Institute of International Finance, Inc.

The Global Association of Financial Institutions

HAWKAMAH
THE INSTITUTE FOR CORPORATE GOVERNANCE

IIF Equity Advisory Group

Corporate Governance in Qatar
– An Investor Perspective

Task Force Report
December 2006

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PREFACE

In view of the importance of portfolio equity flows to emerging markets, the Institute of International Finance (IIF) established in January 2001 the IIF Equity Advisory Group (EAG), consisting of senior executives from leading asset management firms throughout the world. The EAG, chaired by Edward Baker, Chief Investment Officer of Global Emerging Markets, AllianceBernstein L.P., is seeking implementation of its Code of Corporate Governance (the "IIF Code") in key emerging market countries that are of particular interest to the Institute's membership base. The IIF Code, which was first released in February 2002 and revised in May 2003,[1] endeavors to improve the investment climate in emerging markets by establishing practical guidelines for the treatment of minority shareholders, the structure and responsibilities of the board of directors, and the transparency of ownership and control of companies.

The strategy for promoting the implementation of the IIF Code, as the standard by which the company/ shareholder relationship is measured, is country and regional focused. Country Task Forces have been set up for Brazil, China, India, Lebanon, Mexico, Poland, Russia, South Africa, South Korea, and Turkey. Reports on all these countries have been published, including second reports on several countries.

In June 2006, the IIF entered into a partnership with Hawkamah, the Institute for Corporate Governance,[2] to jointly conduct a two phase corporate governance survey of countries in the MENA region. Phase 1 of the survey covers countries in the Gulf Cooperation Council (GCC) – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). The motivation for such a survey was prompted by the extraordinary growth in GCC equity markets over the past few years, growing international interest in the region and the importance of helping officials in the GCC identify areas of weakness and potential improvements in current corporate governance frameworks. For Phase 1 of the project Hawkamah provided IIF with financial support to defray most of the cost of the work. In phase 2, the survey will be extended to other countries of the MENA region.

In July 2006, the GCC Task Force held meetings in Abu Dhabi, Manama, Doha, Dubai, Kuwait, Muscat and Riyadh to assess the corporate governance practices in GCC countries. Meetings were held with senior officials from the capital market authorities, central banks and stock exchanges, local fund managers, lawyers, experts, accountants and management consultants involved in corporate governance in GCC countries. Keith Savard, Director Global Economic Analysis, IIF and Dr. Nasser Saidi, Executive Director, Hawkamah, co-chaired the GCC Task Force. Other Task Force members include Nicolai Nadal and Rashid Bin Shabib of the Hawkamah staff and Rakhi Kumar of the IIF staff.

[1]Investors' poor experience in a generally weak corporate governance environment in many emerging markets led to relatively strict and comprehensive original IIF guidelines. Nevertheless, more detailed standards were considered desirable in a few areas in light of far-reaching new legislation such as the Sarbanes-Oxley Act passed by the U.S. Congress in the summer of 2002. The revised standards offer guidance to emerging market officials as they decide what rules and regulations must be put in place to satisfy investors.

[2]The Hawkamah Institute for Corporate Governance is an autonomous, international association, hosted by the Dubai International Financial Center (DIFC), and serving the MENA and Central Asia countries. Hawkamah was launched in partnership with the Organisation for Economic Cooperation and Development (OECD), the International Finance Corporation (IFC), the Dubai International Financial Centre (DIFC), the World Bank Global Corporate Governance Forum, the Center of International Private Enterprise (CIPE), the Union of Arab Banks (UAB), Young Arab Leaders (YAL) and the countries participating in the OECD-MENA Investment Programme. Its mission is to assist the countries and companies of the region to develop sound and globally well-integrated corporate governance frameworks. It provides technical assistance and cooperates with decision makers to coordinate and sequence the designing, planning and implementation of corporate governance reforms and monitoring the outcome of corporate governance policies at the private sector level. See www.Hawkamah.org

The aim of this report is to offer an assessment as to where countries in the GCC stand relative to the investment environment that members of the IIF Equity Advisory Group would like to see develop in key emerging market countries. Since this is a first-time survey of corporate governance frameworks in the region, the report does not treat all relevant corporate governance matters in depth. Instead, it focuses on the important initial steps that need to be taken to improve the investment environment in GCC countries. We will review at a future date the corporate governance regimes in more detail to assess progress. This report focuses on corporate governance standards and practices only in GCC countries and not those in dedicated free zones like the QFC, which operates to international best practices. Any references made to the QFC is based on the assessment of the IIF only. Further, the report is not meant to provide an exhaustive survey of corporate governance in the GCC and, as with other Task Force Reports, neither the Task Force nor the IIF or Hawkamah can in any way attest to or guarantee the accuracy or completeness of the information in the report despite the best effort that has been made. To the extent guidance is given, or advice is inferred, the reader is urged to fully apprise him/herself of the relevance of such content to current or contemplated operations.

TENETS OF THE IIF CODE AND BASIC DIFFERENCE WITH THE OECD PRINCIPLES OF CORPORATE GOVERNANCE

Through its Equity Advisory Group (EAG), the IIF published a code of corporate governance in February 2002 which was revised in May 2003. IIF's analysis of a country's corporate governance framework focuses on five broad areas – (i) minority shareholder rights, (ii) structure and responsibilities of the Board of Directors, (iii) accounting and auditing, (iv) transparency of ownership and control, and (v) the regulatory environment. A detailed explanation of these areas can be found in the "Comparative Analysis of Corporate Governance Frameworks in the GCC" section. These key ideas appear in the OECD Principles of Corporate Governance and the OECD Corporate Governance Guidelines that accompany it. However, the IIF Code has constructed a more detailed set of guiding principles in order to enhance their practical usefulness.

