (listed) companies in each country. In this respect, the working hypothesis was that the ten largest listed companies are those offering the best disclosure in each country. As such, we presumed that when certain practices were not disclosed by them, they were unlikely to be disclosed by smaller or unlisted companies. The ten largest companies were identified according to their market capitalisation. When a country did not have a stock exchange, there were less than ten listed issuers or there were no data on capitalisation of issuers, the ten largest companies were identified according to their revenues and size of the labour force. In case the largest companies were mostly of one sector (e.g., financial institutions), then the sample of ten companies was corrected to reflect other sectors of the economy.

The validation of responses was undertaken by the corporate governance specialists within the Legal Transition Team through desktop research. This research was conducted both on legislation and on the practices disclosed by the largest (listed) companies (e.g., companies' websites, annual reports, stock exchanges database etc.). In addition, the relevant reports by international financial institutions (e.g., IMF, World Bank, IFC, Transparency International, etc.) were analysed and taken into consideration. Answers received by respondents that were not grounded by specific references to legislation or consistent with the disclosed practices were not taken into consideration.

Following the validation process, each subsection was compiled by adding specific references to legislation and practices. Conclusions were then formulated for each subsection, each rated as per their adherence to international governance standards. The score ranges from 1 (very weak) to 5 (strong). The rating for each section was then calculated by averaging the ratings of the subsections.

Because understanding corporate governance requires a "holistic perspective", where each component needs to have a place in the overall picture – pretty much like a puzzle - in case one of the subsection was rated "weak" or "very weak", the resulting average was decreased by 0.2; in case more than one subsection was rated "weak" or "very weak", the resulting average was decreased by 0.5. This is because if just one component is not fitting well with the others, then all others are weakened. Similarly, the overall strength diminishes if there are more weak components.

Conversely, in order for the framework to be strong, all components need to be well fitting with each other. Hence, in case all subsections were scored "moderately strong" or "strong", then the resulting average was increased by 0.5. However, this "positive" adjustment was used with some care as the assessment looked at the top ten largest companies in the country, hence findings tended to be often overly optimistic.

Key areas were then rated according to the same criteria.

The ratings are presented through the colours detailed in the box below and they demonstrate the adequacy or need of reform in respect to each governance area and section.

Rating:

"Strong to very strong" (DARK GREEN) - The corporate governance framework / related practices of companies are fit-for-purpose and consistent with best practice.

"Moderately strong" (LIGHT GREEN) - Most of the corporate governance framework / related practices of companies are fit-for-purpose but further reform is needed on some aspects.

"Fair" (YELLOW) - The corporate governance framework / related practices of companies present some elements of good practice, but there are a few critical issues suggesting that overall the system should be assessed with a view of reform.

"Weak" (ORANGE) - The corporate governance framework / related practices of companies may present few elements of good practice, but overall the system is in need of reform.

"Very weak" (RED) - The corporate governance framework / related practices of companies present significant risks and the system is in need of significant reform.

We believe corporate governance cannot be captured and measured simply by numerical values. Hence, alongside the "quantitative" assessment obtained according to the methodology described above, a "qualitative" assessment was also undertaken, by classifying our findings for each section as "strengths" and "weaknesses". Because understanding corporate governance requires a "holistic perspective", when the "quantitative" assessment was finalised, the assessment team compared it with the "qualitative" assessment, and when any inconsistency (i.e. material weaknesses or strengths) was noticed, the average scores of the sections were adjusted by up to ±0.5.

A preliminary version of the Assessment was made public for consultation. The comments and corrections received during the process were analysed by the corporate governance specialists. When confirmed, the corrections were reflected in the final ratings and in this Assessment.

Overview

Legislative framework

The primary sources of corporate governance legislation in Morocco are the Commercial Code, the Investment Charter, the Law on Partnerships, Limited Partnerships, Limited Partnership by Shares, Limited Liability Companies and Joint Ventures; and the Law on Public Limited Companies. In 2008, the National Corporate Governance Commission - jointly created by the Ministry of Economic and General Affairs and the General Confederation of Moroccan Enterprises - issued the Moroccan Code of Corporate Governance. The Code has been complemented by three annexes over the years. The annexes address governance issues in family owned companies and small and medium enterprises (2009), banks (2010), and state-owned enterprises (2012). The Code recommends companies to implement its recommendations pursuant to the so-called "comply or explain" approach; however, this approach has not been transposed in mandatory legislation and in practice companies do not seem to take the Code's recommendations as a reference.

Structure and functioning of the board

Companies can be organised under a one- or two-tier system. In the one-tier system, the system adopted by most listed companies, the role of CEO and board chair can be combined. All board members are required to be shareholders and legal entities may serve on boards, an observed common practice. The law does not require companies (with the exception of banks) to have independent board members, it only requires them to have a majority of non-executive members. Only the Corporate Governance Code recommends listed companies to have a sufficient number of independent board members. The definition of independence included in the Code is not comprehensive. None of the ten largest listed companies disclose having independent board members. Companies, with the exception of financial institutions and State-controlled companies are not required to establish board committees. Disclosure on board and committees' meetings and activities is very limited and does not show whether they are playing a strategic role in the companies.

