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**2007 Review of the implementation status of corporate governance disclosures:  
case study Egypt**

**A note by the UNCTAD secretariat and the American University of Cairo**

**Executive summary**

This report is a case study of corporate governance disclosure in Egypt. The case study employs the benchmark of good practices in corporate governance disclosure developed by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). The ISAR benchmark is more fully explained in the UNCTAD publication *Guidance on Good Practices in Corporate Governance Disclosure* and consists of 53 disclosure items covering five broad subject categories: (a) financial transparency; (b) ownership structure and exercise of control rights; (c) board and management structure and process; (d) corporate responsibility and compliance; and (e) auditing. The sample of enterprises selected for the study is composed of the 30 enterprises that make up the Cairo Alexandria Stock Exchange (CASE) 30, the most commonly used index to measure the performance of the Egyptian capital market. The study consists of two parts: (a) a brief overview of key recent developments in Egypt related to corporate governance disclosure, including reforms to the regulatory framework, and; (b) the presentation and analysis of the results of the review of corporate disclosure practices among leading enterprises in Egypt.

The main findings of the review suggest low rates of corporate governance disclosure among the CASE 30 enterprises for the items contained in the ISAR benchmark. Some items, however, are widely reported. A core of six disclosure items can be found among two thirds or more of CASE 30 enterprises. These are: (a) financial and operating results; (b) company objectives; (c) critical accounting estimates; (d) nature, type and elements of related-party transactions; (e) disclosure practices on related party transactions where control exists; and (f) risk management objectives, systems and activities.

Among other conclusions of this study, a policy option that follows from this work would be an increased focus on training and education to explain to preparers of corporate reports the means and benefits of disclosures in general, and disclosures related to corporate governance in particular.

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## Introduction

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has been working in the area of corporate governance since 1989 (E/C.10/AC.3/1989/6). During the twenty-first session of ISAR in 2004, the group of experts requested the development of an annual study to assess the state of reporting on corporate governance. This resulted in a series of annual reviews presented at each of the subsequent ISAR sessions, including the twenty-second and twenty-third sessions. These annual reviews examined corporate governance disclosure practices around the world, including a number of enterprises from different regions. They were facilitated by the development of ISAR's benchmark of good practices in corporate governance disclosure. This benchmark consists of 53 disclosure items and is explained in detail in the UNCTAD publication *Guidance on Good Practices in Corporate Governance Disclosure*. This publication was the outcome of ISAR deliberations, particularly those of the twenty-second session.
2. This report is a case study of corporate governance disclosure in Egypt. It was conducted in cooperation with the American University in Cairo<sup>1</sup> and with support from the Cairo Alexandria Stock Exchange (CASE). The study utilizes the ISAR benchmark and the general methodology employed in the 2005 and 2006 reviews conducted by the UNCTAD secretariat.<sup>2</sup>
3. The objectives of this study are to: (a) provide a brief overview of key recent developments in Egypt related to corporate governance disclosure; and (b) present and analyse the results of the review of corporate disclosure practices among leading enterprises in Egypt. The overview of recent developments is provided in chapter I, which also examines the statutory framework in Egypt related to corporate governance and recent reforms to Egypt's capital markets, and rules and regulations related to corporate practices. Chapter II presents and analyses the results of the review, looking in detail at disclosure rates for each individual item in the ISAR benchmark.

### I. Overview of recent developments in corporate governance disclosure in Egypt

4. This chapter provides a brief overview of the regulatory framework in Egypt as it relates to corporate governance disclosure, along with an overview of recent reforms directed at improving the state of corporate governance in the country. Since the high-profile collapses of a number of large United States firms such as Enron and WorldCom, there has been considerable interest among developed and developing nations alike in the corporate governance practices of modern corporations. As in many developing nations, corporate governance remains a relatively new subject for Egyptian businesses and regulatory bodies.
5. In the late 1990s, even before the Enron-type scandals broke, Egypt had already begun engaging in a number of activities aimed at improving its corporate governance practices. Government and business leaders in Egypt recognized that if applied properly, corporate governance helps countries to realize high and sustainable rates of growth. When practiced widely, good practices in corporate governance disclosure boost investor confidence in a country's economy, deepen capital markets, and increase the ability of a country to mobilize savings and increase investment flows. Corporate governance disclosure facilitates access to a wider pool of investors by helping to protect the rights of minority shareholders and small investors. It also encourages the growth of the private sector by supporting its competitive capabilities, helping to secure financing for projects, generating profits and creating job opportunities.

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<sup>1</sup> This document was prepared and edited by the UNCTAD secretariat based on research conducted by Dr. Khaled M. Dahawy, Associate Professor of Accounting, Head of the Accounting Unit, Department of Management, the American University in Cairo.

<sup>2</sup> For example, see the 2006 review of the implementation status of corporate governance disclosures (TD/B/COM.2/ISAR/CRP.3).

6. The importance of corporate governance for developing countries was shown by a study that was performed in 2002 by McKinsey Consulting that surveyed over 200 institutional investors.<sup>3</sup> The results of the survey showed that 80 per cent of the respondents were ready to pay a premium for well-governed companies. The study further indicated that this premium amounted to 40 per cent in the case of Egypt. Improving corporate governance in Egypt, therefore, is a means of creating value for the country's enterprises and economy as a whole.

### **A. Overview of the statutory framework in Egypt**

7. Generally, the French civil law is the primary source of Egypt's corporate legal framework (companies' law 159/1981). However, Anglo-American common law concepts prevail in the Capital Market Law and the Central Depository Law. The main laws governing the legal framework that impacts the concepts of corporate governance in Egypt can be divided into two main groups:

- (a) Laws governing incorporation of companies:
  1. *Companies' Law* (CL 159/1981), which regulates joint stock companies, limited liability companies and partnerships limited by shares;
  2. *Investment Law* (IL 8/1997), which endorses investment in specific industrial locations or economic sectors by offering specific income tax exemptions or tax free zones;<sup>4</sup> and
  3. *Public Business Sector Law* (PBL 203/1991), the law that governs the incorporation of public business sector companies; and
- (b) Laws governing public and private sector companies listed on the Cairo Alexandria Stock Exchange (CASE):
  1. *Capital Market Law* (CML 95/1992), the main law regulating the Egyptian financial market in terms of monitoring the market status in general and maintaining steadiness and growth; and
  2. *Central Depository Law* (CDL 93/2000), which aims at reducing risks associated with trading physical securities, enhancing market liquidity, in addition to assuring fast securities exchange. In other words, the law maintains all registration, clearance and settlement procedures associated with trading transactions.

