



# The Egyptian Corporate Governance Code

Issued by:

Egyptian Institute of Directors (EIoD)

Third Release - August 2016

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**Egyptian Financial Supervisory Authority (EFSA)**  
**Board of Directors Resolution No. 84 dated 26/7/2016**  
**Issuing the Egyptian Corporate Governance Code**

**The EFSA Board of Directors:**

After perusal of the Law on Joint Stock Companies, Partnerships Limited by Shares, and Limited Liability Companies, promulgated by Law No. 159 of 1981 and its Executive Regulations; Capital Market Law, promulgated by Law No. 95 of 1992 and its Executive Regulations; Law No. 10 of 2009 Regulating Supervision over Non-banking Financial Markets and Instruments; Decree of the Supreme Council of the Armed Forces No. 251 of 2011 transferring the subordination of the Egyptian Institute of Directors to the Egyptian Financial Supervisory Authority; EFSA Articles of Association promulgated by Presidential Decree No. 192 of 2009 Decree of Minister of Investment No. 40 of 2004 establishing the Egyptian Institute of Directors; and Egyptian Corporate Governance Draft Code prepared by the Egyptian Institute of Directors; and the approval of the EFSA Board of Directors in its session held on 26/7/2016.

**Issued this Decree:**

**Article (1)**

The issuing of the Egyptian Corporate Governance Code (updated version – July 2016) shall be approved.

**Article (2)**

The Code shall be posted on the EFSA website, and the Executive Director of the Egyptian Institute of Directors shall take the necessary action for publishing the Code and publicizing its contents.

**Chairman**  
**Sherif Samy**

## **Foreword**

This Corporate Governance Code of the Arab Republic of Egypt, drafted by the Egyptian Institute of Directors (EIoD), at the Egyptian Financial Supervisory Authority, is the first comprehensive and updated release since 2005. The Code serves as a guide for best practices in the fields of governance, transparency and prudent management, for all stakeholders of the company adopting the Code.

The importance of such update process stems from the significant developments witnessed in the global arena in the area of governance principles, and the growing interest of many entities in this particular topic, be they international organizations; financial institutions; mutual funds and investment companies; retail investors; or different types of non-governmental organizations.

Hence, the concerned entity in Egypt – the Egyptian Institute of Directors EIoD– has had to keep abreast with these developments, and to adopt the best practices in this field. The EIoD was of the view that the Code should not be confined to a particular type of companies, but rather be general, so as to allow various companies, public and private, to select the appropriate rules that fit them best.

For the purpose of updating this Code, a working group has been formed of market experts and EIoD staff. Throughout several months, the working group has revised the Code and has got acquainted with the best principles and applications adopted by relevant international organizations.

On behalf of the EFSA Board of Directors and myself, we would like to extend our sincere appreciation for the efforts made by this working group.

**Egyptian Financial Supervisory Authority**  
**Sherif Samy**  
**Chairman**

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# The Egyptian Corporate Governance Code

## Introduction

Since its establishment in 2003, the Egyptian Institute of Directors (EIoD) has produced guidelines for Corporate Governance applications, drawing on the international best practices, and yet compatible to the laws regulating the business of companies in the Arab Republic of Egypt.

In 2005, the EIoD introduced the first release of Corporate Governance Code, basically addressing listed companies to help them comply with governance and disclosure requirements, in the good interest of all shareholders and investors, in addition to help them achieve the highest levels of efficiency and sustainability.

A year later (2006), the EIoD came up with the Corporate Governance Code for State Owned Enterprises (SOEs). The Code came in recognition of the important role the public business sector plays in the Egyptian economy, as it comprises a cluster of leading companies engaged in all types of strategic industries in the country. The Code affirms the role of the State; being the owner of this vital sector, enhances the sector's controls and supervision and ensures its effective operation.

In 2011, seeking to keep up to date with the best practices at the international and regional levels, in terms of the roles of Boards of directors, the EIoD revised the Corporate Governance Code for listed companies, in line with the governance guidelines at the time. The EIoD recommended that the various controls in companies be activated. It also tackled Corporate Social Responsibility (CSR). Application of the "Comply or Explain" rule was also recommended.

## What is new in this release of the Egyptian Corporate Governance Code?

The EIoD worked on upgrading and updating the previous codes, consolidating them into one single code, bearing the name of “Egyptian Corporate Governance Code.” To do so, the EIoD:

**First:** has broadened the application of the last release of the Code, in terms of generality and comprehensiveness, capturing to this end the latest international and regional practices and standards in good governance and addressing the full spectrum of companies in Egypt according to their nature, complexity and size, and in a manner that allows them the freedom to apply what fits them best, and to set future plans to address the remaining rules for the effective functioning of corporate governance over the medium and long terms. The aim is to ensure full application of good governance principles consistent with the company’s pace of growth, complexity and size.

**Second:** has introduced the Code as indicative guidelines for all legislative and regulatory bodies when enacting and updating regulations and legislation related to corporate governance in the Arab Republic of Egypt.

Hereunder is an overview of the updates and modifications introduced to this edition of Egyptian Corporate Governance Code:

- a. Setting a general methodology in drafting the Governance Code, indicating the necessity of having in place an advanced corporate governance manual in Egypt, and highlighting the important role assumed by the State, its government and institutions in supporting the governance concept and applications;
- b. Underscoring the importance of good governance, and highlighting the benefits that companies can gain from its application;
- c. Clearly determining the scope of application of these principles, and the extent of their compatibility with the nature and size of each company;
- d. Paying special attention to the “*Comply or Explain*” rule, as a fundamental pillar that paves the way for enforcing the implementation of the principles;

e. Spreading the awareness and knowledge of concepts and terminologies employed in the Code, to accelerate users' understanding of its contents;

f. Stressing the role of the *General Assembly of Shareholders* in electing an effective Board of Directors to achieve the company's objectives;

g. Placing greater emphasis on the role of the *Board of Directors*; as a key element in managing and directing the company, in addition to its main responsibility for the application of governance principles. The Code also dealt with the optimal composition of Board of Directors, in terms of diversity and responsibility. The Code also illustrates the different types of *Board Committees* that assist the Board in performing its functions and duties;

h. Addressing in detail the role and responsibilities of the *Board Secretary* in the organization, according to international best practices;

i. Placing more focus on the components of *control environment* and its significant importance in any company, starting from internal control

j. Emphasizing the role on *External Auditors*, Internal Audit, Risk Management, and Compliance Departments; and recommending that each company should have in place a department for Corporate Governance; in light of the key role they play;

k. Shedding more light on *Investor Relations* activity in listed companies;

l. Tackling the *various disclosure methods and tools*; and highlighting the importance of *non-financial disclosure*, clarifying the *material information* that should be disclosed by different periodic reports; and

m. Suggesting *policies, codes and manuals* that companies should develop and apply, to organize their internal work in respect of corporate governance.

This Code aims to support and assist all companies that wish to understand and apply good governance as an integrated approach towards growth and sustainability, thereby achieving EIoD's mission and strategy for the benefit of the companies' stakeholders and the national economy at large.





# **Chapter One**

## **General Framework of Corporate Governance**

### **1.1 Egyptian Corporate Governance Code**

The Egyptian Corporate Governance Code is considered a comprehensive and general framework of governance and its relevant issues. It encompasses a set of guiding rules of corporate governance, based on international and regional best practices, to serve as guidelines for the application of corporate governance in all kinds of companies in Egypt. The Code also helps as a guide to legislators in enacting the regulatory legislation and instructions related to governance applications. The Code does not contradict with the Joint Stock Companies Law No. 159 of 1981 or its Executive Regulations; the Capital Market Law No. 95 of 1992 or its Executive Regulations; or Egyptian Exchange Listing and Delisting Rules to be issued by the EFSA Board of Directors.

### **1.2 The role of the State, legislative and regulatory authorities**

The State, represented by the government, and legislative and regulatory bodies, plays a pivotal role in adopting a clear approach for a gradual and objective development of the regulatory system of corporate governance, that allows for the application of the underlying principles outlined in this Code on the full spectrum of companies in Egypt, according to their respective size, complexity and nature of business, while assisting and supporting the entities engaged in promoting and spreading public awareness of governance culture and applications. The aim is to attain the overriding objective of raising the standard of application of governance principles by employing proper methods, which all stakeholders can reap their fruits, namely firmly establishing the concept of prudent management, enhancing transparency and disclosure, minimizing corruption, and ensuring equitable treatment of all investors, especially protection of the rights of small investors.

### **1.3 Concept of corporate governance**

Generally, corporate governance is the set of rules, principles and systems that govern the relationship between the Board of Directors, on one hand, and a company's owners and other stakeholders, on the other hand, with a view to achieving the best protection and alignment of interests of these parties.

