

# INTERVIEW WITH H.E. PROF. AHMED ABDULRAHMAN AL-MELHEM

H.E. Prof. Ahmed Abdulrahman Al-Melhem is the Managing Director and Chairman of the Capital Market Authority Board of Commissioners, Kuwait.

He spoke with Hawkamah CEO **Dr Ashraf Gamal** about the steps taken by the Authority in dealing with the crisis stemming from the Covid 19 pandemic.



**Q: Before we begin, could you please give an overview of the Capital Markets Authority of Kuwait and the companies and institutions that the Authority regulates.**

The Capital Markets Authority of Kuwait was established by law No 7/2010 as an independent entity and a legal person. This is based on the desire of the political leadership to achieve a qualitative shift for the national economy and to develop the infrastructure for the capital market system in a way that makes Kuwait an attractive environment for capital and investment, and a financial center that is in line with expectations in diversifying national income sources, controlling the rhythm and balance of the market and

regulating the activities of securities. In November 2015, the Authority launched its new executive regulations of the aforementioned law, which was considered the largest legislative and regulatory work in the history of Kuwait. It consisted of 1665 articles combining all the provisions and rules governing the capital markets and securities activity.

The Authority is administered by a board of commissioners consisting of five full-time members and it seeks, through its executive body, to provide a supervisory system that supports an attractive and competitive investment environment based on the principles of justice, transparency, and integrity, in line with the best

international practices. All licensed persons, registered persons and listed companies are subject to the Authority's control.

**Q: As a Chairman of the CMA of Kuwait, how do you see the impact of Covid -19 on the market?**

The economic or financial crisis is measured by severe reductions in the state's macroeconomic situation, particularly in a decline in gross domestic product (GDP). And in a country such as Kuwait, which relies on one major source of income, the fall in oil prices for sustained periods will lead to a reduction in the state budget, resulting in decreased government spending on which a large part of the private sector depends. The private sector may therefore face a decline in revenues and asset values, leading to a potential deficit in meeting their obligations or debt issued to finance their operations, which may in turn reduce their credit rating, thereby increasing the cost of borrowing. The effects of these crises may extend to the social and consumer spheres brought by the inability of companies to pay their employees' salaries, distribute profits to their shareholders and result in high unemployment rates.

With regard to the current crisis of the new Covid-19 pandemic, it has had a significant impact on the global economy, with the International Monetary Fund predicting a 3% decline in global GDP during the year, and the global economic downturn during this period has led to a sharp drop in oil demand, which has resulted in a sharp decline in prices around the world, reflected on the domestic economy, for example when comparing the asset values of companies listed on the Kuwait Stock Exchange for the second quarter of 2020 we see a decrease of 4% compared to the same period in 2019.

**Q: How is the Authority preparing for crises generally? What is the role of the Board of Commissioners in these preparations?**

Since its inception, the Authority has been fully aware that the financial market is very sensitive to any news or crises. It has therefore worked hard to plan and deal proactively with any such situation. And for the past years, it has prepared to deal with any negative impact on the financial market, despite the difficulty of predicting the timing of crises and their repercussions but preparing for the consequences that may result from their occurrence contributes to reducing their impact on the financial market and its clients.

In this regard, and prior to the Covid 19 pandemic, the Board of Commissioners in the Authority realized the importance of having a clear policy for the Authority on how to deal with disasters and crises in a way that guarantees business continuity according to the best practices, and accordingly, the Board issued number of Resolutions regarding the formation of permanent crisis-related committees. The most prominent of these is the Risk Management Committee, which is concerned with managing the Authority's operational risks, identifying them, classifying them, analyzing their causes, and working to avoid them or confront them or limit their effects. The Business Continuity Management Committee was also formed to ensure business continuity and vital services as well as to ensure that the internal capacity of the Authority is built to manage the emergency, crisis and disaster system. Furthermore, the Committee against The Typical Risks Expected in Securities Activity was formed to address risks that lead to the destabilization of the market, the stock exchange and clearing.

In addition to the above-mentioned committees, the organizational structure of the Authority comprises units whose functions include evaluating and developing risk management policies and building crisis forecasting indicators that may hit stock markets and develop alternatives and solutions to address such crises if they occur.



