

# **REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)**

## **CORPORATE GOVERNANCE COUNTRY ASSESSMENT ARAB REPUBLIC OF EGYPT**

**September 2001**

The Corporate Governance Assessment has been completed as part of the joint World Bank-IMF program of Reports on the Observance of Standards and Codes (ROSC). It benchmarks the country's observance of corporate governance against the OECD Principles of Corporate Governance and is based on a template developed by the World Bank. This assessment was undertaken as an assisted self-assessment under the supervision of the Ministry of Economy and Foreign Trade (MOEFT). Dr. Mahmoud Mohieldin, Senior Advisor to the Minister and his team comprised of Nermine Abulata, Economist and Assistant to the Minister and Marwa Lasheen, supervised the filling in of the template and were instrumental during all stages of the production of this assessment. Acknowledgments are due to the Capital Market Authority, Cairo and Alexandria Stock Exchange, Companies Organization, Misr for Clearing, Settlement & Central Depository, Carana Corporation, legal, accounting and auditing experts; and market analysts. A special mention to Messrs. Abd Elhamid Ebrahim, Chairman and Ashraf Shamseldin, Deputy Chairman of the Capital Market Authority for their valuable contribution. The final report draws on the template and the report on corporate governance commissioned from Samiha Fawzy of ECES. It was drafted by Mierta Capaul of the Corporate Governance Unit Private Sector Advisory Services of the World Bank. The ROSC assessment was cleared for publication by H.E. Dr. Youssef Boutros-Ghali, Minister of Economy and Foreign Trade, Arab Republic of Egypt.

# REPORT ON THE OBSERVANCE OF STANDARDS AND CODES

## Corporate Governance Assessment Arab Republic of Egypt

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## **I. EXECUTIVE SUMMARY**

- 1.1 Egypt's corporate governance system is framed by French civil law for corporations. Sharia law has no direct influence on corporate governance. Anglo-American influence is prevalent in the securities depository law and the new capital markets law shortly to be introduced to Parliament.
- 1.2 There is one stock exchange with two trading floors: The Cairo and Alexandria Stock Exchange (CASE) which has three tiers. 87% of listed companies are trading on the second or third tier (unofficial exchange).
- 1.3 Interest in corporate governance is rising – the draft capital markets law includes a chapter on minority shareholders rights.
- 1.4 This Report on the Observance of Standards and Codes benchmarks the Egyptian corporate governance system against the OECD Principles of Corporate Governance; according to the Financial Stability Forum one of the twelve core standards underpinning the international financial architecture.
- 1.5 The assessment highlights a number of areas where Egypt's corporate governance system needs strengthening. These can be grouped under six headings: disclosure of ownership and control structures; disclosure of financial and non-financial information; training and capacity building for regulators and the private sector; role and effectiveness of shareholders' meetings; practices of boards of directors; professional conduct of auditors.

## **II. DESCRIPTION OF PRACTICE**

### **A Capital Market Overview**

#### **A1 Capital market structure**

The Cairo and Alexandria Stock Exchange (CASE) maintains trading floors in both cities: securities are automatically listed on both floors and listing fees are divided between Alexandria and Cairo.<sup>1</sup> The stock exchanges were established in 1883 and 1903 respectively and reached their historic peak in the 1940's, when together they constituted the fifth largest market in the world.<sup>2</sup> After several decades of low market activity, in 1992 the stock market started growing again spurred by economic reforms, privatization and changes in the regulatory environment.

As of March 2001, there were 10,668 joint stock companies and partnerships limited by shares. The great majority of these were joint stock companies (10,652).<sup>3</sup> Both corporate forms can be listed. The number of listed companies has grown from 656 in 1992 to 1,076 companies in December 2000.<sup>4</sup> The breakdown by sectors is provided in Appendix 1 and additional market information is available in Appendix 5. Listed companies are eligible for a tax exemption equivalent to the three months' deposit rate paid by the Central Bank on paid up capital.<sup>5</sup> To remain listed, there must be at least one trade every six months (which may be done among

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<sup>1</sup> CML 95, article 15

<sup>2</sup> Mbendi: CASE Profile (<http://www.mbendi.co.za/exch/12/p0005.htm>)

<sup>3</sup> The Company Organization (COOR) & the General Authority for Investment (GAFI)

<sup>4</sup> CASE, Financial Securities (Dec, 2000), p.2. Factbook 2000, p.34

<sup>5</sup> Article 120 of the 1981 Tax Law (157).

insiders). Market capitalization increased from LE 10,804 million (US\$ 2,780 million<sup>6</sup>) or 8.2% of GDP in 1992 to LE 119,734 million (US\$ 30,805 million) or 36.8% of 1999 GDP.<sup>7</sup> Since 1996, the International Finance Corporation (IFC), Morgan Stanley and Standard & Poor's have added Egypt to their emerging market indexes, while ING Barings and EFG Hermes have created country indexes for Egypt.<sup>8</sup> Nine companies are traded abroad through Global Depository Receipts (GDRs); eight in London and one in Luxembourg. Since 1996, thirteen mergers and 83 acquisitions have taken place, with international companies constituting more than one-third of the acquirers.<sup>9</sup>

Of the 1,076 companies listed on CASE, 659 companies (or 61%) traded in 2000;<sup>10</sup> the turnover ratio was approximately 34%.<sup>11</sup> The ten most actively traded companies represented 75% of trading volume and 74% of trading value.<sup>12</sup> Average free float was approximately 20%.<sup>13</sup> The over-the-counter market for unlisted securities represented 15.6% of total value traded in 2000.<sup>14</sup>

## **A2 Legal, regulatory framework and professional/best practice bodies**

The corporate legal framework originates primarily from French civil law. Sharia law has no direct influence on corporate governance. Anglo-American common law concepts have become more prominent with the Securities Depository Law and the proposed Capital Market Law. The main laws governing the securities market in Egypt are:

- *The Capital Market Law* (CML 95/1992), which regulates the capital market and provides the framework and supervision of the stock exchange CASE.
- *The Central Depository Law* (CDL 93/2000), which supports shareholder record keeping, clearing and settlement. The law will become effective once the corresponding executive regulations are issued.

As for the corporate sector there are four laws under which a company listed on the exchange may be incorporated:

- *The Companies Law* (CL 159/1981) on joint stock companies, partnerships limited by shares & limited liability companies.<sup>15</sup> The capital of a "joint stock company" is divided into shares of equal value and the liability of shareholders is confined to the shares subscribed. In a "partnership limited by shares" the capital consists of the part that belongs to one or more partners, and of shares of equal value subscribed by one or more shareholders. The joint partners are answerable for the liabilities of the company in unlimited responsibility, but the

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<sup>6</sup> All currency calculations are based upon May 9, 2001 FX rate of LE 3.887/US\$ (Bloomberg.com).

<sup>7</sup> Ministry of Economy and Foreign Trade, *Egypt 2000*, p. 39

<sup>8</sup> Ministry of Economy and Foreign Trade, *Egypt 2000*, p. 37, p.39

<sup>9</sup> CASE, Financial Securities (December, 2000, vol.3, no. 12), pp.28-30.

<sup>10</sup> CMA, Unpublished Data, 2000 – Samiha Fawzy "Report on Corporate Governance in Egypt", p.6.

<sup>11</sup> Ministry of the Economy and Foreign Trade

<sup>12</sup> CASE, Financial Securities (Dec, 2000), p.14 - 15.

<sup>13</sup> No published figures available. Estimate by Maged Sourial, Ministry of Economy and Foreign Trade. The free float is 32% for the 100 most traded companies (CASE, Stock Guide 2000)

<sup>14</sup> CASE, Unpublished Data, 2000 – Samiha Fawzy, "Report on Corporate Governance in Egypt, p. 16.

<sup>15</sup> as amended by laws number 212/1994, 3/1998 and 159/1998

shareholder partner is only responsible within the value of the shares subscribed. The “limited liability company” is not allowed to issue negotiable shares.<sup>16</sup>

- *The Investment Law* (IL 8/1997) promotes investment in specific economic sectors or industrial locations by granting income tax exemptions for 5/10/20 years or permanently for tax free zones. In all other respects, law IL 8 refers to law CL 159.<sup>17</sup>
- *The Public Business Sector Law* (PBSL 203/1991) identified 314 public sector companies for sale to the private sector. These companies were incorporated as joint stock companies and transferred to affiliates under 27 holding companies as of 1991.<sup>18</sup> Once 51% is privatized, the company becomes subject to Law 159.
- *The Capital Market Law* (CML 95/1992) regulates the incorporation and operations of securities intermediation companies.<sup>19</sup>

The securities market and companies laws are in the process of being overhauled. The new capital market law is expected to be discussed in Parliament in late 2001; a “unified corporate law” applicable to all types of companies, is being drafted by the Ministry of Economy and Foreign Trade. The proposed legal framework is expected to put more emphasis on minority shareholder rights, introduce the concept of class action, define the procedures to be followed in tender offers, explicitly prohibit insider trading and rely increasingly on cash fines for violations of the CML. The stock exchange will define its own governance structure.

The Capital Market Authority (CMA) reports to the Ministry of Economy and Foreign Trade (MOEFT). Two of the seven board members, including its chairman, are appointed by the President for a renewable three years’ term. The others are appointed by the Prime Minister for two renewable years.<sup>20</sup> CMA’s budget is principally derived from fee income.<sup>21</sup> It employs 250 staff who, in common with the Egyptian public sector, are paid significantly less than their private sector and CASE counterparts. CMA is responsible for the implementation of the Capital Market Law; it oversees the development of the market and regulates and controls market activity.<sup>22</sup> Under stock exchange trading rules, CMA oversees the movement of share prices, which must stay within a range of five percent up or down.<sup>23</sup> CMA has wide administrative sanction powers, including warnings, delistings, suspending and revoking licenses,<sup>24</sup> canceling transactions<sup>25</sup> (even after settlement if there has been an illegal act), conducting inspections, and postponing shareholder decisions for 15 days under special circumstances. Under the constitution, only courts can issue fines. However, CMA can request the prosecutor general to initiate proceedings. Since 1997, CMA has received 2136 complaints involving claims in the amount of LE 740 million (US\$190 million). Of these, 1402 cases for a total value of LE 629

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<sup>16</sup> CL 159, articles 2-4.

<sup>17</sup> Interviews with Eng. Ahmed El Sayed, First Under Secretary Promotion and Ext. Offices, GAFI

<sup>18</sup> As of 2000, 131 companies have been privatized.

<sup>19</sup> CML 95, chapter three “securities intermediation companies”

<sup>20</sup> CML 95, article 45

<sup>21</sup> Ashraf Shamseldin, Deputy Chairman, CMA

<sup>22</sup> CML 95 Executive Regulations, article 93

<sup>23</sup> except for reasonable justification to exceed these limits due to specific corporate actions, e.g. dividend distribution, share split, change in capital, disclosure of material information; and in case of sizable supply and demand transactions justifying the price movements (CMA communiqué, June 20 2001)

<sup>24</sup> A common penalty is the suspension of brokerage license for one month.