For example, with regards to minority shareholder rights, the IIF Code clearly endorses the one-share, one-vote principle and proxy voting. In addition, the IIF Code supports cumulative voting for director elections. However, while the OECD Principles emphasize the importance of giving equal voting rights to all shareholders and allowing votes to be cast by nominees when agreed upon with the share owner, cumulative voting is not addressed. Furthermore, the IIF Code clearly defines independent directors and requires that at least one-third of the board be independent. The OECD Principles require that board members disclose whether they are regarded as independent by the company, but do not specifically identify how many members should be independent, nor what characteristics classify them as independent.

The IIF Code also requires that conflicts of interest for board members and key executives be disclosed publicly and that the head of the audit committee never have a conflict of interest. The OECD Principles agree that this information must be disclosed, however, they limit the scope of disclosure to the board of directors. Because it views accurate accounting and auditing as the core of transparency and good corporate governance, the IIF Code requires that semi-annual reports be filed in addition to the annual audited financial report. The OECD Principles, in contrast, only require an annual audited financial report.

Both the IIF Code and the OECD Principles encourage the implementation of good corporate governance practices, however; the IIF Code was created to promote specific actions and criteria, which, if followed, will help promote the health and stability of emerging market economies.

This report forms part of a country-by-country analysis of corporate governance practices in each of the six member states of the Gulf Cooperation Council (Qatar, Bahrain, Kuwait, Oman, Saudi Arabia and the UAE), based on country missions by staff members of the IIF and Hawkamah. This report should be read in conjunction with a regional overview report – Comparative Survey of Corporate Governance in the GCC – published in September 2006.

EXECUTIVE SUMMARY

Qatar's corporate governance practices are weak and in need of major reform. The current framework complies with a little over one-third of the IIF's corporate governance guidelines. Much of Qatar's existing corporate governance framework is found in its Commercial Companies Law. Listing rules for companies on the Doha Securities Market (DSM) contain few corporate governance-related provisions. However, the GCC Task Force expects the corporate governance framework in the country to improve in the near term as the authorities take steps to encourage improvements in corporate governance practices among listed companies.

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The Doha Securities Market is likely to introduce a code of corporate governance applicable to all listed companies by end 2006. Moreover, the regulatory environment in Qatar is currently being restructured to strengthen surveillance and enforcement functions. At the end of 2005, the authorities established an independent regulator—the Qatar Financial Markets Authority (QFMA). Prior to this surveillance and enforcement functions were carried out by the DSM. The QFMA has not yet fully taken over regulatory functions from the DSM. The authorities need to provide full financial and technical assistance to the QFMA and the DSM so that the QFMA can begin functioning as a strong regulator immediately. Also, the authority and responsibility of each organization should be clearly defined to facilitate the transition to a new and improved regulatory structure.

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The concept of corporate governance is new to most companies and investors in Qatar. Few companies seem to appreciate the potential benefits of corporate governance practices. For the most part, only the banking sector has made effective improvements in corporate governance practices. The Qatar Central Bank has successfully introduced corporate governance guidelines in its

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"Instructions to Banks." For example, it has clearly delineated the roles of the board and management, improved transparency and disclosure requirements and introduced off-site surveillance mechanisms. No other agency has been as successful in implementing similar changes.

In Qatar, changing the corporate governance framework typically requires the approval of multiple government agencies. These include the Ministry of Economy and Commerce/Department of Commercial Affairs, Qatar Financial Markets Authority, Doha Securities Market with respect to listed entities, and the Qatar Central Bank with respect to banks. Each agency is making an effort to institute good corporate governance practices, but harmonizing these efforts has been a challenge.

Local investors seem to place little value in assessing corporate governance practices of companies they invest in. Shareholder activism is almost non-existent. Local investors are most interested in investing in companies in which political decision makers and/or the government is a shareholder. Consequently, a large number of DSM listed companies are owned, at least in part, by the state. If corporate governance practices in Qatari companies are to improve, a strong commitment to better corporate governance from the political authorities as well as from senior government officials is needed.

Given the general level of investor apathy, the Qatar Financial Center (QFC) may have to be the driver promoting better corporate governance practices. The QFC was established in May 2005 to attract major international financial institutions to the country in order to enhance financial intermediation and provide financing for some $55 billion in energy and public infrastructure projects that will be undertaken in the medium term. In order to provide the regulatory comfort that these institutions demand, the QFC has its own regulatory authority and court system, both of which are independent of the central bank, as well as the country's employment and immigration laws. The QFC has strived to make its regulations an amalgam of global best practices. There is likely to be a slow diffusion of corporate governance best practice to local companies. However, there was a general feeling from the GCC Task Force that over time the QFC's regulatory structure will become dominant in Qatar, and corporate governance practices as a whole will begin to operate along international lines.

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Based on its findings, the GCC Task Force recommends that the following improvements be given priority to help strengthen the framework for corporate governance in Qatar:

- Design and implement, on a mandatory basis, laws/ rules/codes aimed at strengthening board practices
- Build up professional and skilled staff at the regulatory level to strengthen enforcement and surveillance
- Introduce corporate governance reforms in state-owned enterprises
- Introduce specific legislation/rules regarding insider trading
- Increase investor awareness by introducing investor education programs
- Establish an association of accountants and increase disclosure requirements in financial reports

KEY CORPORATE GOVERNANCE ISSUES

Changes in regulatory structure underway

Until 2005, the Doha Securities Market (DSM), Qatar's stock exchange, also served as the country's securities market regulator. In 2005, the Qatar Financial Markets Authority (QFMA) was created by Law No. 33 to operate as an independent regulatory authority managing the regulatory regime of the securities market in Qatar. The QFMA will regulate the DSM and will be responsible for, among other things, monitoring the market to ensure that it is fair and its participants informed. Disputes will be referred to the Disputes Panel and the Tribunal of QFMA, which has the power to impose penalties, including, in serious cases, suspension of members from trading.

"There have been delays in transitioning regulatory powers from the DSM to the QFMA. As a result, the QFMA is a shell organization and in practice the DSM continues to act as market-maker and regulator. Plans are underway to transfer regulatory power from the DSM to QFMA but timelines for the transition are unclear."

