



Leading regulatory trends: board evaluations in Oman

Enhancing efficiency, oversight, working culture and stakeholder engagement



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KPMG Lower Gulf

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Modern boards have pivoted from being decision makers to decision enablers, and from issuing mandates that are reactive to ones that catalyze success and innovation.



Aqeel Lawati

Partner, Corporate Services
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Under the patronage of HM Sultan Haitham Bin Tariq, Oman's governance landscape continues to undergo rapid changes. Spearheading these changes are competent, resilient, and growth oriented boards that work towards the betterment of the national economy.



Harris Matin

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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

The Capital Market Authority (CMA) in Oman has issued corporate governance regulations and guidelines that require listed entities, financial institutions, insurance companies, and government entities to perform board evaluations every three years.

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 Oman-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 the 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 Capital Market Authority (CMA), Central Bank of Oman (CBO), and Oman's Commercial Companies Law (CCL) provide the key requirements for a board's performance.

Attributes	Capital Market Authority (CMA)	Central Bank of Oman (CBO)	Commercial Companies Law (CCL)
Scope	Public joint stock companies.	Financial institutions such as banks, finance and leasing companies, and money exchange companies.	Commercial companies whose principle place of business is located in the Sultanate.
Board committees	The CMA requires the boards of listed entities to have a nomination and remuneration committee and audit committee.	NA	The CCL requires all joint stock companies to form an audit committee.
Board composition	<p>The CMA requires boards to have a minimum of two independent directors, comprising at least one third of the board.</p> <p>Moreover, all members of listed companies are required to be non-executive members.</p>	NA	<p>The CCL requires the following:</p> <ol style="list-style-type: none"> 1. Public joint stock companies – a minimum of five members and a maximum of eleven members. 2. Closed joint stock companies – a minimum of three members and a maximum of eleven members.
Policy formulation and implementation	The board is responsible for ensuring the efficacy of systems and policies of the company targeting successful operation of the company.	Management shall be accountable to the board towards policy formulation. Management will further have the responsibility to implement board-approved policies.	The board shall approve the commercial and financial policies of the company as well as the disclosure procedures.

For more details, refer to:

1. CMA's Code of Corporate Governance, 2016
2. CMA's Regulation for Public Joint Stock Companies, 2021
3. CBO's Circular BM 932
4. Oman's Commercial Companies Law, 2019

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

Highlights of corporate governance regulations and standards in Oman



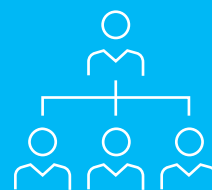
Responsibility

The **CMA code**, **commercial companies law**, **regulations for publicly joint stock companies** and **CBO circular BM 932** stipulate that the board must:

- Establish a clear governance framework.
- Review the company's policies and procedures on a regular basis.

The **CMA code** requires the board to:

- Determine a **fit and proper process** for selecting board members and senior management.
- Maintain a **succession plan** for senior management.
- Oversee governance, culture policies, company values, internal controls, etc.



Structure and governance

The **commercial companies law** stipulates that the board must:

- Comprise of at least five members (public joint stock) or at least three members (closed joint stock) and a maximum of eleven members.
- The maximum renewable term of membership should be three years.

The **CMA code** and **regulations for public joint stock companies** stipulate that:

- All members of the board must be non executive, of which at least one-third must be independent members.
- The directors shall have proper and relevant experience in the nature of the company's business.

Highlights of corporate governance regulations and standards in Oman



The board and board committees

- The **CMA code** and **commercial companies law** require the board to convene **at least four times** a year.
- As per the **CMA code**, the board, its committees and individual members must conduct **annual self-assessments** and **annual training refresher programs**.
- The **chairperson of the audit committee** shall not simultaneously chair the board or any other committee.
- The **board and its committees must have respective charters** including duties and responsibilities.



Independent director

The **CMA's code** and **regulations for public joint stock companies** explicitly outline the criteria for an independent director, this includes:

- An Independent director is one who is **independent financially** and of **opinion**.
- The **CMA's code** requires independent directors to notify the board within **30 days** of a change in their circumstances affecting the director's independence.
- The independent director is required to submit an **annual statement** declaring their independence at the end of the financial year.

Critical elements to consider when performing board evaluations

As per the Oman Investment Authority (OIA) code of governance released in 2021 for its companies, all directors shall undertake regular board performance evaluations against the approved board KPIs. The board shall consider the outcome of the regular performance evaluation in developing and implementing actions for improvement. For the evaluation of sub-committees, the board shall review the performance of any committee. The board shall consider the outcome of any review in developing a series of actions for improvement and ensuring their implementation.

Evaluation parameters

Evaluation of the board, board committees and individual board members

Operational activities

- The board's contribution to effective strategy development and the organization's risk management
- Board governance procedures
- Board meeting operations including setting agendas, minutes, quorum, time management and following-up on previous action plans
- Conflict of interest management

The board committee's roles and responsibilities

- The committee's terms of references
- The adequacy of the committee's reports to the board
- The committee's response to significant activities and challenges faced by the organization
- The committee's meeting operations

Structure, diversity and skillset

- The structure, size and composition of the board and its committees
- Collective knowledge, skillset and experience of the board and its committees
- The board's training and induction awareness program

Interaction, coordination and reporting

- The board's oversight on the organization's performance
- Interaction and relationships between the board, its committees and senior management

Overcoming board evaluation challenges in Oman-based organizations

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

1

Lack of awareness among board members on the key requirements of various regulatory bodies.