<sup>25</sup> On-line cancellations are the responsibility of the chairman of CASE.

million (US\$ 162 million) were resolved. Allegations that brokers did not properly follow clients' orders comprise the majority of complaints.<sup>26</sup>

CASE is a quasi governmental body under the supervision of CMA. CMA has the power to veto CASE board decisions. The board includes ten directors; the chairman is named by the Prime Minister, one director represents CMA, one the Central Bank and two the banking sector. The others are elected by brokers. CASE is responsible for monitoring compliance with the listing rules, but it does not have investigation powers.<sup>27</sup> CASE may enforce penalties ranging from moving a company from the official to the unofficial schedule to trading suspension or delisting, depending on the type of violation.<sup>28</sup>

The Misr for Clearing, Settlement & Central Depository (MCSD) is the central clearing, settlement and registration organization. It is a SRO under the supervision of CMA.<sup>29</sup>

The Companies Organization (COOR) reports to the Ministry of Economy and Foreign Trade. It has 186 employees. COOR supervises the implementation of CL159. It has the power to deny applications for incorporation and order the winding up of a company that does not comply with orders within 15 days and does not submit a petition to the MOEFT during the same period. Companies incorporated under IL8 are regulated by the General Authority for Investment and Free Zones (GAFI).

The Egyptian Capital Market Association (ECMA) is a professional association for members who operate in the capital market.<sup>30</sup> It has approximately 220 members.<sup>31</sup> ECMA organizes voluntary training and capacity building courses for its members and provides industry input into the drafting of regulations. The Investment Management Association (IMA) is another organization with similar purpose and scope.

### **A3 Registration and listing requirements**

Companies offering shares to the public must file an application with CMA for review in order to ensure the company's compliance with requirements. Once the application is accepted, the company may publish and distribute the prospectus, thus initiating public offering proceedings. A summary of the prospectus must be published in two morning dailies and state where the prospectus can be obtained (see Appendix 2 for prospectus requirements).<sup>32</sup>

Companies are listed on one of three tiers: the "official schedule"; the "unofficial schedule 1"; or, the "unofficial schedule 2". Public sector companies and public enterprises under law PBSL 203 are automatically listed on the official schedule, while foreign securities are listed on the unofficial schedule. Historically, the multiple schedule system was devised to encourage the listing of companies with special conditions (e.g. partially privatized, closed companies or

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<sup>26</sup> Abd Elhamid Ebrahim, Chairman CMA. The annual report does not contain statistics on complaints.

<sup>27</sup> Hisham Tawfik, Managing Director, EFG-Hermes Portfolio Management

<sup>28</sup> Number of delistings: 1997:65; 1998:6; 1999:11; 2000:33; 2001:13 (first quarter). Source: CASE

<sup>29</sup> CDL 93, article 43

<sup>30</sup> Comprised of approximately 250 brokerage firms (Abd Elhamid Ebrahim, Chairman, CMA)

<sup>31</sup> The draft capital markets law proposes to make membership mandatory and convert ECMA into a SRO.

<sup>32</sup> CML 95 Executive Regulations, article 50

technology companies). Currently, there is no difference in ownership structure, size, sector or cost of capital between the official and unofficial schedules. The continuous disclosure requirements are the same for all companies. Because the rules are more stringent on the official schedule, 87% of companies choose the unofficial schedule.<sup>33</sup> CASE is in the process of updating the listing requirements in order to differentiate between the tiers (see Appendix 3 for current and proposed listing requirements).

#### **A4 Ownership structure**

In 2000, domestic retail investors represented 51% of the market, domestic institutional investors (mainly mutual funds) 22% and foreigners 27%, with the majority of those shares held by UK and US investors. Public and private pension funds invest only a fraction of their assets in equities today. In the case of private pension funds this percentage was 2.5% of approximately LE 10 billion (US\$ 2.6 billion) in 2000.<sup>34</sup>

In 16 listed companies, the government remains the majority shareholder and in 25 companies privatized through public flotation, the government retains residual stakes.<sup>35</sup> In such cases board and management structures often remain identical to pre-privatization. Employee shareholdings of 5-10% are common in privatized firms. Of the 50 most active companies that comprise the CASE index, 25 are privatized companies (majority IPOs, minority IPOs and sales to strategic, “anchor” investors), where the state retains its stake through a holding company structure.<sup>36</sup> 11 companies have controlling shareholders, two of which are holding companies. Four companies form part of a well-known group which directly or indirectly comprises six listed companies and a number of closed companies. The group is characterized by pyramid structures and cross shareholdings. In general, ownership disclosure is insufficient to obtain a clear picture on beneficial ownership which is reported to be concentrated.

### **B Shareholder Protections**

#### **B1 Basic Rights**

Listed shares are freely transferable.<sup>37</sup> As of January 2001, 62% of all shares were materialized.<sup>38</sup> In contrast, 93% of trading volume was dematerialized. 410 listed companies (out of 1076) were registered with MCSD as of March 2001.<sup>39</sup> Ownership transfer and settlement are not in full compliance with simultaneous DVP. The broker receives and executes trade instructions at time T. Simultaneously, matching is completed and the trade recorded on the stock exchange. On T+1

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<sup>33</sup> As of March 31, 2001, 141 companies were listed on the official schedule (13%), 697 companies on the unofficial schedule 1 (65%) and 238 companies on the unofficial schedule 2 (22%) (CASE).

<sup>34</sup> In 1999, assets of the National Social Insurance Funds amounted to L.E. 107.99 (US\$27.8) billion, and assets of Private Pension Funds amounted to L.E. 6.25 (US\$1.6) billion (Source: Central Bank of Egypt – Annual Report, 1999/2000)

<sup>35</sup> Mohamed Hassouna, Ministry of Public Enterprises

<sup>36</sup> The Ministry of Public Enterprises created ten holding companies, each of which has 10-40 affiliates.

<sup>37</sup> CML 95 Executive Regulations, article 63. Founder shares are not transferable for two years (CL 159, article 45) and board guarantee shares are only transferable once the director is discharged by the AGM.

<sup>38</sup> Mohamed S. Abdel Salam, Deputy Chairman & Managing Director MCSD

<sup>39</sup> Once the CDL 93 Executive Regulations are issued, registration with MCSD will be mandatory for all listed companies (CDL 93, article 11 and article 25)

the seller's broker delivers the shares to MCS D. On the evening of T+2 the buyer's broker account with one of the clearing banks<sup>40</sup> is debited and the seller's broker account credited. On T+3 the buyer's broker receives the shares and the seller's broker is paid. However, payment is not final, because of delays in the payment system.<sup>41</sup> The cycle is T+4 for physical securities.<sup>42</sup> Clearing and settlement are in compliance with ISSA G30 recommendations, with the exception of three issues: efficient and geographically extensive payment system, securities lending and borrowing and registration of all listed companies with MCS D.<sup>43</sup>

Shareholders have the right to inspect a company's balance sheets, profit and loss statement and audit report for the previous three years.<sup>44</sup> CML 95 also gives all shareholders (including owners of bearer shares) the right to review the directors' report, the balance sheet, the profit and loss accounts, and the auditors' report at the company's headquarter during the two weeks prior to the AGM and provided that their request is duly recorded and signed.<sup>45</sup> Though few companies maintain a specific job titled investor relations' officer, listed companies have a senior officer or executive that answers queries coming from outside entities, be it the CMA, CASE or investors.

The AGM approves the distribution of dividends following the review of the auditor report. Shareholders can obtain dividend proceeds at one of the 37 bank branches where MCS D has representatives, via bank transfer, or through home delivery.

## **B2 Shareholder meetings and disclosure of capital structures**

The annual general meeting (AGM) must meet within six months of the previous financial year.<sup>46</sup> Summaries of the financial statements and auditor report must be either published in two daily newspapers or sent to each shareholder by registered mail at least 15 days before the date of the meeting.<sup>47</sup> The AGM is convened by the chairman. The notice must include date, time and place, as well as an agenda, the annual and auditor reports (if not published), as well as the directors' report.<sup>48</sup> In addition to shareholders, three entities must be notified: the auditor, CMA, and the appropriate government department (COOR/GAFI). Shares are blocked from trading from the date of the notice of the meeting.<sup>49</sup> Quorum requirements include at a minimum three board members, the auditor, and shareholders representing at least one quarter of capital. If there is no quorum, a call may be included in advance for the second meeting. There is no minimum quorum for the second meeting. Shareholders representing five percent of capital are permitted to add items to the agenda until three days before the meeting.<sup>50</sup> The law does not specify whether the company should publicly distribute the amended agenda before the AGM. Urgent matters can be discussed and voted on without being on the agenda, if a majority of shareholders at the

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<sup>40</sup> National Bank of Egypt and Banque Misr

<sup>41</sup> Unsettled transactions in 2000 were 1.7% for stocks and 5.63% for cash (CMA)

<sup>42</sup> The settlement cycle was two weeks until four years ago (Mr. Abd Elhamid Ebrahim, Chairman, CMA)

<sup>43</sup> the last two issues will be remedied by CDL 93

<sup>44</sup> CL 159, article 157 and article 301 of Executive Regulations.

<sup>45</sup> CML 95, article 14 of Executive Regulations

<sup>46</sup> CL 159, article 216 of Executive Regulations

<sup>47</sup> CL 159, article 216

<sup>48</sup> COOR

<sup>49</sup> CL 159, article 205 of Executive Regulations

<sup>50</sup> CL 159, article 206 of Executive Regulations

meeting decides in favor.<sup>51</sup> Shareholders have the right to ask questions. The board answers the questions to the extent to which it does not cause “harm to the interests of the company or the public interest”. If the answer is judged insufficient by the interested parties, they may appeal to the AGM to decide on the issue.<sup>52</sup> Shareholders who have paid up 50% or less of the share issue price have full voting rights, but they receive dividends in proportion to the amount disbursed. Voting is allowed in person or by proxy.<sup>53</sup> Proxy voting is subject to certain limitations: if the proxy is a physical person, then the proxy must be a shareholder (this does not apply to juridical persons), have a power of attorney and cannot be a board member. No natural person may represent more than ten percent of total shares and 20% of represented shares at the meeting (this does not apply to juridical persons).<sup>54</sup> Postal ballots are not permitted. Voting is secret if it involves the election/removal or sanction of directors or if the chairman or shareholders representing one tenth of capital at the meeting make a request. The chairman appoints two vote counters who oversee the ballot.<sup>55</sup> Article 61 of Companies Law 159 gives shareholders representing five percent of capital the right to call the AGM, if the board did not do so. Extraordinary shareholder meetings are held at the request of ten percent of share capital or the board of directors. Quorum for the first meeting is half of capital. If there is no quorum, the requirement for the second meeting is one-quarter of capital.<sup>56</sup> Both annual and extraordinary meetings may also be convened by the auditor or COOR.<sup>57</sup>

Shareholders can obtain information about the voting rights attached to all classes of shares through the company statutes, the commercial registry at the Ministry of Supply & Internal Trade for a fee,<sup>58</sup> or through COOR. Another source of information is the prospectus or brokerage firms. Capital structure and beneficial ownership information is not disclosed in the annual report.