### **1.4 Objectives and benefits of implementing corporate governance**

Egyptian companies ought to implement and comply with governance principles, not just for the sake of complying with laws and regulations, but because these principles bring to the company numerous benefits. Additionally, they upgrade the investment climate, and boost economic growth in general.

Characterized by its applicability, corporate governance has several benefits, namely:

- Protects rights, not only the rights of the company's shareholders, owners, employees, but also the other stakeholders; such as customers, creditors, suppliers and state bodies, and ultimately protects the society as a whole, as well as the environment in which the company operates;
- Achieves the best possible sustainability for companies;
- Improves companies efficient operation and strengthens control on their performance;
- Facilitates obtaining the necessary funding and reduces capital cost;
- Mitigates the impact of risks and crisis;
- Seeks to avoid conflict of interests in respect of transactions of insiders and related parties; and
- Assists the institutionalization of family owned firms.

By implementing corporate governance, closed joint-stock companies can more easily list their shares on the Exchange. This requires the attention of shareholders and management of the company to monitor the implementation of governance principles as a prelude to the company's listing. The proper preparation for eligibility for public offering or listing is guaranteed by a prior sound implementation of governance principles.

Corporate governance is a culture that has to be inherent in the company's core, and should be adopted as its vision and long term strategy that has to be implemented on an ongoing basis, and not only on the short run. Accordingly, the expected role to be assumed by those managing companies, financial institutions, professional societies, business associations, retail and institutional investors is to spread and promote the culture of corporate governance, putting the present Principles into force, and deeming companies' application of corporate governance as an indication of their success and distinction.

### **1.5 Scope of application**

Without prejudice to all applicable legislation and regulations governing the business of all types of companies in the Arab Republic of Egypt, these Principles shall apply to all listed and unlisted companies, banking and non-banking financial institutions, industrial, commercial and service companies, regardless of their size and nature of activity, whether they are family firms, or publicly owned.

Also integral to the foregoing is that sound corporate governance does not only mean adhering to a set of principles and interpreting them narrowly and literally, but it also means a culture and a mechanism that governs the relationship among the business owners, its Board of Directors and stakeholders. Therefore, the broader the application of good governance, the greater the benefit for the society as a whole.

## 1.6 The “Comply or Explain” principle

As a rule, and without prejudice to the mandatory compliance with laws and regulations, a company should typically seek to apply all the relevant principles outlined in this Code. If it fails to do so, for whatever reason, the company must provide an objective and justifiable explanation, in application of the “comply or explain” principle. Every company is required to consider all the principles outlined in the present Code, specify the principles it complies with and those it deviates from, the justifications of non-compliance, and its future plan for implementing them. This report is to be posted on the company’s website and be published in its annual report for shareholders.

## 1.7 References used in drafting the Egyptian Corporate Governance Code

In drafting and developing this Code, the EIoD has relied on many references, salient of which is the Organization of Economic Cooperation and Development (OECD) Principles of Corporate Governance issued in 1999, and their amendments in 2004 and in 2015 introduced in the six main principles that serve as a general benchmark of corporate governance all over the world. These principles are namely:

- i. **General Framework:** this principle emphasizes the need to have in place an effective corporate governance framework that ensures markets transparency and efficiency, and complies with applicable legislations and laws. The segregation of responsibilities among the different legislative and supervisory authorities should be clearly articulated;
- ii. **The Rights and Equitable Treatment of Shareholders:** the corporate governance framework should protect all shareholders’ rights, and ensure equitable treatment of them all, including small shareholders and foreign shareholders. Equally crucial is to make sure that all shareholders have the opportunity to obtain actual indemnity, should their rights be violated;

**iii. The Role of Institutional Investors, and other Intermediaries in Stock Markets:**

the corporate governance framework should provide economic incentives to institutional investors and other intermediaries in stock markets throughout the investment chain to ensure efficient functioning of stock markets and optimal application of good corporate governance;

**iv. The Role of Stakeholders:** the corporate governance framework should ensure that the rights of stakeholders established by law are recognized and respected. Also important is to encourage cooperation between companies and different stakeholders to maximize wealth, create employment opportunities and achieve sustainability of financially sound enterprises;

**v. Disclosure and Transparency:** the corporate governance framework should ensure that timely and accurate disclosure is made on all significant matters leading to material developments affecting the company, including the financial situation, performance, ownership structure, and management of the company; and

**vi. The Responsibilities of the Board of Directors:** the corporate governance framework should provide strategic guidance to the company, and ensures the effective monitoring of the executive management by the Board, and the Board's accountability to the company and the shareholders.

The EIoD was also guided by some key references for updating the Code, including:

- Cadbury's Report issued in the United Kingdom in 1999;
- Corporate Governance Methodology developed by IFC, at the World Bank Group;
- Corporate Governance Regulations for Banks, issued by the Central Bank of Egypt in 2011;

- The Principles drafted by the International Organization of Securities Commissions (IOSCO);
- Egyptian Exchange Listing and Delisting Rules, issued by EFSA in January 2014, and their amendments; and
- Different regulations on corporate governance issued by EFSA.

The international and regional best practices have been reviewed, along with the experience of the different countries in implementing corporate governance, as main pillars in developing the corporate governance system in Egypt.

### Definitions

- **General Assembly:** means a meeting that encompasses all the company's owners or shareholders;
- **Minority Shareholders:** means shareholders that have a non-controlling interest in a company's equity;
- **Related Parties and Groups:** means any group that is under actual control of the natural or juridical shareholders, or that has an agreement on coordination upon voting in the meetings of the General Assembly or Board of Directors of the company;
- **Control:** means any status, agreement or ownership of any percentage of shares, or interest, results in controlling the appointment of the majority of the Board members, or influencing the decisions of the Board or the General Assembly of the company;
- **Board of Directors:** is the authority elected by the General Assembly responsible for setting objectives and strategies, and following up the performance of the management of the company pursuant to its articles of association;

- **Chairman of the Board of Directors:** is a member of the Board, appointed by the other members of the Board to chair the Board's meetings, and to be the legal representative of the company;
- **Managing Director:** is the Board member delegated by the Board to carry out the actual management of the company, and to be at the top of the management hierarchy. The functions and remuneration of the managing director are to be determined by the Board of Directors;
- **Executive Director:** is the Board member who holds an executive post in the company;
- **Non-Executive Director:** is the Board member who does not hold an executive post in the company, and is not paid a monthly or annual salary, except a compensation as a Board member. A non-executive director is not permitted to provide any paid consultations or services to the company, its subsidiaries or affiliates;
- **Independent Director:** is a non-executive Board member that is not a shareholder in the company, who has been appointed as an expert within the Board, and has no other relation with the company except his/her membership in that Board. This member is not a representative of the company's owners, and has no material transactions with the company, and is not paid any salary, commissions, or fees, except compensation as a Board member.

The independent director should neither have personal interest in the company, nor be a relative by blood or marriage or otherwise up to second degree relationship to any of its shareholders, Board directors, or executives. This member also should not be a senior officer, advisor or External Auditor of the company for the three years prior to his/her appointment. Importantly, his/her tenure of membership as an independent director should not exceed a maximum six consecutive years, otherwise he/she will become a non-independent director;

- **Board Committees:** are the Board's sub-committees, to be formed by the Board from among its members, with a view to assisting the Board in performing its duties. The Board determines the functions and powers of these committees and follow up their work, to make sure that they perform their functions effectively;
- **Board Secretary:** is the person responsible for preparing and coordinating meetings of the Board of Directors, committees, and the General Assemblies. He/she also ensures that the minutes of meetings are taken and approved, and follows up the implementation of the decisions made. Additionally, the Board secretary acts as an advisor to all Board directors, in respect of corporate governance implementation. However, this role should not interfere with the roles of the other concerned departments;
- **Investor Relations Department:** is a strategic department that integrates finance, effective communication, marketing and securities' laws awareness to enable the most effective two-way communication between a company, the financial community, and other parties, which ultimately contributes to a company's securities achieving fair valuation;
- **Stakeholders:** are those who have any kind of interest or concern in the organization, such as employees, customers, suppliers, distributors, creditors, and regulatory bodies;
- **Insiders:** are the company's key executives; members of its Board, and members of the Boards of affiliated companies; or representatives, spouses and minor children of said members. Insiders also are those who are able to obtain, or access to, any inside information of the company;
- **Related Parties:** are any party that has a direct or indirect relation with the company, giving it influence over the company's decisions, whether this relation is created by the party's position in the company, or in the subsidiaries thereof, or by having a significant ownership interest in the company/subsidiaries;

- **Related Party Transactions:** are transactions entered into between the company and members of its Board of Directors or main shareholders. Approval of the General Assembly is to be obtained before implementation of said transactions;
- **Cumulative voting:** is the procedure of voting for a company's directors; each shareholder is entitled one vote per share multiplied by the number of directors to be elected. This is sometimes known as proportional voting. Each shareholder has the option of placing all of his/her votes toward one candidate during elections, but he/she can also choose to split his votes across multiple candidates.
- **Corporate Social Responsibility (CSR):** the continuing commitment by a company to contribute to economic and social development, in a way that drives it to behave ethically and responsibly towards all stakeholders, the local community in which it operates, and to be more aware of its impact on the surrounding environment.



