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European Bank
for Reconstruction and Development

Corporate Governance in Transition Economies

Egypt Country Report

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The contents of this publication reflect the opinions of individual authors and do not necessarily reflect the views of the EBRD.

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

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

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

Foreword

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

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

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

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

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

Methodology

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

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

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

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

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

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

Because understanding corporate governance requires a "holistic perspective", where each component needs to have a place in the overall picture – pretty much like a puzzle - in case one of the subsection was rated "weak" or "very weak", the resulting average was decreased by 0.2; in case

more than one subsection was rated “weak” or “very weak”, the resulting average was decreased by 0.5. This is because if just one component is not fitting well with the others, then all others are weakened. Similarly, the overall strength diminishes if there are more weak components.

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

Key areas were then rated according to the same criteria.

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

Rating:

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

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

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

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

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

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

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

Overview

Legislative framework

The primary sources of corporate governance legislation in Egypt are the Companies Law; the Capital Market Law; the Central Depository Law and the Law on the Central Bank, the Banking Sector and Money. The Listing rules of the Egyptian Stock Exchange also provide for a number of mandatory corporate governance requirements.¹

In 2011, the Central Bank of Egypt issued a Decision on the Corporate Governance Guidelines and Instructions for Banks, with the aim of developing the Egyptian banking system and maintaining its integrity through the application of international best practices. Banks' application of these rules should be commensurate with their size, scale and complexity of their operations and risk appetite.

A Corporate Governance Code was adopted in 2005, reviewed in 2011 and most recently in 2016². The Code – by its own wording - recommends companies to comply with its recommendations and in case of non-compliance, to clearly explain the reasons why certain recommendations have not been complied with (i.e., the so-called “*comply or explain*” approach). However, there are no mandatory requirements to this end. It appears that in 2014 only two out of the ten largest listed companies provided a “*comply or explain*” statement with the annual report. However, these statements are merely declaratory and not much informative.

Structure and functioning of the board

Companies in Egypt are organised under a one-tier board system. Boards appear to be relatively large, with an average of nine members. The boards of the ten largest listed companies possess an appropriate mix of skills. Gender diversity, however, is very limited. Legal entities can serve as board members.

Until 2016, there was no legal requirement for boards to have independent members, but the listing rules of the Egyptian Stock Exchange now require that all listed companies have at least two independent directors on their boards. The Corporate Governance Code recommends that boards should be comprised of a majority of independent non-executive members. The Code also provides for a definition of independence, but it is merely focused on negative “*non-affiliation*” criteria only, without any guidance on what it is expected from independent directors in practice (e.g., independent mind and character). Only four of the ten largest listed companies explicitly stated that they have independent board members, but they do not explain why they are considered independent.

The law does not require the roles of chair of the board and CEO to be split and it seems that combining these roles is a common practice in Egypt. This concentration of powers is concerning as it is not offset by an adequate presence of independent directors.

The law does not assign the board all its key functions. In particular, the law assigns shareholders the competence to approve the company's budget (even though respondents indicated that the board also has responsibilities in this regard) and seems to allow them to decide on other management issues, which may undermine the board's strategic role.

Boards of the largest companies appear to be supported by audit committees, but these committees seem to lack the necessary independence to make them effective. In 2016, listing rules of the Egyptian Stock Exchange introduced a requirement that audit committees be comprised of at least three non-executive board directors, two of whom are independent. Other committees are not common in Egypt.

There is no practice of performing board evaluations or appointing corporate secretaries. It was not possible to determine how boards work in practice, since disclosures on the number of board meetings and board activities is very limited.

The framework underpinning fiduciary duties seems to be undeveloped. Conflicts of interest situations appear to be regulated by law, but there is no clear evidence that boards are effectively monitoring them.

Transparency and Disclosure

¹ In 2016, the Egyptian Financial Supervision Authority (EFSA) also issued a set of corporate governance rules to be adopted by all capital market participants, including brokerage firms, asset management companies and investment funds.

² In August 2016, a new (third) version of the Corporate Governance Code was introduced. While acknowledging this novelty, this was after the cut-off date of the report and it has not been considered in the report.

Listed companies must prepare annual reports including both financial and non-financial information and file them with the Stock Exchange. Annual reports must include the auditors' opinions and companies appear to comply with this. Annual reports are generally available on companies' websites and most of the ten largest listed companies also disclose the minutes of the general shareholders' meeting and information on their major shareholders.

Non-financial information, however lacks quality and is often difficult to find. Disclosure on board and committee activities and board members' dealings with the companies' shares is particularly poor.

Listed companies are required to submit a corporate governance statement, but information provided is vague and in most cases it is not clear if the company complies or not with the Corporate Governance Code's recommendations. None of the ten largest listed companies publish their articles of association on their websites.

Financial statements are prepared and audited in accordance with the Egyptian Accounting Standards and Standards on Auditing, which are largely in conformity with IFRS and with the IASs. Auditors' names of the ten largest listed companies are publicly available. All these auditors declared to be independent.