### **B3 Equitable treatment and statutory remedies**

The legal framework allows for multiple share classes, provided that within a given class shareholders are treated equally. There are two classes of shares: ordinary shares and preference shares. Ordinary shares are either registered (also called “nominal”) or bearer shares.<sup>59</sup> The percentage of bearer shares must not exceed 25% of the total share capital and the value of these shares must be fully paid up.<sup>60</sup> Owners of bearer shares may attend the AGM, if they deposit their shares at a bank, the company or MCS D, but they are not allowed to vote.<sup>61</sup> “Preference shares” have privileges in terms of voting; they receive a fixed percentage of dividends to be paid before other dividends, and they have priority in liquidation.<sup>62</sup> Cumulative preference shares

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<sup>51</sup> CL 159, article 71 and interviews with COOR

<sup>52</sup> CL 159, article 72

<sup>53</sup> CL 159, article 59

<sup>54</sup> CML 95, article 9 and CML Executive Regulations, article 8.

<sup>55</sup> CL 159, article 212

<sup>56</sup> CL 159, article 70 [a, b]

<sup>57</sup> CL 159, articles 61-62

<sup>58</sup> LE 20 for a copy (US\$5.-)

<sup>59</sup> Bearer shares were introduced by CML 95 in 1992 (article 1 of Executive Regulations)

<sup>60</sup> CML 95 Executive Regulations, article 1

<sup>61</sup> CML 95 Executive Regulations, article 13

<sup>62</sup> CL 159, article 35

exist. Preference shares may also have priority in capital increases.<sup>63</sup> In most cases voting rights are capped at two votes per share, but there is no legal limit. Capital may be increased through the issuance of preference shares, if permitted in company statutes and approved by the extraordinary meeting.<sup>64</sup> Non-voting preferred stock does not exist in Egypt.

The Central Depository Law 93 differentiates between registered owner and beneficial owner. In the past, a nominee could not split up votes. Once the executive regulations are issued, registered owners will have to cast votes in a manner agreed upon with the beneficial owners.<sup>65</sup> Failure to do so carries a fine of up to LE 100,000 (US\$25,700).<sup>66</sup>

Every shareholder has the right to file a complaint with COOR regarding violation of CL 159.<sup>67</sup> A shareholder who attends the AGM and registers his opposition to a decision in the minutes, can initiate a case in court within one year from the meeting.<sup>68</sup> Article 76 of CL 159 states that "...all resolutions issued for the benefit of a certain category of shareholders or causing harm to them, or bringing special benefit to the members of the board of directors or others without considering the company's position, shall be revoked." If shareholders representing at least five percent of capital file a complaint, CMA has the power to suspend resolutions of the AGM that are considered to unfairly favor a given group of shareholders, or causing harm to them, or unfairly bringing about a benefit to the members of the board or others.<sup>69</sup> The parties involved should submit the issue to arbitration within 15 days. Shareholders representing ten percent of capital can request CMA or COOR to conduct an inspection.<sup>70</sup> The proposed CML draft introduces the concept of class action to be initialized by CMA. Now only collective action, where each plaintiff is personally listed, is possible under Egyptian law.

Disputes involving securities matters are referred to the arbitration board.<sup>71</sup> The council makes a decision within 30 days after having reviewed the case.<sup>72</sup> Decisions are final and enforceable, unless suspended by the court of appeals. On average, it takes longer than four years to resolve a dispute in court. Litigation is expensive and courts are often delayed in enforcing judgments.

#### **B4 Participation in fundamental corporate decisions**

Decisions about granting distinctions to existing shareholders before a capital increase; the dis-application of pre-emptive rights if granted in company statutes; or adding to the corporate objective require a two-thirds majority vote. Similarly, two thirds of the holders of shares in the same class must agree to any variation in voting rights.<sup>73</sup> A 75% majority is needed for decisions involving an increase or reduction of capital; changing the original purpose of the corporation;

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<sup>63</sup> CML 95 Executive Regulations, article 30

<sup>64</sup> CML 95 Executive Regulations, article 24

<sup>65</sup> CDL 93, articles 7-8

<sup>66</sup> CDL 93, article 55

<sup>67</sup> CL 159, article 155

<sup>68</sup> CL 159, article 76

<sup>69</sup> CML 95, article 10

<sup>70</sup> CL 159, article 303 of the Executive Statutes and CML 95

<sup>71</sup> CML 95, article 52

<sup>72</sup> CML 95, article 55

<sup>73</sup> CL 159, articles 35, 70 [c], CML Executive Regulations Articles 24, 30 and 32

prolonging or shortening the life of the company; and deciding on dissolution or merger.<sup>74</sup> If losses reach half of issued capital, the board must convene an extraordinary meeting to consider dissolution or continuation.<sup>75</sup> Share buy-backs are allowed and treasury shares can be held for up to one year before they must be cancelled.<sup>76</sup>

## **B5 Market for corporate control**

Any person intending to launch an acquisition resulting in ownership of at least ten percent of capital must give the company two weeks' notice via registered mail. Within one week of this notification, the company must inform shareholders owning at least one percent or publish this information in two widely circulated newspapers. The threshold for directors or employees is five percent of capital. The transaction must be concluded within one month from the date of notification.<sup>77</sup> If the shareholding percentage exceeds 20% before or after the intended acquisition (15% in the case of directors or employees), a tender offer for the required amount of share capital must be issued to all shareholders. The tender offer can either be for all outstanding shares or for part. The offered price must be at least equal to the average closing price during the week prior to the notification.<sup>78</sup> The tender offer is valid for two weeks, but can be extended.<sup>79</sup> If tendered shares exceed those demanded, the bidder must purchase proportionately from all shareholders on a pro rata basis.

## **B6 Insider trading and self-dealing**

Insider trading is not specifically addressed in the law, but article 64 of CML 95 states that “any person who divulges a secret, which is in his possession by virtue of his duties under government by the provisions of this law, or has benefited he, his spouse and his children, from insider information of his work, or who used material misstatement, or omitted any material information in reports, submitted by him, to the extent that it affects the results contained in such reports” is punishable by law. Penalties include fines in the amount of L.E. 20,000-50,000 (US\$ 5,000-13,000) and/or prison terms of two years.<sup>80</sup>

CASE is responsible for on-line surveillance and CMA for off-line surveillance. The Surveillance and Market Control Department of CASE consists of 14 professionals in both Cairo and Alexandria; seven of whom are on the floor with brokers and the other seven are monitoring market activity to spot insider trading and self-dealing. The Surveillance Department inspects trades through an investors coding system, and can inspect investors' names either through the IT department or through brokers' books and orders. In 2000, 60 out of 330 trade cancellations were due to insider trading.<sup>81</sup> CMA and CASE are connected via real time electronic link. If

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<sup>74</sup> CL 159, article 70 [c]

<sup>75</sup> CL 159, article 69

<sup>76</sup> CL 159, law amendment number 3, 1998

<sup>77</sup> Decree number 930 for 1996 substituting article 59 of CML 95 Executive Regulations; and, CML 95 Executive Regulations, article 60

<sup>78</sup> CML 95 Executive Regulations, articles 61 and 62

<sup>79</sup> No tender offer is mandatory for related party acquisitions (Samir M. Hamza)

<sup>80</sup> CML 95, article 64

<sup>81</sup> The total number of transactions was 1,276,208. The percentage of trade cancellations due to insider trading represented 0.0047% of total transactions (MOEFT data)

price manipulation is detected, bid/offer prices are suspended by the chairman of the stock exchange or CMA and transactions revoked.<sup>82</sup> A recent case involves a well-known construction company. The chairman announced allegedly good results, sold his shares and subsequently published the real results. The share price tumbled. CMA/CASE ordered the chairman to buy back his shares at the highest price.

## **B7 Related party transactions**

Egyptian accounting standards require directors and managers to disclose any material interest in transactions or other matters affecting the company, irrespectively of whether such transactions have taken place. Disclosure must be made in the notes to the financial statements. The director with a conflict of interest must notify the board, have it recorded in the minutes of the meeting, and abstain from voting. The board must notify the AGM about any related party transaction.<sup>83</sup>

In practice, there is not sufficient information available to establish whether expropriation due to below market transfer pricing or to the movement of assets between subsidiaries of the same holding company takes place in Egypt. There are no clear rules on the transfer of assets and shareholders do not vote on this issue. Often the majority shareholder at the subsidiary level and the majority shareholder at the holding level are the same and it is the minority shareholders who are at risk of expropriation.

## **C The Role of Stakeholders in Corporate Governance**

### **C1 Respect of legal rights**

CL 159 grants employees the right to the lesser of either ten percent profits or the equivalent of one annual salary each year.<sup>84</sup> This right is only exercised if profits are distributed. Article 84 of the CL 159 states that employees of joint stock companies shall participate in “management” and that the company’s statutes shall specify appropriate methods and rules. Nowadays employee representatives do not generally sit on boards. Instead, companies create “employee committees” or similar bodies to deal with all matters related to employees, including salary and other compensation issues. A director is assigned the task to liaise with this committee.<sup>85</sup> CML 95 gives bond holders special protections. They may form a bond holders’ association (BHA) and elect a legal representative who acts on their behalf and attends the AGM.<sup>86</sup> The association makes recommendations for submission to the AGM or the board of directors, but does not have the right to vote at the AGM.<sup>87</sup> The unified labor act approved in Cabinet in May 2001 prohibits child labor and the environmental law 4/1994 protects the environment.

### **C2 Redress for violation of rights**

Stakeholder rights are protected by contract or specific laws, such as the labor act, environmental law or insolvency regime. Stakeholders have access to the legal process to obtain redress for the violation of rights.

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<sup>82</sup> CML 95, article 21

<sup>83</sup> CL 159, articles 97-100

<sup>84</sup> CL 159, article 41

<sup>85</sup> CL 159 Executive Statutes, article 253 and interview with Dr. Ziad Bahaa Eldin

<sup>86</sup> CML 95, article 13

<sup>87</sup> CML 95 Executive Regulations, articles 70-84

### **C3 Performance-enhancing mechanisms for stakeholder participation**

Employees may establish an employee shareholder association (ESA) for the purpose of owning shares and distributing profits among members.<sup>88</sup> Each ESA is registered with CMA and has written statutes. Only employees of the company can be members. ESAs are managed by a board of directors and the general assembly is the highest authority. In privatized companies, ESAs hold five percent or more of share capital on behalf of the employees.<sup>89</sup> At ten percent, the ESA usually has a seat on the board of directors.

Some companies have share ownership programs for their employees and executives. Employee stock option plans are not included in the legal framework. Shares must be issued at fair market value (unless they are issued to existing shareholders).<sup>90</sup> The valuation method used to calculate fair market value is reviewed by CMA.

### **C4 Access to relevant information**

As shareholders, employees are entitled to the same information as all other shareholders. Bond holders associations have the right to inspect the financial statements and to send a representative to the AGM.

## **D Financial and Non-Financial Disclosure**

### **D1 Disclosure of material information**

Any listed company must disclose its financial and operational performance to CMA and CASE on a quarterly, semi-annual and annual basis. Mandatory information includes balance sheet, income and cash flow statements, directors' report, changes in stockholder equity and board composition, as well as the external auditor report. CMA examines compliance with disclosure requirements and requests more information if needed. In case of non compliance, CMA publishes its observations at the company's expense.<sup>91</sup> The company publishes a summary of both the semi-annual and annual reports in two newspapers, at least one of which is in Arabic. Financial statements are to be prepared in compliance with Egyptian accounting standards issued by the Ministry of Economy and Foreign Trade. These are generally in line with international accounting standards except in a few areas: one example of the difference is that financial leases are not capitalized (for a list of differences with IAS, see Appendix 4). In the absence of an Egyptian accounting standard for a specific issue, IAS is applied.