It should be noted that during the Covid 19 Pandemic, the Board of Commissioners continued to hold its meetings either remotely using means of technology or through physical presence at the Authority's headquarters.

We should also highlight that as part of the Authority's efforts to deal with the Covid 19 pandemic and to mitigate its effects on the stock market, many decisions have been issued under these exceptional circumstances to ensure the continuation of trading operations in the Kuwaiti financial market system, to ensure the rights of all interested parties, investors, and traders, and to support of one of the most important economic facilities in the country.

**Q: When the Authority develops a plan to deal with a crisis, how can it monitor that the set plan is being implemented accurately? What is the mechanism for reviewing and modifying the details of the plan if necessary?**

Each committee, unit or function in the Authority dealing with crises has a policy and procedure manual. This is regularly followed up electronically in a manner that ensures the achievement of objectives and contributes to the follow-up and evaluation of the work. Periodic reports are also presented to the Executive Director for immediate actions, and they may be submitted to the Board of Commissioners in accordance with the procedures and powers. In other words, we have in place a system of continuous follow-up and evaluation by the Board and executive management of the Authority. And in cases of emergency, the Board of Commissioners convenes on an exceptional and emergency basis to discuss and take critical and immediate decisions based on the recommendations by the concerned committees or the concerned unit/ function to address and solve any emerging circumstances.

**Q: In the case of the Covid-19 pandemic, how do we compare the degree and readiness plan of the authority to the magnitude of this crisis? What are the most important lessons learned for the future for you and other capital market authorities in the region?**

There is no doubt that the crisis of the Covid-19 pandemic was met with varied global preparedness and this created different effects on world economies. While we have seen its negative impact in the collapse of several global stock exchanges, we have also seen monetary and financial policies that have largely succeeded in absorbing the sharp decline in a number of other markets in accordance with pre-planned plans and the activation of contingency plans that have contributed significantly to the absorption of the effects of the crisis.

The financial markets were greatly affected by the precautionary measures imposed by the health authorities and directly impacted the economy as a whole. We believe that the success of any plan prepared by the capital markets bodies to deal with a crisis must be consistent with the contingency plans adopted by governments and include stimulus packages and fiscal and monetary policies.

In Kuwait, we believe that through adoption of prudent governance and policy rules, as well as its proactive plans and immediate and critical decisions, the Authority was ready to face the crisis. The proof of this are the steps taken by the Authority following the government announcement on 12 March of the measures to curb the spread of the coronavirus. On the same day, an emergency meeting was held between the CMA, Kuwait Boursa Kuwait Company (BKC) and Kuwait Clearing Company (KCC) to discuss stopping trading on the stock exchange on the same date and to assess the situation regarding its return.

The Authority also reached out to MSCI and FSTE to discuss the steps for each of the Authority, KSE and the KCC towards re-opening trading on the stock exchange.

They praised us for the communication and the steps taken by the CMA, BKC and the KCC towards resuming trading, as well as those concerned with protecting the financial market from any negative effects that may result from the suspension of trading. These give an indication of the soundness of the actions taken by the CMA to ensure the safety of capital and to safeguard the rights of investors with the testimony of international financial institutions.

The Board of Commissioners also held an emergency meeting on Friday, 13 March 2020 where the board adopted a business continuity plan to ensure the continuity of business and the safety of employees of the Authority, BKC and KCC. Following this, the decision was taken to resume trading on Sunday 15 March.

Despite the period of disruption, the Authority continued to provide its services: issuing legislative amendments, renewing licenses and registrations, and approving listings on the stock exchange.

The Authority also addressed all companies under its control of their need to confirm and implement business continuity plans as stipulated in the Executive Regulations of the Authority.

In summary, the crisis of the Covid-19 pandemic has confirmed that crisis management requires prior preparation through clear contingency plans, ensuring smooth execution and speedy decision-making. This is what regulatory financial bodies and central banks must work on in the future, drawing on the lessons they have learned from the pandemic. And this is certainly what the CMA will also work on by assessing its experience in dealing with the current crisis conditions and continuing to develop its plans for any future crises.