Monitoring of compliance with the reporting obligations by the stock exchange seems to have become more active lately; *this monitoring effort needs to continue to ensure a better quality of disclosure of non-financial information..*

Internal Control

Listed companies and banks are required to set up an audit committee and to have their financial statements audited by an independent external auditor (two auditors in case of banks). Banks are also required to establish an internal audit function; it is not clear if this is also required for listed companies. It is however recommended by the Corporate Governance Code. Most of the ten largest listed companies disclosed to comply with these requirements.

There is little information regarding audit committees' composition and activities. Further, evidence suggests that committees are not composed of a majority of independent board members. The inadequate degree of independence within audit committees might compromise their role at the top of the company's "*lines of defence*". In 2016, listing rules of the Egyptian Stock Exchange introduced a requirement that audit committees be comprised of at least three non-executive board directors, two of whom are independent. External auditors are allowed to provide non-auditing services, and are not subject to rotation obligations.

Despite the fact that the Code recommends companies to adopt their own code of ethics, only a minority of the ten largest listed companies disclose having one. Further, in most cases, it is not clear if the codes' implementation is adequately monitored.

There is no law on whistleblowing protection. Regulations on related party transactions and conflicts of interest seem generally sound; however, it is not clear that this framework is well-implemented in practice.

Rights of Shareholders

Shareholders enjoy a number of basic rights. Shareholders representing 5% of the capital may call a general shareholders' meeting (GSM) and add items to the GSM's agenda. Shareholders have the right to nominate directors and enjoy pre-emptive rights in case of capital increases. Shareholders have the right to access corporate documentation.

Supermajority is only required for major corporate decisions. However, the law is silent on cumulative voting and since ownership is highly concentrated, this is a shortcoming. Shareholders are provided with judicial mechanisms to enforce their rights but this does not appear to be a common practice.

Conflicts of interest and self-dealing are regulated by law. Insider trading is prohibited, but there is limited evidence of enforcement.

Shareholder agreements are common in Egypt and they appear to be enforceable between parties; shareholder agreements of listed companies need to be disclosed. Shareholders are required to disclose significant shareholding variations. The share register of listed companies is required to be maintained by an external and independent organisation.

Stakeholders and Institutions

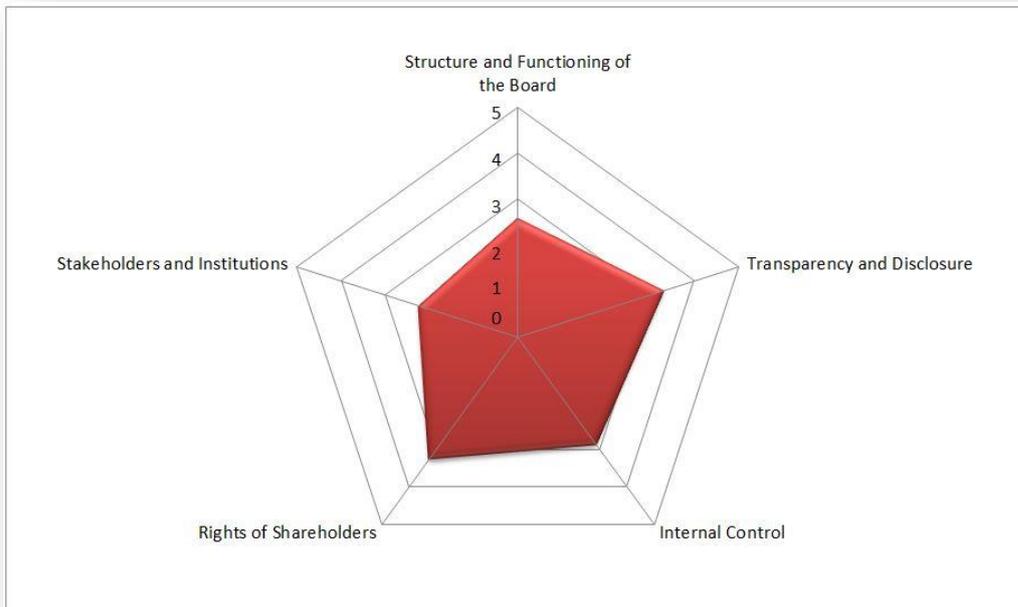
Egypt has a well-capitalised and liquid stock exchange. The website of the exchange provides some financial and non-financial information; however, it lacks information on fundamental corporate governance matters, such as the board of directors.

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There is an Egyptian Corporate Governance Code, based upon OECD's Principles of Corporate Governance. The Code is, however, poorly implemented, and there is very little disclosure on the level of compliance with its recommendations. In 2011, the Central Bank of Egypt issued a Decision on the Corporate Governance Guidelines and Instructions, to be applied by all banks in Egypt in accordance with the principle of proportionality (i.e. application of these rules should be commensurate with the size of the bank, scale and complexity of its operations and its risk appetite), which may resemble a "comply or explain" approach. International audit firms and ratings agencies are present and active in Egypt.

The institutional environment promoting corporate governance does not seem strong. While the case law seems to be fairly accessible, there are inconsistencies in the legislation. Listed companies appear to pay little attention to queries from stakeholders, and indicators produced by international organisations rank Egypt poorly with regard to investor protection, competitiveness and corruption perceptions, although some recent improvement can be noted.