Gender diversity at the board is very limited.

The law vests the board with the broadest powers for it to take decisions falling within their competence; however it misses to assign the board of companies with the authority to approve the company strategy, budget and risk profile. The banking framework is clearer and requires the boards of banks to be in charge of strategy and risk. The Corporate Governance Code also provides some additional guidance on this. Board evaluation is recommended by the Corporate Governance Code and required for banks, but no company discloses performing a board evaluation. The law requires companies to have a corporate secretary, but disclosure on this issue is very limited. The legal and regulatory framework does not contain any complete definition of loyalty and diligence obligations of directors. Conflicts of interest situations are regulated by law.

Transparency and Disclosure

Disclosure of non-financial information by companies is limited. Companies are required to disclose their financial statements and annual reports mainly include financial information only. Banks are required to prepare their financial statements in line with the IFRS. Other companies can choose between the IFRS and the Moroccan GAAP. Reporting to the market and shareholders appear to be very limited. None of the companies of our sample disclose their board and committee members' qualifications and activities, the minutes of the general shareholders' meeting and their articles of association. Listed companies are not required to disclose their compliance with the national Corporate Governance Code and none disclosed any information on their compliance with the Code.

The websites of the largest listed companies are not regularly updated. In practice it is difficult to find up-to-date non-financial information and information on capital share, number of shares and major shareholders. Significant shareholding variations must be disclosed and companies seem to comply with this obligation. Companies are required to appoint an independent external auditor and to disclose its name and the auditor's report. All ten largest listed companies comply with these requirements.

Internal Control

Companies are recommended and banks required to establish an internal control function. Banks are also required to establish a compliance function. The ten largest listed companies disclose having an internal audit department in place and the banks of our sample disclose having a compliance function. As a note, it seems that a number of companies combine the compliance and internal audit functions, which is not a good practice. Banks are required, and companies are recommended, to set up an audit committee. Disclosure on the audit committee is, however, very limited. Eight of the ten largest listed companies disclose having an audit committee, but none of these companies disclose the members' qualifications, which members are independent or the committee's activities. Thus, it is not possible to assess how audit committees contribute to ensuring external and internal auditors' independence and effectiveness. Companies are recommended to adopt a code of ethics, but only a minority appear to comply with this requirement.

Companies are required to have their financial statements audited by an independent auditor, appointed by the general shareholders' meeting. Publicly listed companies and banks are required to have two external auditors. The provision of non-auditing services seems to be restricted. Auditors are not required to rotate; but are invited to do so every six years by the Association of chartered accountants. Related party transactions and conflicts of interest are regulated by law. There is no whistle-blowing regulation.

Rights of Shareholders

Basic shareholder rights seem to be adequately regulated by law. Shareholders representing 10% of the share capital are entitled to call a general shareholders' meeting (GSM) and those representing 5% are entitled to add items to the agenda and to nominate board members. Shareholders have inspection and pre-emptive rights. However, a 15 day-notice of the GSM is not in line with best practices, which recommend at least 21 days. Supermajority is required to approve major corporate changes, but this does not apply to significant asset sales. Shareholders do not enjoy cumulative rights and disproportional voting rights are allowed. Nine of the ten largest listed companies disclose their financial reports and the stock exchange's website provides a fair amount of financial information; however, non-financial information is generally poor.

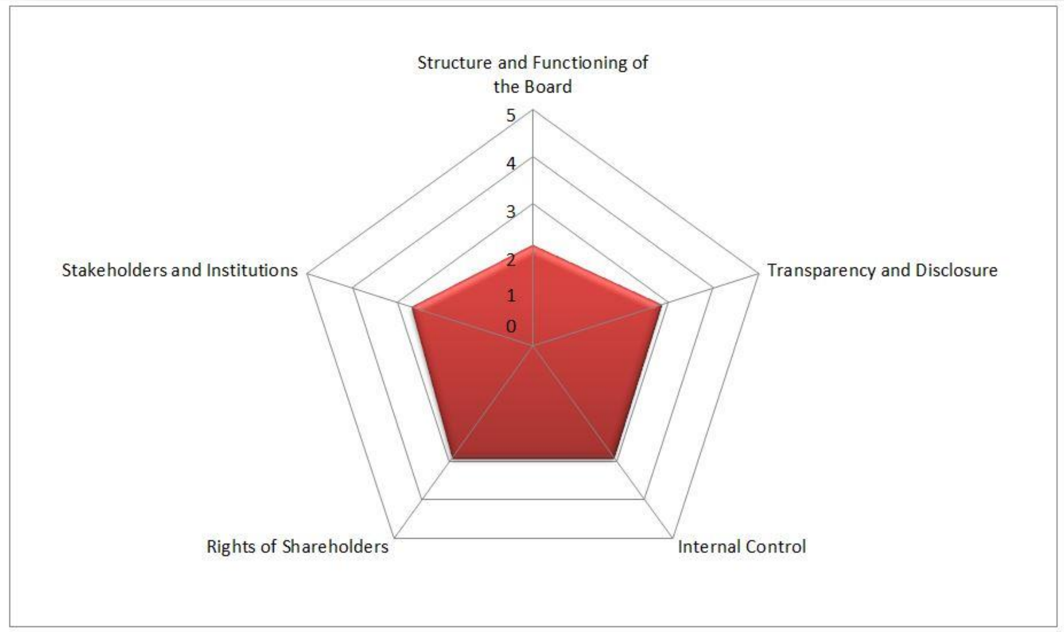
Significant ownership variations must be disclosed and listed shares must be registered with an independent custodian. Shareholder agreements are common, but they lack specific regulation. Related party transactions and conflicts of interests are regulated by law. Regulation on insider trading and self-dealing exists and it seems to be well implemented.