8. Efforts are currently under way to draft and discuss a unified law that would replace many laws and dispersed provisions. This unified law would ensure that all businesses in Egypt adhere to the same law following a modernized regulatory system that facilitates investor's dealings with administrative authorities and promotes transparency. The unified companies' law is expected to replace the current laws to remove conflicts and obstacles to local and foreign investments in Egypt. The first draft of the law was initially prepared in 1998 and several amendments have since been made by the ministry of investment and the General Authority for Investment and Free Zones (GAFI). However, as of the fourth quarter of 2007, this draft law is still being discussed in the people's assembly and has not yet been formally issued.

### **B. Corporate governance reforms in Egypt since the late 1990s**

9. In the late 1990s, a well-tailored economic reform programme, fully supported by the World Bank and the International Monetary Fund (IMF), was cumulatively implemented to cover the whole economic spectrum. As part of its privatization program, the Government of Egypt decided to revitalize its capital market by improving its reputation and building confidence among investors. The

<sup>3</sup> McKinsey (2002). Emerging Market Policy Maker Opinion Survey on Corporate Governance.

<sup>4</sup> Many of the tax exemptions offered in this law have been cancelled by the new tax law 91/2005.

aim was to raise new foreign capital and to encourage more Egyptians to invest in the domestic markets rather than continuing to invest abroad. This development programme aimed at sound financial principles, availability of reliable corporate information, and adoption of international accounting and auditing standards. Thus, Egyptian authorities understood the need for good corporate governance practices to reach these goals.

10. In 2001, an assessment of Egypt's corporate governance was conducted jointly by the World Bank and the IMF, as the first Arab country to undergo a ROSC analysis.<sup>5</sup> This assessment evaluated corporate governance practices in Egypt against the recommendations of the Organization for Economic Cooperation and Development (OECD) Principles of Corporate Governance. The results indicated that Egypt applied 62 per cent of the principles. Following on from the ROSC assessment, Egypt started issuing new rules to guarantee companies' implementation of corporate governance practices. The most important among these rules were the new CASE listing rules issued in 2002.

11. The new listing rules included comprehensive corporate governance disclosure requirements (Article 12-19), as well as detailed requirements for financial statements preparation and presentation (Article 20-33). In addition, the new rules required the presentation of complete information about a company's board members, signed contracts with other companies, auditors, and the audit committee (Article 4). Finally, CASE issued strict delisting rules (Article 34-35) which forced the publicly listed companies of Egypt to make a commitment to corporate governance requirements, or risk losing their listing on the stock exchange. In 2007, CASE was working on producing new listing rules that incorporate a number of changes to further strengthen the corporate governance practices of the companies that are listed on the CASE.

12. In another effort to strengthen corporate governance, the Government of Egypt established the Egyptian Institute of Directors in 2003. The Institute works jointly with a range of international organizations, including the World Bank, International Finance Corporation, UNCTAD and the Centre for International Private Enterprise. One of the main goals of the Institute is to spread awareness and improve corporate governance practices in Egypt. The Institute seeks to fulfil its mission through a range of training and advocacy activities, including the provision of information on corporate governance principles, codes and best practices.

13. As one of the first institutes in the Arab region dealing with corporate governance issues, the Egyptian Institute of Directors not only serves Egypt, but also Middle Eastern and North African (MENA) countries. It serves senior company officials and other stakeholders at listed enterprises, State-owned enterprises and financial services companies. Accordingly, the Institute organizes conferences, seminars and training sessions on corporate governance, targeting different categories including directors, auditors and accountants, businessmen, and anyone interested in knowing more about corporate governance.

14. From its inception, the Institute was supervised by the Ministry of Investment according to Presidential decree No. 231/2004. The Institute is expected, however, to become a non-governmental, not-for-profit organization, by the end of 2007. The institute will be established on the principles of membership, which will be available to various categories including both corporate and individual members. Membership will also be available to foreigners who are interested in the Egyptian market and/or would like to make use of Egypt's role as an emerging leader on corporate governance issues in the MENA region.

15. The Egyptian Institute of Directors has taken several steps in its continuing efforts towards improving good corporate governance practices and strengthening the boards of directors in regional companies. For example, in April 2007, Institute hosted on its premises the first meeting of the "Certified Director Forum of Egypt". The founding members of the forum are the graduates of the first and second intakes of the Board Development Series, a certificate programme offered by the Institute jointly with the International Finance Corporation, aimed at promoting awareness of corporate governance issues to senior company officials. In 2007, the Institute has also conducted

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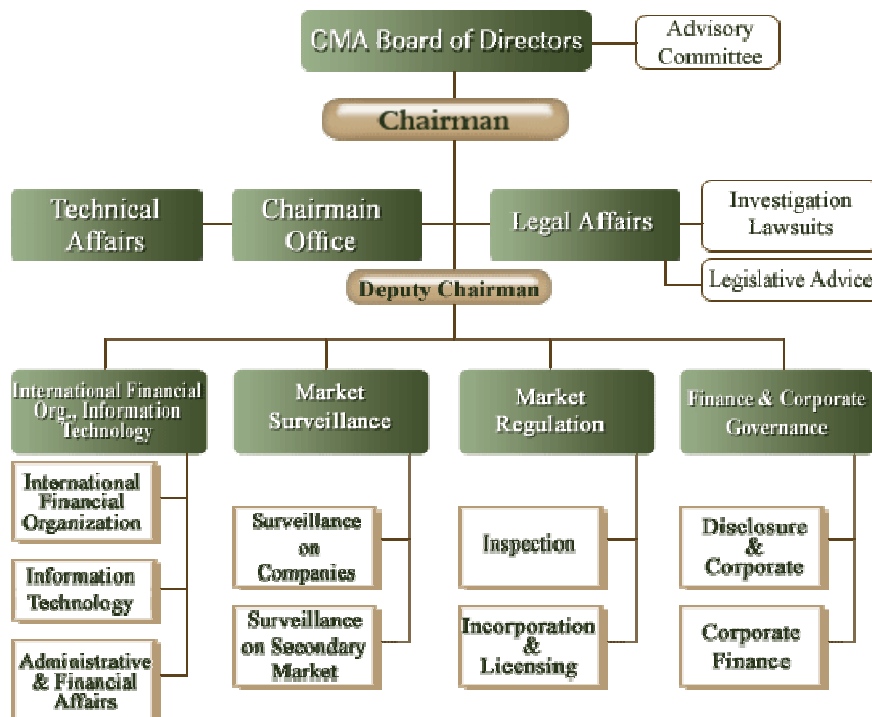
<sup>5</sup> World Bank (2001). Report On the Observance Of Standards And Codes (ROSC). Corporate Governance Country Assessment: Arab Republic of Egypt.

competitions for the best annual report and best website, with corporate governance disclosure as one of the main criteria. The intent of these competitions is to promote world-class standards in corporate reporting and to underscore the vital role of annual reports and websites in propagating full disclosure and transparency, and effective corporate governance. In May 2007, the Institute issued a manual for audit committees to ensure that corporate governance principles will be applied properly. In addition, it has launched a national campaign to update the corporate governance code issued in October 2005 for listed companies.