Corporate Governance Legislation and Practices in Egypt



Source: EBRD, Corporate Governance Assessment 2016

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

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

Key Areas and Rating	Strengths and Weaknesses
<p>1. Structure and Functioning of the Board Weak</p>	<p>Companies in Egypt are organised under a one-tier board system. Boards appear to be relatively large, with an average of nine members. The boards of the ten largest listed companies possess an appropriate mix of skills. Gender diversity, however, is very limited. Legal entities can serve as board members.</p> <p>Until 2016, there was no legal requirement for boards to have independent members, but the listing rules of the Egyptian Stock Exchange now require that all listed companies have at least two independent directors on their boards. The Corporate Governance Code recommends that boards should be comprised of a majority of independent non-executive members. The Code also provides for a definition of independence, but it is merely focused on negative “non-affiliation” criteria only, without any guidance on what it is expected from independent directors in practice (e.g., independent mind and character). Only four of the ten largest listed companies explicitly stated that they have independent board members, but they do not explain why they are considered independent.</p> <p>The law does not require the roles of chair of the board and CEO to be split and it seems that combining these roles is a common practice in Egypt. This concentration of powers is concerning as it is not offset by an adequate presence of independent directors.</p> <p>The law does not assign the board all its key functions. In particular, the law assigns shareholders the competence to approve the company’s budget (even though respondents indicated that the board also has responsibilities in this regard) and seems to allow them to decide on other management issues, which may undermine the board’s strategic role.</p> <p>Boards of the largest companies appear to be supported by audit committees, but these committees seem to lack the necessary independence to make them effective. In 2016, listing rules of the Egyptian Stock Exchange introduced a requirement that audit committees be comprised of at least three non-executive board directors, two of whom are independent. Other committees are not common in Egypt.</p> <p>There is no practice of performing board evaluations or appointing corporate secretaries. It was not possible to determine how boards work in practice, since disclosures on the number of board meetings and board activities is very limited.</p> <p>The framework underpinning fiduciary duties seems to be undeveloped. Conflicts of interest situations appear to be regulated by law, but there is no clear evidence that boards are effectively monitoring them.</p>
<p>1.1 Board Composition Weak</p>	<p>Strengths:</p> <ul style="list-style-type: none"> • The law does not impose requirements on companies’ board members’ qualifications, but the Corporate Governance Code recommends board members to have sufficient technical knowledge and experience. In the case of banks, board members must be approved by the Central Bank which reviews their qualifications. Five out of the ten largest listed companies disclose their board members’ qualifications, and they seem to include a diversified mix of skills. • In 2016, the listing rules of the Egyptian Stock Exchange have introduced a requirement that all listed companies have at least two independent directors on their boards. The Corporate Governance Code recommends that boards should be made up of a majority of independent non-executive directors. • Listed companies and banks are required to set up audit committees. The majority of audit committee’s members must be comprised of non-executive directors, and executive members cannot sit in these committees. In 2016, listing rules of the Egyptian Stock Exchange introduced a requirement that audit committees be comprised of at least three non-executive board directors, two of whom are independent. The Corporate Governance Code recommends that audit committees should be composed of independent directors, and that one of them should be a financial or accounting expert. However, in the absence of non-executive directors, the framework allows “outsiders” (i.e., non-board members) to be appointed. We have some reservations about this solution (see “Functioning and Independence of the Audit Committee” below). <p>Weaknesses:</p> <ul style="list-style-type: none"> • It seems that legal entities can serve as board members, provided that they appoint a natural person as their representative. Albeit, none of the companies in our sample disclosed having any corporation in their board, this solution raises some concerns, since it weakens board members’ fiduciary duties and does not ensure that these members are fit for purpose. • The average number of board members is nine, which is relatively large and evidence has shown that smaller boards tend to perform better, provided that they have the right mix of skills and support (e.g., corporate secretary). • The law does not require the roles of chair of the board and CEO to be split. The Corporate Governance Code recommends these roles to be separated and when they are combined, it recommends that the annual report should provide the reasons for such decision. In four of the ten largest listed companies, the roles are performed by the same person, but we could not find any explanation for that.