Stakeholders and Institutions

The Casablanca Stock Exchange (CSE) is the main local stock exchange in Morocco. Its market capitalisation appears to be around 50% of the country's GDP and it has three listing segments; however, none of them requires higher corporate governance standards.

The Moroccan Code of Corporate Governance was launched in 2008 and complemented over the years by annexes with recommendations suitable to different types of companies. The Code recommends companies to implement it under a "comply or explain" basis. This approach has not been transposed in mandatory legislation and the Code and its annexes are purely voluntary. In practice, it appears that there is no monitoring of the Code's implementation and its recommendations are generally disregarded. There seem to be no significant inconsistencies in laws, regulations or corporate governance code, but case law is hardly accessible. International audit and law firms have a significant presence in the country. Rulings of regulatory agencies are publicly available and easily accessible on the CSE website. When looking at the indicators provided by international organisations, Morocco is not well positioned in terms of competitiveness, ease of doing business and corruption.

Corporate Governance Legislation and Practices in Morocco



Source: EBRD, Corporate Governance Assessment 2016

Note: The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in best practices and international standards (e.g., OECD Corporate Governance Principles). The fuller the 'web', the closer the corporate governance legislation and practices of the country approximates best practices.

Key: Very weak: 1 / Weak: 2 / Fair: 3 / Moderately Strong: 4 / Strong to very strong: 5

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Key Areas and Rating	Strengths and Weaknesses
1. Structure and Functioning of the Board *Weak*	*Companies can be organised under a one- or two-tier system. In the one-tier system, the system adopted by most listed companies, the role of CEO and board chair can be combined.* *All board members are required to be shareholders and legal entities may serve on boards, an observed common practice. The law does not require companies (with the exception of banks) to have independent board members, it only requires them to have a majority of non-executive members. Only the Corporate Governance Code recommends listed companies to have a sufficient number of independent board members. The definition of independence included in the Code is not comprehensive. None of the ten largest listed companies disclose having independent board members.* *Companies, with the exception of financial institutions and State-controlled companies, are not required to establish board committee. Disclosure on board and committees' meetings and activities is very limited and does not show whether they are playing a strategic role in the companies.* *Gender diversity at the board is very limited.* The law vests the board with the broadest powers for it to take decisions falling within their competence; however it misses to assign the board of companies with the authority to approve the company strategy, budget and risk profile. The banking framework is clearer and requires the boards of banks to be in charge of strategy and risk. The Corporate Governance Code also provides some additional guidance on this. *Board evaluation is recommended by the Corporate Governance Code and required for banks, but no company discloses performing a board evaluation.* *The law requires companies to have a corporate secretary, but disclosure on this issue is very limited.* *The legal and regulatory framework does not contain any complete definition of loyalty and diligence obligations of directors. Conflicts of interest situations are regulated by law.*
1.1. Board Composition *Weak*	***Strengths:*** • *Boards are well-sized, with an average of 8 board members.* • *Bank board members are required to meet fit and proper criteria, and members need to be approved by the Central Bank.* ***Weaknesses:*** • *Companies organised under a one-tier board system – which prevails in Morocco – may have the roles of the Chairman and CEO combined. The Corporate Governance Code recommends the separation of these roles, but combining them seems to be a common practice in Morocco. This, coupled with the absence of independent directors is a major weakness.* • *In the case of one-tier boards, the law states that at least half of the board members should be non-executive directors. The Corporate Governance Code recommends that boards should include a sufficient number of independent directors, but neither the Code nor the law provides a clear-cut definition of independence.* • *Legal entities may serve as board members. This is not a good practice. Once appointed, the legal entity must nominate a specific person to represent it at board meetings. Six out of the ten largest listed companies have corporations represented by individuals sitting on their boards.* • *Board members are required to be shareholders. This is not in line with best practices, since it reduces the pool of potential board candidates and may prompt fictitious transfers of shares to fulfil this requirement. Additionally, it weakens the framework of fiduciary duties. However, in practice most companies require, in their by-laws, that directors own very few shares.* • *The Corporate Governance Code recommends that board members should have diverse profiles, and its annex recommends companies to disclose the composition and qualifications of board and committee members. However, in practice none of the ten largest listed companies, including banks, disclose the education or qualifications of its board and committee members.* • *Banks are required to set up an audit committee, a risk committee, a remuneration committee and a nomination committee, exclusively composed of non-executive directors and with an 'appropriate' amount of independent directors. In addition to an audit committee, the Corporate Governance Code recommends companies to set up compensation and nomination committees. The Corporate Governance Code (annex) recommends independent directors to make up the majority of these committees' composition. Most of the companies in our sample do not disclose the composition of their committees. When they do disclose this, they do not seem to indicate which members are independent.*
1.2. Gender Diversity at the	• *Nine among the ten largest listed companies disclose the board composition. It appears that there are women in only four out of the ten largest listed companies reviewed, with only one woman in each of these four boards*