## **Chapter Two**

### **The Main Pillars of Corporate Governance**

#### **2.1 First Pillar: General Assembly of Shareholders**

##### **2.1.1 Composition of the General Assembly**

The General Assembly shall be composed of all shareholders of the company, each according to his/her portion of shares. While the company's articles of association may stipulate that only shareholders with a specific number of shares may attend the General Assembly, this provision shall be deemed an exception to the rule that allows any shareholder to attend these meetings, and shall only apply when the number of shareholders are too large that makes it difficult for the company to arrange for a place for the meeting. Importantly, the foregoing provision should not be used as a means to ignore or exclude the minority shareholders.

##### **2.1.2 Participation in the General Assembly**

Shareholders should be encouraged to attend the General Assembly. To this end, arrangements should be made for facilitating their participation, including, *inter alia*, choice of the appropriate place and time. Companies with large number of members can use electronic means and different communication systems, according to the international best practices, for online transmitting or recording of the proceedings of the meeting for shareholders abroad or at home. Equally crucial is to facilitate shareholders' participation procedures, provided that the company's bylaw and articles of association should be observed, in respect of the procedures of calling for the General Assembly and the method of running the meeting.

### **2.1.3 Procedures of the General Assembly**

A secretary for the General Assembly and ballot tellers shall be appointed, provided that they are not members of the General Assembly or the Board of Directors.

The General Assembly shall be run in a way that allows shareholders to express their views, according to the company's bylaw and articles of association and consistent with the meeting's agenda. The company's management has to provide a full and efficient disclosure of the issues outlined in the agenda.

Any issue in the agenda of the ordinary or extraordinary General Assembly, should be accompanied with relevant data and information that help shareholders take their decisions. The intent of providing such information is to allow shareholders to take informed and sound decisions, and not just to satisfy the formalities of the meeting. Answers should be made to all questions and inquiries raised by shareholders, even if submitted before the meeting for inclusion in the agenda, or rather sufficient time should be allocated during the meeting for responses to such inquires.

### **2.1.4 Resolutions of the General Assembly**

It is recommended that the "cumulative voting" system is adopted, provided that the company's statute so stipulates. The aim is to ensure that all shareholders are represented when electing Board directors, so that the final results of such election reflect the relative representation of all shareholders. When called for electing the Board of Directors, shareholders should be furnished with short curriculum vitae about each candidate.

Voting on the General Assembly's resolutions should be accurately recorded. If a dispute arises about the validity of some votes on all or any resolutions of the General Assembly, voting shall be taken, rendering such votes valid for one time, and invalid for another time. The matter shall be later on referred to the competent administrative or juridical body. This is meant to keep the procedure of the General Assembly uninterrupted in all circumstances.

Subject to applicable laws and the company's articles of association, minority shareholders holding not less than 5% of the company's share capital are entitled to place items on the General Assembly's agenda, and to file objections with the administrative body to any resolutions of the General Assembly. In turn, the administrative body shall suspend those resolutions passed in favor of the majority shareholders against the minority shareholders. Additionally, the General Assembly must be called when 3 % or more of shareholders make a request, as specified by law within the framework of protecting the minority shareholder rights.

The General Assembly secretary shall record in the minutes of the meeting all the discussions, events and resolutions brought about by the meeting. The company should disclose the resolutions passed and the material events occurred, to all shareholders simultaneously. Minutes of the company's General Assemblies shall be posted on the company's website, and shall be made available to the public as much as practicable.

Listed companies are required to promptly furnish the EFSA and the Egyptian Stock Exchange with the resolutions passed by the ordinary and extraordinary General Assembly immediately after the end of each meeting, not be later than the commencement of the trading session next to the date of the relevant meeting. This is meant to ensure the fair availability of the information to all.

When carrying out transactions with affiliated groups or entering into related party transactions, the Board of Directors has to obtain the General Assembly's prior approval, so that conflict of interests can be avoided, specifically with major shareholders, Board members, insiders, or other relevant companies. A related party transaction must be carried out on an unbiased and objective basis. The relevant party to a related party transaction shall not be entitled to vote in the General Assembly. Related party transactions should be implemented in such a way that does not jeopardize the interests of the company and other stakeholders. Equally important is the full disclosure of all these transactions, whether about the related party transactions offered for the next year, or those entered into in the previous year.

## **2.2 Second Pillar: Board of Directors**

### **2.2.1 Composition of the Board of Directors**

Subject to the law and the company's articles of association, the Board of Directors shall be made up of an adequate number of members that enable it to perform its functions and duties, including formation of committees. The majority of members must be non-executives, and at least two of them are independent members with technical and analytical skills for the benefit of the Board and the company. Guided by international best practices, the Board composition should ideally be made up of a diverse mix, unbiased to gender or faith.

In all events, when electing independent non-executive members, consideration should be taken that a member can devote the necessary time and care to the company, and that there is no conflict of interest with any other commitments.

Sufficient information, data and description about the company should be furnished to incoming Members of the Board upon their appointment to ensure that they become acquainted with all the general aspects of the company and identify its strengths, weaknesses,

managerial structure and its financials, and all other matters that are necessary for performing their duties effectively and in the best possible way. The Board Secretary acts as a liaison between the Board members, and between Board members and top management of the company.

The Board of Directors shall elect the Chairman of the Board and shall appoint the Managing Director. It is not recommended that the posts of the Chairman and Managing Director be held by the same person. If splitting the two posts is not feasible, the reasons should be disclosed in the company's annual report and on its website. In this case, an independent Deputy Chairman for the Board of Directors should be appointed, according to the international best practices, to chair the meetings that discuss the performance of the executive management.

### **2.2.2 Procedures of Board Meetings**

The Board of Directors shall meet at least once every three months. The Board may, at its discretion, invite to its meetings any individuals from inside or outside the company, to discuss issues related to the company. The annual report of the company and report of the Board of Directors should disclose the number of meetings, names of members who failed to attend the meetings of the Board or its committees. A member should by no means be absent for three Board meetings in a given year. Board meetings should be called for at dates, venues, and under arrangements that facilitate the members' participation.

Meetings of the Board of Directors may be convened via modern communication means; i.e. video conference, provided that the company's articles of incorporation allow it. The Board sets the rules governing the use of such means in its meetings and the remote participation of members.

### **2.2.3 Role and Responsibilities of the Board**

The Board of Directors is the body entrusted with running the company's affairs, by delegation of the General Assembly. Hence, the ultimate responsibility of the company rests with the Board, notwithstanding the committees it may form, or the authority it may mandate to other organizational units or individuals. The Board's accountability for the company's management rests with the General Assembly of shareholders. The decisions of the Board are taken by a majority vote.

If the Board is forced by unforeseeable circumstances to approve decisions by circulation, all Board members should participate in the voting on such decisions.

A company's Board of Director plays a vital and critical role in setting the strategic goals of the business, approving the general plans and policies governing the operation of the company, supervising the performance of the executive management, ensuring the efficiency of internal controls and risk management, determining the optimal method for application of good governance, and endorsing professional policies and ethics that the company's employees have to observe to upgrade their performance and conduct. Therefore, the Board's decisions have a significant impact on the company's performance, that's why such decisions should be made in the best interests of the company, ensuring preservation of its assets and maximization of shareholders wealth.

A member of the Board of Directors should consider himself a representative of all shareholders, committed to act in the best interests of the company and in particular the interests of other stakeholders, rather than acting in favor of the group he/she represents, or which has voted for his/her appointment.

Responsibilities and duties of the Board of Directors include, without limitation:

- Developing the necessary mechanisms and systems that ensure compliance with laws, codes, and internal bylaws of the company by all employees. The Board shall also ensure that an early warning system is in place for detection of any breach or violation, and ensure that the appropriate and prompt action be taken. This system must provide protection to information sources and reporters of corruption or violation.

- Meeting with the company's managers for consultation on its affairs, either with the presence of the Board's executives or not. The Board's secretary shall coordinate with the company's managers to fix the dates of such meetings, and to review with them the topics to be consulted about.