Companies are required to make immediate disclosure of all material events that may affect business and/or earnings. Once CMA and CASE are informed, they immediately publish the information on their screens and inform brokerage firms.

CASE recently established a disclosure department. Penalties for intentionally disclosing false or misleading information or forging company records include jail terms of up to five years and/or a

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<sup>88</sup> CML 95 Executive Regulations, articles 184-204

<sup>89</sup> CML 95, Executive Regulations, article 191

<sup>90</sup> CML 95, Executive Regulations, article 17. Stock options are often issued by off-shore companies.

<sup>91</sup> CML 95, article 6

fine of L.E. 50,000-100,000 (US\$ 13,000-25,000).<sup>92</sup> The penalty for not abiding by disclosure rules is de-listing. No precise information on non-filers and late filers is publicly available. Recently, investors asked to acquire information from CASE and CMA regarding the large decline in share price of a partially privatized firm and demanded that satisfactory information would be made available to the public. CMA went back to the company and requested more disclosure on behalf of the shareholders.

## **D2 External audit**

Annual and semi-annual financial statements should be fully audited, while quarterly statements are submitted with a limited review report which does not include an opinion. The power of appointing and removing auditors is vested with the AGM, which also sets their remuneration.<sup>93</sup> Consulting fees do not have to be disclosed at the AGM. The auditor must not be a founder, board member, employee or otherwise associated with company or board. There is no legal restriction for an auditor to be a shareholder of the company audited. The auditor may not become a board member or employee of the company within three years of contract termination. The auditor has the right to examine all documents, data and other information necessary and to request support of the board. If no assistance is provided, the auditor can submit a report to the board or directly to the general assembly.<sup>94</sup> The auditor reports directly to the AGM, to whom the auditor's report is submitted. Any shareholder may submit a motion to fire the auditor after explaining the grounds for removal in writing up to ten days before the AGM. The auditor may respond in a letter, defending any actions under review.<sup>95</sup> The auditor is liable for misrepresentation and errors and should compensate the company and/or shareholders for any resulting loss.<sup>96</sup> Currently, there is no obligation for companies to establish audit committees or other mechanisms to ensure oversight of the audit function.

The first step for a prospective auditor is to register with the Ministry of Finance. After eight years of experience he/she automatically acquires the right to audit any company.<sup>97</sup> The Egyptian Society of Accountants and Auditors has 785 active members<sup>98</sup> in a country with 15-17,000 registered accountants; their market share is substantial. There is no formal system of monitoring members and the society does not act as a review panel.

## **D3 Major share ownership**

Companies and MCSD maintain an updated register of shareholders. They must make available an updated shareholder list at the AGM, but not to the level of ultimate beneficial ownership and not in the annual report. Shareholders have the right to inspect the minutes of the AGM, which include an attachment with the names of all registered owners and the amount of shares held by

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<sup>92</sup> CML 95, article 63

<sup>93</sup> CL 159, articles 103-109. Auditors charge extra for the limited review reports which until recently covered the quarterly and semi-annual statements.

<sup>94</sup> CL 159, article 105

<sup>95</sup> CL 159, article 103

<sup>96</sup> CL 159, article 109

<sup>97</sup> KPMG Hazem Hassan; Helmy and Hamza

<sup>98</sup> and 375 non active members. (CMA)

each. This information is also available at the offices of COOR.<sup>99</sup> According to CDL 93, beneficial ownership should be disclosed to MCSA on a confidential basis.<sup>100</sup> CASE recently started to request that the 50 most active companies, which constitute its index, disclose their ownership structure of five percent or more to CASE. However this is not mandatory by law or current regulations.<sup>101</sup> The new Capital Market Law, as well as the new Listing Requirements seek to reinforce ownership disclosure.

#### **D4 Disclosures relating to directors, key executives, and their remuneration**

It is up to company statutes to determine what level of disclosure relating to the board should be divulged to shareholders at the AGM.<sup>102</sup> For example, the names of directors and their remuneration is disclosed at the AGM but not published in the annual report. The remuneration of board members consists of sitting fees and travel expenses on the one hand and an annual share of profits not exceeding ten percent of net income (after deducting five percent for legal reserves and five percent of paid in capital for dividends). Executive remuneration is not disclosed.<sup>103</sup> CMA requests companies to submit annually a list with the names, nationalities and other pertinent details of board members and senior management. CMA must be immediately notified of any change.

Directors must disclose conflicts of interest and not participate in board decisions involving a conflict. The board informs the AGM. Directors must obtain special authorization from the AGM to trade on their own account in the same business sector or to be a party to any contract submitted to the board for approval. Directors must not enter into remunerated contracts with companies where board colleagues are directors or senior managers.<sup>104</sup>

#### **D5 Other disclosures**

Few companies publish a formal annual report in addition to what is required under CL 159 and CML 95. Concerns about whether the company is a going concern are cause for a qualified opinion in the auditor report. According to CML 95, a company issuing debt instruments for a larger amount than its net asset value, must obtain a rating from one of the credit agencies recognized by CMA.<sup>105</sup>

### **E The Governing Body**

#### **E1 Structure and legal duties**

Egyptian companies have one tier boards comprised of an odd number of members, with a minimum of three.<sup>106</sup> There are no rules governing the composition between executive and non-executive directors and the concept of independent director is not well established. Frequently,

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<sup>99</sup> CL 159, Executive Regulations 301 and 302.

<sup>100</sup> CDL 93, articles 27-28

<sup>101</sup> CML requires disclosure at ten percent of share capital (see also section B5)

<sup>102</sup> CL 159, article 66

<sup>103</sup> KPMG Hazem Hassam

<sup>104</sup> CL 159, articles 93-100

<sup>105</sup> CML 95 Executive Regulations, article 7

<sup>106</sup> CL 159, article 77

the chairman and managing director (or CEO) are the same person. The board member responsible for management is sometimes referred to as “delegated member”, and the board determines his/her compensation.<sup>107</sup> Directors must be shareholders or represent companies who are shareholders, except for up to two directors who can be chosen because they are “experts in the field”.<sup>108</sup> The board elects its chairman and sometimes a deputy chairman and can change them at any time.<sup>109</sup> The board meets upon request of the chairman or one third of its members.<sup>110</sup> The meeting is valid if attended by at least three directors.<sup>111</sup> Given that most directors are insiders, they have full access to relevant information.

## **E2 Nomination**

The AGM elects directors for three renewable years<sup>112</sup> and approves their compensation. Cumulative voting and block voting are not permitted. Nomination requirements include ownership of a minimum number of share capital as per company statutes (with exception of two experts who may ignore this requirement, see section E1). These shares are held in guarantee until the term has expired and the latest annual report is sanctioned by the AGM. An employee cannot be appointed before having served at least two years with the company and no more than three directors are executives.<sup>113</sup> Directors must accept appointments in writing and submit a CV, including a list of companies with which they have been associated during the previous three years. This information must be presented to shareholders. Directors may serve on a maximum of two boards, managing directors only on one, except if a director owns at least ten percent of the company.<sup>114</sup> Automatic disqualification results from having declared bankruptcy or committed a criminal act or a felony relating to e.g. theft, abuse of trust, forgery.<sup>115</sup> Directors can be fired by shareholders. The law penalizes directors who commit bribery, forgery, provide misleading information, distribute fictitious dividends or engage in self-dealing with prison terms and/or fines depending on the seriousness of the violation.<sup>116</sup>

## **E3 Key functions**

The board is the ultimate body governing the corporation and responsible for monitoring the implementation of the company’s objectives set by the AGM. The board is accountable vis-à-vis shareholders and the company and is liable for any misrepresentation or falsification. For example, any member of the board is subject to a penalty of imprisonment of no less than two years and to a fine of L.E. 2,000-10,000 (US\$500-2,500) if profits are distributed against the provisions of CL 159 or company statutes.<sup>117</sup> Board functions include making calls on shareholders, investing the company’s funds and making loans, appointing management and

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<sup>107</sup> CL 159, article 88

<sup>108</sup> CL 159 Executive Statutes, article 91 and articles 236-239

<sup>109</sup> CL 159 Executive Statutes, article 246

<sup>110</sup> CL 159, article 80

<sup>111</sup> CL 159 Executive Statutes, article 245

<sup>112</sup> The first board is appointed by the founders for a period of five years.

<sup>113</sup> CL 159, article 83

<sup>114</sup> CL 159, article 93

<sup>115</sup> CL 159, article 89

<sup>116</sup> CML 95, articles 63-69 and CL 159, article 161

<sup>117</sup> CL 159, article 162, item number 5

submitting financial statements and directors' reports to the AGM. The directors' report includes a summary of activities, plans for the following year and a description of the market. The board can authorize capital increases within the limit of authorized capital without a special shareholder resolution.<sup>118</sup>

#### **E4 Independent oversight of management**

According to the legislative and regulatory framework, the AGM, board of directors, internal and external auditors, and government authorities monitor management. The AGM is the supreme power and any decision is binding.<sup>119</sup> In practice, this is a formality and shareholders do not play an active role in monitoring management. The internal audit function does not exist in some companies, or if it does, has little power. The board does not include independent directors nor create committees dedicated to specific issues.<sup>120</sup> Upon request of shareholders, CMA and COOR (within their respective authorities) exert oversight of management by inspecting the company. Representatives of both organizations attend the AGM to ensure that administrative procedures are followed correctly and that decisions do not unfairly favor one group of shareholders over another. In cases of suspected wrongdoing, the authorities issue inspection warrants.<sup>121</sup> In companies with more than 25% state ownership, the Central Agency for Accounting audits the company.

Often, there is little separation between board and management. Family members typically play both roles and end up managing and monitoring at the same time.

### **III. SUMMARY NOTE ON POLICY RECOMMENDATIONS**

Based on this ROSC assessment and the scores resulting from the OECD principles-assessment matrix, a number of areas warrant attention. The recommendations focus on strengthening six key areas:

- Disclosure of ownership and control structures
- Disclosure of financial and non-financial information
- Training and capacity building for regulators and the private sector
- Strengthening the role and effectiveness of shareholders' meetings
- Improving business practices of boards of directors
- Introducing a formal system to monitor professional conduct of the auditing profession.

A discussion on the court system is outside the scope of this assessment. Funding sources have not been identified. A more complete description of the policy recommendations is available in the Annex.

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<sup>118</sup> Ahmed Fouad Atta, chairman COOR

<sup>119</sup> CL 159, articles 54-55

<sup>120</sup> With the exception of "executive committees" which are in charge of day-to-day management

<sup>121</sup> CL 159 Executive Statutes, article 303

## Annex: Policy Recommendations based on the OECD Principles – Assessment Matrix

The assessment that follows is based upon the OECD Principles of Corporate Governance (available at: <http://www.oecd.org/daf/corporate-affairs/governance/>). The OECD Principles are concerned primarily with corporations that are publicly traded on a stock exchange, though many of the issues addressed by the OECD Principles are also of relevance to large non-traded corporations and state-owned companies.