Key Areas and Rating	Strengths and Weaknesses
Board (5.09%) *Very Weak*	*(making an average of 15.3%).* • *Overall, there are 4 women out of 67 directors in the boards of the nine companies. The female board representation averages 5.09%. A survey commissioned by Institute Marocain des Administrateurs (the Moroccan Institute of Directors) suggests that the percentage is higher (with the average of around 10%) when all listed companies are taken into account.*
1.3 Independent Directors *Weak*	***Weaknesses:*** • *Except for banks where a third of the directors have to be independent, the law does not require boards to have independent directors. In the case of one-tier boards, the law requires half of the board members to be non-executive directors. Given Moroccan companies' concentration of ownership, non-executive directors may not be necessarily independent.* • *The Corporate Governance Code recommends that boards should include a sufficient number of independent directors; nevertheless, it does not provide a clear-cut definition of independence.* • *The Corporate Governance Code (annex) recommends that companies disclose the independence criteria they used to appoint board members. None of the ten largest listed companies disclose which board and audit committee members are independent.*
1.4. Board Effectiveness *Weak*	***Strengths:*** • *The law vests the board with the broadest powers to take decisions under its authority, and the Corporate Governance Code provides a detailed set of board responsibilities. The law expressly calls on non-executive board members in one-tier board structure to supervise and oversee management and manage and oversee the internal and external audit.* ***Weaknesses:*** • *The law does not clearly assign to the board of companies the authority to approve the company strategy, budget and risk profile. The banking framework is clearer and requires the boards of banks to be in charge of strategy and risk. Under the two tier system, the management board is appointed by the supervisory board, however management board members can be removed by the general shareholders meeting.* • *Banks are required to perform board evaluations and other companies are encouraged to conduct annual evaluations. However, none of the surveyed companies disclosed performing them.* • *The law requires companies to appoint a company secretary, but his/her role is mainly administrative. The Corporate Governance Code is silent on this issue. Only two of the companies in our sample disclosed having a company secretary.* • *The law requests the board to meet at least every quarter. None of the ten largest listed companies disclose how often their boards and committees meet or the type of activities they carry out.* • *Banks are required to set up an audit committee, a risk committee, a remuneration committee and a nomination committee to support the work of the board. In addition to the audit committee, the Corporate Governance Code recommends that companies set up compensation and nomination committees. The Code recommends for the majority of members in these committees to be independent directors. Eight companies in our sample disclose having an audit committee. Only four of them disclose its composition, though they do not indicate which members are independent. One company disclose having a remuneration committee in place.* • *None of the companies in our sample disclose its board and committees' number of meetings.*
1.5. Responsibilities of the Board *Fair*	***Strengths:*** • *The law establishes that the board should be vested with the broadest powers to take decisions under its authority, and the Corporate Governance Code provides a detailed set of board responsibilities.* • *Conflicts of interests are regulated by law; the Corporate Governance Code requires any member of the board who has a conflict of interest to inform the board about this and abstain from voting. Agreements between the company and the directors or managers are subject to prior approval of the board. The chairman must inform the auditors of all these agreements, which must also be submitted for the approval of the general shareholders' meeting.* • *Companies are required to fully disclose related party transactions in their financial statements.* ***Weaknesses:*** • *The law does not clearly assign to the board of companies the authority to approve the company strategy, budget and risk profile. The banking framework is clearer and requires the boards of banks to be in charge of strategy and risk. Under the two tier system, the management board is appointed by the supervisory board, however management board members can be removed by the general shareholders meeting.* • *Directors may be held liable for acts which go against articles and/or laws; however, directors' duties of care and loyalty are not comprehensively defined in the legal and regulatory framework. It seems that the courts have developed a relatively clear standard and interpretation of directors' duties, and that minority investors have successfully brought cases to courts, but in practice lawsuits against directors are rare. The lack of well detailed fiduciary duties coupled with the requirement for directors to be shareholders raises some concern as it might be difficult for a shareholder to take aside its particular interests and defend only the company's one, especially if there are no clear legislative requirements in this respect.*