- Setting a skill development plan for the Board members, covering the concept and culture of corporate governance, and the duties of the Board and sub-committees, and covering as well any other issues the Board believes of importance to its members.

- Setting a succession plan for top management, and members of the Board of Directors, to ensure the company's sustainability and effective operation of its business.

- Specifying the authorities delegated to any of its members, committees or others, along with the term of delegation, the frequency of reports to be received from committees and executive management, and monitoring the results of the authorities delegated.

- Requesting external advice on any matters related to the company, with the consent of the majority of the Board members, and subject to the provisions of avoidance of conflict of interests. Using external advisors shall not relieve the Board members from their responsibilities.

- Having in place precautionary measures, tools and mechanisms to secure the flow of information, control the accuracy and soundness of data within the company, safeguarding such data against tampering and unauthorized access whether by insiders or outsiders, These precautionary arrangements include protection of internet usage, and cellular devices against hackers and outsiders
- Overseeing disclosures of data and communication channels, and ensuring the integrity of the financial and accounting reports released by the company, as well as the independency of the internal audit and compliance within the company.
- Appointing the Board secretary. The secretary should be appropriately qualified and well familiar with all the business of the company. The Board may establish an organizational unit of secretariat, depending on the size and requirements of the company

#### **2.2.4 Role and Responsibilities of the Board Chairman**

The Chairman of the Board of Directors is the one responsible for the general sound performance of the Board. The responsibility of guiding and directing the Board, and ensuring the effective performance of its functions rests with her. The Chairman should have the necessary expertise, competencies and personal qualities that enable her to carry out his/her responsibilities. The following is a brief account of his/her key roles:

- Calling for the meeting of the Board of Directors, setting up the meeting agenda and running its sessions.
- Calling for the ordinary and extraordinary General Assembly to consider the agenda submitted by the Board of Directors.
- Ensuring that sufficient, accurate and timely information are provided to Board members and shareholders.
- Ensuring that decisions made are based on sound judgment and thorough knowledge of the matters involved.

Additionally, he/she should ensure that an appropriate mechanism is in place for the effective and timely implementation of such decisions.

- Encouraging discussion and criticism, and securing room for expression of objection opinions and discussing these opinions within the framework of decision making.
- Receiving reports and recommendations from all committees and submitting same to the Board on a periodic basis to take the appropriate action.
- Ensuring that all Board directors conduct self assessment, to assess a member's commitment with the duties of his/her post.
- Ensuring the Board's commitment to discharge its tasks in the best possible way, in the best interests of the company, while placing special emphasis on the necessity to avoid conflict of interests
- Maintaining and deepening trust and confidence ties among all Board members, particularly between executive and non-executive members. He/she should also strengthen the relationship of the Board as a whole with the top management of the company.
- Ensuring the effectiveness of the governance system applied, as well as the effectiveness of the performance of the Board its committees.

### **2.2.5 Responsibilities of the Managing Director**

The managing director is the top manager of the company. Hereunder are some of his/her responsibilities and functions, under the powers and authorities vested in her by the Board of Directors:

- Implementing the company's annual strategy and plan as approved by the Board.
- Presiding the company's management; running its day-to-day business; overseeing the workflow in all organizational units; following up the performance of all activities; taking the necessary decisions within his/her authority to ensure the regularity of work and the achievement of the company's objectives; while working on increasing customers' satisfaction.

- Working on implementing all the company's policies, regulations and bylaws, as approved by the Board of Directors.
- Proposing the topics for periodic meetings of the Board, in consultation with the Board Chairman.
- Overseeing the drafting of financial and non-financial periodic reports on the company's financial statements and performance assessment, the corporate governance report, in addition to reviewing all replies to the External Auditors' inquiries before drawing up such reports.
- Actively participating in building and developing the culture of ethical values within the company, and proposing reward and motivation schemes, and succession planning mechanism as approved by the Board for ensuring the loyalty of employees and maximizing the company's value.
- Specifying the duties and responsibilities of all employees, pursuant to the applicable operating rules and directives of the Board of Directors.

## 2.2.6 Role of the Board Secretary

The Secretary of the Board of Directors has vital and important role within a company. For this purpose, a company may establish a Board Secretariat organizational unit. The role of the secretary is not confined to drafting the minutes of the meetings, but extends to building an ongoing link between Board members, and the Board and company's executive management. Additionally, the secretary plays a valuable role as a source of information for Board members. Therefore, the Board should empower her with, and continuously train her on, the necessary responsibilities in order to be able to discharge his/her duties effectively.

It is advisable that the Board secretary occupies an appropriate level of position within the company, such that he/she can play the mediator and liaison between the Board members and the top management. The following are some of his/her main tasks:

- Preparing and managing the logistics for the meetings of the Board and committees; assisting the Board Chairman in drawing up the meeting agenda; preparing the relevant information, data and details of the topics to be discussed in the meeting, and communicating the same to the Board members well in advance of the meeting.
- Assisting the Board Chairman in the preparation for the General Assemblies of shareholders and managing the related logistics.
- Adopting the spread of the knowledge of corporate governance principles among Board members, top management and all employees, in a manner that does not interfere with the other concerned departments in the company
- Following up the issuance and implementation of the Board decisions, communicating them to the relevant departments, and preparing follow-up reports on such decisions.

- Maintaining all documents in respect of the Board decisions and topics submitted to the Board, and ensuring that the Board is furnished with important information in a timely manner.
- Coordinating with all Board committees, to ensure effective communication between these committees and Board of Directors.
- Coordinating with the concerned committees, in respect of providing the necessary information to help the Board Chairman in the assessment of the members of the Board and committees, and the proposals submitted to the General Assembly by the Board for election or replacement of any member.
- Ensuring that Board members are updated with any changes in the supervisory or legal authorities, due to developments in the company's activities or the legal framework regulating it, provided that this shall be done to the extent permitted for the responsibilities assigned to her and without conflicting with the roles of the concerned departments within the company.
- Organizing induction and orientation programs for new Board members.

### **2.3 Third Pillar: Board Committees**

The Board of Directors may establish committees from among its non-executive and independent members. According to the international best practices in the area of corporate governance, it is advisable that no executive member of the Board of Directors be a member of said committees.

Each committee shall be composed of not less than three members. Without prejudice to the laws and regulations organizing their operation, committees with convergent functions may be consolidated into one single committee. These committees shall submit their reports and recommendations to the Board of Directors to take the necessary decisions. Importantly, committees are not entitled to make decisions on behalf of the Board, as their role is confined to submitting recommendations to the Board to take the appropriate decisions.

Committees shall meet at least once every three months. A committee's meeting shall be deemed valid if attended by half of the member of the committee, or the minimum quorum thereof (i.e. 3 members). Decisions on the recommendations to be submitted to the Board are taken by a majority vote of members present. In the event of a tie of votes, the committee Chairman shall have a casting vote.

Establishment of Board committees should be effected pursuant to the committees' operating rules approved by the Board of Directors. The regulation shall define the terms of reference of these committees; i.e., their functions, duration, the length of their mandate, method of Board supervision thereon and remuneration of its members. A Board committee has to make full disclosure to the Board about the activity exercised, the results it comes up with, or the recommendations it makes. The Board of Directors should monitor the performance of these committees on a periodical basis to satisfy itself that they discharge the tasks assigned to them effectively. This is because committees are not a means by which a Board can abdicate its responsibilities, or transfer them to other bodies. The Board remains the body responsible for the performance of such committees and the performance of the company as a whole.

Board committees may request the assistance of outside advisors, at the company's expense, provided that a prior approval of the Board is obtained and that avoidance of conflict of interests is observed.

A brief statement about the composition of each committee and the number of meetings during the year should be included in the company's annual report and website. Committees' chairmen should attend the General Assembly of the company.

Hereunder is an illustration of some committees of the Board of Directors, pursuant to the international best practices of corporate governance:

### 2.3.1 Audit Committee

The Board of Directors shall set up an Audit committee, enjoying complete independence in discharging its task. The Audit committee shall have operating rules approved by the Board, defining its terms of reference in compliance with the laws and regulatory instructions. To ensure its independence, the Audit committee shall elect its Chairman. However, the Board of Directors shall approve the composition of the committee, define the criteria of selecting its members, set its working program and determine the remuneration of its members and Chairman, and the tasks assigned.

The Audit committee shall be made up of independent and non-executive members of the Board of Directors, or from outside the company, provided that at least one of them has financial and accounting experience.