**Q: During the Covid-19 pandemic, who took the lead in dealing with the crisis: was it the Board of Commissioners? The chairman of the board? The CEO? What are the most important lessons and tips related to leadership during crises that you would like to share with readers?**

The Authority, which is represented by the Board of Commissioners, the Executive Director, Heads of Sectors, Directors of Departments and staff. And they all had a significant footprint in all decisions taken by the Board of Commissioners during this crisis. And as this crisis has required quick decision making in many situations, the Board of Commissioners authorized the Chairman and the Executive Director (who are the same person) to decide on urgent matters.

Although the work of most government agencies in Kuwait was disrupted between 12 March and 29 June, the CMA continued to perform its duties and provide its services through a comprehensive electronic platform, which allowed its employees to work remotely in accordance with the highest practices of data protection security.

We appreciate and take pride in our cadres working in the CMA, as well as the cooperation of the entities such as the BKC and the KCC and all those who are engaged under the provisions of the Authority's law, who also acted in accordance with the emergency plans. We value their spirit of responsibility and care to perform all the work entrusted to these entities without any disruption or negative impact.

In the light of the experience gained during the current crisis, we see the importance of investing in the human element as a top priority for development in the performance of the financial regulatory bodies, as the CMA is proud to have a selection of staff within its human cadres with a variety of competencies, academic backgrounds, and practical experience.

**Q: Has the roles and responsibilities between the different parties changed during the crisis?**

The Authority cooperates with many other government agencies such as the Central Bank, Ministry of Commerce and Industry, and the Financial Investigation Unit under agreements of understanding with those entities. And the success of any plan prepared by the capital markets to deal with crisis is subject to being part of a wider set of plans adopted by the Government.

Accordingly, we see that the superiority of crisis management in a number of global financial markets was not a result of coincidence, and it was not only the superiority of the supervisory authority in those markets, but also required cooperation with other government agencies, and to achieve the goals of integration in the activation of emergency plans developed to counter the negative economic effects.

We commend the government's efforts during the crisis, as the Kuwaiti government has not failed to grasp the economic effects of the pandemic along with the effects of the other crisis. The Council of Ministers initiated the formation of the "Supreme Steering Committee for Economic Stimulus" to lay down the incentive pillars for the local economy, and the Council of Ministers has also formed a Working Group to study the negative effects of the exceptional measures taken by the government to limit the spread of the coronavirus.

**Q: Who are the most important stakeholders that have been in regular contact with the Authority? What were the expectations of those external parties? Based on the CMA's experience, what advice would you give to other institutions on how to communicate with stakeholders during crises?**

The CMA and its scope of work are linked to stakeholders and we are keen to always communicate with them, and we are aware that the success and interaction of stakeholders with the Authority is the success of the capital market system as a whole.

The authority communicates with the BKC and the KCC on an ongoing basis as they are essential partners in the achievements of the Kuwaiti financial market system. Their desires converge with the Authority to achieve a leap for the national economy through the State of Kuwait's promotions in global financial rankings and indicators and attracting capitals and investments.

The Authority also communicates with the companies listed on the stock exchange and the authorized persons who practice securities activities, as well as the persons registered with the Authority who hold the registered positions, the external Sharia audit offices, and the auditors, who are key stakeholders in the capital market

system. The Authority also exchanges points of views and looking into suggestions submitted by them in a way that contributes to achieving the general interest of the financial market. CMA has always welcomed any meetings or gatherings proposed by stakeholders or dealers in the financial market in which opinions and views are exchanged.

The Authority continuously consults the opinions of stakeholders in the amendments, additions and updates that it intends to introduce on its legislation, which contributes to the exchange of views and enriches any future instructions, controls or conditions that may be legislated.

It should be noted that during the pandemic, the channels of communication between the Authority and stakeholders were not affected, as the Authority was keen to overcome any difficulties in communication despite the challenging circumstances stemming from partial and total lockdowns. The CMA has established



an integrated electronic platform to deliver services to those subject to its control, ranging from applications for licenses and registration, applications for listings to acting as a window of correspondence with those addressed by the provisions of law to ensure that communication with them is facilitated.

Later in the crisis, the Authority announced the expansion of its operations to ensure the activation of oversight and law enforcement in order to protect customers and resuming to conduct of the necessary investigations, and adjudicate disciplinary accountability and other essential roles assigned to it.