<table>
<tr><th>Key Areas and Rating</th><th>Strengths and Weaknesses</th></tr>
<tr><td>2. Transparency and Disclosure
Fair/Weak</td><td>Disclosure of non-financial information by companies is limited.
Companies are required to disclose their financial statements and annual reports mainly include financial information only.
Banks are required to prepare their financial statements in line with the IFRS. Other companies can choose between the IFRS and the Moroccan GAAP.
Reporting to the market and shareholders appear to be very limited. None of the companies of our sample disclose their board and committee members' qualifications and activities, the minutes of the general shareholders' meeting and their articles of association. Listed companies are not required to disclose their compliance with the national Corporate Governance Code and none disclosed any information on their compliance with the Code.
The websites of the largest listed companies are not regularly updated. In practice it is difficult to find up-to-date non-financial information and information on capital share, number of shares and major shareholders.
Significant shareholding variations must be disclosed and companies seem to comply with this obligation.
Companies are required to appoint an independent external auditor and to disclose its name and the auditor's report. All ten largest listed companies comply with these requirements.</td></tr>
<tr><td>2.1. Non-Financial Information Disclosure
Weak</td><td>Strengths:
• Companies are required to prepare annual reports and nine of the ten largest listed companies publish theirs on the internet.
• All ten largest listed companies disclose, via the stock exchange's website, information on their share capital, shareholding variations, and identity of major shareholders; however, information on beneficial owners is not provided.
Weaknesses:
• Non-financial information is not well addressed in companies' annual reports.
• The law does not require annual reports of listed companies to be published on company websites. Rather, they only need to be published on the stock exchange's webpage.
• The Corporate Governance Code recommends companies to make their legal and financial information available on their corporate websites. Nevertheless, none of the ten listed companies disclose its articles of associations online, nor do they publish the minutes of their governing bodies' meetings.
• Listed companies are not required to disclose their compliance with the national Corporate Governance Code. The Code recommends companies to implement the Code's recommendations under the so-called "comply or explain" approach and to include a chapter on corporate governance in their annual reports; however, these recommendations have not been ratified in mandatory legislation and in practice, none of the largest companies in our sample disclosed any information on their compliance with the Code or published such a chapter in their annual reports.
• None of the ten largest listed companies disclose information on board and committee members' qualifications and skills, nor on their meetings and activities.
• Companies are recommended to have a code of ethics and to disclose it; however, only two companies in our sample disclosed having one.
• It appears that there is no sanction for not disclosing non-financial information.</td></tr>
<tr><td>2.2. Financial Information Disclosure
Fair</td><td>Strengths:
• All companies are required to disclose their audited financial statements, and all ten largest listed companies comply with this requirement by publishing their financial statements on their websites.
• The stock exchange's website provides a good amount of financial information, including the annual financial statements, the auditors' reports, and the financial activities indicators.
• Banks and other financial institutions are required to prepare their financial reports in line with the IFRS.
Weaknesses:
• Listed companies may choose to prepare their financial statements in accordance with either the IFRS or the Moroccan GAAP. Six companies in our sample, two of which are banks, disclose that their financial statements were prepared in compliance with the IFRS.</td></tr>
<tr><td>2.3. Reporting to the Market and to Shareholders
Weak</td><td>Strengths:
• All ten largest companies make their annual reports available to the public.
Weaknesses:
• It seems that there is no sanction for failing to comply with disclosure obligations.</td></tr>
</table>

Key Areas and Rating	Strengths and Weaknesses
	• *The Corporate Governance Code recommends companies to rapidly and systematically make legal and financial information available to shareholders through their websites. However, there is no such requirement in the law and, in practice companies do not disclose much non-financial information. None of the ten largest listed companies disclose its articles of association, minutes of the general shareholders' meeting or board and committee members' qualifications and activities online.* • *Listed companies are required to disclose information on significant material events, but the law does not provide much guidance on which events are considered 'significant'. In practice, information is limited to changes in the share capital or payment of dividends.* • *The websites of the ten largest listed companies do not seem to be regularly updated.*
2.4. Disclosure on the External Audit *Fair*	***Strength:*** • *Companies are required to disclose the name of their external auditors, and all ten largest listed companies disclose their auditors' names and opinions on their financial statements. Nine of these companies declare that their auditor is independent. The majority of these companies are audited by international audit firms.* • *The stock exchange website includes for each company the "technical report" which is a summary of the company's basic non-financial information such as the name of auditors. The same website publishes the companies' auditors' reports.* ***Weakness:*** • *The law requires the external auditor to be independent, however it is not clear who should run the "independence test".* • *The provision of non-auditing services is restricted; since none of the surveyed companies disclose any information on these, we could not assess the implementation of this restriction.* • *Companies making public offerings, banks, credit, investment, insurance and savings companies are required to designate at least two auditors. The rationale of this provision is not clear.*