The duties of the Audit committee are, inter alia:

- Review the company's internal controls and draw up a written report on the committee's opinion and recommendations about such controls;
- Review financial statements before submission to the Board of Directors, and express opinion and make recommendations about such statements;
- Review the adopted accounting policies, and express opinion and make recommendations about such policies;
- Nominate to the Board one or more External Auditor(s) to be appointed for the company, and define his/her/their qualifications, competencies and independence. The decision of appointing such External Auditor(s) and determining his/her/their remuneration lies within the responsibility of the ordinary General Assembly of the company;
- Review the audit plan set by the External Auditor, and make remarks thereon;
- Consider the observations and recommendations of the External Auditor on the financial statements as well as the notes and recommendations set forth in the audit management letter received from the External Auditor, and follow up the measures taken in respect thereof;

- Ensure the company's compliance with internal and external systems, regulations and laws, as reported by the compliance department and other competent departments;
- Recommend the approval for the External Auditor to provide non-audit services, apart from auditing, and recommend the compensation for such tasks, taking in consideration his/her annual audit fees;
  - Discuss and approve the annual plan of the internal audit department, and follow up its effectiveness, and ensure that the plan cover all the company's departments and activities;
  - Review the internal audit reports, and identify the weaknesses in the company and the reasons for such weaknesses, and follow up the remedial procedures;
  - Review and evaluate the early warning system in the company, and propose the means for its improvement and effective application;
  - Review and evaluate the security system of information and data, and means of protecting the same against any internal or external hackers;
  - Examine the notifications or violations submitted by the regulatory bodies and follow up the actions taken to address them;
  - Invite the company's External Auditor, director of the internal audit department, or any other individual inside or outside the company to attend the committee's meetings, when necessary; and
  - Implement and follow up any other tasks that may be assigned to it by the Board of the Directors.

### **2.3.2 Nomination Committee**

A Nomination committee shall be made up of independent and non-executive members of the Board of Directors, provided the Chairman of the committee should be an independent member. The Nomination committee shall at least carry out the following tasks:

- Review regularly and continuously the appropriate skills needed for membership in Board of Directors, and top management positions, and draw up a statement of the qualifications required under the succession plan;
- Define the responsibilities of executive, non-executive and independent members of the Board, and delineate the job descriptions of senior executive management in the organization; and
- Check, on an ongoing basis, the independence of independent directors, and ensure that there is no conflict of interests, should a member joins membership of a Board of Directors of another company.

### **2.3.3 Remuneration Committee**

A Remuneration committee shall be made up of independent and non-executive members of the Board of Directors. Importantly, no sensible differences should be made in respect of the compensation determined for the independent non-executive members of the Board, provided that such remuneration should be awarded for specific services and tasks assigned to these members, or for membership in committees. The remuneration committee shall be responsible at least for the following tasks and duties:

- Propose clear policies of remuneration and compensation of the directors of the Board, committee members and senior executives in the company; adopt performance-based criteria in determining such compensation; and regularly review such policies every year, after conducting the necessary studies and survey on remuneration packages;

- Develop and follow up the clawback policy for directors of the Board, committee members and senior executives, in the event of malfeasance or embezzlement of the company's property;
- Ensure that bonuses and stock options are not a motivation to make decisions only for short-term interests of the company, but should also guarantee its long-term growth potentials; and
- Prepare a detailed annual report to be submitted to the General Assembly on all remuneration, benefits, and advantages received by the members of the Board and top management.

#### **2.3.4 Risk Management Committee**

A Risk Management committee shall be made up of independent and non-executive members of the Board of Directors. The managing director, manager of the risk management department, or any executive managers may be invited to the committee's meetings, where appropriate.

Hereunder are some of the functions performed by the Risk Management committee:

- Setting executive frameworks, measures and rules approved by the Board, as necessary for addressing different types of risks that may face the company, including strategic risks, operational risks, market risks, credit risks, reputational risks, risks related to information systems and data protection, and any other risks that are likely to negatively affect the company's activity and sustainability;
- Assisting the Board of Directors to identify and evaluate the company's risk appetite, and ensuring that the company does not overstep those limits;
- Supervising and checking the effectiveness of risk management in performing the tasks assigned thereto, and ensuring that it efficiently performs its duties within the powers and functions mandated to it, in addition to ensuring the independence of the risk management employees from the executive management; and

- Preparing a periodic report on its outcomes and recommendations for submission to the Board of Directors to take the necessary action.

### **2.3.5 Governance Committee**

A Governance committee shall be made up of independent and non-executive members of the Board of Directors. The responsibilities of the Governance committee include, without limitation:

- Regularly evaluating the governance system, and drafting manuals, codes and policies that define the methods of implementing governance principles across the company;
- Preparing annual reports on the company's compliance with corporate governance principles, while setting appropriate measures for full implementation of the principles;
- Reviewing the company's annual report and the Board of Directors' report, particularly with respect to the items related to the disclosure and other corporate governance-related items;
- Maintaining, authenticating and following up performance evaluation reports of the Board of Directors; and
- Reviewing the remarks made by regulatory authorities on governance implementation in the company, and taking these remarks into consideration, and following up the actions taken.

### 2.3.6 Other Committees

The Board of Directors may form other committees to be assigned with certain duties as the company's nature and business needs may require. The Board of Directors shall determine the duration, authorities, composition and financial remuneration of such committees and organize the way they operate.

Such committees could include:

**A. The Executive Committee:** It usually exists in financial institutions; however it may also be formed in all kinds of companies, as needed. It is composed of executive members of the Board of Directors, the company's senior executive officers and headed by the Managing Director. It shall be responsible for implementing the day-to-day activities of the company. The Board of Directors shall monitor the performance of the Executive committee on a regular basis to ensure its effectiveness.

**B. The Investment Committee:** It is a committee which is generally formed in financial institutions and may be formed likewise in all kinds of companies as needed. It is composed of Board of Directors' members and top management members such as the Managing Director, the investment manager, the finance manager or the company's actuaries. It aims to assist the Board to determine and employ both the company's or customers' revenues and savings in investments that achieve the best return according to the investment policy approved by the Board. It aims to enable the company to achieve the best returns to its customers and meet its short and long financial obligations.

**C. The Social Responsibility Committee:** It presents its recommendations to the Board regarding the means to comply with the company's responsibility towards the society and the environment where the company operates. It aims to ensure the company's sustainability on the long run and enhance its relationship with the society.

**D. The Occupational Safety and Health Committee:** It is generally formed in industrial companies. It is responsible for monitoring and following up the implementation of the recommendations related to occupational safety and health of workers at the company's factories and field sites.

**E. Environment Protection Committee:** It is responsible for the environment policies which should be followed by the company in light of the preservation of the environment.

**F. Policyholders' Rights Protection Committee:** It is generally formed in insurance companies for setting out appropriate measures and efficient mechanisms to solve the complaints and grievances of policyholders and regularly review them. It is also responsible for ensuring the compliance with legal requirements set out in the organizational and legal framework where the company operates. It also ensures the adequacy of the required disclosure of material information which may be of interest to policyholders.

## **2-4 Fourth Pillar: The Control Environment**

### **2-4-1 The Internal Control System**

The internal control system consists of a group of policies, procedures, guidelines and regulations which are prepared by the concerned departments at the company and approved by the Board. Moreover, this system determines the functions and completely segregates the responsibilities and duties of each business line. Such segregation shall be taken in consideration when the company's organization chart is prepared.

In addition, the internal control system is considered an administrative, organizational, and planning tool for the company comprising of the related methods and standards used within the company to preserve its assets. The Audit committee shall evaluate the internal control system on a regular basis and escalate its recommendations concerning the system to the Board.

The goals of the internal control system include the following:

- Achieve complete segregation between the responsibilities and authorities of all staff at the company.
- Ensure the accuracy and quality of information so that correct and accurate information would be provided about the company whether to the company itself or to others.
- Protect the company's physical assets from the risks that they may be exposed to; and record and register such assets in the company's records.
- Increase the company's production efficiency and achieve its targets with the least expenses but with the same quality standards.
- Ensure the accurate implementation of instructions in order to ensure that all instructions are implemented as required.
- Ensure the implementation of corporate governance through the accurate implementation of governance directions and rules.

#### **2-4-2 The Internal Audit Department**

The internal audit is an independent and objective activity designed to add value and enhance the performance of the company's operations. It assists the company to achieve its goals through the adoption of a systematic and organized approach. This approach aims to evaluate the internal supervision systems and methods, and the procedures of risk management at the company. It shall also ensure the proper implementation of corporate governance regulations at the level of all departments and the executive, financial and legal activities.

The internal audit department shall be headed by a full-time employee who is one of the company's senior administrative officers. The head of the department shall be technically reporting to the audit committee while administratively reporting to the Managing Director or the Chief Executive Officer.