Key Areas and Rating	Strengths and Weaknesses
	<ul style="list-style-type: none"> The law is still silent with regard to independent directors, including in the case of listed companies and banks. Four companies disclosed having independent directors on their boards, but only three identify them by name. No explanation is provided to explain the ground upon which they are considered independent. It seems that “outsiders” are allowed to be members of audit committees, This raises some concerns (see “Functioning and Independence of the Audit Committee” below). Information on audit committees’ composition and members’ qualifications is very limited. The Corporate Governance Code recommends other committees to have at least one independent member; however, committees other than the audit committee are rare in Egypt.
<p>1.2 Gender Diversity at the Board (6.13%) Very Weak</p>	<p>Strengths:</p> <ul style="list-style-type: none"> It seems that the Egyptian Stock Exchange has devoted attention to the question of gender diversity and has included this issue within the broader topic of sustainability, the promotion of which is now a part of the stock exchange’s strategy. The stock exchange is working on model guidance for the sustainability report for listed companies and it remains to be seen whether gender diversity will be addressed by it. <p>Weaknesses:</p> <ul style="list-style-type: none"> Both the law and the Corporate Governance Codes are silent on gender diversity at the board. All ten largest listed companies in the country disclosed their board composition, but only four appear to have women in their boards. Among these companies, the average of female representation amounts to 15.33%. In total, there are 6 women among 86 board members. The average female representation on boards of the ten largest listed companies is 6.13%.
<p>1.3 Independent Directors Weak</p>	<p>Strengths:</p> <ul style="list-style-type: none"> The listing rules of the Egyptian Stock Exchange have introduced a requirement that all listed companies have at least two independent directors on their boards and the audit committees of those companies must also include at least two independent directors. The Corporate Governance Code recommends that the majority of the board members should be independent. <p>Weaknesses:</p> <ul style="list-style-type: none"> Boards seem to lack the necessary level of independence to both offset the influence of controlling shareholders, and provide assurances to investors. Only four of the ten largest listed companies explicitly states that they have independent board members, but only three identify them by name. The criteria used to consider the members as independent are not clearly disclosed by companies, which raises doubts about the actual independence of these members. Seven companies disclose their audit committee composition and in four of them, they are fully or partially composed of independent directors. However, a 2009 World Bank Report on the Observance of Standards and Codes in Egypt points out that a number of audit committees include executive directors. This is a major weakness. The definition of independence in the Corporate Governance Code is limited to negative criteria defining “non-affiliation”. It should be pointed out that the concepts of “non-affiliation” and “independence” are different. While non-affiliation can be established by negative criteria only, independence necessarily needs objectivity of mind and character, which is a positive character that should be demonstrated and explained in practice.
<p>1.4 Board Effectiveness Weak</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Listed companies and banks are required to set up an audit committee and all ten largest listed companies disclose having an audit committee in place. The Corporate Governance Code recommends boards to form other committees (in addition to the audit committee), such as risk, investment, remuneration and nomination committees with independent members. It also recommends boards to set out training plans for their members and to appoint a corporate secretary. Additionally, it assigns to the chair of the board with the responsibility for evaluating the board members’ performance. In the Egyptian context, where commonly the chair of the board is also the CEO, this might not be the most appropriate solution. <p>Weaknesses:</p> <ul style="list-style-type: none"> None of the companies in our sample disclosed performing board evaluation or having a corporate secretary - it seems that in practice the secretary’s role – when it exists - is merely administrative (see the 2009 World Bank Report on the Observance of Standards and Codes in Egypt for more information on this issue). There is very little disclosed information on the types of activities that boards conduct. Only two of the surveyed companies (both banks) disclose the number of the audit committee meetings, and none of them discloses the members’ qualifications. Four companies in our sample disclosed having a remuneration committee, and other two reported having nomination committees. In addition, one bank discloses having a separate risk committee, and in another bank risk monitoring duties have been assumed by the audit committee (audit and risk committee). None of these companies provided information on their activities.
<p>1.5 Responsibilities of the Board Weak</p>	<p>Strengths:</p> <ul style="list-style-type: none"> It seems that the framework of board members’ liability is relatively developed. There is some case law on directors’ liability under instances of fraud and breach of law. Directors benefit from the business judgement rule when they act in good faith and on an informed basis. Conflicts of interest are regulated by law and board members with direct or indirect interests on a particular decision cannot participate in the voting process of those matters. The transaction must be further approved by

Key Areas and Rating	Strengths and Weaknesses
	<p>shareholders.</p> <p>Weaknesses:</p> <ul style="list-style-type: none"> • <i>The law is not clear in regard to board members' fiduciary duties and to whether they should act in the best interests of the company and all shareholders as a whole. Some companies identify certain directors as representing some shareholders.</i> • <i>The above mentioned World Bank Report points out that "In practice, directors do not generally feel accountable to the company and its shareholders, but to the controlling owner. The norm is for the annual general meeting of shareholders to discharge the board from its accountability each year, though a small number of directors have been held liable for criminal offenses. In practice, minority shareholders are unable to hold directors accountable for violations of their duties, largely due to an inefficient court system. As a consequence, boards may fail to treat shareholder fairly, in particular with respect to protecting minority shareholder rights".</i> • <i>The law assigns the general shareholders' meeting with the competence to approve the budget (even though respondents indicated that the board also has responsibilities in this regard), which may undermine the board's strategic responsibility. Moreover, the law seems to allow the general shareholders' meeting to decide and issue recommendations on any management issue.</i> • <i>Significant related party transactions must be reviewed by the audit committee. This is fine in principle, provided that the audit committee is made of qualified and independent directors (which, does not seem to be necessarily the case in Egypt). Further, there is no requirement for companies to disclose their decision-making process for approving such transactions.</i>

