



# **HIGH-LEVEL CONTROLS (CORPORATE GOVERNANCE) MODULE**



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<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-A: Introduction</b>

## **HC-A.1 Purpose**

### ***Executive Summary***

- HC-A.1.1 This Module presents requirements that have to be met by listed companies and CMSPs with respect to:
- (a) Corporate governance principles issued by the Ministry of Industry and Commerce as The Corporate Governance Code; and
  - (b) Best practice corporate governance principles in line with the recommendations of IOSCO and OECD.
- HC-A.1.2 This Module supplements various provisions relating to the Corporate Governance Code and other provisions contained in Legislative Decree No. 21 of 2001, with respect to promulgating the Commercial Companies Law ('Commercial Companies Law').
- HC-A.1.3 The purpose of this Module is to establish best practice corporate principles in Bahrain, and to provide protection for shareholders and other company stakeholders through compliance with those principles.
- HC-A.1.4 Whilst this Module follows best practice, it is nevertheless considered as the minimum standard to be applied.

### ***The Corporate Governance Code and the Commercial Companies Law***

- HC-A.1.5 The Corporate Governance Code supplements the Commercial Companies Law. It does not replace the Commercial Companies Law but is intended to further that Law's objectives and to provide help in understanding, complying with, monitoring performance under, and ensuring fair disclosure under that Law.
- HC-A.1.6 The Commercial Companies Law already mandates many corporate governance best practices. Examples are found in the Law's rules for board and shareholder meetings, its statement of directors' and officers' fiduciary duties, and its rules for company shares. The Corporate Governance Code refers to many of those principles, but it does not repeat or incorporate them all. Thus CMSPs should be familiar with both the Commercial Companies Law and the Corporate Governance Code.
- HC-A.1.7 The Corporate Governance Code goes beyond the Commercial Companies Law's requirements on several points. Examples are the Code's recommendations that the Chairman of the board and the CEO should not be the same person, and that at least 50% of the board of directors should be non-Executive Directors.





<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-A: Introduction</b>

## **HC-A.1 Purpose (continued)**

### ***Application of Module HC (Corporate Governance) to those CBB Licensees subject to Module HC in other CBB Rulebook Volumes.***

HC-A.1.8 The CBB, through the issuance of this Module HC (Corporate Governance) and the updating of Module HC in the other Volumes (1-4) have harmonized the requirements, so that there are only limited differences between the respective Modules as required by the regulated activity.

HC-A.1.9 For the purpose of this Module, the only significant difference between Module HC (Corporate Governance) and Module HC in other Volumes can be found in Chapter 7 (Communication between Board and Shareholders) so as to ensure the protection of shareholders, particularly among listed companies.

### ***Structure of this Module***

HC-A.1.10 This Module follows the structure of the Corporate Governance Code and each Chapter deals with one of the nine fundamental Principles of corporate governance. The numbered directives included in the Code are Rules for purposes of this Module. Recommendations under the Code have been included either as Rules or Guidance, depending on their applicability to listed companies and CMSPs.

HC-A.1.11 The Module also incorporates other high-level controls and policies that apply in particular to listed companies and CMSPs.

### ***The Comply or Explain Principle***

**HC-A.1.12** This Module is issued as a Directive (as amended from time-to-time) in accordance with Article 38 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). In common with other Rulebook Modules, this Module contains a mixture of Rules and Guidance (see Module UG-1.2 for detailed explanation of Rules and Guidance). All Rulebook content that is categorised as a Rule must be complied with by those to whom the content is addressed. Other parts of this Module are Guidance; nonetheless every listed company and CMSP to whom Module HC applies, is expected to comply with recommendations made as Guidance in Module HC or explain its non-compliance by way of an annual report to its shareholders and to the CBB (see Chapter HC-8).



