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INTERVIEW WITH H.E. ESSA KAZIM

His Excellency Essa Kazim is the Governor of Dubai International Financial Centre (DIFC), Chairman of Borse Dubai, Chairman of Dubai Financial Market (DFM), Deputy Chairman of Supreme Legislation Committee in Dubai and a member in Dubai Supreme Fiscal Committee.

How do you see your role as a chairman?

The chairman's role is mainly to look after shareholders' interest in the company. He needs to look at whether policies, procedures and governance are properly implemented. The actual work is mostly done through different committees formed by the board, for example the audit committee or the investment committee that's important for companies heavily involved in investment. And then, of course, you have the remuneration and nominations committees. These are the pillars of the work of the board. You monitor through those committees that procedures and policies have been properly followed.

Then, the chairman looks at creating the right type of dynamics when there are critical decisions to make. You need the leadership to get the most out of the board members through encouraging them to set the direction, the strategy and look at the overall health of the company. Is it run properly? Are the executives doing the right thing? Is the right type of information being brought to the board?

What about risk?

Risk oversight is a responsibility of the whole board, even though it is really mitigated through the committees, mainly the audit committee. Then you may have an investment committee where you really look at major risks in the investments you make. Committees have an opportunity to look a little bit deeper into the organisation and engage with the management.

How easy is it to combine the roles of chairman and chief executive?

My role as chairman, especially in DFM is a bit unique but it's not unique to the stock exchanges, whereby you do have executive chairmen even in the most prominent exchanges in the US and Europe.

But how does it work?

We have strong management teams. I'm called executive chairman, but my role is tilted towards being a non-executive chairman because we do have on the ground strong teams that are operating the two main functions of the DFM: the clearing, settlement and depositary on the one hand and the other functions of an exchange on the other. So we have two heads that are running those two operations. As to my executive role, the board really needed me to be there to have some empowerment in terms of decision-making. Sometimes, with exchanges, you need to be quick. That's really important.

The idea of separating the two roles is very much a developed market philosophy. Maybe it's more suited to those markets than to this market. Is that right?

For us, financial institutions can mix the two roles together. Banks and other financial institutions can have an executive chairman. In other types of companies, I think there is normally a clear segregation between the chairman and the CEO, and it is important to have checks on the work of the executives but we also need some flexibility. It all depends on the function of the organisation that you're running. It's not just a question of segregation - it's which model is more suitable.

I'm called executive chairman, but my involvement is not in day-to-day operation, but rather some decisions that really need to be made quickly. My role with the board is to look at developing the strategy, looking at the proper implementation of the strategy, looking at the proper corporate governance of the whole organisation. It's very important for my involvement because the two roles that the exchange usually play – one is we are a self-regulatory organisation and then we have the role of really meeting the needs and requirements of our shareholders in terms of maximising the value for them. These are the two roles that are very unique to the exchanges actually.

DFM is listed with 20% in public hands. What is your responsibility as chairman to the various constituencies, including the minority shareholders?

Because we are a publicly listed company, the shareholder that we continuously attend to is really the minority. The other part is the government. Once you are a publicly listed company, you have to be always ready to face your shareholders, and mainly the minority, on a regular basis and following the quarterly results.

We have to make sure we are attending to their needs and requirements through our investor relations team. We also go beyond that. We are encouraging all the companies that are listed on the market to have a competent IR person on the ground. We take the companies to road-shows. We expose them to institutional investors. We are very keen to promote that.

Just to add to that, the minority shareholders usually become a concern when a big decision is being taken by the company. Let's say that it's an acquisition or someone is trying to acquire you. You need to be sure they are providing the right value, because it's a fiduciary responsibility of the board to consider the interests of the minorities.

But sometimes there is a conflict, isn't there, between the controlling shareholders and the minorities?

Yes but, as I've mentioned, then it's also our fiduciary responsibility to make sure the minority rights are protected.

What are the characteristics of a good board? What sort of people are you looking for to deliver this? And how much of your time do you spend on succession planning?

It's not necessarily important that all directors should have detailed expert understanding of the business that they are in. You won't be able to find that all the time, but people that would have common sense in the sense of really making good decisions, of evaluating the issues that they are facing. That's very important rather than just having directors with specific knowledge of the industry. So it's very important to have that mix on the board, but I emphasise that not necessarily all the board members should come from the industry.