Key Areas and Rating	Strengths and Weaknesses
<p>2. Transparency and Disclosure Fair</p>	<p>Listed companies must prepare annual reports including both financial and non-financial information and file them with the Stock Exchange. Annual reports must include the auditors' opinions and companies appear to comply with this. Annual reports are generally available on companies' websites and most of the ten largest listed companies also disclose the minutes of the general shareholders' meeting and information on their major shareholders.</p> <p>Non-financial information, however lacks quality and is often difficult to find. Disclosure on board and committee activities and board members' dealings with the companies' shares is particularly poor.</p> <p>Listed companies are required to submit a corporate governance statement, but information provided is vague and in most cases it is not clear if the company comply or not with the Corporate Governance Code's recommendations. None of the ten largest listed companies publish their articles of association on their websites.</p> <p>Financial statements are prepared and audited in accordance with the Egyptian Accounting Standards and Standards on Auditing, which are largely in conformity with IFRS and with the IASs. Auditors' names of the ten largest listed companies are publicly available. All these auditors declared to be independent.</p> <p>Monitoring of compliance with the reporting obligations by the stock exchange seems to have become more active lately; this monitoring effort needs to continue to ensure a better quality of disclosure of non-financial information.</p>
<p>2.1 Non-Financial Information Disclosure Weak/Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> • Listed companies are required to prepare an annual report including non-financial information and to file it with the Egyptian Stock Exchange. Non-listed companies can opt to publish their annual reports or send them directly to their shareholders. • Nine out of the ten largest listed companies disclose their annual reports on their website, despite an apparent lack of obligation to do so. • Listed companies are required to disclose details about their board members and senior managers. All the ten largest listed disclose their board composition and six of them disclose directors' qualifications in their annual report or on their corporate website. • According to listing rules of the Egyptian Stock Exchange, all listed companies are required to immediately disclose the minutes of their boards and general shareholders' meetings. • The large majority of the ten largest listed companies provide the minutes of the general shareholders' meeting and information on related-party transactions, share capital and their shareholders (although not going into details on the ultimate beneficiary). <p>Weaknesses:</p> <ul style="list-style-type: none"> • Most of non-financial information available in the annual reports is vague and does not provide a comprehensive understanding of the company's structure. • The websites of the ten largest listed companies are reasonably informative. However, information is often difficult to find and in some cases, outdated. None of the ten largest listed companies publish the articles of associations on the website. • Listed companies are recommended to include in their annual reports a corporate governance statement aiming at disclosing their compliance with the Corporate Governance Code. However, they are not required to disclose their compliance with the Code on a "comply or explain" basis. Only two of the ten largest listed companies include a "comply or explain" statement in their annual report. These statements provide limited information. • The Corporate Governance Code recommends companies to provide adequate information on the number of board and committee meetings and their performance; however, information in this regard is very limited. Disclosure on the composition of committees is also poor. Only two of the ten largest listed companies provided information on its board activities and on the number of the audit committee meetings. Four companies disclose information on the composition of their committees, but without detailing the members' qualifications. • None of the ten largest listed companies discloses directors' dealings involving company's shares. • Disclosure of executive remuneration is not required, even on an aggregate level.
<p>2.2 Financial Information Disclosure Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> • Nearly all ten largest listed companies publish their annual report on their website, including their financial statements. • Companies are required to include the auditor's opinion in their annual reports along with the financial statements, and listed companies must file their annual reports with the capital markets regulator. • Egyptian Accounting Standards and Standards on Auditing apply to the financial statements preparation and auditing. These were developed based on the IASs and IFRS and are largely in conformity with them. <p>Weaknesses:</p> <ul style="list-style-type: none"> • Only four of the ten largest listed companies appear to prepare their financial statements in accordance with IFRS. • Websites of some companies do not contain most recent annual reports.

Key Areas and Rating	Strengths and Weaknesses
<p>2.3 Reporting to the Market and to Shareholders Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> • Despite the absence of a clear obligation, nearly all companies publish their annual reports on their website. • All companies are required to publish a summary of their semi-annual and annual reports in the newspapers. • The law requires disclosure of price sensitive information. • It seems that the stock exchange has been more actively monitoring companies' disclosure, having suspended trading of securities of those companies that fail to disclose timely information. This monitoring effort needs to continue to ensure a better quality of disclosure of non-financial information. <p>Weaknesses:</p> <ul style="list-style-type: none"> • Overall, non-financial information is incomplete, vague and difficult to find. • The above mentioned World Bank Report points out that "financial and non-financial information is not easily accessible by investors"
<p>2.4 Disclosure on the External Audit Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> • Companies are required to have external auditors appointed by the general shareholders' meeting and to disclose its name, and companies seem to comply with these requirements. Banks are required to have two auditors. • The listing rules assign to the audit committee the authority for the nomination, remuneration, dismissal, resignation and all matters related of the external auditors. • The auditors of nine of the ten largest listed companies declared to be independent. <p>Weaknesses:</p> <ul style="list-style-type: none"> • Provision of non-auditing services by the external auditor is allowed and it seems to be common practice in Egypt. However, information on this matter is extremely limited. This should be carefully monitored as it might undermine the independence of the external auditor.