<table>
<tr><th>Key Areas and Rating</th><th>Strengths and Weaknesses</th></tr>
<tr><td>3. Internal Control
Fair</td><td>Companies are recommended and banks required to establish an internal control function. Banks are also required to establish a compliance function. The ten largest listed companies disclose having an internal audit department in place and the banks of our sample disclose having a compliance function. As a note, it seems that a number of companies combine the compliance and internal audit functions, which is not a good practice.
Banks are required, and companies are recommended, to set up an audit committee. Disclosure on the audit committee is, however, very limited. Eight of the ten largest listed companies disclose having an audit committee, but none of these companies disclose the members' qualifications, which members are independent or the committee's activities. Thus, it is not possible to assess how audit committees contribute to ensuring external and internal auditors' independence and effectiveness.
Companies are recommended to adopt a code of ethics, but only a minority appear to comply with this requirement.
Companies are required to have their financial statements audited by an independent auditor, appointed by the general shareholders' meeting. Publicly listed companies and banks are required to have two external auditors.
The provision of non-auditing services seems to be restricted. Auditors are not required to rotate; but are invited to do so every six years by the Association of chartered accountants.
Related party transactions and conflicts of interest are regulated by law.
There is no whistle-blowing regulation.</td></tr>
<tr><td>3.1. Quality of the Internal Control Framework
Fair</td><td>Strengths:
• Banks are required, and companies are recommended, to establish an internal control function which should report directly to the board or the audit committee. All ten largest listed companies report to have an internal audit department in place.
• The Central Bank appears to actively monitor the implementation by banks of the Special Directives on Governance (1/W/2014) and on Internal Control (4/W/2014).
• Banks and State-controlled companies are required to set up an audit committee made of non-executive directors (in State controlled companies the audit committee should also include a "State controller", who does not have the status of a director - this also exists in France). The Corporate Governance Code (annex) recommends that the audit committee be made up of a majority of independent directors. However, there is no evidence that the Code is taken as a reference.
• Banks are required to establish a compliance function and all the banks of our sample seem to comply with this requirement.
• Morocco is one of the few African countries to have the presence of an Institute of Internal Auditors, which promotes the profession of internal auditors, disseminates good practices and supports auditor's certification.
Weaknesses:
• A number of companies seem to combine the compliance and internal audit functions, which is not best practice.
• Listed companies are not requires to establish an audit committee; they are only recommended to do so by the Corporate Governance Code. The Code allows the presence of non-board members in the audit committee. This is not a good practice (see comments below).
• Most of the surveyed companies disclose having an audit committee; however, disclosure on their members' independence, qualifications and activities is very limited and does not allow to understand if committees' are playing a role in ensuring the robustness of the internal control framework.
• Companies are recommended to have a code of ethics and to disclose it; however, only two companies of our sample disclose having one in place.
• There is no regulation addressing whistleblowing in Morocco.</td></tr>
<tr><td>3.2. Quality of Internal and External Audit
Fair</td><td>Strengths:
• All ten largest listed companies disclose having an internal audit department in place.
• Banks, listed companies and large companies (with assets over € 4.67 million) are required to have an independent external auditor, appointed by the general shareholders' meeting, and to submit their annual financial statements to its review. All ten largest listed companies disclose the auditors' names and opinions on their financial statements. Nine of these companies declare that their auditor is independent and the majority is audited by international audit firms.
Weaknesses:
• Banks and publicly listed companies are required to have two external audit firms conducting the external audit. Eight of the ten largest listed companies disclose having two external auditors producing a joint report. We are</td></tr>
</table>

Key Areas and Rating	Strengths and Weaknesses
	not sure about the rationale of this requirement. It raises the costs for the company, but does it add value? • *The provision of non-auditing services by the external auditor is not allowed, but the prohibition shed some ambiguities of interpretation and as none of the companies of our sample disclose anything on that, we could not verify the extent to which this restriction is implemented.*
3.3. Functioning and Independence of the Audit Committee *Weak*	***Strengths:*** • *The law requires banks and State-controlled companies to establish an audit committee at the board level.* • *The Corporate Governance Code (annex) recommends that the audit committee should be made up of a majority of independent directors. However, there is no evidence that the Code is taken as a reference and the law does not provide any guidance on the presence of independent directors on the audit committee or on the members' qualifications.* ***Weaknesses:*** • *The Corporate Governance allows the presence of non-board members in the audit committee. This solution raises some doubts. We believe it is important that the audit committee include only board members if the functions delegated to the committee are typical board functions. Secondly, it is essential that those members sitting in the committee and recommending specific actions to the board, then do actually follow up on such recommendations and vote on the committee's recommendations at the board, therefore reinforcing their positions and the board "objective judgement". Further, we believe that audit committee members should have a full vision of the business of the company in order to express their determinations – while outsiders might only have a partial understanding. Finally, committees that include outsiders might create problems with confidentiality and accountability issues, since such "outsiders" might not be bound by duties of loyalty and care required to board members. While it is legitimate that the audit committee might need external advice or expertise on specific issues, it should be able to request such advice, but it should not allow the advisor(s) to replace the committee in its determinations and recommendations.* • *Eight companies of our sample disclose having an audit committee. Only four of them disclose their composition without indicating which members are independent.* • *Neither the law nor the Code recommends a minimum frequency of the audit committee meetings, except for banks where a quarterly meeting at minima is required. None of the companies of our sample disclose the number of meetings of their audit committees.*
3.4. Control over Related Party Transactions and Conflict of Interest *Fair*	***Strengths:*** • *Conflicts of interests are regulated by law – a member of the board who has a conflict of interests regarding any issues under discussion must inform the board about his interests and abstain from voting.* • *Agreements between the company and directors or managers (i.e., related party transactions) are subject to prior approval of the board. The chairman must inform the auditors of these agreements which must also be submitted for the approval of the general shareholders' meeting.* • *Companies are required to fully disclose related party transactions in their financial statements. Nine of the ten largest listed companies disclose their related party transactions in their financial statements.* ***Weaknesses:*** • *It appears that there is extensive case law and judicial practice regarding related party transactions, but this is not accessible to the public.* • *The lack of independent directors in boards raises doubts about the objectivity of related party transactions' approval process.*