Each statement is given a benchmark, based upon the country's level of observance of the principle (please also refer to Table 2: OECD Principles – Assessment Matrix).

**Observed** means that all essential criteria are generally met without any significant deficiencies. **Largely observed** means that only minor shortcomings are observed, which do not raise any questions about the authorities' ability and intent to achieve full observance within a prescribed period of time. **Materially not observed** means that, despite progress, the shortcomings are sufficient to raise doubts about the authorities' ability to achieve observance. **Not observed** means that no substantive progress toward observance has been achieved.

Policy recommendations or comments may be offered when the principle is not fully observed.

### Section I: The rights of shareholders

**Principle 1.** The corporate governance framework should protect shareholders' rights. Basic shareholder rights include the right to: (i) secure methods of ownership registration; (ii) convey or transfer shares; (iii) obtain relevant information on the corporation on a timely and regular basis; (iv) participate and vote in general shareholder meetings; (v) elect members of the board; and (vi) share in the profits of the corporation.

(i) Secure methods of ownership registration

**Largely observed** –Ownership has to be registered, otherwise the security cannot be traded. Once registration with MCS D is fully centralized the process will be less lengthy. Clearance and settlement are in compliance with ISSA G30 recommendations with the exception of three issues: efficient and geographically extensive payment system, securities lending and borrowing, and registration of all listed companies with MCS D (the last two issues will be remedied once CDL 93 executive regulations are issued).

(ii) Share transfer

**Observed**

(iii) Access to information

**Largely observed** - Companies publish summaries of semi-annual and annual statements in two newspapers. Formal annual reports are not always printed. Shareholders, including

owners of bearer shares, have the right to review certain information at the company's headquarters during the two weeks prior to the AGM, if their request is duly recorded and signed. Company shareholder lists are available for review only at the annual meeting, but not to the level of ultimate, beneficial owner.

*Policy Recommendation:*

Require listed companies to publish an annual report in addition to a summary of financial statements.

(iv) Participation and voting at AGM

**Largely observed** – Holders of bearer shares are not allowed to vote. Shareholders who have paid up 50 percent or less of the share issue price have full voting rights. Shares are blocked prior to the AGM, which restricts trading and the transfer of shares.

*Policy Recommendation:*

Best practice requires that bearer shares be allowed to vote and that shares be fully paid-up in order to have voting privileges. Best practice also encourages the introduction of a "date of record" for proof of share ownership so that shares do not need to be blocked for votes to count at the AGM.

(v) Election of board

**Largely observed** – While all shareholders have the right to elect board members, there are no specific provisions that protect minority shareholder rights.

*Policy Recommendation:*

Best practice would encourage a review of the provisions to strengthen minority rights, which includes the introduction of cumulative voting, promotion of an organization to represent minority shareholders, the possibility of shareholders holding a specified percentage of shares to propose candidates to the board, or a rule to mandate equitable treatment (to avoid oppression of minority shareholders by majorities).

(vi) Share in the profit

**Observed**

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**Principle 2.** Shareholders have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes, such as: (i) amendments to the governing documents of the company; (ii) the authorization of additional shares; and (iii) extraordinary transactions that in effect result in the sale of the company.

(i) Amendments to the statutes

**Observed**

(ii) Authorization of additional shares

**Observed** – However, boards may increase share capital within the limits of authorized capital without specific shareholder authorization.

(iii) Extraordinary transactions (resulting in sale of the company)

**Observed**

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**Principle 3.** Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and should be informed of the rules, including voting procedures, that govern general shareholder meetings.

(i) Sufficient and timely information about AGM

**Observed**

(ii) Opportunity to ask question and place items on agenda

**Largely observed** – Shareholders representing five percent of shares may place an item on the agenda. Shareholders can file a complaint if they are denied their rights.

*Policy recommendation:*

Best practice would require that the company publish or distribute shareholder counter proposals and shareholder resolutions at the company's cost. Develop training programs for COOR to instruct companies accordingly.

(iii) Vote in person or in absentia

**Largely observed** – There are some restrictions as to whom may be appointed proxy: If the proxy is a natural person, he or she must be a shareholder, have a power of attorney and cannot be a board member. No natural person may represent more than ten percent of shares and 20% of represented shares at the meeting.

*Policy recommendation:*

Introduce provisions for postal, electronic or alternative means of voting.

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**Principle 4.** Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.

**Largely observed** – Shareholders can get this information from the company. The employment of electronic means should make the information more easily accessible.

However, pyramid structures and cross shareholdings can be used to diminish the capability of non-controlling shareholders to influence corporate policy. Share class information is not commonly available in the annual report.

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**Principle 5.** Markets for corporate control should be allowed to function in an efficient and transparent manner.

(i) Clearly articulated and disclosed rules and procedures, transparent prices and fair conditions

**Largely observed** – Procedures for acquisition and mergers are not sufficiently clear, efficient and fair: E.g. a company must be given two weeks’ notice of any acquisition intent via registered mail. The company must inform shareholders owning at least one percent of capital within one week of notification. There is no mandated tender offer for all outstanding shares. The proposed new Capital Market Law will more clearly articulate the rules and mandate tender offers for all shares at fair conditions.

*Policy recommendation:*

Remove the requirement for advance notice of company and shareholders.

(ii) No use of anti-takeover devices to shield management from accountability

**Observed**

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**Principle 6.** Shareholders, including institutional investors, should consider the costs and benefits of exercising their voting rights.

**Not observed** – Not currently applicable, although growth in the institutional investor market could make this issue important in years to come.

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## Section II: Equitable Treatment of Shareholders

**Principle 1.** The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights. All shareholders of the same class should be treated equally.

(i) Same voting rights for shareholders within each class. Ability to obtain information about voting rights attached to all classes before share acquisition. Changes in voting rights subject to shareholder vote.

**Observed** – However, investors should be informed regarding their voting rights before they invest.

(ii) Vote by custodians or nominees in agreement with beneficial owner.

**Not observed** – The concept of beneficial owner has been recently introduced by Central Depository Law 93/2000. Once the corresponding executive regulations are issued, nominees must cast their votes in compliance with instructions from beneficial owners and the score is expected to improve.

(iii) AGM processes and procedures allow for equitable treatment. Avoidance of undue difficulties and expenses in relation to voting.

### **Observed**

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**Principle 2.** Insider trading and abusive self-dealing should be prohibited.

**Largely observed** – While insider trading is not explicitly addressed in the law, the CML provides heavy penalties in this regard and CMA is taking steps in the right direction. A detailed set of rules is proposed by the new CML law.

*Policy Recommendation:*

Insider trading cases, sanctions and the respective articles of the new law should be widely publicized as a deterrent to those who are unaware of the current legal prohibitions against such activity. Develop training programs for CMA and CASE on this issue.

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**Principle 3.** Members of the board and managers should be required to disclose any material interests in transactions or matters affecting the corporation.

**Largely observed** - However pyramid structures and cross-shareholdings make materials interests difficult to identify.

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## **Section III: Role of Stakeholders in Corporate Governance**

**Principle 1.** The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.

**Observed** – “Stakeholder” is not a widely recognized term, although the concept exists and stakeholders are protected.

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**Principle 2.** Where stakeholder interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights.

**Observed**

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**Principle 3.** The corporate governance framework should permit performance-enhancement mechanisms for stakeholder participation.

**Observed** – However, stock option plans are not part of the Egyptian legal framework.

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**Principle 4.** Where stakeholders participate in the corporate governance process, they should have access to relevant information.

**Largely Observed** – Stakeholders such as employees, associations of bond holders and others have the right by law to all information. However, they face issues similar to those of shareholders in the area of disclosure. In addition, many stakeholders are unaware of their rights as regards obtaining relevant information.

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#### **Section IV: Disclosure and Transparency**

**Principle 1.** The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and the governance of the company. Disclosure should include, but not be limited to, material information on the following sections.

(i) Financial and operating results

**Largely observed** – Companies are not required to publish an annual report, although the GDR companies are moving in this direction. Late filing has been a problem. With the introduction of electronic filing, costs of filing will decrease.

*Policy Recommendation:*

For those companies who file late, a range of administrative penalties, including fines, could be introduced. On a broader scale, strengthening disclosure of financial and non-financial information should be a priority. Best practice would recommend using listing requirements to create incentives for companies who want to distinguish themselves by following higher standards of disclosure, transparency and accountability. This would give domestic and international investors a reference point for investment. Also, state

pension funds and other institutional investors could be allowed to invest a higher percentage of funds in companies with higher disclosure standards. These measures could improve access to capital and reduce the cost of capital for companies with better corporate governance. Companies listed on tiers with limited disclosure requirements could be encouraged to graduate to tiers with greater transparency.

(ii) Company objectives

**Largely observed** – However, limited disclosure on policies related to business ethics, the environment and other public policy commitments.

(iii) Major share ownership and voting rights .

**Materially not observed** – Capital structure and voting rights are disclosed in company statutes.

*Policy Recommendations:*

Disclosure requirements of ownership and control structures should be strengthened. Possible methods include requiring market disclosure of all ownership holdings in excess of five percent share capital for listed companies and introducing measures whereby shareholders have access to beneficial ownership positions (at the AGM or through MCSD/COOR).

(iv) Board members, key executives and their remuneration

**Largely observed** – Board remuneration is disclosed in the aggregate; executive remuneration is not reported.

(v) Material foreseeable risk factors

**Materially not observed** – While auditors issue a qualified opinion when there is serious doubt that the company is a going concern, there is no requirement to report on market risk factors, outstanding litigation, or other foreseeable risk factors.

*Policy recommendation:*

Market participants need information on reasonably foreseeable material risks that may include risks specific to the industry or geographic area, dependence on commodities, financial market risk including interest rate or currency risk, as well as risks related to derivatives and off-balance sheet transactions. Such disclosure should include disclosure on whether or not companies have put systems for monitoring risk in place.

(vi) Material issues regarding employees and other stakeholders

**Largely observed** – However, since there is no obligation to publish an annual report, issues such as lock-outs, strikes or litigations are not disclosed by the company to the public.

(vii) Governance structures and policies

**Materially not observed** – Directors are generally not aware of corporate governance best practices and do not disclose governance policies of the company, in particular the division of authority between shareholders, management and board members. However, the concept of corporate governance is gaining increasing interest and support amongst Egyptian companies.

*Policy Recommendation:*

Best practice would encourage greater corporate governance awareness through the introduction of a corporate governance best practice code. Once introduced, best practice would encourage companies to report on the level of adherence with the code. Additionally, an Institute of Directors could be created in order to train directors and function as an information/best practice dissemination mechanism for Egypt's corporate directors.

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**Principle 2.** Information should be prepared, audited, and disclosed in accordance with high quality standards of accounting, financial and non-financial disclosure, and audit.

**Largely observed** – The Law requires the preparation of information according to Egyptian accounting and audit standards generally in line with international standards. An important difference is the treatment of financial leases, which are not capitalized. There is no professional accounting and auditing body with the authority to monitor members and professional conduct by imposing fines or other sanctions. A law governing the profession is under preparation.

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**Principle 3.** An annual audit should be conducted by an independent auditor in order to provide an external and objective assurance on the way in which financial statements have been prepared and presented.

