



Emerging regulatory trends: board evaluations in the UAE

Strengthening boards' efficiency, oversight role, working culture and interactions with stakeholders



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KPMG Lower Gulf



An effective board evaluation process contributes to proactive and streamlined operations and robust governance oversight. As technology, financial reporting, governance, risk management, taxation, regulatory compliance and human capital continue to evolve, a sound and well-functioning board is key to address complex business challenges.



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Foreword

In the current landscape of uncertain macroeconomic conditions characterized by inflation, geopolitical instability and sweeping regulatory changes, organizations are increasingly recognizing the importance of having a sound and resilient board.

A comprehensive board evaluation process is imperative for the sustainable success of any organization. The key benefits of conducting board evaluations include:

- Enabling stakeholders to hold individual board members accountable for their actions and decisions, building more trust within the organization
- Identifying improvement opportunities in board operations leading to more effective decision-making, improved strategic planning and organizational performance
- Addressing gaps in diversity on the board (skill sets, gender, nationality, age, etc.) to support decision-making and improve stakeholder engagement
- Enhancing transparency amongst board members and management and exchanging constructive feedback to establish a favorable board culture and dynamics

Various regulators in the UAE, including the Securities and Commodities Authority (SCA), the Central Bank of the UAE (CBUAE), and the Ministry of Cabinet Affairs, have issued corporate governance regulations and guidelines that require listed entities, banks, insurance companies, and UAE federal government entities to conduct annual board evaluations.

These requirements are in line with leading global practices and support the long-term sustainability of organizations.

In this report, we highlight:

- The importance of board evaluations in enhancing overall corporate governance
- Key regulatory requirements
- Critical elements to consider when performing board evaluations
- Overcoming board evaluation challenges in UAE-based organizations
- How KPMG can help

The importance of board evaluations in enhancing overall corporate governance

A comprehensive board evaluation framework goes beyond ensuring compliance with regulations as it can uncover critical improvement areas and action items to be executed by the board and board committees. Identifying and addressing these capacities is imperative for the organization's long-term growth. Below are some of the key benefits that can be derived from conducting board evaluations:



Improving working relationships between the board and board committees

Streamlining the flow of information and minimizing the duplication of work enables conducive and robust working relationship between the board, its committees and individual members.



Revisiting board structures and compositions

Board evaluations offer a holistic assessment of the structure and composition of the board and its committees, allowing organization to identify whether this arrangement can effectively support its working procedures and is in line with the business's size and complexity.



Enhancing the board's culture

Asking the following questions during board evaluations can provide valuable insight and identify opportunities for a more positive and productive board culture:

- Is the board promoting open and honest discussions?
- Is there enough trust between the board and the management?
- Are dissenting opinions encouraged?
- Are the board and board committee communicating openly?



Shedding light on key focus areas

Board evaluations help assess the extent to which the board and its committees are meeting their mandated requirements and whether any key areas have been overlooked during the review period.



Identifying training needs

By promoting a culture of learning and identifying the training needs of board members, board evaluations can ensure their organization has the technical capabilities to adapt with the rapidly changing environment.



Adopting a forward looking strategy

This approach creates an opportunity for board members and senior management to self-reflect and critically evaluate improvement areas within the board and their individual conduct. This can also help them incorporate any detected improvement opportunities.



Creating a culture of accountability

Conducting regular board evaluations enhances the overall governance culture by ensuring the board can be held accountable for the organization's performance throughout the year.



Commitment to continuous improvement

Periodic board evaluations can demonstrate the board's dedication to continuous improvement and good governance, which in turn establishes confidence among key stakeholders including shareholders, potential investors, customers, and regulators.

Key regulatory requirements

The CBUAE Corporate Governance Regulations and Standards,^{1,2} SCA Joint Stock Company Governance Guide³ and the Ministry of Cabinet Affairs guide to Board Governance in the UAE Federal Government⁴ have made it mandatory for banks, insurance companies, listed entities and UAE federal government entities to perform annual evaluations of their board, board committees and individual board members.

Attributes	The CBUAE for banks and insurance companies	The SCA	The UAE cabinet
Frequency of board evaluations	Annual*		
External assessment requirements	An independent board assessment should be conducted by an external third party at least once every five years .	An independent board assessment should be conducted by an independent specialized professional firm once every three years .	The chairperson shall be responsible for evaluating the board and its members' performance annually based on a specific mechanism developed by the chairperson in cooperation with the board secretary and any external entity if necessary.
Facilitators	The board nomination committee or the board chairperson as needed.		The chairperson in cooperation with the board secretary and any external entity.
Coverage	The board as a whole, the board committees and individual board members.		The board of directors of a federal entity.
Assessment areas	Annual assessments of the board should review elements such as the structure and composition of the board, the effectiveness of board governance procedures and the ongoing suitability of each member.		