By establishing the QFMA as an independent regulatory agency, authorities in Qatar have structurally improved the regulatory environment in the country. However, there have been delays in transitioning regulatory powers from the DSM to the QFMA. As a result, the QFMA is a shell organization and in practice the DSM continues to act as market-maker and regulator. Plans are underway to transfer regulatory power from the DSM to QFMA but timelines for the transition are unclear.

While the GCC Task Force welcomes the change in the country's regulatory structure, we recommend that all efforts be made to expedite the functioning of the QFMA, as envisaged at the time of its creation. This would include, inter alia, establishing stronger conventions with regards to its role and function, training of staff, and investing in electronic surveillance technology.

"The country does not have rules or regulations pertaining to the structure of the board, which adds to the weakness of the regulatory framework."

Corporate governance framework requires significant overhaul

The existing corporate governance framework in Qatar complies with about 40 percent of the IIF's recommended corporate governance guidelines. Importantly, the country does not have rules or regulations pertaining to the structure of the board, which adds to the weakness of the regulatory framework. The DSM is expected to introduce a code of corporate governance by the end of 2006, although it is unclear if compliance with the code will be mandatory for all listed companies.

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The GCC Task Force has highlighted specific changes that would strengthen the existing corporate governance framework and make it fully compliant with the IIF's corporate governance guidelines in the Outlook and Recommendation section of this report. We strongly suggest that the DSM, if they have not already done so, consider incorporating these recommendations into the proposed code of corporate governance. Some of the suggested changes, including removing restrictions on the one-share, one-vote principle may require amending Qatar's Commercial Companies Law.

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Changes recommended on page 10 will help strengthen minority shareholder rights, increase disclosure on financial and ownership issues, and bring greater transparency to board and corporate governance practices in companies.

Improved corporate governance in banking sector

The Qatar Central Bank (QCB) has been instrumental in improving corporate governance practices, especially at the board-level, in the banking sector. The QCB has issued clear guidelines to banks directing them to introduce practices such as:

- Requiring the board of directors to provide strategic direction to management
- Clarifying accountability of directors
- Increasing financial transparency by introducing prudent accounting and disclosure norms
- Requiring banks to regularly report performance
- Introducing multiple tiers of supervision through board committees, internal and external audit requirements, and regulation
- Requiring bank boards to create multiple board-level committees, such as credit, audit and policy committees, comprised of non-executive directors
- Interacting with banks regarding implementation of international best practices in risk management as required by Basel II

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Moreover, the QCB has established online offsite surveillance mechanisms through which they actively monitor compliance with suggested practices. The securities market regulator should follow the lead of the QCB by requiring and monitoring compulsory compliance with improved corporate governance requirements.

Lack of corporate governance infrastructure

In addition to a weak regulatory and legal framework, Qatar lacks a corporate governance-related infrastructure that will further enable development of corporate governance practices and also help regulators monitor compliance with the new requirements. This corporate governance-related infrastructure includes:

- Association of accountants that can regulate the industry
- Directors training institute
- Business schools to provide management training and promote business ethics
- Investor education programs that will help foster an equity culture
- Media institutes to train journalists in financial and investigative reporting
- Enhancing websites of the DSM and the QFSM to provide financial data, annual reports and other up-to-date company specific information
- Registrars of companies at the government-level to increase supervision of companies

Corporate governance reforms in state-controlled companies

A strong commitment to better corporate governance from the political authorities as well as from senior government officials involved with capital market development is needed for substantive change to take effect. A majority of companies listed on the Doha Securities Market are in part owned by political decision makers or the State. Government authorities should use their ownership rights to improve corporate governance practices in state-controlled companies (SCCs). Specifically, the GCC Task Force would propose the following reforms in SCCs:

- Increased autonomy for management—include a sufficient number of non-executive and independent members, and limit the number of state representatives that can serve as directors on the board
- Introduce independent board-level nomination committees to appoint directors
- Discourage practice of ownership by the state and associated political interference
- Adoption and implementation of specific guidelines for corporate governance of SCCs, ensuring that the governance of SCCs is carried out in a transparent and accountable manner, with the necessary degree of professionalism and effectiveness

Growing Economic Impact of Qatar's Equity Market

Qatar's equity market was established in 1997 and is still in a developmental stage. Like most other GCC equity markets, the Doha Securities Market experienced phenomenal growth in 2005. The rampant growth reflected an environment of high liquidity and low interest rates. The DSM index grew by 70 percent in 2005, following growth of 65 percent and 70 percent in 2003 and 2004, respectively. The total value of shares traded increased fourfold, to reach $28 billion. Market performance was driven by a strong showing from the services sector, particularly finance and real estate.

However, a sharp correction began in October of last year and gathered pace during early 2006 (Chart 1). As of October 2006, the DSM index had dipped to 7,400, some 30 percent down on the beginning of the year. There was no particular trigger other than growing unease over inflated valuations (average p/e ratios were above 30 before the slump began) despite still strong corporate profitability.

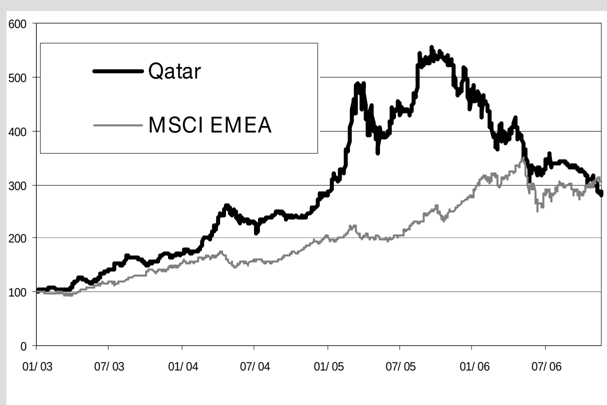
Poorly timed IPOs, which drained liquidity from the secondary market, also contributed to the slump. Public offerings by the real estate firm Babwa, Al-Rayyan Bank and Gulf Cement Company, which were all launched after the correction began, attracted fervent interest from local investors, and all closed many times oversubscribed. A contributing factor may have been the central bank's waiver of a ban on commercial bank margin lending for these IPOs, possibly in the belief that this would lift both the primary and secondary markets.