**Largely observed** – The annual shareholder meeting votes upon the appointment of the auditor and his compensation. Board audit committees to oversee the audit process are rare. Some doubts remain regarding the audit profession's ability to self-monitor and to ensure high standards of professional conduct.

*Policy Recommendation:*

Best practice would recommend taking action to strengthen the standing of the profession and tighten the qualifications necessary to become an auditor. Actions could include supporting the creation of an independent professional body with the authority to impose standards of excellence and of professional conduct based on a code of ethics. Then a list of qualified auditors could be set up from which listed companies choose their auditor.

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**Principle 4.** Channels for disseminating information should provide for fair, timely and cost-effective access to relevant information by users.

**Largely observed** - Access to information can be cumbersome and sometimes costly. Timeliness remains an issue. Electronic filing and data retrieval systems, as well as the internet and other information technologies will improve information dissemination.

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## Section V: Responsibilities of the Board

**Principle 1.** The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.

**Largely observed** – The board is accountable to the company and shareholders. Directors are not always fully aware of their duties.

*Policy recommendation:*

A training and information dissemination body such as an Institute of Directors or a professional organization, which could offer knowledge management and best practice information, would improve this situation.

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**Principle 2.** Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly.

**Largely observed** – The question remains whether minority shareholders are always treated fairly when majority shareholders control the board.

*Policy recommendation:*

See section I, principle 1 (v)

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**Principle 3.** The board should ensure compliance with applicable law and take into account the interests of stakeholders.

**Observed**

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**Principle 4.** The board should fulfill certain key functions, including the following:

(i) Corporate strategy, risk policy, budgets, business plans, performance objectives, implementation and performance surveillance, major capital expenditures, acquisitions, divestitures

**Largely observed** – The directors’ reports discuss these items in general terms.

(ii) Selection, monitoring, replacement of key management

**Largely observed** – There is a low degree of board independence from management, which makes it difficult for boards to fulfill their oversight function.

(iii) Key executive and board remuneration, board nomination

**Largely observed** – There are no requirements regarding independence for such key functions as audit, remuneration or nomination committees to ensure formal and transparent processes.

*Policy recommendation:*

Best practice would encourage the introduction of the concept of “independent director”, for example, through a code of best practice, a professional organization, an Institute of Directors or listing requirements. Companies should be required to include a minimum number of independent directors on board committees dealing with potential conflict of interest issues.

(iv) Monitoring of conflict of interest of management, board members, and shareholders, including misuse of corporate assets and abuse in related party transactions.

**Materially not observed** – Because there are no clear rules on the transfer of assets and no requirements for shareholder to vote on this issue, the potential exists for misuse of corporate assets and abuse in related party transactions. The proposed new company law is expected to remedy this situation.

*Policy Recommendation:*

“Substantial assets” are typically defined as 25 percent or more of company assets and best practice would be for shareholders to vote on any transfer of assets above this threshold. Additionally, greater levels of ownership disclosure and cross-shareholdings would reduce the potential for such abuses.

(v) Ensuring integrity of accounting and financial reporting systems, including independent audit, systems of control, compliance with law

**Largely observed** – The internal audit function, if it exists, is weak. There is no requirement to have an audit committee, much less the independent audit committee that best practice would recommend.

(vi) Monitoring governance practices and making necessary changes

**Materially not observed** – see Section IV, principle 1 (vii)

*Policy Recommendation:*

Organize a seminar under the auspices of the Ministry of Economy and Foreign Trade to disseminate lessons learned from ROSC corporate governance assessment and create regional corporate governance institute of directors.

(vii) Overseeing disclosure and communication

**Largely observed**

---

**Principle 5.** The board should be able to exercise objective judgment on corporate affairs independent, in particular, from management.

(i) Assignment of non-executive board members to tasks of potential conflict of interest (e.g. financial reporting, remuneration)

**Materially not observed** – Board independence requires that a sufficient number of board members not be employed by the company nor closely related to the company or its management through significant economic, family or other ties. The concept of non-executive or independent directors is not well established. Independent non-executive directors could provide assurance to market participants that their interests are defended.

*Policy Recommendation:*

See section V, principle 4 (iii).

(ii) Devote sufficient time to their responsibilities

**Largely observed** – Some countries have introduced mandatory disclosure at annual shareholders' meetings regarding attendance to board meetings in order to alert shareholder when directors might not be devoting sufficient time to their responsibilities.

*Policy Recommendation:* See section V, principle 4 (vi)

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**Principle 6.** In order to fulfill their responsibilities, board members should have access to accurate, relevant and timely information.

F. Access to accurate, relevant, and timely information

**Observed**

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## **Table 1: Acronyms and Summary Fact Sheet**

### **Acronyms**

AGM: Annual General (Shareholders) Meeting  
BOD: Board of Directors  
CASE: Cairo & Alexandria Stock Exchange  
CBE: Central Bank of Egypt  
CDL: Central Depository Law  
CL: Companies Law  
CMA: Capital Market Authority  
CML: Capital Market Law  
COOR: Companies Organization  
Demat: Dematerialized shares; shares that exist in electronic form  
MCSD: Misr Clearance & Settlement Depository  
MOEFT: Ministry of Economy & Foreign Trade

## Summary Fact Sheet

<b>Market and Regulatory Overview</b>	<b>Observed/No/Partial</b>	<b>IV. Remarks</b>
<p>Market Cap (% of GDP) Turnover Ratio Number of Listed Companies</p> <p>Legal System (Origin)</p> <p>Autonomy of Capital Markets Regulator</p> <p>Powers of the Capital Markets Regulator Stock Exchange Governance</p> <p>Corporate Ownership Structure</p>		<p>120 billion L.E. (US\$32.3 bio) as of 12/31/2000 (35 % of GDP) 34 % for year 2000 1076 companies listed, 659 traded. 141 are listed on official table, rest on unofficial table due to tax exemption on the equivalent of the CBE's deposit rate on paid in capital.</p> <p>French legal system with some other continental European influences. Islamic law does not shape the financial and corporate legal frameworks. Recent amendments to securities legislation is inspired by the Anglo-American legal framework.</p> <p>CMA. 7 members' board. Two directors, including chairman appointed by the President for 3 renewable years. Other BOD members appointed/removed by Prime Minister for 2 renewable years. Funding: mainly fees .</p> <p>Administrative powers. Under Egyptian constitution, financial and criminal penalties can only be imposed by a court. CASE. Quasi governmental body under supervision of CMA. 10 members' board; 5 elected by brokers, one director represents CMA, one the Central Banks and two the banking sector.</p> <p>Concentrated with incidence of pyramid structures, cross holdings and bank participation. Average free float of traded companies: approx. 20-25%.</p>
<p><b>Shareholders' Rights</b> Voting Rights</p> <p>Proxy Voting</p> <p>Cumulative Vote/Proportional Representation Ownership % required to call Shareholder Meeting</p> <p>Redress against Violations/ Minority Oppression Remedies</p> <p>Take-over Code Mandatory Tender Offer in Change of Control Insider Trading &amp; Self-Dealing Prohibition Preemptive Rights</p>	<p></p> <p>Yes</p> <p>No</p> <p>Yes</p> <p>No</p> <p>Yes</p>	<p>Up to 25% of capital stock may be issued as bearer shares. These shares cannot vote. Preferred stock enjoys privileges in 3 areas: Profit distribution, voting power and liquidation rights.</p> <p>Natural person must be shareholder or any juridical person. BOD member may not be proxy.</p> <p>5 % for ordinary meeting, 10% for extraordinary meeting.</p> <p>5 % if AGM decision favors a category of shs or BOD; or any individual shh who registers his/her objection during AGM and sues within one year. COOR may also sue on behalf of shhs.</p> <p>To be drafted as integral part of Competition Legislation At 20% for some or all outstanding shares.</p> <p>Not specifically addressed, but provision of CML 95, article 64 can be used to sanction insider trading. . According to statutes of company</p>
<p><b>Oversight of Management</b> Board Structure</p> <p>Independent Directors</p> <p>Committee Practices</p>	<p></p> <p>No</p> <p>No</p>	<p>One tier BOD elected by the AGM. Chairman is often also CEO. Primary responsibility towards shhs. Concept of independent directors is unknown. The company law 159 allows for up to 2 experts to be appointed.</p> <p>The BOD may create a sub-committee in charge of day-to-day management. No other committee practices.</p>
<p><b>Disclosure and Transparency</b> External Auditors</p> <p>Consolidated Statements Segment Reporting Disclosure of Price Sensitive Information Accounting – Standards and Enforcement Company Officers related Disclosures Related Party Transactions Disclosure of Ownership</p> <p>Risk Management and other Disclosures</p>	<p>Yes</p> <p>Yes Yes Yes</p> <p>Yes</p> <p>No</p> <p>Yes</p> <p>No</p> <p>No</p>	<p>Appointed/removed by AGM.</p> <p>Egyptian accounting standards are close to IAS, except with respect to financial leasing and other minor differences. . The AGM approves remuneration of BOD.</p> <p>Disclosed in prospectus at time of listing and at AGM, but not to the level of ultimate beneficial owner.</p> <p>No detailed MD&amp;A reports.</p>

**Table 2: OECD Principles-Assessment Matrix**

**Section I: The Rights of Shareholders**

A. Basic shareholders rights:

(i) Secure methods of ownership registration

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(ii) Share transfer

(a) Observed	<input checked="" type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(iii) Access to information

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(iv) Participation and voting at AGM

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(v) Election of board

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(vi) Share in the profit

(a) Observed	<input checked="" type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

B. The right to participate in decisions on fundamental corporate changes:

(i) Amendments to the statutes

(a) Observed	<input checked="" type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(ii) Authorization of additional shares

(a) Observed	<input checked="" type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(iii) Extraordinary transactions (resulting in sale of the company)

(a) Observed	<input checked="" type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

C. The right to be adequately informed about, participate and vote in general shareholder meetings (AGM):

(i) Sufficient and timely information about AGM

- |                             |                                     |                      |                          |
|-----------------------------|-------------------------------------|----------------------|--------------------------|
| (a) Observed                | <input checked="" type="checkbox"/> | (b) Largely observed | <input type="checkbox"/> |
| (c) Materially not observed | <input type="checkbox"/>            | (d) Not observed     | <input type="checkbox"/> |

(ii) Opportunity to ask question and place items on agenda

- |                             |                          |                      |                                     |
|-----------------------------|--------------------------|----------------------|-------------------------------------|
| (a) Observed                | <input type="checkbox"/> | (b) Largely observed | <input checked="" type="checkbox"/> |
| (c) Materially not observed | <input type="checkbox"/> | (d) Not observed     | <input type="checkbox"/>            |

(iii) Vote in person or in absentia

- |                             |                          |                      |                                     |
|-----------------------------|--------------------------|----------------------|-------------------------------------|
| (a) Observed                | <input type="checkbox"/> | (b) Largely observed | <input checked="" type="checkbox"/> |
| (c) Materially not observed | <input type="checkbox"/> | (d) Not observed     | <input type="checkbox"/>            |
- 

D. Disclosure of capital structures and arrangements enabling control disproportionate to equity ownership:

- |                             |                          |                      |                                     |
|-----------------------------|--------------------------|----------------------|-------------------------------------|
| (a) Observed                | <input type="checkbox"/> | (b) Largely observed | <input checked="" type="checkbox"/> |
| (c) Materially not observed | <input type="checkbox"/> | (d) Not observed     | <input type="checkbox"/>            |
- 

E. Efficient and transparent functioning of market for corporate control:

(i) Clearly articulated and disclosed rules and procedures, transparent prices and fair conditions

- |                             |                          |                      |                                     |
|-----------------------------|--------------------------|----------------------|-------------------------------------|
| (a) Observed                | <input type="checkbox"/> | (b) Largely observed | <input checked="" type="checkbox"/> |
| (c) Materially not observed | <input type="checkbox"/> | (d) Not observed     | <input type="checkbox"/>            |

(ii) No use of anti-takeover devices to shield management from accountability

- |                             |                                     |                      |                          |
|-----------------------------|-------------------------------------|----------------------|--------------------------|
| (a) Observed                | <input checked="" type="checkbox"/> | (b) Largely observed | <input type="checkbox"/> |
| (c) Materially not observed | <input type="checkbox"/>            | (d) Not observed     | <input type="checkbox"/> |
- 

F. Requirement to weigh costs/benefits of exercising voting rights

- |                             |                          |                      |                                     |
|-----------------------------|--------------------------|----------------------|-------------------------------------|
| (a) Observed                | <input type="checkbox"/> | (b) Largely observed | <input type="checkbox"/>            |
| (c) Materially not observed | <input type="checkbox"/> | (d) Not observed     | <input checked="" type="checkbox"/> |
- 

**Section II: Equitable Treatment of Shareholders**

A. Equal treatment of shareholders within same class

(i) Same voting rights for shareholders within each class. Ability to obtain information about voting rights attached to all classes before share acquisition. Changes in voting rights subject to shareholder vote.