For more details, refer to:

1. CBUAE Corporate Governance Regulations and Standards for Banks (2019)
2. CBUAE Corporate Governance Regulations and Standards for Insurance Companies (2022)
3. Securities and Commodities Authority (SCA) Joint Stock Companies Governance Guide (2020)
4. Cabinet Affairs guide to Board Governance in the UAE Federal Government (2020)

*Annual assessment of the Board may be performed through self assessment or with the help of independent external consultants

Critical elements to consider when performing board evaluations

Effective board evaluation is underpinned by a comprehensive plan that highlights the foundation, purpose and attributes of the evaluation process. This approach lends structure to the task and prevents it from becoming a routine box-checking exercise. A well designed board evaluation integrates essential regulatory requirements with best practices based on international and regional standards. The following illustration outlines the specific areas within the scope of an inclusive board evaluation process:



Overcoming board evaluation challenges in UAE-based organizations

Drawing from our experience and interaction with various organizations in the UAE, we have highlighted the following key challenges of conducting board evaluations:

1

Lack of participation of the board and its committees in board evaluations.

2

Following a tick-box approach to board evaluations instead of a thorough and all encompassing review of operations and governance.

3

Maintaining the anonymity and confidentiality of the feedback and suggestions provided by board members on improvement opportunities.

4

Formulating strategies to implement the opportunities identified during board evaluations.

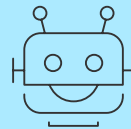
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Overcoming the logistical hurdles associated with coordinating and scheduling interviews with different stakeholders including board members and senior management.

Key solutions to mitigate these challenges:



Ensuring strong sponsorship of the board evaluation from the chairperson and vice chairperson to promote the participation of all board members.



Utilizing technology and automation to conduct board assessments and collect feedback from board members anonymously.



Assigning an individual/committee to formulate and track implementation measures.



Engaging an independent third-party to perform board evaluations to ensure the review is comprehensive and valuable.

How KPMG can help

Our primary focus is to assist organizations in improving their governance practices and regulatory compliance. Our expertise lies in implementing a reliable and adaptable board evaluation methodology that is transparent, robust and tailored to suit the size, complexity and risk profile of your organization.

Our board evaluation process encompasses a range of services, including:



Creating a framework and tools to facilitate the annual self-assessments of the board



Conducting external assessments of the board's performance



Establishing a framework for evaluating subsidiary board of directors



Developing an implementation roadmap for key improvements identified during assessment



Performing follow up reviews of the action plans agreed upon by the board of directors



Providing training programs and workshops for the board and senior management



Why KPMG Lower Gulf?

Our extensive exposure to various industries in the UAE, highly experienced team and strong credentials in providing board evaluation services to a diverse client base including banks and listed companies in the UAE makes us well positioned to create value during our board evaluation engagements.



Industry focus

As an advisory consultant and external auditor to leading organizations in the UAE, our team leverages an understanding of the strategic, operational and regulatory requirements, as well as leading industry practices when conducting board evaluations.

Recently, KPMG has also launched a Board Leadership Center in the UAE which has a wealth of industry experience and specialist knowledge on board and board committee operations.



Experience and skills

KPMG has executed board advisory and governance services, including board evaluation services, for over 50 clients across banks, governments, insurance and publicly listed entities in the UAE and the region.

KPMG Lower Gulf's team includes members with more than 20 years of experience and knowledge in governance-related regulatory requirements and international leading practices, enabling us to perform a comprehensive assessment.

Our expert engagement execution team comprises trained and experienced personnel with an array of professional qualifications backing their impressive work experience.



Leading methodologies and tools

Our tried and tested board evaluation methodology can be customized specifically to address the bespoke needs of each of our clients.

Our approach includes a digitized tool to conduct board evaluation surveys, desktop reviews of existing governance documentations, independent interviews with board members and other relevant stakeholders, regulatory compliance assessments and benchmarking

of board practices against local and global organizations and international standards.

Additionally, our board performance assessment questionnaire allows us to independently perform effectiveness reviews of the board, board committees and individual members in an efficient manner.

About KPMG Lower Gulf



For almost 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman. We work alongside our clients by building trust, mitigating risks and identifying business opportunities.

KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. The KPMG network includes approximately 236,000 professionals in over 144 countries. KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise, providing the sector and specialist skills required by our clients.

KPMG is widely represented in the Middle East: along with offices in the UAE and Oman, the firm operates in Saudi Arabia, Bahrain, Kuwait, Qatar, Egypt, Jordan, the Lebanon, Palestine and Iraq. Established in 1973, the Lower Gulf firm now employs approximately 1,780 people, including about 190 partners and directors across the UAE and Oman.

As we continue to grow, we aim to evolve and

progress, striving for the highest levels of public trust in our work. Our values are:



Integrity: We do what is right.



Excellence: We never stop learning and improving.



Courage: We think and act boldly.



Together: We respect each other and draw strength from our differences.



For Better: We do what matters.

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: **Inspiring Confidence, Empowering Change**. Our three pillars – exceptional quality of service, an unwavering commitment to the public interest, and building empowered teams – are the foundation of our firm.

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