16. In 2004, the World Bank conducted a re-assessment of corporate governance implementation in Egypt, concluding that Egypt applied 82 per cent of the OECD principles (ROSC 2004). This indicates that Egypt is continuously improving in the area of corporate governance. The report observed that the major areas of improvement included basic shareholders rights, cost/benefit to voting, and disclosure standards. However, all items of the third principle – “Role of stakeholders in corporate governance” – remained the same in both assessments, thus signalling an area for improvement.

17. In 2005, the Capital Market Authority (CMA) further contributed to the corporate governance reforms by restructuring its organization and initiating a separate sector focused on corporate finance and corporate governance. The new CMA organization structure (shown in figure 1 below) includes three major sectors: (a) the Corporate Finance and Corporate Governance sector; (b) The Market Regulation sector; and (c) the Market Surveillance and Enforcement sector, in addition to other central departments and units.

**Figure 1. New CMA organization**



*Source:* Capital Market Authority, Government of Egypt.

18. Also in 2005, the Ministry of Investment and GAFI took the initiative to introduce the first Egyptian Code of Corporate Governance (ECCG) written in Arabic. These guidelines are to be primarily implemented in joint-stock companies listed on the stock exchange, especially those undergoing active trading operations, and financial institutions in the form of joint stock companies. These are the enterprises with ownership disbursed over numerous shareholders and necessitate a definition of the relation between ownership and management, and are also the enterprises that directly affect a vast number of stakeholders. The ECCG is also applicable to companies that use the banking system as a major source of financing; in this case, compliance with corporate governance

standards assists in strengthening the rights of creditors. The code indicates that its rules should be considered in addition to the corporate related provisions stated under various laws (especially CL 159/1981 and CML 95/1992) and the executive regulations and decrees regarding their implementation. The ECCG is divided into nine related chapters that introduce the rules and procedures related to the following subjects:

- (a) Scope;
- (b) General Assembly;
- (c) Board of directors;
- (d) Internal audit department;
- (e) External auditor;
- (f) Audit committee;
- (g) Disclosure of social policies;
- (h) Avoiding conflict of interest; and
- (i) Corporate governance rules for other corporations.

19. In 2006, the Ministry of Investment issued the Code of Corporate Governance for State-Owned Companies based on the ECCG and the report of the OECD working group on privatization and corporate governance of State-owned assets.<sup>6</sup> The code introduces the principles of governing State-owned companies by presenting an organizational and legal framework within which such companies should operate. In addition, the code focuses on the actions of the State as a regulator versus its role as an owner. It also presents the principles for equitable treatment of all shareholders, including the State as a shareholder, conflict of interest issues, disclosure and transparency, and responsibilities of the board of directors.

20. CMA has also taken some actions in support of corporate governance by improving the level of quality in the auditing profession. In 2006, it created an auditors registry. The auditors that join this registry are the only ones that are allowed to audit companies that are listed on the stock exchange. Auditors listed on this registry are expected to be of the highest calibre, and this is reflected in the eligibility requirements of this registry.

21. In 2007, CMA issued a new code of ethics for auditors in Egypt.<sup>7</sup> The code discusses and explains the rules and regulations for important issues such as independence of auditors, objectivity, competence, confidentiality and professional conduct. In addition, it presents conditions and rules for important topics, including hiring auditors, conflict of interest, fees, marketing of services, and gifts.

22. Several non-profit organizations have also begun to recognize the importance of corporate governance in developing the Egyptian business environment. The Egyptian Junior Businessmen association has focused on creating an awareness campaign comprised of several events, including workshops and roundtables. In addition, the association issued the Corporate Governance Manual for Family Businesses in October 2006, which is considered the first guide in Egypt and the MENA region for family companies seeking growth and sustainability for their business.

### **C. Chapter conclusion**

23. Since the late 1990s, Egypt has been engaged in a significant reform programme aimed at improving the quality of corporate governance and disclosure, and the overall attractiveness of its capital markets. This has included a number of legal reforms, as well as new institutions and codes of conduct which specifically seek to create awareness of good corporate governance practices. According to the World Bank's ROSC studies of Egypt, the country has made significant progress in

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<sup>6</sup> OECD (2005). OECD Guidelines on Corporate Governance of State-owned Enterprises.

<sup>7</sup> CMA (2007). Code of Ethics of Accountants and Auditors Listed at CMA Register.

implementing its overall regulatory framework for promoting corporate governance, although a number of areas are recognized as requiring additional attention. Chapter II below contributes to the broader work of promoting corporate governance in Egypt by providing a picture of current reporting practices among leading enterprises.

## **II. Status of implementation of good practices in corporate governance disclosure in Egypt**

### **A. Background and methodology**

24. The purpose of this study is to evaluate the level of implementation of good practices in corporate governance disclosure in Egypt. It was undertaken by the Accounting Unit of the American University in Cairo, in cooperation with the UNCTAD secretariat. The study compares the corporate reporting practices of a leading set of Egyptian enterprises with the ISAR benchmark of 53 disclosure items. This is based on the UNCTAD publication *Guidance on Good Practices in Corporate Governance Disclosure* and consists of 53 disclosure items covering five broad subject categories:

- (a) Financial transparency and information disclosure;
- (b) Ownership structure and exercise of control rights;
- (c) Board and management structure and process;
- (d) Corporate responsibility and compliance; and
- (e) Auditing.

25. The sample of enterprises selected for the study is composed of the 30 enterprises that made up the CASE 30 in 2005. The CASE 30 is the most commonly used index to measure the performance of the Egyptian capital market. It is a price index that includes the CASE's top 30 enterprises measured by market capitalization and adjusted by the free float.<sup>8</sup> Companies constituting the CASE 30 in 2005 represented a range of industries, as indicated in table 1 below.

**Table 1. CASE 30 industrial classification**

Sector	Number of companies
Building materials and construction	3
Communication	3
Entertainment	2
Financial services	6
Holding companies	2
Housing and real estate	4
Information technology	1
Media	1
Mining and gas	2
Textiles and clothing	6

26. CASE 30 companies typically represent the largest enterprises in Egypt, making the most significant contribution to the country's economy. Table 2 provides an overview of the aggregate financial data for the CASE 30 index.

