

Synopsis of Amendments to UAE Corporate Governance Rules

SCA Decision No. '02/R.M' of 2024

July 2024

Key Amendments to UAE Corporate Governance Rules

1. Introduction

The Securities and Commodities Authority ('SCA') in the United Arab Emirates (UAE) introduced a significant set of amendments to the existing corporate governance rules, outlined in the Chairman of Authority's Board of Directors' Decision no. (3/Chairman) of 2020 concerning the Governance Rules – commonly referred to as the Governance Code. These changes were summarized in the amendments published under SCA's Board of Directors Decision no. (2/RM) of 2024, officially coming into effect on January 16, 2024.

2. Applicability

These SCA regulations, along with their relevant amendments, are applicable to Public Joint-Stock Companies (PJSCs or Companies) in the UAE, applicable for year ending from 30 June 2024 and 31 December 2024 onwards. All the public joint stock companies are expected to comply with the rules. The Governance code will not apply to foreign companies, financial free zone companies, and free zone companies.

3. Summary of key amendments:

In this article, we provide an overview of the key amendments introduced under the new rules. These are not a comprehensive representation of amendments but highlight the most notable ones, bringing greater responsibilities on part of the Board of Directors, management, and external auditors. Comprehensive amendments to the Governance Code can be accessed using the link (<https://www.sca.gov.ae/en/regulations/regulations-listing.aspx?id=198#page=1>).

- **“Related Parties” definition:** The amendment extends the scope of the Related party definition to include parent companies and major shareholders (those holding 5% or more of the share capital and/or the voting rights) in the company, amongst other additions.
- **Changes in Board composition:** The amendments require that a majority of the Board members to be non-executive, with at least a third of the Board members to be independent.
- **Internal controls & risk management:** General requirement for a company's Board to ensure the use of appropriate regulation systems for risk management, outlining potential risk and addressing the same transparently. The Amendment revises this requirement into a more specific, detailing obligation for the Board to ensure that it adopts internal control and risk management frameworks in line with global practices (preferably Committee of Sponsoring Organizations of the Treadway Commission “COSO”).
- **Other Board obligations:** The Board is responsible for establishing and ensuring that the company's internal policies and guidelines cover all aspects of the company's operations, such as corporate governance, performance, achieving targets and are approved by the Board.
- **Enhanced Audit Committee reporting:** The Amendment introduces a requirement for the audit committee to produce an annual report detailing its activities. This report, endorsed by the chairman of the audit committee, is required to be presented as a separate document within the company's annual corporate governance report, in accordance with guidelines

specified in the Governance Code. The chairman of the audit committee is obliged to participate in the annual general assembly meeting to address any queries concerning activities of the audit committee.

- **Separation of Compliance Officer and Internal Audit Functions from any other function:** There is a prohibition against combining the Compliance Officer function and the internal audit function into one role. Each function must be separated from any other function.
- **Governance Committee:** A Governance Committee may be formed, and the board is responsible for overseeing, implementing and evaluating the rules that apply to it. The board may also establish a permanent committee responsible for executing the company's governance framework, which would be comprised of non-executive board members between three to five members.
- **External Audit opinion on internal controls:** The auditor may issue a separate report opining on the company's internal control and risk management framework and its effectiveness or the deficiencies that should be addressed. (*The Regulator (SCA) has informally indicated that this requirement would now be mandated, and they are likely issuing clarification on this soon.*)
- **Disclosure of the Integrated Report:** The "Integrated Report" including the company's Board report, auditor report, annual financial data and notes thereto, governance reports, and the Sharia Control Committee's report. The amendments stipulates a timeline for disclosure of the Integrated Report, being (i) within the first three (3) months of the company's financial year, or (ii) at least ten (10) days before the company's annual general meeting, whichever occurs first in the relevant year.



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