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC –A: Introduction</b>

## **HC A.1 Purpose (continued)**

### ***Monitoring and Enforcement of Module HC***

- HC-A.1.13 Disclosure and transparency are underlying principles of Module HC. Disclosure is crucial to allow outside monitoring to function effectively. This Module looks to a combined monitoring system relying on the board, the listed company and CMSP's shareholders and the CBB.
- HC-A.1.14 The listed company and CMSP's board should support entrepreneurship but also ensure effective monitoring and control. Thus, it is important that the board be composed of both Executive Directors and non-Executive Directors, including fully independent non-Executive Directors. It is the board's responsibility to see to the accuracy and completeness of the listed company and CMSP's corporate governance guidelines and compliance with Module HC. Failure to comply with this Module is subject to enforcement measures as outlined in the respective Licensing or Listing Module.
- HC-A.1.15 Given the reliance of Module HC on a flexible “comply or explain” approach in respect of guidance, shareholders, and in particular larger shareholders and institutional investors, should play an important role in evaluating a listed company or CMSP's corporate governance and should give weight to all relevant factors that come to their attention. Shareholders should carefully consider explanations given for deviations from Module HC and make reasoned judgments in each case. They should be prepared to enter into a dialogue with the board if they do not accept the listed company or CMSP's position, bearing in mind in particular the size and complexity of the listed company or CMSP and the nature of the risks and challenges it faces.

### ***Legal Basis***

- HC-A.1.16** This Module contains the CBB's Directive (as amended from time-to-time) relating to corporate governance and is issued under the powers available to the CBB under Article 38 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). The Directive in this Module is applicable to listed companies and CMSPs (including, where relevant, approved persons or those undertaking controlled functions).
- HC-A.1.17 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.





MODULE	HC: High-Level Controls
CHAPTER	HC –A: Introduction

## HC A.1 Purpose (continued)

### *Effective Date*

- HC-A.1.18 This Module is effective on 1<sup>st</sup> September 2011. All listed companies and CMSP's to which the Module HC applies should be in full compliance by the financial year end 2011. At every listed company and CMSP's annual shareholder meeting held after 1<sup>st</sup> January 2011, corporate governance should be an item on the agenda for information and any questions from shareholders regarding the listed company or CMSP's governance. Where possible, the listed companies and CMSP should also have corporate governance guidelines in place at that time and should have a “comply or explain” report as described in paragraph HC-A.1.10.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC –A: Introduction</b>

## HC-A.2 Module History

HC-A.2.1 This Module was first issued in July 2011 by the CBB, following the issuance of the Corporate Governance Code by the Ministry of Industry and Commerce in March 2010. This Module was drafted to be in line with the new Code and to include requirements that are considered best practice in the capital market. Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change was made: Chapter UG-3 provides further details on Rulebook maintenance and version control.

HC-A.2.2 A list of recent changes made to this Module is detailed in the table below:

Module Ref.	Change Date	Description of Changes
HC-A.1.12	01/2012	Changed Guidance to Rule.
HC-B.3.2, HC-8.3.8 and HC-10.3.2	01/2012	Corrected typos.
HC-1.2.2	01/2012	Amended to be consistent with other Volumes of the CBB Rulebook.
HC-1.2.5 and HC-1.5.3	01/2012	Clarified that the chairman of the board may delegate specific duties dealt with in these Paragraphs.
HC-1.4.5	01/2012	Changed Rule to Guidance to be aligned with other Volumes of the CBB Rulebook.
HC-1.4.6A	01/2012	Added new Paragraph clarifying that the chairman must not be the same person as the CEO.
HC-1.8.6	01/2012	Changed Rule to Guidance to be aligned with other Volumes of the CBB Rulebook.
HC-2.2.3	01/2012	Aligned text with other Volumes of the CBB Rulebook.
HC-3.2.1, HC-3.3.2, HC-4.2.2, HC-5.2.1, HC-5.3.3, HC-5.6.6, HC-6.2.1 and HC-7.5.1	01/2012	Amended to be in line with other Volumes of the CBB Rulebook.
HC-8.3	01/2012	Clarification made on disclosure in annual report.
HC-10.2.1A	01/2012	Added guidance for CMSPs.
HC-10.8.2	01/2012	Corrected cross reference.
Appendix A	01/2012	Amended criteria for audit committee member.
HC-2.2.1 and HC-2.4.1	04/2013	Clarified scope of application for Rules.
HC-7.4.5	04/2013	Clarified Guidance on election of board members.
Appendices A, B and C	04/2013	Clarified requirement for written report on performance evaluation for various Board committees.
HC-10.5.3	07/2020	Added a new Paragraph on compliance with AML/CFT requirements.
HC-1.3.5	10/2022	Amended Paragraph on representation of women and men on Board of Directors.
HC-8.3.3	10/2022	Added a new Sub-paragraph on the percentage of women and men on the Board.



