In light of the current developments and circumstances, decision makers are required to make critical and rapid decisions to navigate the unforeseen changes in the global market. A strong corporate governance framework establishes the foundation of an ideal organization and maintains sustainable growth by safeguarding good business practice in various business contexts.

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Over the past few years, key regulators in the UAE have enhanced the regulatory scene with further laws, guidelines and decrees. We have seen the following recent developments in the regulatory landscape:

- Central Bank of UAE’s Corporate Governance Regulations and Standards issued on 18 July 2019 which aimed to standardize corporate governance practices for banks in the UAE.
- Securities & Commodities Authority’s Decision no. (3/Chairman) of 2020 concerning the Joint Stock Companies Governance Guide.
- Cabinet’s new Decision no. (2/9w) of the year 2020 on the Governance System for Federal Government Boards.

In addition to the above regulations/laws, each industry and type of entity is governed by regulations/standards aimed at establishing minimum standards to ensure effective Corporate Governance. All of these standards are geared towards providing key stakeholders and regulators the level of confidence and assurance on the stability and long term sustainability of the entity.

Macroeconomic challenges, whether unforeseen or expected, have resulted in liquidity constraints in both private and public entities, requiring organizations to secure alternate funding sources. Financial institutions view an entity’s governance maturity as a critical indicator of an entity’s going concern, business continuity and long term sustainability, all of which are assessed prior to deciding on providing funding facilities, restructuring existing credit facilities, etc.

Throughout the following pages, we highlight:

- Key elements towards having an effective corporate governance framework.
- Challenges that may be faced by different entities when adopting leading governance practices.
- Our methodologies and approaches to support entities working to align their corporate governance practices with leading international standards and benchmarks.
- Our rich corporate governance experience covering diversified sectors and providing customized maturity tools to assess governance frameworks.
Dynamic, rapid evolution of corporate governance frameworks

- Of jurisdictions globally have requirements or recommendations to implement internal control and risk management systems. 90%
- Of jurisdictions globally have amended either their company law or securities law to incorporate changes in corporate governance requirements since 2015. 84%
- Of all jurisdictions have adopted a “comply or explain” corporate governance framework. 83%
- Of jurisdictions now issue national reports on company implementation of corporate governance, up from 58% in 2017. 67%
- Of all jurisdictions have revised their national corporate governance codes in the past two years. 50%

(OECD Corporate Governance Factbook, 2019)

Corporate governance is a critical component to ensure organizational sustainability and excellence. It enhances the concepts of justice, transparency, integrity and achievement of various stakeholders’ interests. The following summarize the main benefits of Corporate Governance for an entity:

- High institutional performance.
- Public reputation through increased transparency and accountability.
- Enables better strategic planning.
- Increased oversight over management and financial performance.
- Effective internal control framework.
- Cultivates a culture of accountability.
The following components conceptualize the backbone of a strong corporate governance framework across all entity types.

**Governance operating model**
- Matters reserved for shareholders and board
- Board member nomination and selection process
- Structure and composition of board and its committees
- Reporting lines of control functions

**Governance culture**
- Code of conduct, fraud prevention and whistleblowing mechanism
- Related party transaction monitoring, assessment and reporting mechanism
- Independence of board members
- Conflict of interest monitoring mechanism
- Employees’ competencies and practicality of KPIs/targets

**Terms of reference for board and its committees**
- Role of chairman of the board and board committees
- Mandate of board and its committees
- Induction and development programs
- Agenda and allocation of board’s time to various agenda items
- Quorum and attendance
- Documentation of decisions and minutes of meetings

**Compensation and performance evaluation**
- Compensation for board members, senior management, heads of control functions and all employees
- Bonus structures
- Internal and external performance assessment of the board, committees and individual board members

**Senior management**
- Responsibility, accountability and authority of senior management
- Reporting mechanism to the board and its committees
- Responsibilities of control functions
- Management committees, their mandates and delegation of authority
- Selection and appointment of senior management

