

MENA-OECD WORKING GROUP ON CORPORATE GOVERNANCE

Transparency and Disclosure in times of COVID-19 Webinar Conclusions

The **MENA-OECD Working Group on Corporate Governance** organised a webinar on 3 June 2020 to address transparency and disclosure in times of COVID-19. The webinar was co-organised by the Hawkamah Institute for Corporate Governance, the American University of Beirut and the OECD. It brought together over 190 representatives from government agencies, stock exchanges, investors, state ownership entities and corporate practitioners from the MENA region, as well as their peers.



OECD / AUB / Hawkamah Webinar

Transparency and Disclosure in times of COVID-19

			
Selvarany Rasiah CEO EDAS Consulting	Fianna Jurdant Senior Advisor OECD	Hisham Farouk CEO Grant Thornton UAE	Dr. Ashraf Gamal El Din CEO Hawkamah Institute for Corporate Governance

Discussions served to examine challenges of the COVID-19 crisis to disclosure frameworks in the MENA region and to exchange good practices between countries on measures to enhance transparency. Interventions were organised around the report “Corporate Governance in MENA: Building a Framework for Competitiveness and Growth” issued in 2019 by the MENA-OECD Corporate Governance Working Group and challenges to implementation of the policy options brought about by the COVID-19 pandemic.

Key messages

- The COVID-19 crisis exacerbates existing vulnerabilities in MENA Corporate Governance practices.
- In times of crisis, transparency and disclosure are key in providing the information necessary for investors and other stakeholders to evaluate opportunities and risks.
- Disclosure regulations may need to be adapted to the current circumstances to provide more timely, transparent and accurate information to investors.

- Company boards need to engage efficient crisis management and maintain open and regular communication with shareholders.

The COVID-19 crisis highlights the need for transparency and disclosure

MENA economies have undertaken reforms to encourage sound corporate governance practices. **However, several areas of corporate governance are in need of policy reform, presenting particular vulnerabilities in times of crisis.** The majority of listed MENA companies have concentrated shareholders in the form of sovereign investors or founding owners, such as families. Ownership structures can affect transparency and disclosure, with the quality of voluntary disclosure often decreasing when ownership is more concentrated. Targeted reforms in these areas will contribute both to enhancing company performance and to boosting the region's potential for inclusive growth and competitiveness:

- Ensure greater consistency of legislative frameworks for disclosure and voluntary codes throughout the region;
- Reinforce supervisory authorities with operational and financial independence and adequate powers;
- Strengthen shareholder engagement at all levels;
- Ensure full and proper disclosure of ownership structure and related party transactions;
- Guarantee the comparability and reliability of disclosed information using international standards.

Especially in times of crisis, transparency and disclosure are key in providing the information necessary for investors to evaluate opportunities and risks. Transparency also helps companies make sound business decisions and improve their performance. Effective disclosure frameworks serve to enhance investor protection via a fair, efficient and transparent market.

- Better disclosure lowers the cost of capital, reduces monitoring costs, heightens investor confidence and strengthens market competitiveness.
- The desirable mix of legislation and voluntary codes should be defined according to each economy's distinctive features.

Disclosure of beneficial ownership and of related party transactions remain two particularly challenging areas. Definitions of related party transactions have improved, but requirements on the method and timing of disclosure vary across the region and many MENA economies have not adopted thresholds for disclosure and shareholder approval.

- Policy makers and companies should strive to ensure full and proper disclosure of ownership and related party transactions, effective supervision and enforcement of disclosure regulations, and greater shareholder engagement through stronger protection of minority investors' rights.

The current crisis presents MENA Corporate Governance with new challenges

In the context of the COVID-19 crisis, it is particularly important for investors to be involved in a regular flow of information. Even if it may be too early for companies to assess precise impacts of the crisis on their business operations, companies need to be especially transparent. **Disclosure regulations may need to be adapted to the current circumstances to provide more timely, transparent and accurate information to investors.**

- In Malaysia, Singapore and India, regulators have adapted to the COVID-19 crisis by granting more time for periodic disclosure such as financial statements and by facilitating shareholder meetings with companies through digital communication tools.

In times of crisis, the quality of disclosed information is crucial to guide decision making. Regulators should grant companies sufficient time for disclosure processes and leverage digital technologies.

- In the short run, stock market authorities can issue guidance to facilitate disclosure processes. In the long term, targeted training and capacity building efforts can enhance the quality of disclosure.
- Close co-operation between authorities and companies contributes in building a culture of integrity and enhances the quality of regulations and disclosure in the long run.

Company boards need to engage in efficient crisis management. In particular, boards need to elaborate risk management strategies, taking account of future risks, uncertainties and scenarios. Risk management needs to inform long term strategies and business plans.

- Boards and executive management need to uphold close, regular and transparent contact to shareholders during times of crisis.

Crisis management and transparency is particularly important for State Owned Enterprises (SOEs). The OECD Guidelines on Corporate Governance of State-Owned Enterprises can provide guidance for countries for a competitive, efficient and transparent management of SOEs. Transparency and disclosure requirements should apply equally to private and state owned enterprises.

- Globally, the COVID-19 crisis response will involve substantial government support. Funds should be distributed according to transparent and publically accessible regulations and best practices. Corporate Governance codes can play an important role to set out such rules.

Next Steps

- The MENA-OECD Working Group on Corporate Governance will meet virtual in the fall (most likely October 2020) to discuss around case studies the implementation of the policy options contained in the report "Corporate Governance in MENA: Building a Framework for Competitiveness and Growth". It will focus on the challenges and new issues emerging from the COVID crisis as well as economic recovery.



Contact:

Ms. Fianna JURDANT

Senior Advisor

OECD Global Relations

fianna.jurdant@oecd.org

Learn more about our work on Corporate Governance in the MENA region:

<https://www.oecd.org/mena/competitiveness/mena-corporate-governance.htm>