Key Areas and Rating	Strengths and Weaknesses
<p>3. Internal Control Fair</p>	<p>Listed companies and banks are required to set up an audit committee and to have their financial statements audited by an independent external auditor (two auditors in case of banks). Banks are also required to establish an internal audit function; it is not clear if this is also required for listed companies. It is however recommended by the Corporate Governance Code. Most of the ten largest listed companies disclosed to comply with these requirements. There is little information regarding audit committees' composition and activities. Further, evidence suggests that committees are not composed of a majority of independent board members. The inadequate degree of independence within audit committees might compromise their role at the top of the company's "lines of defence". In 2016, listing rules of the Egyptian Stock Exchange introduced a requirement that audit committees be comprised of at least three non-executive board directors, two of whom are independent. External auditors are allowed to provide non-auditing services, and are not subject to rotation obligations. Despite the fact that the Code recommends companies to adopt their own code of ethics, only a minority of the ten largest listed companies disclose having one. Further, in most cases, it is not clear if the codes' implementation is adequately monitored. There is no law on whistleblowing protection. Regulations on related party transactions and conflicts of interest seem generally sound; however, it is not clear that this framework is well-implemented in practice.</p>
<p>3.1 Quality of the Internal Control Framework Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Listed companies and banks are required to set up audit committees. Banks are also required to establish an internal audit function; it is not clear if this is also required for listed companies. It is however recommended by the Corporate Governance Code. Nearly all companies in our sample disclosed to comply with these requirements. The Corporate Governance Code recommends that the head of the internal audit department should, on a quarterly basis, present a report to the board and audit committees on matters regarding compliance with relevant laws and corporate governance principles. Banks are required to establish a standalone compliance function, and it seems that most banks comply with this requirement. The Institute of Internal Auditors operates in the country. <p>Weaknesses:</p> <ul style="list-style-type: none"> The Corporate Governance Code recommends companies to adopt a code of ethics or code of conduct. Only four companies of our sample disclose having one. No company disclosed the name of the officer/department in charge of ensuring the code's implementation. There is no specific law ensuring whistleblowing protection.
<p>3.2 Quality of Internal and External Audit Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Listed companies and banks are required to have an external auditor whose respective name and report must be disclosed. Most companies seem to comply with these requirements. Auditors are required to be independent; the auditors of nine of the ten largest companies declare to be independent. A large majority of these companies are audited by international audit firms. The audit committee is responsible for overseeing internal controls as well as nominations, remunerations, dismissals, and all other matters related to external audit. <p>Weaknesses:</p> <ul style="list-style-type: none"> Disclosure on the audit committees' composition, members' qualifications and activities is rather limited. Evidence suggests that most audit committees lack the appropriate degree of independence, which can undermine their ability to ensure the adequate functioning of internal and external audit systems. The Corporate Governance Code recommends that decisions on appointment, dismissal, and financial terms of the head of the internal audit department should be made by the managing director. Even though the Code states that these decisions should be subject to the approval of the audit committee, we believe that they are not in line with best practices and may undermine the independence and effectiveness of the internal audit. Banks are required to have two external audit firms conducting the external audit. This requirement is not necessarily a weakness and can ensure more reliable information being provided to the market, but it also involves an extra-cost for banks - for which the added value is yet to be demonstrated. Provision of non-auditing services by external auditing firms is not restricted by law, and it is a common practice in Egypt. Additionally, external auditors are not subject to rotation obligations. Disclosure on non-auditing services or rotating auditors is inexistent among the ten largest listed companies.
<p>3.3 Functioning and Independence of the Audit Committee Weak</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Listed companies and banks are required to establish an audit committee; companies seem to formally comply with this requirement. All ten largest listed companies disclose having an audit committee in place. In 2016, listing rules of the Egyptian Stock Exchange introduced a requirement that audit committees be comprised of at least three non-executive board directors, <u>two of whom are independent</u>. The Corporate Governance Code recommends audit committees to be composed of independent directors, and further suggests

Key Areas and Rating	Strengths and Weaknesses
	<p>that one of them should be a financial or accounting expert; however, the Code's recommendations are not mandatory, and it seems that the Code's implementation is limited.</p> <p>Weaknesses:</p> <ul style="list-style-type: none"> The law do not require audit committees to be comprised of a majority of independent board members (the listing rules have only recently introduced the requirement to have at least two independent members in the committee), nor do they require committees to be chaired by them. Legislation only requires committees to be comprised of a majority of non-executive directors. In the absence of non-executive directors, it appears that "outsiders" (i.e., non-board members) were appointed. We have reservations about allowing outsiders to be part of audit committees. We believe that it is essential that members sitting in the audit committee and recommending specific actions to the board then follow up on such recommendations, reinforcing their positions and the board's "objective judgement". Further, we believe that audit committee members should have a comprehensive understanding of the company's business when performing their duties – while outsiders might only have a partial understanding. Finally, committees that include outsiders might have confidentiality and accountability issues, since 'outsiders' might not be bound by the same duties of loyalty and care required of board members. While it is legitimate that the audit committee might need external advice or expertise on specific issues, it should be able to request such advice without needing to replace the board members with external advisors. Disclosure of audit-committee-related information is very low. Only four companies in our sample disclose information on their audit committee compositions. Two of them state that all members are independent; however, the independence criteria used to ground this disclosure are not provided; the same doubts we have raised about the independence of board members apply to the independence of audit committee members. Only one company discloses information on its committee's meeting frequency.
<p>3.4 Control over Related Party Transactions and Conflict of Interest Fair/Weak</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Related party transactions and conflicts of interest are regulated by law. Board members with interests on a particular decision cannot participate in the voting process of such matters, and the transactions must be further approved by the shareholders. Significant related party transactions must be reviewed by the audit committee. Eight out of the ten largest listed companies disclose the related party transactions with their financial statements or annual reports. <p>Weaknesses:</p> <ul style="list-style-type: none"> A 2015 IMF report on banks highlighted that supervisory powers, related-party lending and identification of ultimate beneficial owners are problematic in the country. It appears that no material sanctions have been imposed for breaching rules on conflict of interest disclosures; thus, it is unclear whether the regulator properly monitors these issues.