MODULE	HC: High-Level Controls
CHAPTER	HC –B: Scope of Application

## HC-B.1 Listed Companies and Capital Market Service Providers (CMSPs)

**HC-B.1.1** The content of this Module, with the exception of Chapter 10 to listed companies. Chapter 10 of this Module applies to all CMSPs who are not listed companies.

**HC-B.1.2** Listed companies must comply with the rules stated in this module and comply to explain their adherence to the guidance. CMSPs must comply to explain their adherence to Chapter 10 of this Module.

### *Overseas Capital Market Service Providers*

**HC-B.1.3** Overseas listed companies and CMSPs must satisfy the CBB that equivalent arrangements are in place at the group entity level, and that these arrangements provide for effective corporate governance over activities conducted in Bahrain.

HC-B.1.4 In assessing compliance with paragraph HC-B.1.3, the CBB will take into account regulatory requirements applicable to the group entity, as well as the governance and systems and controls arrangements actually implemented by the group entity and applied to the Bahrain operation.



MODULE	HC: High-Level Controls
CHAPTER	HC –B: Scope of Application

## HC-B.2 Branches and Subsidiaries

### HC-B.2.1

Bahraini listed companies and CMSPs must ensure that, as a minimum, the same or equivalent provisions of this Module apply to their branches, whether located inside or outside the Kingdom of Bahrain, such that these are also subject to effective corporate governance. In instances where local jurisdictional requirements are more stringent than those applicable in this Module, the local requirements are to be applied.

### HC-B.2.2

Bahraini listed companies and CMSPs must satisfy the CBB that activities conducted in subsidiaries and other group members are subject to the same or equivalent arrangements for ensuring effective corporate governance over their activities.

### HC-B.2.3

Where a listed companies or CMSP is unable to satisfy the CBB that its subsidiaries and other group members are subject to the same or equivalent arrangements, the CBB will assess the potential impact of risks – both financial and reputational – arising from inadequate corporate governance in the rest of the group of which it is a member. In such instances, the CBB may impose restrictions on dealings between the listed company, CMSP and other group members. Where weaknesses in controls are assessed by the CBB to pose a major threat to the stability of the listed company or CMSP, then its authorisation may be called into question.



MODULE	HC: High-Level Controls
CHAPTER	HC –B: Scope of Application

## HC-B.3 Definitions

**HC-B.3.1** *Approved Person(s)* - Approved Persons are individuals holding certain specified positions in CBB licensees; they must be approved by the CBB prior to taking on those positions and must demonstrate that they are fit and proper. This list of positions subject to the CBB's Approved Persons regime vary according to the CBB license category, but generally cover directors and senior management, as well as certain other positions. Approved Persons requirements are specified in the relevant Rulebook Volume for the license category in question.

**HC-B.3.2** *“Capital Market Service Provider”* (hereinafter referred to as CMSP) means any person licensed, or authorised or involved in providing any activity specified under Article 80 of the CBB Law and includes SROs and their members. For the purposes of this Module, listed companies are not included in the definitions of CMSP companies; they are subject to different requirements under this Module (CMSPs only have to comply with Chapter 10 while listed companies must comply with all Chapters other than Chapter 10).

**HC-B.3.3** *“CEO”* means a company’s Chief Executive Officer. The board shall determine that person’s actual title, which may be “CEO”, “Chief Executive Officer”, “President”, “Managing Director”, or another title.