The appointment, discharge, and determination of the remuneration of the head of the internal audit department shall be based upon the Audit committee's recommendation. Following such recommendation, the Managing Director shall issue a decision accordingly. It is not permitted to amend the remuneration or any other benefit of the head of the internal audit department without reverting to the Audit committee.

The head of the internal audit department shall have the necessary full powers to perform his/her job perfectly. Moreover, the internal audit department shall be provided with the tools, material and necessary supplies to perform its function properly.

The Audit committee shall determine the goals, functions and powers of the internal audit department and this procedure shall be escalated to the Board for approval. The head of the internal audit department shall submit a report at least quarterly to the Audit committee to show the results of his/her work.

The company shall encourage and support the independence of the internal auditors through providing direct communication channels between the company, the Board and its committees. It shall also ensure that the staff of the internal audit department can easily gain access to reports and important information related to the company's divisions.

The internal audit systems and procedures are based upon the expectations and study of risks which the company is exposed to. In doing so, the views and reports of the Board, the auditors, and the company's managers shall altogether be sought. Such risks shall be updated, monitored and evaluated on a regular basis.

The most important responsibilities of the internal audit department include, but are not limited to, the following:

- Evaluate the efficiency of the company’s internal control system, escalate reports to the Audit committee containing the findings which have been observed.
- Evaluate the compliance of all the departments within the company to perform their tasks in accordance with the applicable procedures and policies and without any conflicts with other concerned departments.
- Evaluate the efficiency of applicable procedures and policies, and their appropriateness with developments in the business and the market.
- Follow up on actions taken to rectify the remarks mentioned in the internal and external audit reports and other reports by supervisory entities.

### **2-4-3 The Risk Management Department**

The Board is generally responsible for the risk management in light of the company’s nature of activities and size, and the market where it operates. The company may form an independent department for risk management according to its needs. The Board is responsible to set out a strategy to determine the risks which the company may be exposed to, the means to deal with such risks and the level of risk appetite.

The principle of segregation of duties and responsibilities of staff of the risk management department should be applied in order to prevent any conflict of interest. At the same time , the risk management department shall have direct communication with the Board and the risk management committee or the audit committee – in case the risk management committee does not exist. The risk management department shall escalate its regular reports according to the relative importance of information it has observed.

Responsibilities of the risk management department include, for example, the following:

- Analyzing the risks which the company may be exposed to; and conduct such analysis accurately and at an appropriate early time.
- Determining the level of risk appetite for the overall types of risks the company may be exposed to, on the basis of the risks impact and the possibility of occurrence of such risks.
- Setting out a risk policy and specific indicators to measure, follow up and monitor the company's risk exposure.
- Measuring the appropriateness and efficiency of the policies regarding the measurement, following up and monitoring of risks; and implementing any required amendments to such policies in accordance with the developments in the market and the surrounding environment of the company – whether internally or externally.
- Ensuring the availability of adequate and efficient information and communication systems regarding the follow up and monitoring process of risks. These systems shall enable the top management and the risk management committee to receive regular reports from the risk management department that reflect the company's compliance with the level of risks set out and show the breach to such limits, its reasons and the proposed plan to solve such cases.
- Presenting accurate and reliable reports to enable the responsible officers to take appropriate measures accordingly.

#### **2-4-4 The Compliance Department**

The Compliance Department has an independent function in which it determines, evaluates and offers advice and consultation, monitor and prepare reports on the risks of non-compliance with laws, systems and supervisory regulations placed by various entities in order to avoid risks to the company's reputation or its being subject to penalties resulting from non-compliance.

Compliance is considered a comprehensive and multi-aspect responsibility that cannot be borne solely by a specific category of officers. Therefore, the responsibility of compliance does not fall upon the Compliance Department alone, but extends to all staff of the company as a whole, starting from the Board, the top management and ending with all staff.

The responsibility of setting up the policies regarding the functions of the Compliance Department lies upon the top management. The Board, in its part, shall further approve such policies. It must be ensured that all staff are aware of such policies.

A compliance officer shall report to the Audit committee and shall administratively report to the Managing Director, the Chief Executive Officer or the Chairman.

The most significant responsibilities of the Compliance department include, for example, the following:

- Continuous follow up and assurance that the staff complies with obligatory laws, measures and supervisory regulations, issued by various entities, including governance systems and policies.
- Ensuring and following up the compliance of all staff with internal regulations, policies and statutes including the code of ethics and professional conduct.

- Ensuring the existence and revision of a plan to update customers' data.
- Verifying that no illegal or immoral practices are taking place in the company, including money laundering, corruption and financing of terrorism.
- Receiving complaints and investigating them objectively and confidentially; and presenting such complaints to the Audit committee, following up the measures taken and ensuring the protection of the complainers.

#### **2-4-5 The Governance Department**

The Governance Department at the company aims to assist in the reinforcement and strengthening of governance principles, follow up their implementation and enhance their effectiveness. It shall be technically reporting to the Governance committee or the Board, in addition to its administrative reporting to the Managing Director or the Chief Executive Officer or the Chairman.

The role of the Governance Department is represented in the following examples:

- Supervising the existence of the essential principles and elements which assist in the development and improvement of the company's performance so as to contribute in achieving the strategic goals set up by the Board.
- Overseeing the implementation of the principles of disclosure and transparency and the governance culture throughout the company's business and activities.
- Improving and developing the company's general framework and work principles through the company's code of ethics, and determine its social responsibilities towards workers and the society in general.
- Overseeing the application of the conflict of interest policy to all the company's staff.
- Working on the application of the concepts of transparency, clarity and fairness in dealing with all shareholders.
- Supporting the clarity of relationships between the Board and stakeholders.
- Setting up the internal governance guidelines and outline various internal policies that organize the relations between all employees; and also contribute to preparing the report on the company's compliance with the corporate governance.

#### **2-4-6 The External Auditor**

The External Auditor shall be appointed from among those who meet the conditions set forth in the law for practicing the accounting and auditing profession. He/she shall also meet other conditions including efficiency, good reputation and sufficient experience. His/her experience, competencies and capabilities should align with the company's size, nature of activity and those it deals with.

The General Assembly, based upon the Board of Directors' nomination and subsequent to the Audit committee's recommendation, shall appoint an External Auditor or more than one for the company. The Ordinary General Assembly of shareholders of the company shall be responsible for issuing the appointment decision and determining the remuneration of the External Auditor.

The External Auditor must be entirely independent from the company and members of its Board of Directors. He/she shall not be, for example, a shareholder of the company or a member of its Board of Directors nor shall he/she have a kinship relation of the second degree with any of the members of the Board of Directors or top management. Additionally, the External Auditor shall not provide any permanent technical, administrative or consultancy work to the company. He/she must be impartial in expressing any views and his/her work should be invulnerable to the interference of the Board of Directors.

The Board of Directors is not permitted to enter into contract with the External Auditor to carry out any additional work that is not connected to his/her capacity as an External Auditor – whether directly or indirectly – unless it is approved by the Audit committee and provided that such additional work shall not be forbidden for the External Auditor to perform.

The remuneration of the additional work shall be in line with the nature and size of the required work. Upon considering the approval of assigning additional work to the External Auditor and determining his/her remuneration, the Audit committee shall take into consideration that such assignment shall not impact the External Auditor's independence. Disclosure of such assignment must be made in the General Assembly and in the annual report.

The external auditor shall not be appointed for more than five years. He/she shall not be re-appointed unless after the elapse of three years from the termination of his/her work as an external auditor of the company. For very large companies, it is preferable to appoint two external auditors.





## **Chapter Three**

### **Disclosure and Transparency**

#### **3-1 Introduction to Disclosure and Transparency**

The availability of information plays an important role in decision-making, evaluation of performance, knowledge of the company's conditions and the assessment of the company's credibility with those it deals with. Therefore the transparency and disclosure of financial and non-financial matters are considered one of the major pillars of corporate governance that affects the efficiency, and credibility of the company, and achieves justice and protection for investors and stakeholders, thus supporting the investment environment and the economy as a whole.

Disclosure means to adhere to a completely transparent policy, to reveal all facts, financial and non-financial information and material events about the company which are of interest to investors, relevant parties and all stakeholders. Such information shall be made within the reach of those parties in a fair and timely manner to enable them take appropriate decisions based on accurate information. On the other hand, transparency has a more comprehensive concept since it provides an environment that allows access to all information or data in order to facilitate decision-making.