This action did not achieve its purpose and carried risks, given local banks' existing exposure to the stock market. Nevertheless, two other government initiatives helped to improve sentiment on the secondary market, albeit slowly. First, the implementation of new regulations allowing listed companies to buy back up to10 percent of their shares promises to add some confidence to the market; second, the half state-owned Qatar National Bank has launched a new (fully subscribed) $800 million fund to be invested in the DSM. These initiatives, along with a more measured approach from investors, evident in the steady debut of Al Rayyan's shares in mid-June, saw the DSM index edge up to around the 7,900 mark in late July, however, it has since fallen back to 7,400.

More broadly, the economic fallout from the DSM's correction is likely to remain limited. There could be some dip in private consumption growth as individuals rebuild their savings, but this is likely to be temporary. Assuming that banks' balance sheets are not heavily compromised, then financial intermediation for the broader economy should be largely unaffected, particularly as the QFC grows in importance.

Chart 1

Comparison of the Qatar stock market index with the MSCI EMEA index from January 1, 2003 to November 15, 2006



Qatar's Banking Sector

The Qatari banking sector is composed of 15 institutions, including two Islamic banks, one industrial bank, and branches or subsidiaries of seven foreign banks. With a loan-to-GDP ratio of less than 50, the country still appears under-banked. The capital adequacy ratio for the system as a whole is around 25 percent, well above the 10 percent minimum that the central bank demands. According to the central bank, Qatari banks are already fully compliant with Basel II requirements regarding prudential regulations and risk classifications. The criteria were adopted as part of the Parallel Run scheme in January 2006 and commercial banks are required to send details of their exposures based on Basel II classifications to the central bank on a monthly basis. Full implementation of Basel II is expected in 2007.

Qatar's banks enjoyed stellar performance in 2005, with exceptionally strong profit and asset growth. The rapid expansion of the economy and the population's high and increasing level of prosperity should bring new and better quality business opportunities to the banking system over the medium term. Competitive challenges exist, however, while the correction in the Doha Securities Market (DSM) during 2006 may have compromised balance sheets. Non-performing loans-to-gross loans declined to 6.3 percent in 2004, and seem likely to have fallen below 5 percent in 2005. However, the correction in the DSM has likely put upward pressure on this ratio.

The surge in lending to the private sector over the past year or so is in part a reflection of the raft of construction projects in the local economy, but is more indicative of the booming DSM. Personal lending expanded by 75 percent in 2005, accounting for 37 percent of total domestic credit, as many Qataris borrowed to invest in the market. Margin lending is prohibited by the central bank, but the final destination of personal loans has proved difficult to monitor in Qatar, as it has in other emerging markets. The DSM posted exceptional growth in 2005 but is now in the midst of a severe correction that has yet to fully play itself out. The full impact of the correction on banks' profitability and balance sheets has not been revealed, but revenue derived from the DSM (trading gains, brokerage commissions, asset management fees, IPOs and underwriting fees) is likely to have taken a significant hit this year. In addition, proprietary investments could easily register large losses; of the three main banks, exposure to equity investments accounted for around 40 percent of shareholders' funds at end 2005. However, this partly reflects the market's strong performance, and it should also be noted that banks are obliged to record unrealized and realized gains in equities in different parts of their balance sheets so they cannot artificially increase the value of their assets.

Of more concern is the threat to asset quality posed by personal and corporate loans that have been diverted to the stock market. With the plummeting of share prices, banks may be faced with debtors who are unable to meet their obligations, leading to a rise in non-performing loans. Although margin lending is prohibited, it is clear that a good deal of new lending made its way to the DSM. It is likely that the full extent of the indirect impact of the correction will only appear in banks' financial results after a considerable time lag. Meanwhile, exposure to the property market in Qatar appears less acute than in the UAE or Saudi Arabia, but owing to a lack of publicly disclosed data and something of a maturity mismatch cannot be fully discounted.

Although the DSM's correction has worrying short-term implications for balance sheets, it does promise to encourage improved risk management practices over the medium term. A better balance of lending and funding maturities is also likely to emerge. More generally, while the heady pace of lending growth witnessed last year might have amplified systemic risks, it could also help to build banks' franchises. Looking ahead, the economy's prospects are such that banking sector profitability and asset growth are likely to recover over the medium term, if not before.

OUTLOOK AND RECOMMENDATIONS

If government authorities in Qatar wish to enhance the investment climate of the country, significant time and effort needs to be invested in improving the country's rudimentary corporate governance framework. While some changes are underway, authorities need to provide more clarity about the improvements being considered to the existing corporate governance framework. The GCC Task Force recommends that the authorities create a Qatar Corporate Governance Task Force composed of representatives from the various government departments that are responsible for corporate governance to jointly address the deficiencies in the country's current corporate governance framework. In addition, representatives from the business community such as accountants, lawyers, investors and leading private businesses, should also be included in the Task Force. This will help encourage the buy-ins needed to implement the recommendations of the Task Force.

The mandate of the Task Force would include:

- Coordinating the efforts of the various government organizations that are responsible for the corporate governance framework in Qatar
- Reviewing the overall corporate governance framework of the country
- Developing a plan to address deficiencies identified in this report and in the review
- Implementing the plan within specific timelines

Furthermore, the GCC Task Force recommends that regulators also consider introducing corporate governance reforms in state-controlled companies (SCCs), discussed above.