Key Areas and Rating	***Strengths and Weaknesses***
4. Rights of Shareholders *Fair*	*Basic shareholder rights seem to be adequately regulated by law.* *Shareholders representing 10% of the share capital are entitled to call a general shareholders' meeting (GSM) and those representing 5% are entitled to add items to the agenda and to nominate board members. Shareholders have inspection and pre-emptive rights.* *However, a 15 day-notice of the GSM is not in line with best practices, which recommend at least 21 days. Supermajority is required to approve major corporate changes, but this does not apply to significant asset sales. Shareholders do not enjoy cumulative rights and disproportional voting rights are allowed.* *Nine of the ten largest listed companies disclose their financial reports and the stock exchange's website provides a fair amount of financial information; however, non-financial information is generally poor.* *Significant ownership variations must be disclosed and listed shares must be registered with an independent custodian. Shareholder agreements are common, but they lack specific regulation.* *Related party transactions and conflicts of interests are regulated by law. Regulation on insider trading and self-dealing exists and it seems to be well implemented.*
4.1. General Shareholders' Meeting (GSM) *Fair*	***Strengths:*** • *Shareholders representing 10% of the share capital are entitled to call a GSM; while shareholders representing 5% may request items to be added to the agenda and to nominate board members.* • *Voting by proxy is provided by law. Voting by post and electronic voting are allowed provided that these options are specified in the Articles of Association.* • *All ten largest listed companies publish notifications of GSM on the Moroccan Capital Market Authority's (AMMC) platform.* ***Weaknesses:*** • *Shareholders must be notified of the GSM's agenda 15 days before the meeting (best practices recommend at least 21 days).* • *The Board is not required, but only recommended to attend the GSM. This is a serious impediment for shareholders, since they may need to obtain clarifications during the GSM. Additionally, shareholders are not given an explicit right to ask questions and obtain explanations about them.* • *The law does not provide cumulative voting or proportional representation mechanisms. Shareholder agreements are commonly used to allow minority shareholders to elect their board members.*
4.2. Protection against Insider Trading and Self-dealing *Moderately Strong*	***Strengths:*** • *Insider trading is prohibited and may be punished with imprisonment for up to 2 years.* • *The media and government authorities in Morocco have reported several insider trading investigations in the past few years.* • *Conflicts of interest and related-party transactions are regulated by law. The Corporate Governance Code requires board members to inform governing bodies of their potentially conflicted interests, as well as to abstain from participating in discussions and decision-making processes.*
4.3. Minority Shareholders Protection and Shareholders' Access to Information *Fair*	***Strengths:*** • *Minority shareholders have the right to call a general shareholders' meeting, add items to the agenda and to nominate board members.* • *Nine of the ten largest listed companies publish their annual reports.* • *Shareholders have general inspection rights and enjoy pre-emptive rights in case of capital increase.* • *Shareholders may file a direct or derivative suit against the company's directors or managers for compensation of any losses.* ***Weaknesses:*** • *Double voting rights can be granted to certain registered shareholders upon the GSM's approval or upon previous specification in the by-laws.* • *Cumulative voting, proportional representation or similar devices are not provided in the law.* • *Major corporate changes (i.e., amendment to the Articles and waiving of pre-emptive rights) require 2/3 majority at the general shareholders' meeting (the blocking minority shareholding for major corporate changes is 33%+1) but this does not include sales of substantial assets or any other extraordinary transactions that do not require a change in the Articles.* • *Disclosure of non-financial information in annual reports is very limited.*

Key Areas and Rating	Strengths and Weaknesses
4.4. Registration of Shareholdings *Moderately strong*	***Strengths:*** • *Listed companies' share registers are maintained by independent custodians.* • *The free transferability of shares cannot be restricted for listed companies. The Articles of Association of unlisted companies may provide for certain restrictions.* • *Shareholding variations of 5% or more must be disclosed by listed companies.* ***Weaknesses:*** • *Shareholder agreements are common in Morocco, but they lack specific regulation. The extent to which they are enforceable against third parties is not clear.*