The disclosed information shall have a periodic nature and must be documented, credible, measurable and subject to comparison. It should be provided in a timely, clear and non-misleading manner to its users. It should also be made available to the public at the same time through the various available disclosure channels. Disclosure should be immediately carried out once any material events occur. In all cases, it must be taken into account that disclosure shall not affect the company's competitive position in the markets where it operates.

### **3-2 Material Information and Financial and Non-Financial Disclosure**

The company shall carry out, through various means, the disclosure of the company's financial information which is of interest to the shareholders and stakeholders, such as annual and periodic financial statements, the annual and periodic auditor's reports, as well as the Board report, accounting policies, estimated budgets, and the valuation methods of assets and dividends.

The company shall also disclose its non-financial information which is of interest to the existing and potential shareholders and investors such as internal information including the company's goals, vision, the nature of its activity, its plans, its future strategy, the composition of the Board of Directors, its committees, senior executives, the company's qualified experts and their curriculum vitae; as well as the methods for upgrading the qualification of its staff, training, rewarding, employee welfare, the remuneration and allowances of the members of the Board, its committees and senior executives during the year, the ownership structure of the company including the major and influencing shareholders explaining the direct and indirect beneficial owners according to percentage of ownership, as well as ownership structures in affiliate companies and subsidiaries, and transactions with related parties. The company shall also disclose the most critical risks that it may be exposed to, the means to address them, and the shift of the investment policy, as well as to report its compliance with the principles of corporate governance in order to achieve the best possible sustainability ratings on the long run.

The company shall also disclose material external information that affects it, prepare comparisons for such information which may affect the continuity of the business, such as the availability of natural resources, raw materials and the energy which depends upon, and its ability to deal with their volatility.

Moreover, the company shall disclose to its shareholders and to regulatory bodies its treasury shares.

In case a subsidiary company purchases the shares of its holding company, all the conditions of the treasury shares shall apply to these purchased shares and such shares shall not be considered in the quorum of shareholders and shall not participate in the voting on General Assembly resolutions.

### **3-3 Investor Relations**

The role played by investor relations represents one of the key activities for the implementation of the principles of corporate governance. Its role is considered a strategic and independent function which aims to activate and strengthen the relationship with existing and potential investors, open communication channels with those dealing with the capital and investment market, and provide the required disclosure and transparency to create a positive impact on the following:

- The investors perception of the current performance of the company and their expectations for its future performance.
- The liquidity of the company's shares traded on the stock exchange.
- Relatively lower cost of funding on the long run.
- The increase in confidence of those who deal with the company, its stakeholders, as well as stimulate the increase of the number of support groups for the company.

The head of the Investor Relations should participate in setting up the company's communication strategy with the financial market, opening of communication channels with investors, and communicating the market views and the concerns of investors to the Board of Directors on a continuous basis. Moreover, investor relations is a means to enable the Board to understand the company's stock performance and the reflection of such performance on the stock fair value,

in accordance with the information provided by the company regarding its performance, potentials and future prospects, and the extent to which the company complies with the rules of disclosure and communication with investors, as well as the clarity of investors vision of the company and evaluation of the company by the investment market.

Owing to the company's belief of the important role of Investor Relations and the benefits derived from it, this function shall directly report to the Chairman or the Managing Director. The company must understand and support this function to serve as a tool for effective communication with the company's shareholders, stakeholders and customers to ensure that it receives its due share of the market attention and follow-up.

The head of Investor Relations should attend the company's General Assembly and may also be invited to attend the Board of Directors meetings to get acquainted with the company's internal affairs and its strategic orientations. He/she must also organize meetings and visits to existing and potential investors to get acquainted with the company, its top management and the details of its activities and performance. The head of Investor Relations should have full awareness of the company and its financial position, be able to respond to questions and inquiries of investors, be aware of the decisions that may impact the business results, and be acquainted with the information which may be disclosed or which is not authorized for disclosure through his/her implementation of the rules governing the disclosure and transparency in the market.

The most important functions of the Investor Relations Department are conceivably the following:

- Develop a strategy for the investor relations program through understanding the market and the company's requirements. The head of the Investor Relations shall determine the priorities of the required activities and set up the strategy required to implement these activities in collaboration with the Board of Directors.

- Participate in setting up the disclosure policy applied in the company and obtain the Board of Directors approval of it.
- Help retain the existing investors and attract new investors by raising awareness in the market about the company's activities and opportunities for its future growth, and identify the factors that affect the company's profitability.
- Communicate with analysts, investors and media representatives; and provide information to curb rumors and shocks that lead to fluctuations of the trading volumes and prices.
- Organize the information released by the company in accordance with the applicable disclosure rules.
- Establish and monitor the investors' database in terms of either the type of investor or the investor's geographical location.
- Introduce the new members of the Board of Directors or the top management to the market.
- Organize investors road shows, analyst meetings and events for the company according to a prepared plan; and facilitate investors' visits to the company's various sites.
- Communicate with investors through various communication channels such as the company's website, social networking sites and press reports; and participate in the preparation of the annual report which existing and potential investors take interest in.
- Prepare the disclosure report required by the company; and create the content related to investor relations on the company's website and update it regularly.

## 3 -4 Disclosure Tools

### 3 - 4-1 The Annual Report

The company shall issue an annual report which includes a summary of the Board of Directors report, the financial statements, as well as all other information of interest to existing and potential shareholders and investors and other stakeholders.

The language of the annual report must be characterized by clarity and simplicity so that an ordinary reader may understand it. It is also preferable to issue the report in both Arabic and English languages to make it easier for all parties of whatever nationality to read.

The annual report is considered one of the most important sources of information about the company, its activities and its financial position for the existing and potential investor. It serves as a report from the company's management to all those who are interested in the company, about the events that took place during the past year and the company's targets for the following year. The annual report shall contain, at a minimum, the following sections:

- An introduction by the Chairman and/or the Managing Director.
- The company's vision and mission.
- The company's strategy.
- The company's history and milestones.
- The company's ownership structure.
- The senior management and the composition of the Board of Directors.
- An analysis of the market where the company operates.
- The company's current and future projects.
- An analysis of the company's financial position.
- A report on corporate governance.
- A report on corporate social responsibility.

- A report on the executive management's discussion of the company's financial performance.
- The External Auditor's report and the financial statements compared to the same periods in the past.

### **3-4-2 The Board of Directors' Report**

The company shall issue an annual board report to be presented to the General Assembly and the regulatory bodies. It shall be addressed by the Chairman of the Board of Directors to the shareholders, and shall contain, at a minimum, the following:

- Discussion of the financial results and core subjects.
- The main achievements of the company during the year.
- An analysis of the company's work environment and its main markets.
- The company's strategy.
- Key changes in the company's administrative structure.
- The composition of the Board of Directors and the number of its meetings.
- The composition of the Board's committees and the number of its meetings.
- The average number of employees in the company during the year and the average employee income during the same period.
- The employee reward and incentive policy of the company such as employee stock ownership plan and others.
- The actions taken regarding the related party transactions for the previous year, as well as those presented for the following year.
- The actions taken against the company, its Board members or directors by either regulatory or judicial bodies.
- A report on the company's compliance with corporate governance, and corporate social responsibility.

### **3-4-3 The Governance Report**

It is a report which outlines the extent of compliance with the corporate governance principles. It also explains the justifications for non-compliance with some of these principles in accordance with the “Comply or Explain” rule. The report shall include, at a minimum, the following:

- The introduction and procedures for the implementation of corporate governance.
- The composition of the Board of Directors.
- The composition of the Board committees.
- The number of meetings of the Board of Directors and its committees.
- The organization chart.
- The succession planning policy.
- Insiders trading of the company’s stock.
- Relations with shareholders.
- Actions taken against the company, its Board members or directors by either regulatory or judicial bodies.
- The performance assessment of the Board and the executive management.
- The assessment of the internal and compliance systems.
- The extent of compliance with the disclosure rules.
- All significant information relevant to corporate governance.
- The action plan to fulfill the implementation of governance rules.

### **3-4-4 The Disclosure Report**

It is a quarterly report prepared by the company's management in collaboration with the Investor Relations Department. The report shall include, at a minimum, the following:

- The contact details of the company.
- The name of the Investor Relations Officer and his/her contact details.

- The structure of shareholders who own 5% or more of the company's shares.
- The shareholding structure showing the free float shares available for trading.
- Details of the treasury shares held by the company.
- The changes to the Board of Directors and the last composition of the Board.
- The composition of the Board of Directors' committees.

### 3-4-5 Sustainability Report

A company should produce a balanced report on sustainability, highlighting the company's achievements in the economic, environmental and social fields. The report shall reflect the company's values, ethics and principles, and shall demonstrate the relationship between its strategies and obligations towards the community it operates in.