In regards to the investor and the general public, the Authority was keen to communicate with them during the crisis and inform them of the measures taken by the CMA. These were published on CMA's website as well as on social media accounts informing investors and the general public of its continued provision of its services during the period of disruption and the mechanism for utilizing services through the electronic platform. The Authority also broadcasted awareness messages to the public on a daily basis through social media platforms, and is still doing so.

In this regard, the Authority's pre-pandemic preparation for electronic infrastructure enabled it to continue to provide its services effectively, achieve the highest levels of communication with stakeholders and enhance its presence with the public during these exceptional times.

**Q: Crises, such as wars and the global financial crisis, have forced the world to reconsider the way institutions operate, in your opinion, what will be the impact of the Covid-19 pandemic on governance in companies and countries?**

The challenges and consequences brought by the Covid-19 crisis will cast a shadow on companies on how they apply governance

rules in the coming period and prepare them for future crises. It may require them to intensify and review some practices. For example, we see the importance of companies identifying and managing all kinds, most notably liquidity risks and the search for financing solutions and alternatives, as well as the need to review the policy of salaries and rewards under the pandemic, and reduce costs.

Since disclosure and transparency are an important factor in instilling confidence in the financial market in a way that preserves its stability, companies must strengthen disclosure tools, especially in crisis conditions, and develop their technical aspect in line with the practices and requirements of regulators.

On the organizational and administrative level, it has become necessary for companies to strengthen both the management structures of both the Board of Directors and the executive management in order to achieve the diversity required to cope with the new needs resulting from the crisis. It is necessary to increase the number of board meetings in response to the rapid pace of actions and the immediate and exceptional decisions they require appropriate for the business continuity. In the light of the change in the business performance system and the adoption of electronic systems by most companies to provide their services, we believe that the idea of holding general assemblies of companies electronically and enabling shareholders to vote remotely at general assembly meetings should be adopted because it has become a fundamental need under the current circumstances and the conditions imposed by the crisis.

We believe that in the coming period, companies must review and evaluate their internal systems in light of the latest developments and outcomes of the crisis, and continue to develop electronic systems and services, empowering their staff and training them to work according to the development of those systems and services,

and enhancing the ability to deal with variables and crises in accordance with the best rules and approaches of modern management and within the framework of good governance.

In terms of the impact of the pandemic on countries, it is possible to see governments adopting new legislation for the economy, whether in its content, regulatory or incentive. And for capital market authorities, we emphasize the need to review the governance rules imposed by the bodies and assess their impact during the crisis period, and to not hesitate to impose more of them in the precautionary measures in case of any future crises. It is also the responsibility of the regulators in the capital markets to put in place controls that will assess the financial solvency of companies and the mechanism for maintaining the rights of shareholders and investors in order not to be a victim of weak management.

In the end, the goal is the protection for investors and the sustainability of companies' success in dealing with crises in accordance with best practices. We also see that the regulatory authorities take the initiative in adopting legislation that would rectify the effects of crises in order to achieve financial stability and guarantee the rights of the investor, which is what the Authority has done through its participation in issuing the bankruptcy law with the relevant authorities - a sophisticated law aimed at enabling companies to restructure themselves in order to avoid bankruptcy, which was approved by the legislative authority in the State of Kuwait represented by the National Assembly in its closing session on September 29, 2020, and accordingly, "Law No. 71 of 2020 promulgating Bankruptcy Law "dated October 21, 2020

**Q: What is your advice to companies and Capital Market Authorities in light of the pandemic so far?**

We believe that it is necessary to study the effects of the pandemic and focus in the coming period on diagnosing the situation in the financial market

in the light of the economic consequences, and then assess the actions taken and work to develop them in the event of weaknesses that need to be reviewed and adjusted. The capital market authority should not lose sight of the importance of communicating with stakeholders in the coming period in the event of a desire to impose new obligations on them based on the resulting diagnosis and evaluation of the situation. And finally, cooperation between different regulatory bodies and stakeholders is the way to achieve the desired objectives and balance, which will ultimately be in the public interest of all.

With regard to companies, we recommend that we continue to work on the review and modernization of internal regulations and policies in light of the consequences of the crisis, especially in terms of risk and liquidity response, as well as disclosure tools and the development of an electronic infrastructure by companies, while enabling their staff to work according to this development as mentioned.

We also want to take this opportunity to thank you for this interview and wish you continued success.