Other broad-based recommendations include:

- Providing educational training to regulatory staff
- Requiring board members to participate in director training programs to develop a pool of trained independent directors
- Establishing an association of accountants who can spearhead development of accounting practices and regulations in the region
- Promoting shareholder activism in the country through significant shareholders who can take up corporate governance-related causes
- Introducing ethics and corporate governance in business school curriculums to create awareness and educate future business leaders on best practices

Specific changes that would strengthen the existing corporate governance framework and make it fully compliant with the IIF's Policies for Corporate Governance in Emerging Markets- Revised Guidelines include:

- Applying "One-share, one-vote" principle universally among shareholders, irrespective of the number of shares they own
- Requiring shareholder approval for capital changes, ie. takeovers, mergers, buyouts, and capital increases
- Treating foreign shareholders equally, including allowing them to directly invest in stocks listed on the DSM
- Defining "independent" and "non-executive" director
- Establishing a trigger that will instigate a public offer when share ownership exceeds 35 percent.
- Developing a mechanism whereby minority shareholders can trigger arbitration procedure
- Requiring independent and non-executive

directors to be elected to the board and attendance by them to form a quorum

- Requiring the establishment of audit, nomination and compensation committees

- Assigning the audit committee the responsibility to monitor risk factors

- Improving financial disclosure and transparency requirements

- Strengthening enforcement

APPENDIX

QATAR CORPORATE GOVERNANCE FRAMEWORK

Qatar's legal framework for corporate governance is found primarily in the Commercial Companies Law and Doha Securities Market listing requirements, which are minimal. Consequently, the country's legal framework fails to address many key corporate governance areas, particularly disclosure and transparency, which leaves minority shareholders vulnerable.

Minority Shareholder Protection

Qatar's governance framework addresses about one-half of the IIF Code that pertains to minority shareholder rights. Rules requiring companies to disclose changes in capital structure to their shareholders are weak. Scope for significant improvement lies in adopting a mechanism whereby ownership exceeding 35 percent will trigger a public offer and requiring the details of share buybacks to be disclosed to shareholders.

Voting Rights

Proxy voting is permitted in both the IIF Code and the Commercial Companies Law. The Commercial Companies Law, however, stipulates that one member may only represent one other member. The IIF Code, in contrast, prefers that proxy voting be allowed for all shareholders without stipulating who can act as a proxy. The fewer restrictions there are on proxy voting, the better the likelihood that shareholders will be able to exercise their right to vote.

The IIF code states that each share should equal one vote, and that the "one-share, one-vote" principle should be a threshold requirement for new issues. The Commercial Companies Law complies with this provision. However, it limits voting rights of shareholders who own more than 25 percent of the company's capital to 25 percent of the votes at any shareholder meeting.

Qatar law does not have specific provisions for cumulative voting, which the IIF strongly encourages. Cumulative voting in board elections protects minority shareholder rights by allowing minority shareholders to pool their votes to elect at least one director.

Company Capital Structure

The IIF Code recommends that companies require shareholder or board approval to change the capital structure of the company through takeovers, buybacks, mergers, capital increases, or dissolution. It also stipulates that if an offer is made above a reasonable minimum threshold of outstanding stock, a significant portion of that purchase must be through a public offer.

Qatar's laws and regulations comply with some of these provisions by requiring an extraordinary meeting to convene and vote on issues concerning dissolution, transfers, mergers, and capital increases. However, Qatar's rules and regulations lack provisions on majority ownership triggering public offers.

The IIF Code also suggests that a public offer be made for acquisition of all shares when ownership exceeds the 35 percent trigger level, as well as the disclosure to shareholders of share buybacks. Qatar's Commercial Companies Law does not address these issues.

Shareholder Meetings/Other Rights

Qatar's corporate governance framework complies with about two-thirds of the IIF's guidelines in this area. The Commercial Companies Law fully complies with the IIF's recommended guidelines pertaining to meeting notices and agenda for annual general and special meetings of shareholders. However, while the IIF Code requires that minority shareholders have the right to formally present a view at a meeting of the board of directors, Qatar rules and regulations do not address this issue. Moreover, Qatar's laws and regulations stipulate that foreign shareholders may only own up to 49 percent of a Qatari company. This violates the IIF Code provision that encourages companies to treat foreign and domestic shareholders equally.

Other requirements that partly comply with the IIF guidelines include mechanisms for resolving shareholder conflict and setting a quorum for shareholder meetings. The IIF Code requires that a mechanism exist to trigger arbitration procedures in cases where a conflict arises between minority and controlling shareholders. Qatar's law allows individual shareholders to file cases with the Ministry of Economy and Commerce in these situations if the shareholder first informs the company of his/her intentions.

The IIF Code requires there to be a predetermined level (suggest around 30 percent) of shareholders present to establish a quorum, which should include some independent, non-majority-owning shareholders. Under the Commercial Companies Law, a meeting, and the resolutions passed therein, can only be considered valid if a quorum of shareholders representing 50 percent of the company's capital is formed. If the quorum is not formed, a second meeting must be held and must be considered valid regardless of representation.

Structure and Responsibilities of the Board of Directors

Qatar's governance framework only addresses about one-quarter of the IIF Code that pertains to boards of directors. The scope for significant improvement lies in strengthening existing laws or introducing new rules/laws that bring structure to the board of directors of a company, such as, requiring non-executive directors and independent directors to serve on the board, mandating the formation of nomination, compensation and audit committees at the board-level, and adopting stricter rules on disclosure.

Board Structure

The IIF Code stresses the importance of including independent and non-executive directors on company boards by incorporating several provisions to encourage it. Independent directors are defined as those who do not have a business or personal relationship with management or the company, and are not a controlling shareholder. Under the IIF Code, a minimum one-third of the board should consist of non-executive directors, of which a majority should also be independent. Qatar's laws and regulations have yet to include provisions on independent or non-executive directors.

The IIF Code also strongly advocates the creation of board committees, particularly nomination, compensation and audit committees. These committees, in conjunction with independent board members and a mechanism for minority shareholders to propose directors, reduce the risk of dominant owners ignoring minority shareholders and ratifying their own decisions. Qatar's legal framework contains no provision on the formation of board committees.

Board Meetings

The IIF Code requires boards of directors to meet quarterly, and make the minutes of each meeting a matter of public record. While the Commercial Companies Law states that the board should meet at least six times each year, which complies with the IIF Code's provision, minutes are only registered in a special ledger and signed by the chairman, the members, and the employee who performs the secretarial duties of the board. To fully comply with the IIF Code, Qatar must allow these minutes to be available to the public.