When preparing the sustainability report, the company should ensure that the report satisfies the principles of transparency, accuracy, completeness, comprehensiveness and impartiality; that the data and figures contained therein are comparable; and that such information satisfies the stakeholders' needs. Also important, the report should be produced on a regular basis, so that information can be available in a timely manner for users to enable them take decisions.

Sustainability disclosure achieves a number of benefits, including enhancement of the reputation of the company, ongoing upgrading of its performance, compliance with environmental and social legislations and regulations, improvement of risk management, provision of motivation schemes for employees and attraction of capital.

Sustainability reports should cover at least the following elements:

- Governance policy and oversight of labor practices;
- The company's policy on the environment in which it operates and its impact thereon;
- Government relations and political participations of the company;
- The company's policy on labor relations and human rights, and non-discrimination policies;

- Product/service responsibility and complaint mechanism;
  - Sustainability of operations, risk and crisis management and protection of information;
- Combating of fraud and corruption; and
- Corporate social responsibility (CSR).

### **3-4-6 Website**

The company should maintain an internet website, and it is recommended to be in Arabic and English languages. Through this venue, financial and non-financial information is disclosed in a simple manner to users. The information posted on the website should be updated regularly. Additionally, users should be able to easily communicate with the company which must ensure that e-mails and inquiries received through the website are replied to.

The website of the company should display at least the following elements:

- The company's profile, vision, mission and strategies;

Composition of the Board of Directors and its committees and senior management;

- Information on the company's activity, products and scope of business;
- Annual reports of the company;
- Periodic and annual financial statements, compared with previous periods;
- Investor Relations pages and means of direct contact therewith;
- Corporate governance policy;
- Corporate social responsibility policy;
- Suggestion and complaint mechanisms; and
- Address and contact data of the company and branches.





## **Chapter Four**

### **Corporate Governance Codes, Charters and Policies**

#### **First: Codes and Charters**

##### **4-1 Code of Ethics and Business Conduct**

It encompasses a set of values that govern and organize business conduct and ethics within a company. A code of ethics contains principles of conduct that all employees must comply with and observe in all activities, and in any workplace across that company. This is bound to positively impact the company's reputation, image and credibility, as well as the integrity of its employees, and eventually guaranteeing the rights of shareholders and all stakeholders. More importantly, the code of ethics must be complied with by all employees.

##### **4-2 Board of Directors Charter**

They are the rules that govern the performance of the Board of Directors, and are binding upon the Board Chairman and members. Operating rules include, without limitation, the following elements:

- Role of the Board of Directors;
- Composition of the Board of Directors;
- Duties and powers of the Board of Directors;
- Board relation with shareholders;
- Number of Board meetings and quorum;
- Responsibilities and duties of the Board Chairman;
- Methodology of decision making;
- Conflict of interests;
- Aspects of trading the company's shares;
- Confidentiality;
- Performance evaluation methodology for Board members; and
- Responsibilities of the Secretary of the Board.

### **4-3 Committees Charters**

They are the rules that govern the performance of the Board committees, and are binding upon committees' chairmen and members. Operating rules include, without limitation, the following elements:

- Committees' composition, responsibilities and tasks;
- Committees' meeting quorum;
- Committees' number of meetings;
- Methodology of drafting minutes of meetings; and
- Methodology and frequency of reports submitted to the Board of directors on the committees' results of activities.

## **Second: Policies**

### **4-4 Succession Planning Policy**

Succession planning policy aims to develop procedures, and evaluate the processes of selection, recruitment and promotion within the framework of securing the best qualified candidates for the right positions in tandem with encouraging professional development and raising the skills of existing employees. Additionally, the policy targets to develop a succession plan for executive management in emergencies, or in the short and long terms, while placing special emphasis on succession planning for key executives, through the company's human resources procedures manual, and through a list of candidates for key positions to be prepared on a regular and effective basis.

This is bound to achieve a value added potential for the company and guarantee its sustainability.

Succession planning policy includes, without limitation, the following elements:

- The policy objective;
- Scope of application;
- Policy principles, including:
  - Sustainability and continuity of the business;
  - Fairness;
  - Effectiveness and efficiency; and
  - Transparency and objectivity.

#### **4-5 Disclosure Policy**

The disclosure policy aims to regulate disclosure of information, in compliance with disclosure and transparency principles which aim, in turn, to highlight the importance of ensuring equitable and fair access by the company's stakeholders to relevant information.

Disclosure policy includes, without limitation, the following elements:

- The policy objective;
- Scope of application;
- Specification and definition of financial and non-financial disclosures that need to be regularly made, apart from material events;
- Disclosure means approved by the company (website, various periodic reports, press releases, conferences, and others);
- Persons authorized to make such disclosures;
- Information not to be disclosed; and
- The action to be taken in the case of non-intentional disclosure of material information.

#### 4-6 Whistleblowing Policy

The aim of the whistleblowing policy is to encourage employees and stakeholders of the company to report any misconduct, in violation of the code of ethics, or any illegal acts, and to have in place effective measures of liability and accountability, thereby fostering honesty and integrity principles across the various activities of the company. Equally crucial is that whistleblowing policy provides protection for those who make such reporting, so as to encourage persons inside and outside the company to early detect any misconducts/illegal acts, and come forward and report them at once. Confidentiality should be warranted to whistleblowers. However, such reporting should be based on objective documents or information.

Whistleblowing policy includes, without limitation, the following elements:

- The policy objective;
- The committee formed to review cases of violation of ethical conduct, and evaluate the associated risks;
- General directives of whistleblowing policy statement, including:
  - Reporting procedures;
  - Confidentiality of information and identity;
  - Protection of the whistleblower;
  - Investigation procedures of the violations reported; and
  - Some definitions (fraud and embezzlement, reporting avenues, unethical conduct, the reporter, the report, and others).

## **4-7 Conflict of Interests Policies**

### **4-7-1 Insider Trading Policy**

It is the policy that regulates insider's transacting the company's shares, pursuant to the rules set by regulatory authorities. The policy enables all stakeholders to fully understand the definition and governing rules of insider trading.

Insider trading policy includes, without limitation, the following elements:

- The policy objective;
- Defining what is meant by insider trading;
- Some definitions (insiders, close period, insider information, material events, and others);
- Abuse of inside information; and
- Restrictions imposed on insider trading by regulators and the company.

### **4-7-2 Related Party Transactions and Affiliates Policy**

Related party transactions represent a form of conflict of interests. Hence, the relevant policy aims to set appropriate criteria to regulate related party transactions in such a way that does not jeopardize the interests of the company and protects shareholders' rights.

The policy governing related party transactions includes, without limitation, the following elements:

- The policy objective;
- Identifying the transactions subject to the policy;
- Definition of "related parties";
- Criteria of approval of related party transactions; and
- Approval of related party transactions.

#### **4-8 Corporate Social Responsibility Policy**

A company has to set a clear policy on its social and environmental responsibility, and on its ongoing commitment to contribute to economic and social development.

CSR policy includes, without limitation, the following elements:

- The policy objective;
- Definition of the corporate social responsibility of the company;
- The scope of activity of the company, with respect to its social responsibility;
- Responsibility of the company towards stakeholders (employees, suppliers, customers, competitors, and others);
- Responsibility of the company towards society;
- Responsibility of the company towards environment; and
- Social and environmental responsibility initiatives which the company participates in.

## **Working Group of the Egyptian Corporate Governance Code**

This third version of the Code has been updated and developed by a working group with vast academic and practical experience in the area of prudential governance and management representing several bodies engaged in Corporate Governance applications in the Arab Republic of Egypt.

Chaired by Mr. Mohamed Tarek Youssef, representative of the Egyptian Association for Corporate Governance, the working group consisted of the following:

1. Mr. Gamal Khalifa, a representative of the Egyptian Financial Supervisory Authority and the Egyptian Institute of Directors EIoD (Deputy Head of the group).
2. Mrs. Heba Al Serafi, a representative of the Egyptian Stock Exchange (Member).
3. Ms. Rania Farouk, a representative of the Egyptian Transport and Commercial Services Company “EGYTRANS” (Member).
4. Ms. Abla Khairy, a representative of Commercial International Bank (CIB) (Member).
5. Mr. Kamel Galal, a representative of Ezz Steel Company (Member).
6. Mr. Mohamed Maher, a representative of the Egyptian Capital Market Association “ECMA” (Member).
7. Mr. Mohannad Taha Khaled, a representative of the Egyptian Private Equity Association “EPEA” (Member).
8. Mr. Mohamed Reyad, a representative of the Egyptian Institute of Directors EIoD (member and secretary of the working group).







# The Egyptian Corporate Governance Code

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