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<sup>8</sup> Note that free float must be at least 15 per cent for a company to be listed on the CASE.



**Table 2. CASE 30 financial overview**  
(All figures Egyptian pounds, 2005 data)

Description	Average	Maximum	Minimum
Sales	1,299,127,195	18,730,653,475	163,506
Assets	6,018,092,334	38,274,231,487	1,145,770
Liabilities	7,210,896,977	87,619,977,251	122,409
Equity	1,143,858,505	9,628,309,993	1,023,361
Net income	316,783,917	3,900,011,434	-31,419,324

27. This study is mainly dependent on a manual and electronic survey of the public information that is available for the CASE 30 companies. The information covered in the study is primarily taken from 2005 annual reports and other data published in 2006 or early 2007. At the time of data collection, annual reports for 2006 were not yet available for most of the enterprises in the study.

### B. Main outcomes of the survey: overview of all disclosure items

28. Table 3 provides an overview of the corporate governance disclosure items in the UNCTAD publication *Guidance on Good Practices in Corporate Governance Disclosure*. The disclosure items are organized into five thematic groups. Next to each disclosure item is the number of CASE 30 companies found to be disclosing this item.

**Table 3. Main findings of survey on CASE 30 corporate governance disclosure**

Disclosure items by category	Number of enterprises disclosing this item (max. = 30)
<b>Ownership structure and exercise of control rights</b>	
Ownership structure	13
Process for holding annual general meetings	4
Changes in shareholdings	3
Control structure	13
Control and corresponding equity stake	13
Availability and accessibility of meeting agenda	5
Control rights	13
Rules and procedures governing the acquisition of corporate control in capital markets	2
Anti-takeover measures	0
<b>Financial transparency</b>	
Financial and operating results	30
Critical accounting estimates	29
Nature, type and elements of related-party transactions	26
Company objectives	30

<b>Disclosure items by category</b>	<b>Number of enterprises disclosing this item (max. = 30)</b>
Impact of alternative accounting decisions	0
Disclosure practices on related party transactions where control exists	20
The decision-making process for approving transactions with related parties	0
Rules and procedures governing extraordinary transactions	1
Board's responsibilities regarding financial communications	4
<b>Auditing</b>	
Process for interaction with internal auditors	1
Process for interaction with external auditors	2
Process for appointment of external auditors	1
Process for appointment of internal auditors/scope of work and responsibilities	2
Board confidence in independence and integrity of external auditors	2
Internal control systems	1
Duration of current auditors	1
Rotation of audit partners	1
Auditors' involvement in non-audit work and the fees paid to the auditors	0
<b>Corporate responsibility and compliance</b>	
Policy and performance in connection with environmental and social responsibility	8
Impact of environmental and social responsibility policies on the firm's sustainability	8
A code of ethics for the board and waivers to the ethics code	1
A code of ethics for all company employees	1
Policy on "whistle blower" protection for all employees	0
Mechanisms protecting the rights of other stakeholders in business	2
The role of employees in corporate governance	1
<b>Board and management structure and process</b>	
Governance structures, such as committees and other mechanisms to prevent conflict of interest	5
"Checks and balances" mechanisms	6
Composition of board of directors (executives and non-executives)	10
Composition and function of governance committee structures	4

Disclosure items by category	Number of enterprises disclosing this item (max. = 30)
Role and functions of the board of directors	4
Risk management objectives, system and activities	24
Qualifications and biographical information on board members	7
Types and duties of outside board and management positions	7
Material interests of members of the board and management	0
Existence of plan of succession	6
Duration of director's contracts	4
Compensation policy for senior executives departing the firm as a result of a merger or acquisition	1
Determination and composition of directors' remuneration	4
Independence of the board of directors	4
Number of outside board and management position directorships held by the directors	7
Existence of procedure(s) for addressing conflicts of interest among board members	1
Professional development and training activities	4
Availability and use of advisorship facility during reporting period	1
Performance evaluation process	1

29. As shown in table 3 above, the strongest group of disclosure items is financial transparency and the weakest group is auditing. The ownership structure category and the board and management structure category show mixed results, with a number of disclosure items being reported by a majority of CASE 30 firms, while other items are reported by only a few, or even none. Six disclosure items are reported by 20 or more enterprises in the CASE 30. Of these six, five are in the financial transparency category, and one is in the board and management structure category.

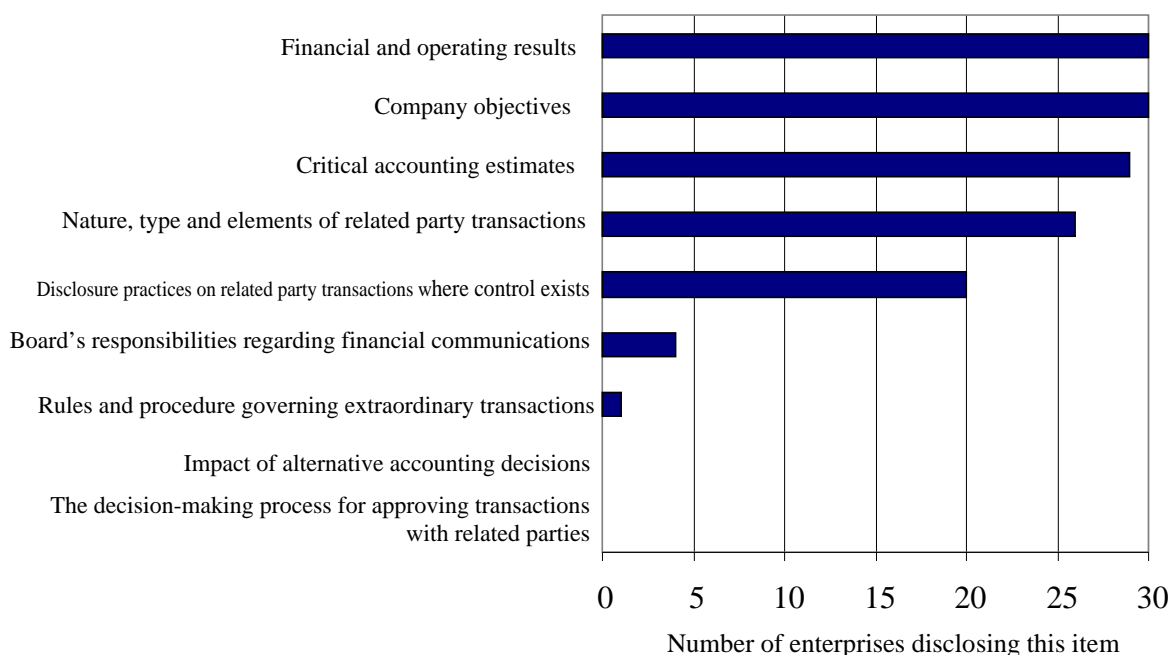
30. Forty-seven of the 53 items in the ISAR benchmark are disclosed by less than half of the CASE 30 enterprises. Five disclosure items in the ISAR benchmark were not found at all among the corporate reporting of the CASE 30. These five included relatively new disclosure practices such as the item "auditor involvement in non-audit work and the fees paid to the auditors" (an item that became more common only after the 2001 Enron/Arthur Anderson scandal), as well as more traditional corporate governance disclosures such as the item "*material interests of the members of the Board of Directors or the item anti-takeover measures*".