As our market and companies grow, we need more well qualified people who understand the role of directors. Hawkamah plays an important role in helping with that.

So you've got to get the right balance and the ability to challenge.

Exactly.

And how much time do you spend on succession planning?

On succession planning there are two issues. One is the responsibility of the board to look at the succession planning of the management. To make sure that if a team member is no longer with the company tomorrow, there is someone there to replace him. That is the main focus and the responsibility of the board to make sure that that is in place. But the chairman also has to look at the board itself. As you know, 80% of DFM is owned by the government, and the government is very keen to look at our succession. We do have a vice chairman who's been with us since inception actually. So we do have enough knowledge and history with the board members.

What's your view about gender diversity?

At DFM, we had in the past representation from the other sex in the board of directors, and this is something that we're keen to implement in the future, even in the near future. This is something that is highly recommended by His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai. The involvement of both genders in the board is critical, but I think it's an evolution that's coming. Today, even in DFM the majority of our staff, approximately 57%, are women.

I've noticed that there is a cadre of very able professional young women here who are very well qualified.

There is full potential. These people will be groomed eventually to really take positions at the board level, although there are boards that do not have gender diversification, I'm sure that it's just a matter of time. Today at DFM we have divisions that are fully run by ladies, like clearing and settlement for example.

What do you do about board evaluation?

We do an annual evaluation to understand the interaction between the board and the management and, in terms of the effectiveness of the board, whether the board is achieving its targets. We have recently implemented this through a third party.

How is the development of the listed market contributing to raising the standards of governance here and what is the role of the stock exchange in this?

It's an evolution. It's a gradual process. When we started DFM 15 years ago, companies weren't even used to reporting. Today this is one of the markets where they report their financials on a quarterly basis. In terms of corporate governance we have guidance on what the structure of the board needs to be, how many independent board members, how many of representatives of the shareholders. That guidance has also been implemented. We have a requirement that listed companies should produce a governance report every year. All board members have to make declarations about their position, qualifications, and related party interests. It's a full report, and it's mandatory.

But do the listed companies see this simply as a regulation they have to comply with or as something that helps them become better companies?

The message that we need to send across, especially to board members, is that the money that you are managing is not your money. It's the public's money. So you have to keep in your mind that it's not your company. It's someone else's company but you are entrusted to run that company. That's very important and it's becoming very clear to them. You cannot do whatever suits you. You need to do things that suit your shareholders. That awareness is coming through, especially when you are a majority shareholder and you are the chairman of the company. They know that, when they shifted from being a privately run company into a public company, that mindset needs to be changed immediately. From that moment, they have public money.

How far does international best practice have to be adapted for present markets circumstances here?

Eventually what we are aiming for is to implement best practices where the benchmark is. But I don't agree that everything should be done on day one. It has to be a process, it has to be evolution, it has to be gradual. We are building a culture. We would be facing real challenges if we want to implement everything from day one. I'm really happy that everything had started gradually and we are maturing now.

Today we are included in the MSCI emerging markets index. All other indices, we are part of them whether it is the FTSE, whether it is S&P/Dow Jones. International investors appreciate that. They invest in our market and that's really a reflection of the confidence that we have built in this market, but it has to be gradual. Even when we had the rules of asking companies to disclose on a quarterly basis. It wasn't easy, but now it's a habit. Now we give them 45 days after the quarter end to disclose and a reduction of the timeframe to a month only is being considered.

Membership of the indices has helped attract international institutional investors, but what about the development of the local institutions. Surely, these are ones who will understand and promote good governance on the ground, aren't they? And isn't this still a retail market as far as local investors are concerned?

To some extent you are right. We do have funds that are managed by our financial institutions, like the banks. To a great extent they are active. But the definition of retail that we use includes some large portfolios of anywhere between a billion to five billion dirhams. So you are talking about a situation whereby a retail investor is sometimes managing a small to mid-sized fund. Family offices are generally active in trading but they are labelled as retail. So we only label major institutions, like banks and investment banks, as institutions. Their percentage share of trading is not bad, we are talking about approximately 30% of the daily activity. So this is important for liquidity.

But doesn't a strong institutional community matter to the development of governance? These are the people who have the time and the interest to engage with companies and challenge them and doesn't this need to be done by people with local expertise?