Key Areas and Rating	Strengths and Weaknesses
<p>4. Rights of Shareholders Fair</p>	<p>Shareholders enjoy a number of basic rights. Shareholders representing 5% of the capital may call a general shareholders' meeting (GSM) and add items to the GSM's agenda. Shareholders have the right to nominate directors and enjoy pre-emptive rights in case of capital increases. Shareholders have the right to access corporate documentation.</p> <p>Supermajority is only required for major corporate decisions. However, the law is silent on cumulative voting and since ownership is highly concentrated, this is a shortcoming. Shareholders are provided with judicial mechanisms to enforce their rights but this does not appear to be a common practice.</p> <p>Conflicts of interest and self-dealing are regulated by law. Insider trading is prohibited, but there is limited evidence of enforcement.</p> <p>Shareholder agreements are common in Egypt and they appear to be enforceable between parties; shareholder agreements of listed companies need to be disclosed. Shareholders are required to disclose significant shareholding variations. The share register of listed companies is required to be maintained by an external and independent organisation.</p>
<p>4.1 General Shareholders' Meeting (GSM) Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Shareholders representing 5% of the shares are entitled to request items to be added to the general shareholders' meeting (GSM) agenda, and to call an ordinary GSM (10% is required for extraordinary GSM sessions). Shareholders have the right to ask oral and written questions at the GSM. The law provides for equal treatment of all shares of the same class. Voting by proxy and by post is permitted. Electronic voting seems to be allowed; however, this process faces legal and procedural problems. The law requires financial statements, the auditors' report and the management report to be discussed and approved at the GSM. These documents should be sent together with the GSM invitation by e-mail. It appears that eight of ten largest listed companies published notifications and materials in their or the stock exchange's website. <p>Weaknesses:</p> <ul style="list-style-type: none"> As long as a majority of the shareholders agree to so do, urgent matters can be discussed and voted on without being previously added to the agenda. This does not seem to be a sound provision, especially considering that ownership in Egypt is highly concentrated.
<p>4.2 Protection against Insider Trading and Self-dealing Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Insider trading is prohibited and may be punished with fines and imprisonment. Acquisitions of shares by a company's director must be disclosed and communicated to the regulator. Conflicts of interest and related-party transactions are regulated by law. <p>Weaknesses:</p> <ul style="list-style-type: none"> Insider trading is perceived as a problem by the regulator and the stock exchange. Most cases are resolved on the administrative level rather than in court. It appears that a few insider trading cases were investigated in the past few years. We could not find any disclosures on dealings involving board members of the ten largest listed companies, senior management officers, or controlling shareholders.
<p>4.3 Minority Shareholders Protection and Shareholders' Access to Information Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Shareholders have the right to nominate candidates to the board, and shareholders representing 5% of the shares are entitled to call a GSM, while 10% is required for extraordinary GSM sessions. Shareholders are assigned pre-emptive rights in case of capital increase. The law provides for equal treatment of shares of the same class and does not allow for multiple voting rights. Shareholders are entitled to inspect the GSM's minutes and list of major shareholders. In case of grave infractions by board members or auditors, shareholders representing 10% of the share capital in companies, and 20% of the share capital in banks, are entitled to demand the inspection of the company with regard to such infractions. In general, annual reports are easily accessible. Qualified majority is required for major corporate changes. Minority shareholders may block major corporate changes with a 25%+1 vote. In principle, shareholders may bring derivative claims as principals or on behalf of the company. In practice, these claims seem to be rare. <p>Weaknesses:</p> <ul style="list-style-type: none"> Disclosure of non-financial information is generally poor. Cumulative voting, proportional representation or similar mechanisms are not provided by law and are rarely used in practice. Only the Corporate Governance Code discusses the use of these mechanisms.
<p>4.4 Registration of Shareholdings Moderately strong</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Shareholding registration is required by law; in the case of listed companies, such responsibility is performed by an external organisation - Misr for Central Clearing, Depository and Registry (MCDR). Shareholder agreements are common in Egypt and they appear to be fully enforceable. The free transferability of shares cannot be restricted. However, some limitations may be provided by shareholder

Key Areas and Rating	Strengths and Weaknesses
	<p>agreements.</p> <ul style="list-style-type: none">• Both Capital Market Law and listing rules of the Egyptian Stock Exchange require shareholders (together with related parties) whose ownership has exceeded 5% or its multiples to disclose these changes to the stock exchange and the market. Insiders are required to place similar disclosure in case their ownership (together with the related party) increased /fell below 3% or its multiples.• Listing rules require the company to disclose information about any shareholder agreements before the company's shares are traded. <p>Weaknesses:</p> <ul style="list-style-type: none">• Shareholder agreements of non-listed companies do not need to be disclosed.