Key Areas and Rating	Strengths and Weaknesses
5. Stakeholders and Institutions *Fair*	*The Casablanca Stock Exchange (CSE) is the main local stock exchange in Morocco. Its market capitalisation appears to be around 50% of the country's GDP and it has three listing segments; however, none of them requires higher corporate governance standards.* *The Moroccan Code of Corporate Governance was launched in 2008 and complemented over the years by annexes with recommendations suitable to different types of companies. The Code recommends companies to implement it under a "comply or explain" basis. This approach has not been transposed in mandatory legislation and the Code and its annexes are purely voluntary. In practice, it appears that there is no monitoring of the Code's implementation and its recommendations are generally disregarded.* *There seem to be no significant inconsistencies in laws, regulations or corporate governance code, but case law is hardly accessible.* *International audit and law firms have a significant presence in the country.* *Rulings of regulatory agencies are publicly available and easily accessible on the CSE website.* *When looking at the indicators provided by international organisations, Morocco is not well positioned in terms of competitiveness, ease of doing business and corruption.*
5.1. Corporate Governance Structure and Institutions *Moderately Strong*	***Strengths:*** • *The Casablanca Stock Exchange (CSE) is the main local stock exchange in Morocco. Its market capitalisation appears to be around 50% of the country's GDP.* • *The capital market is regulated and supervised by the Moroccan Capital Market Authority (AMMC, the CDVM in French), while the banking sector is also regulated by the Central bank of Morocco (Bank Al Maghrib).* • *International audit and law firms have a significant presence in the country.* • *The Moroccan Institute of Directors offers training, courses and certifications to board members and management directors; however, we could not verify whether directors in the ten largest listed companies have received any training courses.* • *The CSE website contains a comprehensive summary of the company's non-financial information, including the company's capital, number of shares and auditor's disclosure. The website also provides the company's annual financial statements and indicators.* • *International ratings agencies are active within the country; all ten surveyed companies have been rated by international ratings agencies.* ***Weaknesses:*** • *There are three listing tiers at the CSE: the Main Market Segment, the Development Market Segment and the Growth Market Segment. The listing requirements vary, but they relate mainly to capital requirements, without imposing any stricter corporate governance standards.* • *The CSE does not use an electronic system to disclose public companies' information. Instead, it uses a system where market participants report information to the AMMC's email which it, in turn, makes it public through its website.*
5.2. Corporate Governance Code *Weak/Fair*	***Strengths:*** • *The Corporate Governance Code was adopted in 2008 by the National Corporate Governance Commission. The Code has been complemented by three annexes over the years. The annexes address governance issues in family owned companies and small and medium enterprises (2009), banks (2010), and state-owned enterprises (2012).* • *The Code refers to the OECD's Principles of Corporate Governance.* • *The Corporate Governance Code has been developed by the General Confederation of Moroccan Enterprises and the Ministry of Economic and General Affairs, with the support of other Ministries. However, it is unclear which regulatory body (if any) is in charge of monitoring the implementation and compliance with the Code's recommendations. In practice, it appears that here is no monitoring on the Code's implementation. In 2013, the Institute Marocain des Administrateurs (the Moroccan Institute of Directors) published a very interesting survey on corporate governance of listed companies in Morocco. The institute seems to conduct a survey on corporate governance of listed companies every three years and a second report was issued on October 2016. In addition, the Institute regularly published reports focused on specific corporate governance issues, e.g. audit committee and internal audit, disclosure and transparency, stewardship of institutional investors. Full reports are available on the institute's website: http://www.institut-administrateurs.ma/ressources/publications.html.* ***Weaknesses:*** • *The Corporate Governance Code recommends companies to implement the Code's recommendations under a 'comply or explain' basis; however, this approach has not been transposed in mandatory legislation. The listing rules do not require companies to comply with the Code and, in practice, companies do not seem to take the Code's recommendations as a reference.* • *None of the ten largest listed companies provide a 'comply or explain' statement with their annual report.*

Key Areas and Rating	Strengths and Weaknesses
	• *There is no case law referring to the Corporate Governance Code.*
5.3. Institutional Environment *Fair*	***Strengths:*** • *Rulings of regulatory agencies are publicly available and easily accessible on the CSE and the AMMC's website.* • *There seem to be no significant inconsistencies in laws, regulations or corporate governance codes.* • *The CSE appears to have become more active in promoting corporate governance and organises joint events with the CDVM and the Moroccan Institute of Administrators.* ***Weaknesses:*** • *According to the 2015 EBRD Assessment on Accessibility of Court Decisions, case law is hardly accessible..* • *When looking at the indicators provided by international organisations, Morocco does not perform well in terms of competitiveness (World Economic Forum's Global Competitiveness Index), ease of doing business (Doing Business Index) and corruption (Transparency International's CPI).*