Most of the challenges companies are facing today are coming from international institutions. They have their own analysts. We have a requirement that all the companies have someone who would answer their phone calls and deal with their queries, so that they must have an IR function. We take those companies, the most liquid ones, the top 20 companies to road shows. They understand their shareholders, they understand who's really active. So from that point of view the companies are coming under continuous pressure.

And where does that leave the local community?

The retail behaviour mainly contributes to liquidity, but that is important. If you don't have liquidity, if you don't have retail liquidity, you won't be able to attract institutions. Besides, we have some cases whereby our companies have been punished on the degree of disclosure and transparency, and that punishment usually comes from the institutional investors. If you go wrong, you go wrong with your shareholders, you go wrong with your share price.

So they just sell?

They just sell, of course.

But it would be better if these institutional investors engaged with the company to resolve the problems, wouldn't it?

The company will still get the message. The communication will continue. The company would understand why that sort of thing happened. The major change started in 2006/7 when we went public as a company, as a stock exchange and where we became very actively involved looking after our own listed companies. We needed to market them, to sell them to institutional investors in order to bring liquidity to the market, and more active trading and that's how we make money. The first time we went to London on a road show we did it in collaboration with a couple of investment banks. Since then it became a habit. We take all the companies that are relatively liquid, relatively open in terms of foreign ownership structure to New York and to London. We made it mandatory to have an IR function in the company.

And you helped them exercise that function?

Oh yes. And they are happy. Even today our next road show is going to be in April in London. We usually take between ten and 15 companies, but this time we are peaking at 20 companies.

Is there a conflict between being both a regulator and a promoter of the market?

There is an entity called DIFC, but you have three central bodies under DIFC, which function independently. You have the regulator which is a fully-fledged independent body which is DFSA. They report directly to His Highness Sheikh Maktoum bin Mohammed bin Rashid Al Maktoum, the President of the DIFC. So no one can actually touch this body and I am not conflicted at all. Then you have another central body which is the DIFC Courts which is the dispute resolution authority. Then we have DIFC Authority which looks after the development of the real estate and the development of business, attracting companies. We go and promote companies heavily. DIFC doesn't do that. When we bring a typical company that is interested they have to go through a really rigorous screening by the DFSA in order for them to be licensed. We actually have the normal fight. From one point of view our business development team wants to bring as many companies as possible. From the other side, people are making sure that the companies being licensed are in line with our requirements. So there are different bodies working independently from each other, but the DFSA is reporting directly to the chairman.

Five to ten years from now, what's your vision for the capital market here?

When His Highness Sheikh Mohammed launched the 2005-2015 strategy, although that strategy continued to recognise the importance of Dubai being as a hub for trading, tourism and transportation activities, that plan also recognised the importance of the financial sector. It added a new dimension to the process of development for the ten years to come, to position the financial sector to be the new dimension of growth. When we launched the strategy the contribution of the financial sector in total GDP then was roughly around 6 per cent. Today we are around 13 per cent. So you have like an increase of roughly around 7 percentage points in total contribution to GDP. That reflects the success of the strategy.

Going forward DIFC was meant to be one of the pillars of leading and spearheading that strategy, enhancing the contribution of the financial sector to GDP, along with DFM. At DFM we have seen recently that the capital market is changing. It is becoming a platform for listing, of course mainly local listings but also regional listings.

So that's the way forward?

Exactly and the major investment banks are promoting DFM now to be the hub for the listing. You have seen a couple that listed in the London Stock Exchange but also you have examples of returning back, with DP World and Damac, delisting from London and kept their listing with DFM and NASDAQ Dubai. They believe our market is functioning in line with international standards.

So how does that affect the overall strategy for the capital market?

Today our market is still dominated by two sectors: the financial sector and then you have the real estate and construction sector. Those two sectors only constitute around 30 to 35 % of our GDP. So you have about 65 % of our GDP which is not yet represented in the market. We have some fabulous assets out there. Some are semi-government, some are family businesses, some are private businesses. It's huge. I can name tens of those companies that can readily go public. My priority is to bring those companies to market. There is a risk that family businesses might break up when the founder is no longer there but these are national assets of the country. We need them to continue to support the development. The only way you can really assure the continuity is to bring them to a better corporate governance structure.

Finance and real estate companies are very cyclical aren't they? You need the counter cyclical, the defensive stocks.

Exactly. This is my priority and we are not short of names and companies providing you have the right environment for them to go public. Especially in terms of liquidity and market sentiment.