- |                             |                                     |                      |                          |
|-----------------------------|-------------------------------------|----------------------|--------------------------|
| (a) Observed                | <input checked="" type="checkbox"/> | (b) Largely observed | <input type="checkbox"/> |
| (c) Materially not observed | <input type="checkbox"/>            | (d) Not observed     | <input type="checkbox"/> |

(ii) Vote by custodians or nominees in agreement with beneficial owner.

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input checked="" type="checkbox"/>

(iii) AGM processes and procedures allow for equitable treatment. Avoidance of undue difficulties and expenses in relation to voting.

(a) Observed	<input checked="" type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

---

B. Prohibition of insider-trading and self-dealing

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

---

C. Disclosure by directors and managers of material interests in transactions or matters affecting the company.

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

---

### Section III: Role of Stakeholders in Corporate Governance

A. Respect of legal stakeholder rights

(a) Observed	<input checked="" type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

---

B. Redress for violation of rights

(a) Observed	<input checked="" type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

---

C. Performance-enhancing mechanisms for stakeholder participation

(a) Observed	<input checked="" type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

---

D. Access to relevant information

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

---

### Section IV: Disclosure and Transparency

A. Disclosure of material information

(i) Financial and operating results

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(ii) Company objectives

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(iii) Major share ownership and voting rights

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input checked="" type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(iv) Board members, key executives and their remuneration

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(v) Material foreseeable risk factors

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input checked="" type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(vi) Material issues regarding employees and other stakeholders

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(vii) Governance structures and policies

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input checked="" type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

**B. Preparation of information, audit, and disclosure in accordance with high standards of accounting, disclosure, and audit**

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

**C. Annual audit by independent auditor**

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

**D. Channels for disseminating information allow for fair, timely, and cost-efficient access to information by users**

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

**Section V: Responsibilities of the Board**

A. Act on an informed basis, in good faith, with due diligence and care, in the best interest of the company and shareholders

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

---

B. Fair treatment of each class of shareholders

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

---

C. Compliance with law and taking into account stakeholders' interests

(a) Observed	<input checked="" type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

---

D. Key functions:

(i) Corporate strategy, risk policy, budgets, business plans, performance objectives, implementation and performance surveillance, major capital expenditures, acquisitions, divestitures

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(ii) Selection, monitoring, replacement of key management

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(iii) Key executive and board remuneration, board nomination

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(iv) Monitoring of conflict of interest of management, board members, and shareholders, including misuse of corporate assets and abuse in related party transactions.

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input checked="" type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(v) Ensuring integrity of accounting and financial reporting systems, including independent audit, systems of control, compliance with law

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(vi) Monitoring governance practices and making necessary changes

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input checked="" type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(vii) Overseeing disclosure and communication

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

---

E. Objective judgement on corporate affairs:

(i) Assignment of non-executive board members to tasks of potential conflict of interest (e.g. financial reporting, remuneration)

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input checked="" type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

(ii) Devote sufficient time to their responsibilities

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

---

F. Access to accurate, relevant, and timely information

(a) Observed	<input checked="" type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>
(c) Materially not observed	<input type="checkbox"/>	(d) Not observed	<input type="checkbox"/>

---

*This table attempts to summarize the current provisions in the country, benchmarked against the items set out in the OECD Principles of Corporate Governance.*

**Observed** means that all essential criteria are generally met without any significant deficiencies

**Largely observed** means that only minor shortcomings are observed, which do not raise any questions about the authorities' ability and intent to achieve full observance within a prescribed period of time

**Materially not observed** means that, despite progress, the shortcomings are sufficient to raise doubts about the authorities' ability to achieve observance

**Not observed** means that no substantive progress toward observance has been achieved.

*Any comments are welcome*

## Appendix 1: List of Sectors Represented on CASE, December 31, 2000

### Number of Listed Securities on the Egyptian Stock Exchange (as of Dec. 31, 2000)

#### Listed Companies

Sector	Official	Unofficial (1)	Unofficial (2)	Total
Agriculture & Fishing	5	22	4	31
Building Materials & Construction	22	126	40	188
Chemicals	9	20	2	31
Consumer & Household Goods	0	5	6	11
Electrical Equipment & Engineering	13	61	15	89
Entertainment	5	45	27	77
Financial Services	4	98	35	137
Food & Beverage	14	53	9	76
Health & Pharmaceuticals	10	31	10	51
Holding Companies	0	1	3	4
Housing & Real Estate	10	53	31	94
Information Technology	0	7	5	12
Mills & Storage	9	3	3	15
Mining & Gas	1	10	2	13
Miscellaneous Services	0	17	4	21
Paper & Packaging & Plastics	3	35	4	42
Retailers	5	5	3	13
Textiles & Clothing	15	32	5	52
Trade	5	55	24	84
Utilities	11	17	7	35
<b>Total</b>	<b>141</b>	<b>696</b>	<b>239</b>	<b>1076</b>

\*Source: CASE, Financial Securities (December, 2000), p. 6.

## Appendix 2: Capital Market Law 95 (1992)

### Chapter 1: Issuance of Securities (sections on the prospectus)

#### Article (4)

No offer of securities by any company, including Public Business Sector Companies<sup>122</sup>, and Public Sector Companies<sup>123</sup>, shall be made for public subscription without a prospectus to be filed with and certified by the Authority, and publishing in two widely circulated daily morning newspapers, one of which at least should be an Arabic newspaper.

The prospectus should be prepared according to the forms provided by the Authority.

#### Article (5)

The prospectus of a company at incorporation should disclose the following information: -

1. Purpose and duration of the company.
2. Issued and paid up capital of the company.
3. Characteristics of the shares being offered and the terms of offer.
4. Names of the founders, the capital subscribed by each and the payment in kind, if any.
5. The company's plan for the use of proceeds of sale and its expected results.
6. Places where the certified prospectus could be obtained.
7. Any other information as defined by the Executive Regulations.

Other types of prospectus should, in addition to the information stipulated in the preceding paragraph, disclose the following information:

1. Business history of the company.
2. Names of the board members, directors and responsible officers and their experiences.
3. Name and ownership percentage of each shareholder of nominal shares who owns more than five percent of the company's shares.
4. A brief of audited financial statements of the last three years, or for the period from the date of company incorporation whichever is less; prepared in accordance with the disclosure rules stipulated in

the Executive Regulations and using the forms provided by the Authority.

#### Article (6)

Every company offering securities for public subscription is required to provide the Authority with its semi-annual activity and progress reports, disclosing data and information revealing its actual financial position.

The company's balance sheet and other financial statements should be prepared in accordance with the accounting standards and auditing principles as specified, or referred to, by the Executive Regulations.

The company should notify the Authority a month prior to the general assembly meeting of its balance sheet and other financial statements as well as reports of the board of directors and that of company's auditor.

---

<sup>2</sup> Governed by Law 203/1991

<sup>3</sup> Governed by Law 97/1983.

The Authority may examine the aforementioned documents, or entrust other specialized agencies to carry out such an examination. It shall notify the company with its remarks accordingly specifying necessary amendments to these documents. If the company does not comply with such a notification, the Authority shall publish its remarks and required amendments at the expense of the company and in accordance with the procedure stipulated in the following paragraph.

The company shall publish an adequate summary of its semi- annual reports and annual financial statements in two daily morning and widely circulated newspapers, one of which at least is an Arabic newspaper.

Every company should disclose immediately any material information which would affect its business or its financial position and publish an adequate summary of this information in two daily morning and widely circulated newspapers, one of which at least is an Arabic newspaper.

#### Article (7)

The company and its auditors shall provide the Authority with the information and documentation it may require verifying the contents of the prospectus, the periodic reports and the financial statements.

**Appendix 3: Listing Requirements – Current and Proposed  
Current Listing Requirements**

<b>Requirements</b>	<b>Official</b>	<b>Unofficial (1)</b>	<b>Unofficial (2)</b>
Minimum No. of Shareholders	150	N/A	N/A
Free Float	30% (A)	N/A	N/A
Paid Up Portion of Issue Value of Security	100%	Minimum 50%	minimum 25%
Shareholders' Equity	Not less than company's paid-up capital	Not less than company's paid-up capital	not less than company's paid-up capital
Disclosure of Potential Risk (B)	Required	Required	Required
Disclosure of Unusual Circumstances or Events that could affect Co.'s Financial Position	Required	<i>Required</i>	Required
No Restrictions on Trading	Yes	Yes	Yes
Listing Agreement with Central Depository	Yes	Yes	Yes
Prospectus Required	Yes	No (C)	No (C)
Track Record for Listings	<i>3 years</i>	<i>1 years</i>	<i>1 (C)</i>
Items Permitted to List on this Schedule Only	All public sector companies, debt securities issued by government, treasury bills and treasury bonds <b>PLUS</b> Private companies which abide by listing requirements mentioned above.	Foreign shares <b>PLUS</b> all stocks and bonds of companies that don't fulfill the requirements of the official schedule.	Unofficial (2) is a constitute for listing in official and unofficial 1 in case of absence of listing requirements of them as well as public offering companies
Financial Statements Provided to CASE	<i>Quarterly</i>	<i>Quarterly</i>	<i>Quarterly</i>
Publication of Financial Statements	Semi-annually	Annually	N/A
Explanation of Net Profit Retained for Reserves	Required	N/A	N/A

*Source: CASE, Listing rules as per CMA decree*

**Notes**

- (A) With the exception of shares of public business sector companies which may not necessarily be sold in public offering or have a given number of shareholders (Law 203)
- (B) The auditors' report must disclose a going concern if they are going concern
- (C) Required only in case of public offering