The IIF Code provides that a board quorum should consist of executive, non-executive, and independent non-executive directors. As discussed previously, there are no provisions in Qatar's laws or regulations that recognize non-executive or independent directors, much less require their presence. The Commercial Companies Law does, however, require that 50 percent of directors be present for the meeting to be valid.

Nomination and Election of Directors

The IIF Code endorses the creation of a nomination committee, chaired by an independent director, to propose directors. Minority shareholders should also have a mechanism for nominating directors at the Annual General Meeting (AGM) and Extraordinary General Meeting (EGM).

As discussed previously, Qatar's legal framework lacks provisions for board committees. It also lacks any provision for minority shareholders to put forward directors. The Commercial Companies Law only requires the general assembly to elect the board of directors by secret ballot.

Disclosure

The IIF Code requires any information that could affect share prices to be disclosed through local exchanges, and as best practice, through the company website. Qatar's rules and regulations require balance sheets, profit and loss accounts, a summary about the report of the board of directors and complete text of the report of the accounts auditors to be published in at least two local newspapers issued in Arabic, at least fifteen days prior to the meeting of the general assembly.

The IIF Code also recommends that the remuneration of directors be disclosed in the annual report. All major compensation schemes, including stock options, should be subject to shareholder approval. The Commercial Companies Law requires the amounts obtained by the chairman and directors in the Financial Year, including salaries, wages, allowances, bonuses, and compensation for expenses, to be disclosed to the board at least three days prior to a meeting of the board of directors.

Other Responsibilities

The IIF code requires any potential or actual conflicts of interest on the part of directors to be disclosed. Moreover, it requires board members to abstain from voting if they have a conflict of interest pertaining to that matter. Although the Commercial Companies Law has several provisions regarding the prevention of conflicts of interests, it has no provision regarding information that must be disclosed.

The IIF Code states that internal control and risk management should be a function of the audit committee. As discussed earlier, Qatar's governance framework has no provision regarding board committees, nor does it have any provision regarding the particular group or person who should be responsible for internal control or risk management.

The IIF code also encourages companies to have an investor relations program and to provide a policy statement concerning environmental issues and social responsibility. There are no such provisions in Qatar's corporate governance framework.

Accounting/Auditing

Qatar's corporate governance framework agrees with less than one-half of the IIF guidelines in this area. The creation of audit committees, the disclosure of off-balance sheets, and provisions requiring audited risk factor statements addressing business risks would further strengthen this area.

Standards

Both the IIF Code and the Commercial Companies Law state that all listed companies must comply with IAS and that consolidated accounting be employed for subsidiaries. Furthermore, Qatar's laws and regulations state that, in addition to the audited annual report, which must be submitted within three months of the end of the Financial Year, companies must also publish biannual reports in at least two newspapers issued in Arabic for the shareholders' reference.

The Commercial Companies Law requires the appointment of one or more auditors by the board of directors and registered in the Accounts Auditors Registry. The Regulating Control of Accounts Law stipulates that an auditor may not be a founder, partner, or director of the company, or have a partner or first-degree relative that is, or own shares of the company or act as a creditor or debtor to the company.

The IIF Code also advocates the disclosure of off-balance-sheet transactions and the implementation of a mechanism to monitor business risks. Qatar currently lacks both of these provisions.

Audit Committee

The IIF Code advocates the creation of an audit committee. The main duties of the audit committee should be to recommend the engagement or replacement of external auditors, to review the internal audit system, to oversee the interaction between the internal and external auditors, to inspect the company's financial information and its disclosure, and to monitor the company's internal control system. Companies should be required to set up a sound internal control system. The Code expects the audit committee to be chaired by an independent director and composed of a majority of independent directors. It also requires that at least one independent director on the audit committee be an accounting professional. Qatar's corporate governance framework does not include any provisions regarding audit committees.

Transparency of Ownership and Control

Qatar's corporate governance framework does not fully comply with any of the IIF Code's provisions that pertain to transfer of ownership and control. Adopting provisions on the disclosure of insider dealings and of directors' and senior executives' shareholdings, in combination with a provision where ownership exceeding 35 percent would trigger a buyout offer in which all shareholders are treated equally would greatly strengthen compliance in this area.

In addition to share ownership thresholds that trigger buyout offers, the IIF Code states that companies should disclose shareholdings of both directors and senior executives. It also requires disclosure of names of shareholders that own more than 3-10 percent of outstanding shares. Of particular importance is the requirement that all insider dealings by directors and senior executives be disclosed. Qatar's legal framework requires that the shareholdings of all directors be disclosed in the AGM and audit reports, but does not address remaining IIF Code provisions.

Regulatory Environment

As discussed above under the 'Key Corporate Governance Issues' section, Qatar's regulatory framework is undergoing structural change. The IIF Code states that the capital markets supervisory authority and the stock exchange should have adequate enforcement powers, and that stock exchanges should have the power to grant, review, suspend or terminate listings. Also, all enforcement authorities should have adequate staffing and professional skills. The Commercial Companies Law provides the Ministry of Economy and Commerce with the power to monitor companies to verify that they are implementing laws correctly.

According to the IIF Code, both organizations should be politically independent. Doha Securities Market (DSM) has been regulated by the Qatar Financial Markets Authority (QFMA) since 2005. QFMA is an independent regulatory agency. However, in practice, the DSM continues to serve as regulator until such time that the QFMA can build its infrastructure and begin operating independent of the DSM.