31. To put these findings in context, it is worth noting that the idea of corporate disclosure in general is a relatively new requirement for Egyptian enterprises that was not introduced until the 1990s with the revitalization of the CASE. It is also important to note that some disclosure items refer to practices that are not very common in Egypt, such as takeovers, whistle blowing, etc. As a result, measures and procedures related to these items are not commonly disclosed. In addition, it is important to note that Egyptian laws explain in detail many of the procedures and rules that companies are expected to follow, especially those related to the general assembly and the board of directors' functions and meetings. Therefore, many companies believe that there is no need to disclose any information about these things because they are described in the law. This logic, although prevalent, is flawed: while the laws indicate in a general way what should happen, the purpose of

corporate disclosure is to report specifically what actually happened. The disclosure of actual practices is more relevant for an enterprise's stakeholders, as it assures, among other things, that the enterprise (at a minimum) meets the relevant rules and regulations.

32. As noted above, disclosure items from the financial transparency category were the most prevalent within the reports of CASE 30 enterprises. Figure 2 below provides a graphical view of the disclosure items in this group. Two of the items are disclosed by all 30 of the enterprises studied, with five of the nine items in this group disclosed by two thirds or more.

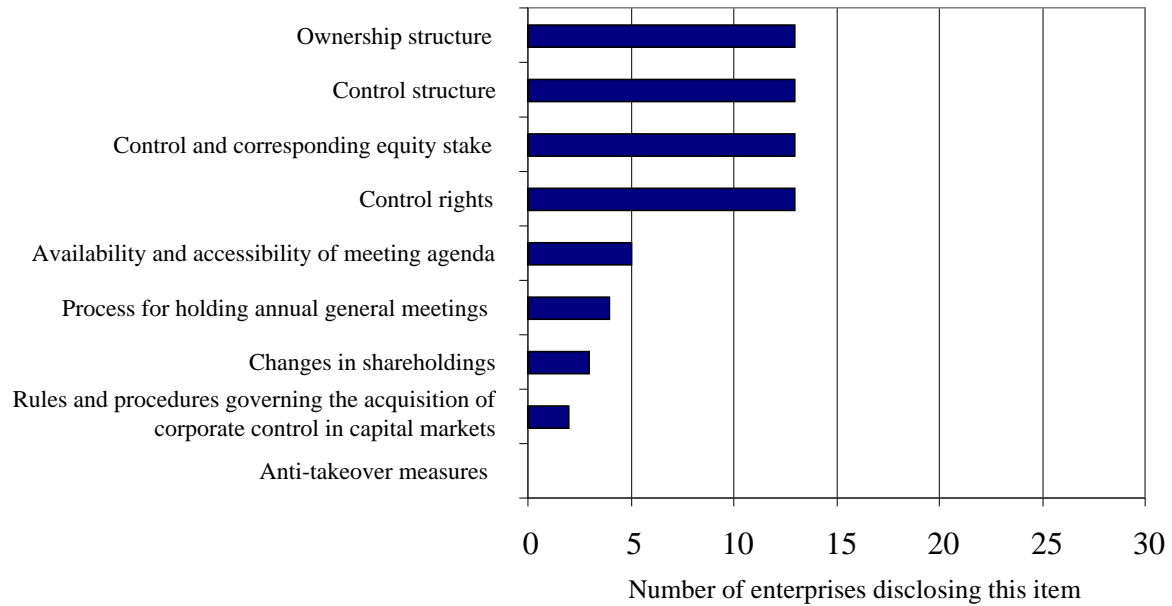
**Figure 2. Financial transparency**  
(Disclosure items ranked in order of prevalence among the CASE 30)



33. The next most prevalent group of disclosure items was ownership structure. As displayed in figure 3 below, four of these items were disclosed by more than one third of CASE 30 enterprises. On the lower end of the scale were disclosure items such as "process for holding annual general meetings and changes in shareholdings" that were disclosed by less than five of the 30 enterprises under review. As noted above, no enterprise in the study disclosed information on anti-takeover measures.