Key Areas and Rating	Strengths and Weaknesses
<p>5. Stakeholders and Institutions Weak</p>	<p>Egypt has a well-capitalised and liquid stock exchange. The website of the exchange provides some financial and non-financial information; however, it lacks information on fundamental corporate governance matters, such as the board of directors.</p> <p>There is an Egyptian Corporate Governance Code, based upon OECD's Principles of Corporate Governance. The Code is, however, poorly implemented, and there is very little disclosure on the level of compliance with its recommendations. In 2011, the Central Bank of Egypt issued a Decision on the Corporate Governance Guidelines and Instructions, which is to be applied by all banks in Egypt in accordance with the principle of proportionality (i.e. application of these rules should be commensurate with the size of the bank, scale and complexity of its operations and its risk appetite).</p> <p>International audit firms and ratings agencies are present and active in Egypt.</p> <p>The institutional environment promoting corporate governance does not seem strong. While the case law seems to be fairly accessible, there are inconsistencies in the legislation. Listed companies appear to pay little attention to queries from stakeholders, and indicators produced by international organisations rank Egypt poorly with regard to investor protection, competitiveness and corruption perceptions, although some recent improvement can be noted.</p>
<p>5.1 Corporate Governance Structure and Institutions Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> The main stock market in Egypt is the Egyptian Exchange (EE). The EE is well capitalised, with a market capitalisation of USD 55 billion. Additionally, the EE is fairly liquid, and it seems that the volume of trades is relatively high. The website of the stock exchange is available in English and provides some non-financial and financial information for each company, including annual reports, financial statements and auditor reports. International audit firms have a material presence in the country. International ratings agencies are active within the country; the ten largest listed firms have all been rated by international agencies. There appear to be a few firms providing corporate governance training courses to board directors. The Egyptian Institute of Directors (established by the Egyptian Financial Supervisory Authority – EFSA - http://www.eiod.org/WhoWeAre.aspx) and Egyptian Banking Institute (established by the Central Bank of Egypt - http://www.ebi.gov.eg/corporate-governance/) are also active in this area. There are two main equity tiers in the stock exchange: the Primary Market Segment and the Secondary Market Segment. Companies looking to be listed in the Secondary Market Segment are required to uphold all corporate governance standards applicable to companies listed on the Primary Market Segment, except the requirement to have an audit committee. <p>Weaknesses:</p> <ul style="list-style-type: none"> The stock exchange's website has few disclosures on companies' board compositions, auditors, main shareholders, independent directors and committee compositions. International law firms have limited presence in the country. Rulings of regulatory agencies are not publicly available.
<p>5.2 Corporate Governance Code Weak</p>	<p>Strengths:</p> <ul style="list-style-type: none"> The Egyptian Corporate Governance Code is based upon OECD's Principles of Corporate Governance. By its own wording, the Code recommends listed companies to adopt the Code under the so-called "comply or explain" basis. The Egyptian Corporate Governance Code was released in 2005 and reviewed in 2011 and 2016. The Egyptian Institute of Directors is responsible for encouraging implementation of the Corporate Governance Code's recommendations among listed companies, state-owned enterprises and public sector companies. It is also responsible for enhancing awareness of corporate governance best practices. In 2011, the Central Bank of Egypt issued a Decision on the Corporate Governance Guidelines and Instructions, to be applied by all banks in Egypt in accordance with the principle of proportionality (i.e. application of these rules should be commensurate with the size of the bank, scale and complexity of its operations and its risk appetite). In practice, this approach means that banks are generally required to apply these rules. However, if a bank cannot adhere to some of the provisions, it should demonstrate strong justifications for its non-compliance based on the above principles to the satisfaction of the Central Bank of Egypt. Although the objectives of these rules are of a prudential nature and differ from the objectives of a typical code of corporate governance, monitoring of compliance with them may resemble a "comply or explain" approach. In practice, the majority of banks either make general reference to the adherence to these rules, or disclose their governance structures in accordance with them. The Egyptian Banking Institute, which functions under the auspices of the Central Bank, provides trainings to bank staff in order to enhance banks compliance with the regulations. <p>Weaknesses:</p> <ul style="list-style-type: none"> Neither the law nor the stock exchange requires listed companies to comply with the Egyptian Corporate Governance Code. Similarly, they do not require companies to explain any deviations from the Code. Only two of the ten largest listed companies provide a "comply or explain" section with their annual reports; unfortunately, both are declaratory and relatively meaningless.

Key Areas and Rating	Strengths and Weaknesses
	<ul style="list-style-type: none"> • We could not locate any monitoring report on companies' compliance with the Code. • There is no case law referring to the Corporate Governance Code.
<p>5.3 Institutional Environment Weak</p>	<p>Strengths:</p> <ul style="list-style-type: none"> • The Egyptian Financial Supervisory Authority has created a special Corporate Governance Department, and the Egyptian Stock Exchange has begun to consistently enforce its listing rules. The Bank Supervision Department of the Central Bank of Egypt has the authority to monitor corporate governance practices of banks. • According to the 2015 EBRD Assessment on Accessibility of Court Decisions, case law is fairly easily accessible to both parties and the public, with the inefficiency of relevant court employees highlighted as one of the issues. <p>Weaknesses:</p> <ul style="list-style-type: none"> • Several inconsistencies were found in laws, regulations and the Egyptian Corporate Governance Code. • No company answered our questionnaire, showing limited attention to corporate governance queries from stakeholders and potential investors. • Indicators provided by international organisations rank Egypt poorly with regard to investor protection, competitiveness and corruption perceptions, although some recent improvement can be noted.