Comparison of IIF Code and

Commercial Companies Law and Doha Securities Market Listing Requirements

	IIF	**Commercial Companies Law and Doha Securities Market Listing Requirements**
Minority Shareholder Protection		
Voting rights		
Proxy voting	Firms are encouraged to allow proxy voting.	An absent member can appoint another to represent him in attendance and vote, provided that one member can only represent one member. (CL Article 103) A proxy appointed by a shareholder to attend the General Assembly should be a shareholder. (CL Article 128)
One-share, one-vote principle	"One-share, one-vote" should be a threshold requirement for new issues.	The right of voting is equivalent with a member's shares, as long as no shareholder's vote or representative's vote counts for more than 25% of the votes represented at the meeting. (CL Article 128)
Cumulative voting	Cumulative voting should be permitted.	No provision.
Capital structure		
Takeover/buyout/merger-Procedures on major corporate changes	Shareholder approval of mergers and major asset transactions should be required. If an offer is made above a reasonable minimum threshold of outstanding stock, a significant portion of that purchase must be through a public offer. Ownership exceeding 35% triggers a public offer in which all shareholders are treated equally. Under a merger or takeover, minority shareholders should have a legal right to sell shares at appraised value.	There must be a quorum of at least 75% in order to vote validly on issues of dissolution of the company or its transfer or merger. (CL Articles 136, 140) The increase in capital resulting from a merger will be distributed evenly among the shareholders in proportion to the share they hold. (CL Article 274)

Capital increases (pre-emptive rights)	Shareholder approval is required. Any capital increase over a period of one year and above a minimum threshold must first be offered to all existing shareholders.	With a decision of extraordinary general assembly and approval of the Ministry of Economy and Commerce the company capital can be increased. The decision will specify the amount of increase and issue rate of new shares. The general assembly has to authorize the board of directors to establish the date of implementation of that decision not later than one year from the date of issue. (CL Article 189) Shareholders have priority in underwriting of new shares, and may not withdraw their right in favor of other individuals. (CL Articles 193)
Share buybacks	Details of share buybacks should be fully disclosed to shareholders.	Buybacks must be disclosed to shareholders and potential investors. (Listing requirements of QCMA)
Shareholder meeting		
Meeting notice and agenda	Meeting notice and agenda should be sent to shareholders within a reasonable amount of time prior to meetings.	A meeting must be held within 4 months after the end of the FY. (CL Article 122) An invitation, including the agenda and most recent audit report, must be sent to each shareholder via hand delivery or registered mail. It must also be published in at least two Arabic daily newspapers at least fifteen days prior to the meeting. (CL Articles 120, 123) An invitation must also be sent to the Ministry of Economy and Commerce since a representative from the Ministry must be present for the general assembly meeting to be valid. (CL Article 131)

Special meetings	Minority shareholders should be able to call special meetings with some minimum threshold of the outstanding shares.	A general assembly will be called anytime the accounts auditor requests one. A meeting must also be called when shareholders owning 10% or more of the company's capital request one. The invitation for this meeting must be sent out within 15 days of the request. The agenda in this case will be limited to the subject of the request. Shareholders may call a meeting of the extraordinary assembly if they account for at least 25% of the company's capital. (CL Article 124, 139)
Treatment of foreign shareholders	Foreign shareholders should be treated equally with domestic shareholders.	Foreigners are allowed to own up to 49% of the share of capital of a Qatari company. If the company is to carry on business in certain fields, foreigners may with the approval of the Minister of Economy and Commerce own up to 100% of the shares of the company. Foreigners may own up to 25% of the shares of a listed joint stock company. This percentage may be raised by approval of the Council of Ministers.
Conflicts between shareholders	Should have mechanisms whereby a majority of minority shareholders can trigger an arbitration procedure to resolve conflicts between minority and controlling shareholders.	An individual shareholder or the Ministry of Economy and Commerce can file a lawsuit against the members of the Board of Directors because of the mistakes they make in carrying out their duties if he/she has suffered personal damage, and has informed the company of the intention to file a lawsuit, provided that the company has not instituted such a lawsuit. (CL Articles 115, 327) The Chairman or any elected member of the board of Directors may be dismissed by the ordinary General Assembly, the majority of the Board, or pursuant to an application by shareholders representing not less than 25% of the subscribed share capital of the company. (CL Article 117)

Quorum	Should not be set too high or too low. Suggested level would be about 30% and should include some independent non-majority-owning shareholders.	At least 50% of the capital of the company should be present at a general assembly. If this quorum is not reached, then an invitation for a second meeting must be published in two daily Arabic newspapers within 15 days of the first meeting. The second meeting will be valid regardless of the capital represented. (CL Article 131) An extraordinary assembly meeting is only valid with three-quarters of the capital of the company is represented. If the three-quarters quorum of the EAG is not available at the first meeting a second meeting shall be called within 30 days from the date of the first meeting. The quorum for the second meeting is 50% of the company's shares. If this quorum is not available a third meeting is valid irrespective of the represented shareholding. (CL Article 140)
Petition rules/objection to majority shareholder actions	Minority shareholders should have the right to formally present a view to the board if they own some predefined minimum threshold of outstanding shares.	A resolution of the General Assembly favoring or prejudicing a certain class of shareholders, the members of the Board or other persons without taking into consideration the interests of the company may be invalidated by the objecting shareholders. (CL Article 136)
Structure and Responsibilities of the Board of Directors		
Board structure		
Definition of independence	Cannot have a business or personal relationship with the management or company, and cannot be a controlling shareholder such that independence, or appearance of independence, is jeopardized.	No director may be on the board of directors of more than three shareholding companies or two companies involved in similar activities. (CL Article 97) The chairman and board members may not participate in any business competing with the company or trade on their own account or for others in one of the activities practiced by the company. Nor should they have any direct or indirect interest in the contracts, projects, undertakings made on account of the company. Nor may they exploit the information known to them in his capacity as a member. (CL Articles 107-111)

Share of independent directors	At least one-third of the board should be non-executive, a majority of whom should be independent.	Members of the board of directors are required to hold shares in the company. The amount of shares is determined by the articles of association of each company. (CL Article 96)
Frequency and record of meetings	For large companies, board meetings every quarter, audit committee meetings every 6 months. Minutes of meetings should become part of public record.	The board must hold no fewer than six meetings each fiscal year. Two months or more should not pass without having a meeting. (CL Article 103) Reports of each meeting must be registered in a special ledger signed by the chairman, the members, and the employee who performs the secretarial duties of the board. (CL Article 105)
Quorum	Should consist of executive, non-executive, and independent non-executive members.	The meeting must be attended by 50% of members in order for it to be considered valid. (CL Article 103)
Nomination and election of directors	Should be done by nomination committee chaired by an independent director. Minority shareholders should have mechanism for putting forward directors at Annual General Meeting (AGM) and Extraordinary General Meeting (EGM).	The general assembly will elect the board of directors by secret ballot. (CL Article 95)
Term limits for independent directors	For large companies, re-election should be every 3 years with specified term limits.	The period of membership of the board of directors should be no more than 3 years. Members of the board can serve more than one term, if the company's statutes don't stipulate otherwise. (CL Article 94)
Board committees	The board should set up 3 essential committees: nomination, compensation and audit.	No provision.
Formal evaluation of board members	For large companies, nomination committee must review directors ahead of formal re-election at AGM.	No provision.