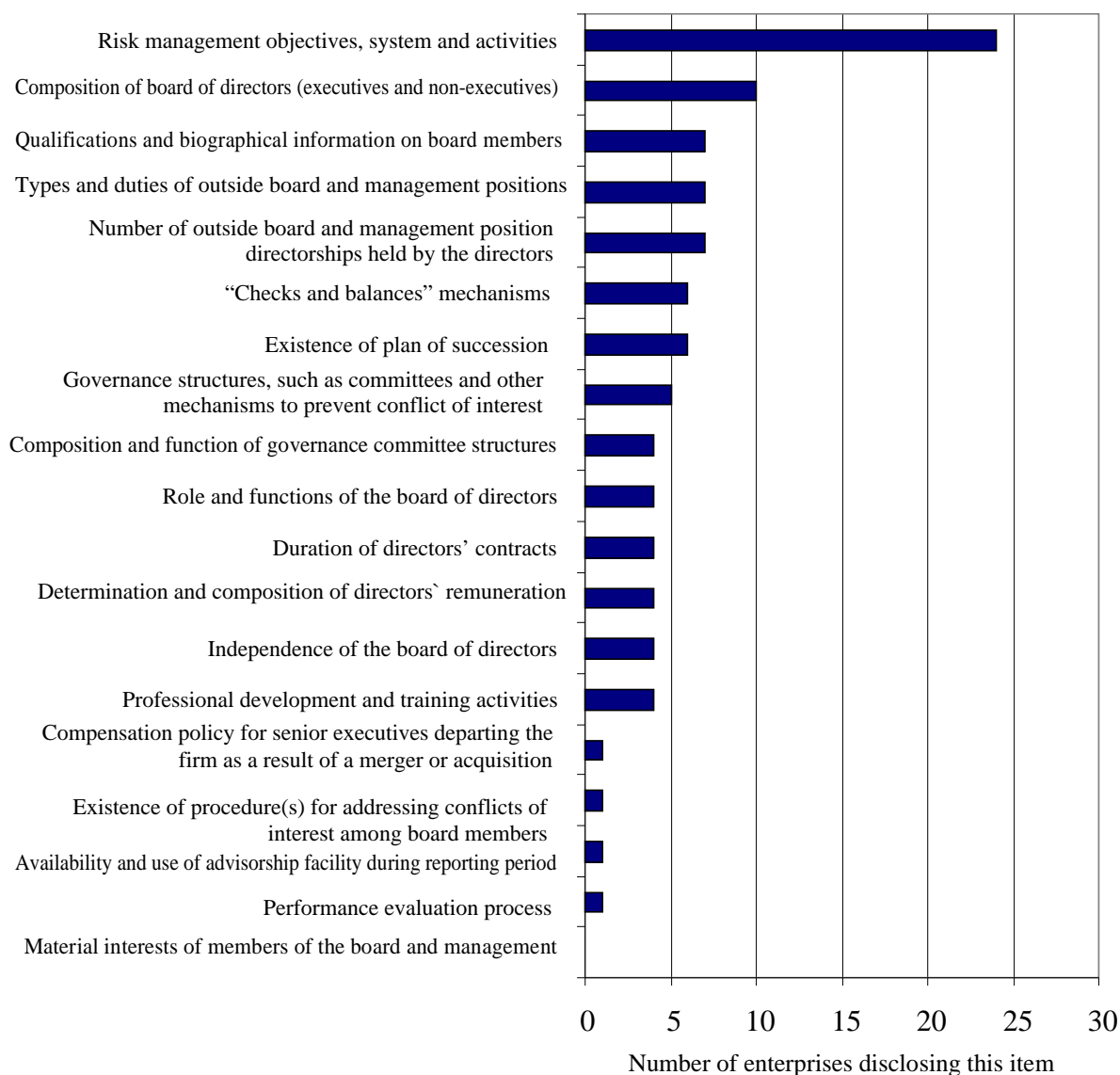
34. Concerning the disclosure of the item "availability and accessibility of meeting agenda", Egyptian listing rules require that companies publish their meeting invitation and agenda in two widely-read newspapers, but not anywhere else, such as on the websites of the reporting company, CASE or CMA, or through other means of corporate reporting. In this study's examination of a large sample of leading Egyptian newspapers, very few instances of enterprises actually reporting this item were found. Regarding the item on the "process for holding annual general meetings", it is suspected that since Egyptian law provides a generic description of the process of holding an annual general meeting, enterprises do not think they need to report on their actual practices in this area.

**Figure 3. Ownership structure and exercise of control rights**  
(Disclosure items ranked in order of prevalence among the CASE 30)



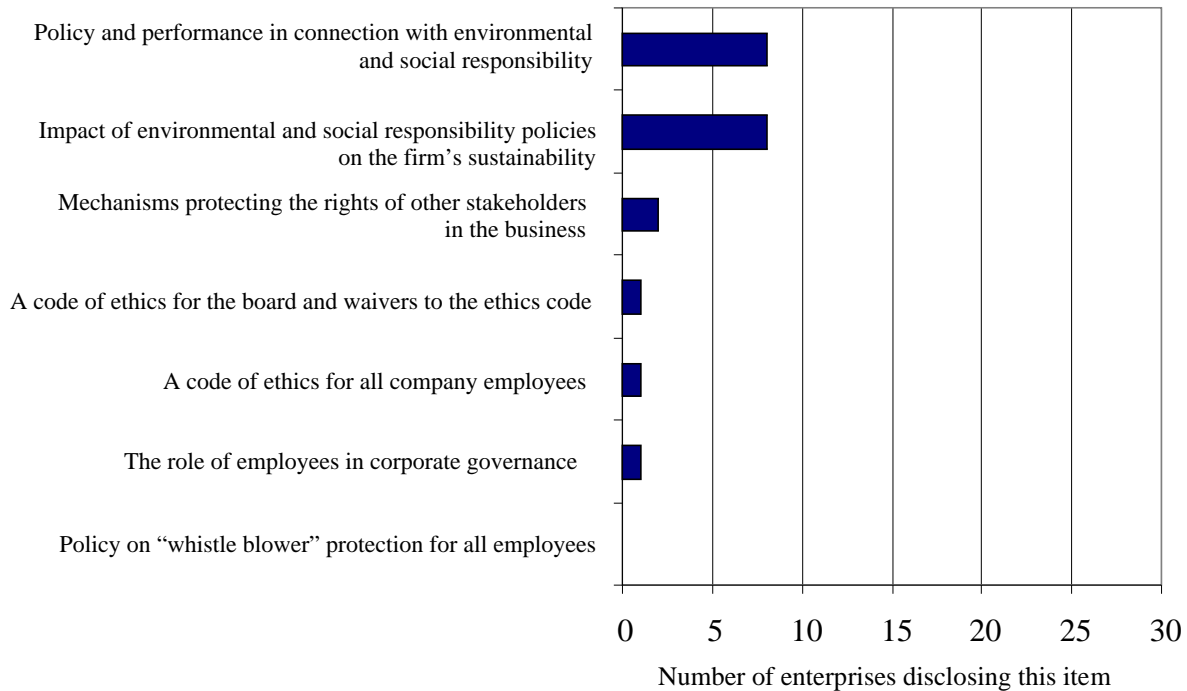
35. Disclosure of items in the category board and management structure varied considerably (figure 4). While most of the items were disclosed by between four and 10 of the enterprises studied, the disclosure on “risk management objectives, system and activities” was found to be reported on by 24 of the 30 enterprises. On the lower end of the scale, none of the enterprises in the study appeared to disclose information on “material interests of members of the board and management”. The research team conducting this study observed that compensation packages and an individual’s ownership of shares in a firm are typically confidential issues in the Egyptian market. It is very difficult to find details on the remuneration package or insider holdings of most directors, managers and board members.

**Figure 4. Board and management structure and process**  
(Disclosure items ranked in order of prevalence among the CASE 30)



36. Despite the relative novelty of many of the disclosure items in the corporate responsibility category, there was some reporting of these items among a few of the CASE 30 enterprises. In particular, reporting in connection to a firm’s environmental and social responsibility was found among several enterprises. In general, however, the reporting in this category was low, with less than one third of CASE 30 enterprises reporting on any of these topics (see figure 5 below).

