Navigating emerging governance regulations for closed joint stock companies

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

KPMG Middle East Board Leadership Centre – Oman update

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KPMG Middle East

Foreword

On 13 January 2025, the Ministry of Commerce, Industry, and Investment Promotion (MoCIIP) of Oman issued the Principles of Corporate Governance for Closed Joint Stock Commercial Companies operating in the Sultanate of Oman under Ministerial Decision 5/2025. The new Corporate Governance Law comprises nine chapters and serves as the primary document for Corporate Governance in closed joint stock commercial companies. It is based on the Commercial Companies Law (CCL) established by Royal Decree 18/2019 and the Commercial Companies Regulation issued under Ministerial Decision 146/2021. This landmark decision introduces a comprehensive framework to strengthen governance practices within closed joint stock companies, fostering accountability, transparency and sustainable growth.

In this report, we present some of the key provisions of the Corporate Governance Law that board members should be aware of including those related to the process of establishing and appointing board members, the specific duties of care as part of the board of directors' responsibilities, the financial oversight and disclosure requirements, delegating specific tasks as part of the power of authorities, and provisions to mitigate and avoid conflict of interest for board members. Furthermore, according to the Ministerial Decision, the new law will take effect the day after its official publication. As stipulated in Article II, the companies addressed must rectify their status within one year from publication to comply with the new law's provisions.

The Corporate Governance Code for public joint stock companies has been in effect since 2016, established by the Financial Services Authority (FSA). In contrast, closed joint stock companies (SAOCs) were governed solely by the Commercial Companies Law, which did not specify detailed requirements for the board and its sub-committees.

However, with Royal Decree 5/2025, detailed requirements for the board and its committees have now been introduced for SAOCs. Our document outlines the key differences between these three Corporate Governance regulations.

Highlights

The following is a summary of the key articles introduced under the new Corporate Governance Regulations, providing a comprehensive overview of the requirements and responsibilities outlined for closed joint stock companies. While non-exhaustive, we highlight critical aspects of the board's roles, obligations and potential liabilities, including:

- Board formation and composition
- Independent and non-executive directors
- Board functions and duties
- Board performance evaluations
- Equal treatment of shareholders
- Audit and risk management committee
- Corporate social responsibility
- Nomination and remuneration committee
- Executive management

Board formation and composition

The Corporate Governance Laws stipulate that the formation of the board of directors must adhere to the following principles:

- The board should comprise of at least three members and not exceed eleven members. Furthermore, the total number of board members must be an odd number.
- Boards exceeding seven members must include at least two independent members.
- Members must meet specified qualifications, including professional expertise and integrity.

Independent and non-executive directors

A company shall comply with the following requirements when forming the board of directors:

- An independent director is independent materially, economically, or financially of the company, its subsidiaries, or any of its affiliates. Independence is compromised if they hold a government position, are part of a council, or are employed at a government-owned company.
- At least a third of the board must be non-executive.
- Boards with more than seven members must include at least two independent members.
- A member shall not simultaneously hold the position of chairman or deputy chairman of the board of directors and the position of CEO.
- Independent directors shall declare their independence annually and disclose any personal or financial interests involving the company.

Board functions and duties

The board of directors shall undertake the following duties to ensure effective governance and oversight:

- Establish and approve company strategies, policies, authorities and objectives.
- Oversee the performance of executive management and specialized committees.
- Ensure that the company's policies, procedures, systems and internal controls including financial management, operations and risk management are functioning effectively.
- Approve significant expenditures and business decisions.
- Develop policies including related party transactions, confidentiality and non-disclosure, code of conduct etc.

Board performance evaluations

The board of directors shall undertake the following actions to ensure the quality of the members' performance:

- Determine the skills required for the members on the board.
- Implement criteria for measuring the performance of board members.
- Conduct periodic performance evaluations for its board members.

Equal treatment of shareholders

The Corporate Governance Laws guarantee the rights of shareholders by:

- Enabling access to financial information and decision-making processes.
- Establishing mechanisms for shareholders to express their opinions regarding company affairs.

Audit and risk management committee

The audit and risk committee is responsible for maintaining robust financial and risk management practices, including:

- Ensuring the committee comprises of at least three members, with the majority being non-executive.
- Overseeing the internal control systems.
- Evaluating the adequacy of the risk management framework.
- Recommending external auditor appointments and reviewing related-party transactions to ensure transparency.
- Managing procedures to prevent or detect any cases of financial fraud.
- Developing policies that preserve the human, material, and intellectual assets and holdings of the company.

Corporate social responsibility

The board of directors shall adopt a corporate social responsibility (CSR) policy that aligns with best practices and government directives. The executive management is responsible for:

- Developing an annual CSR plan that includes a budget, targeted community segments and measurable objectives.
- Reporting on CSR activities, expenditures and their sustainability impact in the company's annual report.

Nomination and remuneration committee

The nomination and remuneration committee shall:

- Recommend policies related to board composition and remuneration.
- Determine the skills required for membership of the board of directors.
- Oversee the nomination and selection process for board and executive management roles.
- Ensure that the compensation frameworks are competitive and aligned with market standards to attract and retain talent.

Executive management

The executive management, under the board's guidance, shall:

- Manage daily operations in compliance with board-approved policies.
- Implement effective succession planning and performance evaluation systems for employees.
- Develop and implement short, medium and long-term strategies to achieve the company's vision and goals.
- Inform the board on challenges and risks in implementing policies and procedures.
- Establish procedures and controls for risk management, confidentiality of data and use of assets.

Key regulatory requirements

The table below outlines the key requirements for the board's performance in line with the Financial Services Authority's (FSA) Corporate Governance manual for public joint stock companies; the Ministry of Commerce, Industry, and Investment Promotion's (MoCIP) Principles of Corporate Governance for Closed Joint Stock Companies; and Oman's Commercial Companies Law (CCL).

Attributes	Financial Services Authority (FSA)	Ministry of Commerce, Industry, and Investment Promotion (MoCIP) 5/2025	Commercial Companies Law (CCL)
Board committees	The FSA requires the boards of listed entities to have a nomination and remuneration committee and audit committee.	The MoCIIP requires the boards of closed joint stock companies to have a nomination and remuneration committee and audit committee.	The CCL requires all joint stock companies to form an audit committee.
Board composition	The FSA requires boards to have a minimum of two independent directors, comprising at least one third of the board. Moreover, all members of listed companies are required to be non-executive members.	The MoCIIP requires boards to have a minimum of three members and a maximum of eleven members for closed joint stock companies. Furthermore, boards exceeding seven members must include at least two independent members	The CCL requires the following: 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.	The board is responsible for ensuring the efficacy of systems and policies of the company targeting successful operation of the company.	The board shall approve the commercial and financial policies of the company as well as the disclosure procedures.

For more details, refer to:

1. FSA Code of Corporate Governance, 2016
2. FSA Regulation for Public Joint Stock Companies, 2021
3. Oman's Commercial Companies Law, 2019
4. MoCIIP's Corporate Governance for Closed Joint Stock Companies, 2025

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

Contacts

Aqeel Al Lawati
Partner, Corporate Services
aqeelallawati@ kpmg.com

Sudhir Arvind
Partner, Governance, Risk and Compliance Services
sarvind@ kpmg.com

Harris Matin
Partner, Governance, Risk and Compliance Advisory
hmatin1@kpmg.com

Abdullah Akbar
Partner, Head of Middle East Board Leadership Centre
amakbar@kpmg.com

kpmg.com/sa
kpmg.com/ae