Disclosure		
Immediate disclosure of information that affects share prices, including major asset sales or pledges	Any material information that could affect share prices should be disclosed through stock exchange. Material information includes acquisition/disposal of assets, board changes, related-party deals, ownership changes, directors' shareholdings, etc.	Material information that is likely to affect the prices of listed securities should be immediately disclosed to the Doha Securities Market. (Doha Securities Market Internal Regulation Articles 39, 48)
Procedures for information release	Through local exchanges, and as best practice, through company website.	Balance sheets, loss and profit accounts, a summary about the report of the board of directors and complete text of the report of the accounts auditors must be published in two local newspapers issued in Arabic, at least fifteen days prior to the meeting of the general assembly. A copy must also be submitted to the Ministry of Economy and Commerce. (CL Article 126)
Remuneration of directors	Should be disclosed in annual report. All major compensation schemes, including stock options, should be fully disclosed and subject to shareholder approval.	Minimum three days prior to a meeting of the board of directors, all amounts obtained by the chairman and directors in the FY, including salaries, wages, allowances, bonuses and compensation for expenses must be disclosed to the board. (CL Article 121)
Other responsibilities		
Conflict of interest	Any potential or actual conflicts of interest on the part of directors should be disclosed. Board members should abstain from voting if they have a conflict of interest pertaining to that matter.	No board member is permitted to be on the board on more than one company whose activities are similar. (CL Article 97) No chairman, board member, or director may participate in business competing with the company. (CL Article 107) No chairman, board member or director should have direct or indirect interest in the contracts, projects, or undertakings of the company. (CL Article 108)
Integrity of internal control and risk management system	Should be a function of the audit committee.	The auditor must include in his financial reports any violations to the provisions of CCL, and if the violations still exist. (CL Article 146)

Investor relations	Should have an investor relations program.	No provision.
Social responsibility and ethics	Make a statement on policy concerning environmental issues and social responsibility.	No provision.
Accounting/Auditing		
Standards		
National/International GAAP	Identify accounting standard used. Comply with local practices and use consolidated accounting (annually) for all subsidiaries in which sizable ownership exists.	These reports and other financial statements shall be prepared in accordance with the applied accounting and audit rules. (DSM Internal Regulations Article 50)
Frequency	Semi-annually audited report at end-FY.	An audited report must be submitted within three months of the end of the Financial Year. (CL Article 119) The company must also publish biannual reports in at least two newspapers issued in Arabic for the reference of the shareholders. (CL Article 182)
Audit quality	Independent public accountant. As a best practice, auditors should adhere to the global standards devised by the International Forum on Accountancy Development (IFAD).	There must be one or more auditors appointed by the board of directors and registered in the accounts auditors registry per the rules of and regulations mandated by the state. (CL Article 141, 142) The auditors must also follow the Auditors Profession Regularizing Law. (CL Article 145)
Off-balance sheet transactions	Listing requirements should specify disclosure of off-balance-sheet transactions in the annual report with materiality level for disclosure.	No provision.
Risk factors/monitoring procedures	Should be statement from audit committee in reports and accounts addressing business risks. Need a mechanism for review by auditors.	No provision.

Audit committee		
Audit committee	For large firms, must be chaired by qualified independent director with a financial background.	No provision. There must be one or more auditors appointed by the board. If there is more than one, the auditors must file joint reports. (CL Articles 141, 142)
Relationship/communication with internal and external auditors	Committee should approve services provided by external auditor. Breakdown of proportion of fees paid for each service should be made available in annual report. As a best practice, communication with auditors should be without executives present. Contemporaneous provision of audit and non-audit services from the same entity should be prohibited.	No provision.
Transparency of Ownership and Control		
Majority ownership	Significant ownership (20-50% including cross-holdings) is deemed to be control.	Founders of the public joint-stock company are not allowed to subscribe for more than 60% of the share capital of the company. An individual shareholder is not allowed to subscribe for more than 10% of the share capital of the Company. The maximum shareholding for each subscribe to the share capital of a joint-stock company is usually fixed in the prospectus at no more than 10% of the share capital of the company. (CL Articles 76, 77)
Buyout offer to minority shareholders	Ownership exceeding 35% triggers a buyout offer in which all shareholders are treated equally.	No provision.
Related-party ownership	Companies should disclose directors' and senior executives' shareholdings, and all insider dealings by directors and senior executives should be disclosed.	Directors' shareholdings must be disclosed in general assembly meetings and audit reports. (CL Article 121, 134)
Minimally significant shareholders	Shareholders with minimally significant ownership (greater than 3-10%) of outstanding shares must disclose their holdings.	The company must maintain a record of the shareholders' names and the portion owned by each of them. The Ministry of Economy and Commerce, as well as the shareholders, have the right to this data. (CL Article 159)

Regulatory Environment		
Enforcement powers	The supervisory authority and the exchange must have adequate enforcement powers. Exchanges should have the power to grant, review, suspend, or terminate the listing of securities. Enforcement authorities should have adequate training and an understanding of the judicial process.	The Ministry of Economy and Commerce is allowed to monitor companies to verify if they are implementing the law and bylaws correctly. (CL Article 313)
Independence of supervisory body and of exchange	The supervisory body and the exchange should be independent from government and industry.	The Ministry of Economy and Commerce is government-run and therefore does not function as an independent supervisory body.

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