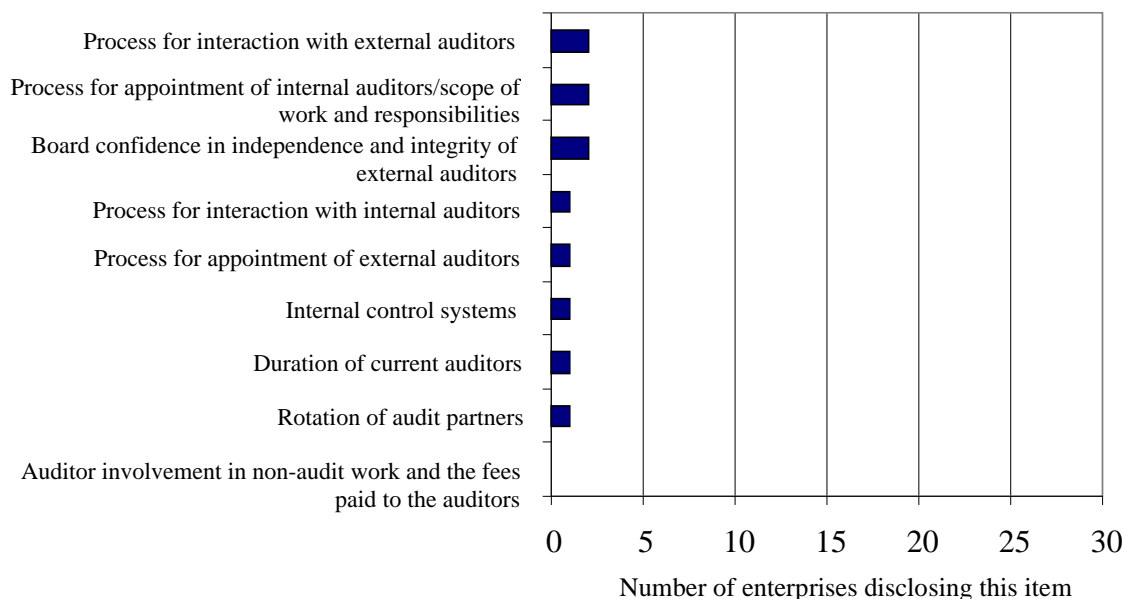
**Figure 5. Corporate responsibility and compliance**  
(Disclosure items ranked in order of prevalence among the CASE 30)



37. Finally, the category of auditing was the subject of the least amount of disclosure among the CASE 30 enterprises (see figure 6 below). Only a small fraction of enterprises in the index reported on issues related to the role of auditors in the firm. As noted above, none of the enterprises reported on the issue of "auditor involvement in non-audit work". Although the latter disclosure item is a relatively new issue (becoming common only in the post-Enron era), a number of other items could be considered much more traditional subjects of corporate governance disclosure, such as "board confidence in independence and integrity external auditors" or the "process for appointment of external auditors". Most enterprises in the study, however, do not report on these items.

38. There can be several reasons for this low occurrence of audit and auditor-related disclosures. Firstly, traditionally in Egyptian business, the relationship between the auditor, the company and shareholders has been considered confidential information and very few individuals were aware of its details. In addition, the financial arrangements that result from the consulting and auditing activities have been considered even more sensitive. It is worth noting that Egypt does not have rules similar to those in the United States Sarbanes Oxley Act, which prohibits accounting/auditing firms from simultaneously providing both auditing and consulting services to the same client. In Egypt, accounting/auditing firms can perform both auditing and other consulting services for the same company, after approval by the audit committee. Moreover, Egyptian law describes the required processes and procedures for the hiring, firing and resignations of auditors. As a result, many companies may believe that they are not required to disclose their actual processes and procedures in this area. However, it is important to emphasize, as indicated previously, that the law indicates what should happen in a general way, while company disclosure should indicate what actually happens in a specific way.

**Figure 6. Auditing**  
(Disclosure items ranked in order of prevalence among the CASE 30)



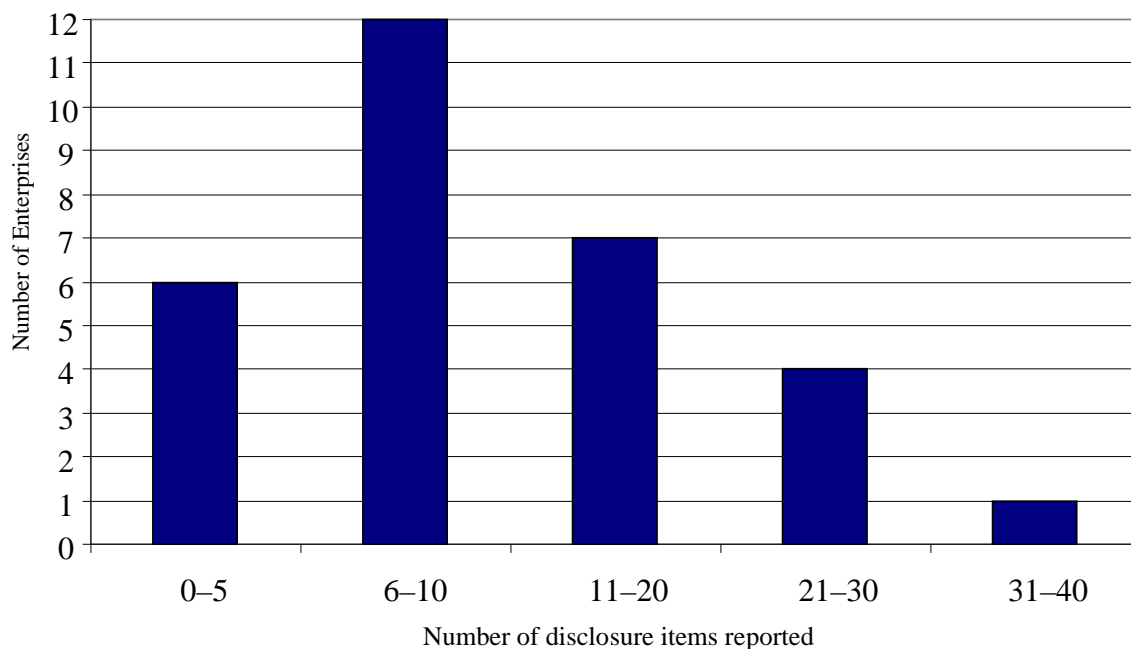
39. The findings presented in this document have so far focused on the disclosure rates of individual items in the ISAR benchmark among the enterprises of the CASE 30. Figure 7 below focuses not on individual disclosure items, but on the total number of disclosure items reported by the enterprises in the study. This is intended to provide a general overview of the disclosure rates for individual enterprises. What the figure indicates is that 25 of the 30 enterprises in the study reported less than 20 of the disclosure items in the ISAR benchmark. Nearly half of the CASE 30 firms disclosed between six and 10 items and six firms disclosed five or less. Only five firms disclosed more than 20 items in the benchmark. The firm with the greatest number of disclosure items reported 36 items, while the enterprise with the least reported just three.