**Delegation of authority**
- Matters reserved to the board
- Financial limits and levels of delegation
- Strategic and operational delegation of authority matrices whilst ensuring segregation of duties
Secretariat practices
- Corporate secretary policies and procedures
- Secretariat skillsets and qualifications
- Convening board and board committee meetings
- Responsibility of the corporate secretary
- Minutes of meetings, action plans tracker and implementation of action plans

Governance disclosure and reporting
- Annual governance report
- Reporting and disclosure policy and mechanism
- Timely and accurate disclosures
- Annual undertaking confirming effectiveness of internal policies

Risk management and control
- Organizational structure and three lines of defense model
- Effective Enterprise Risk Management framework
- Effective Compliance Framework
- Fraud Risk Management Framework
- Independent and strong Internal Audit function
- Quality Assurance Reviews on the different functions within the three lines of defense
Key challenges faced by all entity types

When working to adapt to the changing corporate governance landscape and standards, entities may face one or more challenges as shown below:

- Customizing corporate governance practices to the entity’s structure to ensure adaptation of leading practices
- Confiriming implementation of effective mechanisms to identify, assess and report related party transactions
- Building strong corporate culture and values while increasing awareness of corporate governance importance
- Ensuring that the board and its committees are sufficiently diverse in composition, knowledge, experience and skillset
- Developing a fit and proper process for selection of board members and senior management
- Defining, managing and monitoring board members’ independence status
- Adopting a robust “three lines of defense” approach and ensuring adequate collaboration between risk management, compliance, internal controls, and internal audit
- Conducting external performance assessments of the board, its committees and individual board members
- Ensuring adequate corporate governance practices amongst all subsidiaries, where applicable
We understand the challenges of all entities regardless of industry and size when instituting strong corporate governance practices.

Our key focus is to support entities seeking to develop or enhance their corporate governance practices, improving the sustainability, robustness and transparency of corporate governance frameworks. We encourage our clients to align their corporate governance frameworks with strategic goals and objectives, whilst taking into consideration their size, operations complexity and risk profile.

We provide the following governance services to support you in achieving the above objectives:

1. Ensuring adequate corporate governance practices amongst all subsidiaries, where applicable
2. Provide an independent anonymous whistleblowing hotline through a case management tool. Clients’ stakeholders can use this mechanism to escalate all concerns
3. Assess governance maturity, improve/design governance operating models, charters, policies and procedures and delegation of authority matrices
4. Prepare templates for the annual corporate governance reports
5. Independent performance assessment of the board and its committees
6. Independent assessment of internal audit, risk management, and compliance functions
7. Conduct board and senior management training programs
8. Develop a risk and compliance management operating model, and policies and processes
KPMG has provided various corporate governance services for key clients in the UAE across different sectors and jurisdictions as depicted below:

1. Public Sector
2. Financial Services
3. Education
4. Healthcare
5. Energy and Natural Resources
6. Real Estate and Construction
7. Consumer and Industrial Markets
8. Family Businesses
9. Manufacturing
10. Retail and Distribution

Market Regulators:
- ADGM/ FSRA
- ADAA
- SCA
- DIFC/DFSA
- Central Bank of the UAE
- Insurance Authority
- The Cabinet and Executive Councils
Why KPMG Lower Gulf?

Our team of corporate governance professionals in various sectors work with KPMG’s global network of member firms to support entities in their efforts to strengthen and enhance the effectiveness of their corporate governance framework.

Our team leverages their understanding of the UAE’s strategic, operational and regulatory requirements, as well as leading industry practices when developing and/or reviewing corporate governance frameworks and practices.

KPMG Lower Gulf’s team comprises of members with more than 30 years of experience and extensive knowledge of both local regulatory frameworks and international corporate governance standards in various sectors.

Our tried and tested governance methodology can be customized specifically to address the needs of various sectors in the UAE. This includes reviews of existing governance documentation, interviews with board members and senior management, etc.

Our Governance Maturity Assessment Tool and Board Performance Assessment questionnaire can be customized to the sector type and regulatory regime in the UAE, enabling us to efficiently assess governance frameworks for entities.
The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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