	<b>Proposed Listing Requirements</b>			
	<b>Official</b>		<b>**** Unofficial</b>	
	<b>* 1</b>	<b>** 2</b>	<b>1</b>	<b>2</b>
Minimum Value of Shares	n/a	n/a	n/a	n/a
Minimum No. of Shareholders	150	n/a	100	n/a
Minimum Free Float	30%	n/a	10%	n/a
Issued & Paid up Capital	LE 20M, Fully Paid	LE 20M, Fully Paid	LE 10M, Fully Paid	LE 5M, Fully Paid
Shareholders' Equity	Must equal issued cap. for last 2 years	n/a	Must equal issued cap. for last year	Equal part of issued capital
Disclosure of Potential Risk	Required	Required	Required	Required
Disclosure of Unusual Circumstances or Events that could affect Co's Financial Position	Required	Required	Required	Required
No Restrictions on Trading	Yes	Yes	Yes	Yes
Listing Agreement with Central Depository	Yes	Yes	Yes	Yes
Prospectus Required	Yes	Yes	Yes	Yes
Track Record for Listings	3 Years	*** 2years	2 years	2 years
Net Profit before Tax	5% of capital	5% of capital	5% of capital	n/a
No of Issued Shares required for listing	2 million	2 million	1 million	0.5 million
Financial Statements Provided to CASE	Quarterly	Quarterly	Quarterly	Quarterly
Publication of Financial Statements	Semi-annually	Semi-annually	Semi-annually	Annually
Explanation of Net Profit Retained for Reserves	Required	Required	Required	Required

*Source: CASE, June 2001*

## Notes

\* The company should have released its financial statements for at least 3 years from the date of registration in the Commercial Registry

\*\* Listing on this schedule is for securities issued by Government and fully offered for public subscription and irrespective of number of holders unless specified by the law governing their issuance

It also includes securities which are issued by Public Sector Companies and Public Business Sector Companies with no conditions of public offering or the number of holders.

\*\*\* The company should submit financial statements for last 2 years audited by the Central Auditing Agency, prepared in accordance with the Egyptian Accounting Standards and audited according to International Auditing Standards.

\*\*\*\* In this schedule, foreign securities are listed subject to all requirements of the schedule and provided that these securities are listed on a stock exchange which is supervised by a Regulating Agency with similar functions of CMA and provided that they are issued in a currency that could be converted to Egyptian Pounds.

## **Appendix 4: Egyptian Accounting Standards**

Egyptian requirements are based on the Companies Law and the Capital Market Law; on Egyptian Accounting Standards of the Ministry of Finance, and on regulations of the Central Bank. There is also a formal reference in the law to the use of IAS when there are no Egyptian requirements.

### **Egyptian accounting may differ from that required by IAS because of the absence of specific rules in the following areas:**

- the calculation of impairment tests, especially as assets are written down to net realizable value rather than to recoverable amount (IAS 36.5)
- the capitalization of pre-operating and set-up costs (IAS 38.56)
- the classification of business combinations as acquisitions or unitings of interest IAS 22.8
- the treatment of joint ventures IAS 31
- the recognition of operating lease payments and of lease incentives IAS 17.25; SIC 15
- the establishment of provisions in the context of a business combination accounted for as an acquisition IAS 22.31
- the translation of the financial statements of a hyperinflationary subsidiary IAS 21.36
- the consolidation of special purpose entities. SIC 12

### **There are no specific rules requiring disclosures of:**

- a primary statement of changes in equity IAS 1.7
- the fair values of financial assets and liabilities IAS 32.77
- segment reporting. IAS 14

### **There are inconsistencies between Egyptian and IAS rules that could lead to differences for many enterprises in certain areas. Under Egyptian rules:**

- finance leases are not capitalized IAS 17
- a general provision can be created where there is no obligation IAS 37.14
- defined benefit calculations can be based on current rather than anticipated salary levels; and the discount IAS 19.83 rate need not be based on current bond interest rates IAS 19.78
- appropriations of profit for directors and other employees are not charged against income IAS 1
- actuarial gains and losses cannot be recognized over the employees' average remaining service lives; IAS 19.92 and past service costs are recognized immediately IAS 19.96
- deferred tax is not accounted for IAS 12
- an issuer's financial instruments are accounted for on the basis of their legal form, and compound

instruments are not split into liability and equity components IAS 32.18/23

- the disclosures relating to discontinuing operations may begin at a different time and be less extensive than required under IAS. IAS 35

**In certain enterprises, these other issues could lead to differences from IAS:**

- non-financial (dissimilar) subsidiaries are excluded from consolidation by banking groups IAS 27.14
- there are no requirements concerning those employee benefits, beyond retirement benefits and pension systems, that might be found in foreign subsidiaries. IAS 19.52

Source: GAAP 2000 – A Survey of National Accounting Rules in 53 Countries, p. 31 - 32

## Appendix 5: Capital Market Statistics

### Table 1: Market Capitalization of the Ten Largest and Smallest Traded Companies

Market Capitalization of Ten Largest Traded Companies on ZSE (as of December 31, 2000)

Company Name	Market Capitalization (Millions LE)	Percentage of Market Capitalization	Cumulative Percentage
Telecom Egypt	19,105,038,000	15.85	15.85
Egyptian Company for Mobile Services (MobiNil)	7,537,000,000	6.25	22.10
Orascom Telecom (OT)	4,671,900,000	3.88	25.98
Egyptian Media Production City	3,374,640,000	2.80	28.78
Orascom Construction Industries (OCI)	2,899,800,000	2.41	31.18
Commercial International Bank (CIB)	2,300,350,000	1.91	33.09
Suez Cement	1,844,458,000	1.53	34.62
Eastern Tobacco	1,670,750,000	1.39	36.01
Golden Pyramids Plaza	1,571,149,800	1.30	37.31
Assiut Cement	1,408,000,000	1.17	38.48
<b>Total of 10 Companies</b>	<b>46,383,085,800</b>		
<b>Total Market Capitalization</b>	<b>120,548,659,397</b>		

Source: Financial Securities: Cairo & Alexandria Stock Exchanges P. 12

Market Capitalization of Ten Smallest Traded Companies on ZSE (as of December 31, 2000)

Company Name	Market Capitalization (Millions LE)	Percentage of Market Capitalization	Cumulative Percentage
Foreign Trade Markets	75,000	6.22E-05	6.22E-05
Egyptian International Consultants	100,000	8.30E-05	1.45E-04
National Medical & Chemical Equipment	100,000	8.30E-05	2.28E-04
United Engineers Consultants	187,500	1.56E-04	3.84E-04
Kodak	200,000	1.66E-04	5.50E-04
Zizenia Medical Services	250,000	2.07E-04	7.57E-04
PICO Housing & Resal Estate Investment	250,000	2.07E-04	9.64E-04
AI Togareyoun for Management & Integrated Services	250,000	2.07E-04	1.17E-03
Contrashift Contracting	250,000	2.07E-04	1.38E-03
Misr Development & Reconstruction	250,000	2.07E-04	1.59E-03
<b>Total of 10 Companies</b>	<b>1,912,500</b>		
<b>Total Market Capitalization</b>	<b>120,548,659,397</b>		

Source: Financial Securities: Cairo & Alexandria Stock Exchanges P.36

**Table 2: Sector Profiles**

SECTOR	NUMBER OF COMPANIES	MARKET VALUE (in LE 000)	% IN TOTAL MARKET VALUE*	Market Cap. of Largest Company	Market Cap. of Smallest Company	Avg. Market Cap.
Agriculture & Fishing	31	733,864,500	0.61	163,531,200	500,000	23,673,048.39
Building Materials & Construction	183	19,144,699,996	15.88	2,899,800,000	187,500	104,615,846.97
Chemicals	30	2,651,167,953	2.20	1,268,299,820	250,000	88,372,265.10
Consumer & Household Goods	19	961,730,788	0.80	510,000,000	1,500,000	50,617,409.89
Electrical Equipment & Engineering	90	3,089,221,781	2.56	410,000,000	200,000	34,324,686.46
Entertainment	77	11,283,713,039	9.36	3,374,640,000	1,000,000	146,541,727.78
Financial Services	136	18,325,372,885	15.20	2,300,350,000	100,000	237,991,855.65
Food & Beverage	77	8,184,015,645	6.79	1,670,750,000	800,000	106,285,977.47
Health & Pharmaceuticals	50	3,626,640,662	3.01	571,200,000	100,000	72,532,813.24
Holding Companies	4	1,344,265,407	1.12	497,759,040	5,000,000	336,066,351.75
Housing & Real Estate	92	5,027,445,786	4.17	400,000,000	250,000	54,646,149.85
Information Technology	12	4,781,658,250	3.97	4,671,900,000	252,000	398,471,520.84
Mills & Storage	15	921,524,000	0.76	179,940,000	10,000,000	61,434,933.33
Mining & Gas	13	3,797,228,975	3.15	1,300,498,635	600,000	292,091,536.54
Miscellaneous Services	21	365,288,645	0.30	24,000,000	250,000	17,394,697.38
Paper & Packing & Plastics	43	1,100,105,243	0.91	114,465,000	422,835	25,583,842.86
Retailers	12	1,178,234,870	0.98	408,700,000	4,788,000	98,186,239.17
Textiles & Clothing	52	2,103,133,877	1.74	516,375,000	300,000	40,444,882.25
Trade	82	3,443,444,154	2.86	700,000,000	75,000	41,993,221.39
Utilities	35	28,485,902,941	23.63	19,105,038,000	274,800	813,882,941.17
<b>Total</b>	<b>1,074</b>	<b>120,548,659,397</b>				

Source: Financial Securities: Cairo &amp; Alexandria Stock Exchanges P.36-54

**Table 3: Turnover of the Most Actively Traded Securities**

Turnover of Most Actively Traded Securities in 2000

Company Name	Value ( LE)	Percentage	Cumulative Percentage
Egyptian Company for Mobile Services	238,771,954	25.01	25.01
Orascom Telecom	86,264,114	9.04	34.05
Egyptian Media Production City	79,787,315	8.36	42.40
El Shams Hotels & Tourism	82,525,827	8.64	51.05
The Holding Company for Financial Investments	59,834,134	6.27	57.31
Assiut Cement	40,885,328	4.28	61.60
Egyptian Distribution Group	37,927,360	3.97	65.57
Orascom Construction Industries	29,788,894	3.12	68.69
Commercial International Bank	29,291,537	3.07	71.76
United Bank of Egypt	20,129,798	2.11	73.87
<b>Total of 10 most active companies</b>	<b>705,206,261</b>		
<b>Total value trading of stocks #</b>	<b>954,721,228</b>		

Source: Financial Securities: Cairo &amp; Alexandria Stock Exchanges P.12

**Table 4: Value of Equity and Bonds Issued by Year**

Value of Equity and Bonds Issued (1996- 2000)

	1996	1997	1998	1999	2000
Fixed Capital Formation	4,820.0	1,195.0	2,075.0	75,130.0	3,644.2
Initial Public Offerings (including privatizations)	9,512.1	12,088.6	20,926.2	33,292.4	3,371.5
Capital Increases	6,046.2	6,200.9	12,301.6	14,767.8	6,485.1

Source: Factbook 2000: Cairo &amp; Alexandria Stock Exchanges P. 36