40. This data is useful in illustrating that some companies are covering many more topics in their corporate reporting than others. This data should also be considered in the context of a separate UNCTAD study of corporate governance disclosure in emerging markets, which found that 41 of the items in the ISAR benchmark are required to be disclosed by enterprises listed on the CASE.<sup>9</sup> In this context, the data may reflect a situation in flux, wherein many of the companies are still in the process of implementing recent reforms, with some enterprises further along in that process than others.

<sup>9</sup> UNCTAD (2007). 2007 Review of the Implementation Status of Corporate Governance Disclosures: an inventory of disclosure requirements in 25 emerging markets” (TD/B/COM.2/ISAR/CRP.6).



**Figure 7. Reporting by enterprise**  
(Total number of disclosure items reported by enterprises of the CASE 30)



### III. Conclusions

41. This report is the first study of corporate governance disclosure among the CASE 30 using the ISAR benchmark on good practices in corporate governance disclosure. The ISAR benchmark contains 53 disclosure items spanning five broad categories of disclosure. The CASE 30 is the leading index of publicly listed enterprises in Egypt. The study seeks to provide a picture of what corporate governance information the enterprises in the study are currently reporting.

42. Chapter I provided an overview of recent developments in Egypt in the area of corporate governance disclosure. One of the significant trends highlighted is the increased pace of reform aimed at improving the quality of corporate governance and enhancing the country's capital markets.

43. The presentation and analysis of the data in chapter II provides an indication of the implementation status of good practices in corporate governance disclosure in Egypt. The main findings presented in chapter II suggest low rates of corporate governance disclosure among the CASE 30 enterprises when compared to the ISAR benchmark. Some items, however, are widely reported. Six core disclosure items can be found among two thirds or more of CASE 30 enterprises: (a) financial and operating results; (b) company objectives; (c) critical accounting estimates; (d) nature, type and elements of related-party transactions; (e) disclosure practices on related party transactions where control exists; and (f) risk management objectives, system and activities.

44. A number of observations are offered to help explain the currently low levels of corporate governance disclosure in Egypt. As noted throughout this study, the practice of corporate reporting in general is relatively new in Egypt, and the practice of corporate governance disclosure in particular is even more novel. Thus, the actual rates of disclosure identified here are indicative of new and emerging practices. In this sense, it is important to focus on the rate of increase of disclosure instead of the absolute level of disclosure. Therefore, it would be useful to repeat this study periodically to see the degree of change in the level of disclosure. As noted in chapter I, a number of reforms in the area of corporate governance continue to be implemented in Egypt. Thus, this study of corporate reporting for 2005 may serve as a baseline for future studies of corporate governance disclosure in Egypt.

45. It is also important to note that lack of adherence to some disclosure requirements should not necessarily be interpreted as intentional defiance of the relevant rules by enterprises. As many of the rules and regulations related to disclosure are relatively new, a possible explanation for the lack of compliance is that many of the officials in the companies studied are simply unaware of the disclosure requirements. Indeed, some of the recent reforms in Egypt have occurred only just before or even after the 2005 annual reports used in this study were prepared. The ECCG, for example, was released in 2005, and companies may not have had time to adopt all of its provisions at the time of preparing their 2005 annual reports. This suggests that future studies, using the same sample and benchmark, might usefully serve to measure the implementation of new disclosure rules by identifying changes in the number and type of subjects reported on by enterprises. It also reinforces the need for education and training among executives and directors to create awareness of the rapidly evolving regulatory environment, as well as the underlying importance of corporate governance disclosure.

46. Another contributing factor to low levels of disclosure in Egypt is that many company officials appear to believe that the generic description of corporate procedures and processes in the laws of Egypt is sufficient to explain their company's specific procedures and processes. Thus, companies are under the impression that they do not need to disclose information on these subjects as it would be a repetition. This perception fails to recognize that the specific processes of an enterprise, while well within the generic requirements of the law, can be and often are far more complex. This is especially true for leading large enterprises, which often display best practices that exceed legal requirements. And in all cases, investors and other users of corporate reports will be interested to know the specific procedures and processes of a company, not merely the generic requirements of the law.

47. In addition to these other factors, historic business factors may explain a significant part of the low disclosure rates in Egypt. Before the reforms of the 1990s, enterprises in Egypt placed a high value on confidentiality and did not engage in extensive corporate reporting. This situation was fostered in a business environment marked by closely held public enterprises with low trading volumes, and large numbers of privately held and family owned enterprises. Within this environment, many companies never established the practice of extensive corporate reporting, including corporate governance disclosure. Indeed, in such an environment, the directors of many companies saw little value in corporate governance disclosure or any corporate reporting, feeling that it might only serve to benefit commercial competitors, if anyone. It was not until the late 1990s, when the CASE began introducing a number of reforms in a bid to increase investment in Egypt, that the idea of disclosure became important. In Egypt's new business environment, the role of the stock exchange is growing in importance as a tool for attracting foreign investment and mobilizing domestic savings. In this new environment, enterprises are beginning to learn the value of communicating with the investment community, and the traditional business culture is slowly giving way to a new business culture of corporate transparency.

48. This study concludes with some policy options. To the extent that lack of awareness is the cause of low rates of corporate governance disclosure in Egypt, then significant improvements may be gained from training and education programmes, such as those provided by the Egyptian Institute of Directors. One policy option to be considered, therefore, is an increased focus on training and education to explain to preparers of company reports the means and benefits of disclosures in general, and disclosures related to corporate governance in particular. To the extent, however, that lack of compliance indicates a lack of penalty for non-compliance, Egyptian regulators may want to consider additional policy options. Such options might include, for example, small fines for failure to report required items, or publishing on the CASE website a list of non-compliant companies, or alternatively, a list ranking the best company reports. The Egyptian Institute of Director, for its part, has already begun annual competitions for the best company reports and best company websites in regards to corporate governance disclosure. This is intended to encourage companies to aspire to best practices. Such aspirational approaches may be best in the long term to encourage companies not to merely do the required minimum, but to instead develop meaningful communication with investors and other stakeholders. However, a "carrot and stick" approach, wherein such aspirational competitions or rankings are complemented with some at least nominal penalties for non-compliance, might be useful for bringing about higher rates of disclosure.