2

Inadequate knowledge and understanding of board member independence requirements.

3

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

4

Adopting a narrow compliance-centric approach to board evaluations, rather than undertaking a holistic assessment that thoroughly examines operational and governance facets.

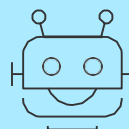
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Overcoming the logistical hurdles associated with coordinating and scheduling interviews with different stakeholders including board members and senior management.

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.

We provide the following governance services:



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



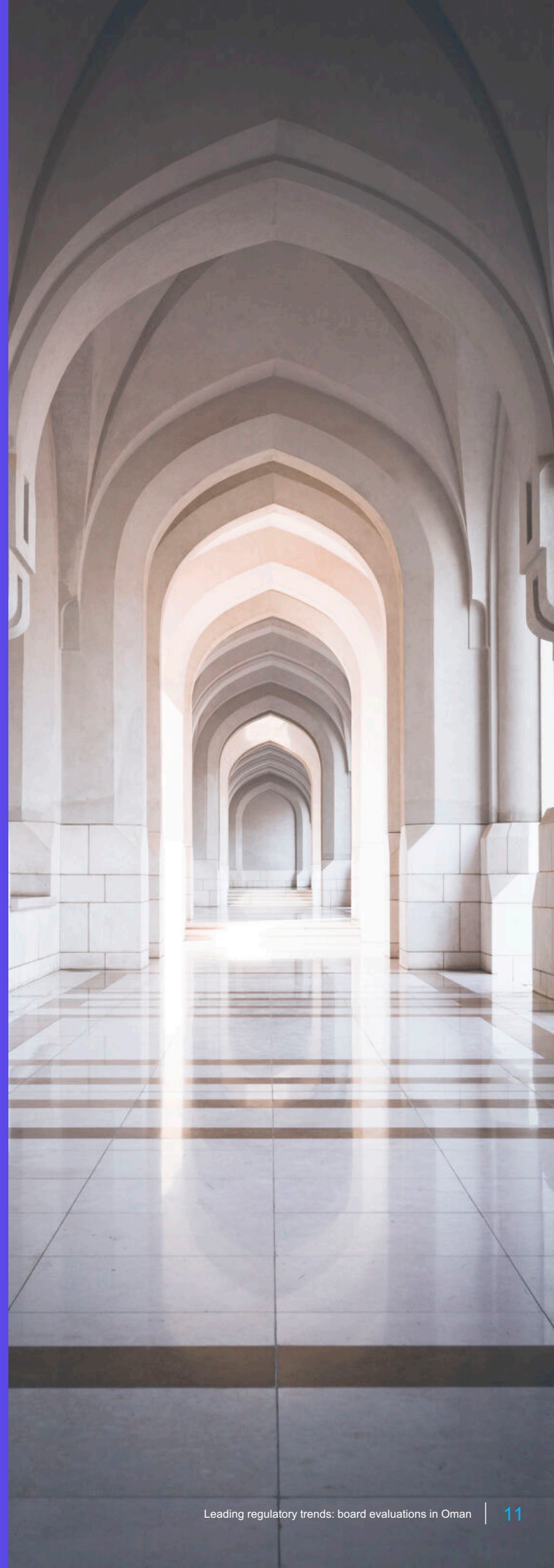
Developing an implementation roadmap for key improvements identified during assessment



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 team of corporate governance professionals works with KPMG's global network of member firms to support local and foreign companies in their efforts to strengthen their corporate governance framework and ensure their effectiveness.



Industry focus

Our experts have a wealth of industry experience and knowledge in both local regulatory frameworks and international corporate governance standards. By virtue of the depth and breadth of our services, we have successfully executed corporate governance engagements including the development of diagnostic reviews of governance operating models, terms of reference, policies and procedures, delegation of authority, governance culture practices, compensation frameworks, and whistleblowing mechanisms, among others.



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 Sultanate of Oman.

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 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.

KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. KPMG firms operate in 143 countries and territories, and in FY23, collectively employed more than 270,000 partners and people. Established in 1973, KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise.

For 50 years, KPMG Lower Gulf has provided audit, tax and advisory services to public and private sector clients and continues to serve the needs of business, governments, public-sector agencies, not-for-profits and through the firms' audit and assurance practices, the capital markets. As we continue to grow, we aim to evolve and progress, striving for the highest levels of public trust in our work. KPMG is committed to quality and service excellence in all that we do, helping to bring our best to clients and earning the public's trust through our actions and behaviors both professionally and personally.

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.

Our Values guide our behavior day-to-day, informing how we act, the decisions we make, and how we work with each other, our clients, and all of our stakeholders.

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: Inspiring Confidence, Empowering Change.

At KPMG Lower Gulf, we believe that ESG is core to sustainable growth. KPMG's Global ESG Plan details its commitments across four ESG categories: planet, people, prosperity, and governance. These four priority areas assist us in defining and managing our environmental, social, economic and governance impacts to create a more sustainable future.

Through KPMG's ESG Plan, we aim to deliver growth with purpose. We unite the best of KPMG to help our clients fulfil their purpose and deliver against the SDGs, so all our communities can thrive and prosper.

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