**HC-B.3.4** *“Company”* for the purpose of this Module means listed company.

**HC-B.3.5** *“Connected Party Transactions”* means a transaction between the CMSP and a ‘connected person’.

**HC-B.3.6** *“Connected Person(s)”* means:

- (a) The individual’s spouse and his/her son, adopted son, stepson, daughter, adopted daughter, step-daughter, father, step-father, mother, step-mother, brother, step-brother, sister or step-sister, under his/her guardianship or control; or
- (b) A firm or corporation in which the individual or any persons mentioned in (a) has control of not less than 10% of the voting power in the firm or corporation, whether such control is exercised individually or jointly; or
- (c) Connected persons in relation to a firm or corporation means another firm or corporation in which the first-mentioned firm or corporation has control of not less than 10% of the voting power in that other firm or corporation.



MODULE	HC: High-Level Controls
CHAPTER	HC –B: Scope of Application

## HC-B.3 Definitions (continued)

**HC-B.3.7** “*Controlled Functions*” means a function carried on by an approved person in relation to a listed company or CMSP that requires prior CBB approval, as per the relevant licensing Module.

**HC-B.3.8** “*Controlling Shareholder*” means any shareholder who holds 10% or more of the share capital or is able to exercise (or control the exercise of) 10% or more of the voting power in the company.

**HC-B.3.9** “*Executive Director*” means a director who is an officer or employee, or is otherwise involved in the day-to-day management of either:

- (a) The company;
- (b) Another company which is a controlling shareholder of the company;
- (c) Another company of which the company is a controlling shareholder; or
- (d) Another company which is controlled by a controlling shareholder.

In this definition, the word “company” which is a controller of the listed company or CMSP excludes sovereigns such as government owned entities and government ministries.

**HC-B.3.10** “*Independent Director*” means a director whom the board has specifically determined has no material relationship which could affect his independence of judgment, taking into account all known facts. The board should consider that, although a particular director meets the formal requirements, he may not be independent owing to specific circumstances of the person or the company, ownership structure of the company, or for any other reason. The board’s determination should be a good faith finding after diligent review and full discussion.

Formal Requirements - “Independent director” means a director of the company who, or whose family shareholders either separately or together with him or each other, does not have any material pecuniary relationships or transactions with the company (not counting director’s remuneration for this purpose) and in particular who, during the one year preceding the time in question met all the following conditions:

- (a) Was not an employee of the company;
- (b) Did not:
  - (i) Make to, or receive from, the company payments of more than BD31,000 or equivalent (not counting director’s remuneration);



MODULE	HC: High-Level Controls
CHAPTER	HC –B: Scope of Application

### HC-B.3 Definitions (continued)

- (ii) Own more than a 5% share or other ownership interest, directly or indirectly, in an entity that made to or received from the company payments of more than such amount;
- (iii) Act as a general partner, manager, director, or officer of a partnership or company that made to or received from the company payments of more than such amount;
- (iv) Have any significant contractual or business relationship with the company which could be seen to materially interfere with the person's capacity to act in an independent manner.
- (c) Did not own directly or indirectly (including for this purpose ownership by any family member or related person) 5% or more of the shares of any type or class of the company;
- (d) Was not engaged directly or indirectly as an auditor or professional adviser for the company; and
- (e) Was not an associate of a director or a member of senior management of the company.

Volumes 1 and 2 CBB licensees should consult the guidance issued under the definition of *“Independent Director”* in the Glossary of Volumes 1 and 2 with respect to the CBB's interpretation of the above formal requirements.

**HC-B.3.11** *“Listed Company”* means a company who should have been admitted for trading of the official list of a licensed exchange in Bahrain.

**HC-B.3.12** *“Non-Executive Director”* means any director who is not an Executive Director.

**HC-B.3.13** *“Overseas Capital Market Service Providers”* means a CMSP that is incorporated and operates in an overseas jurisdiction and operates via branch presence, or such other equivalent license, in the Kingdom of Bahrain.

**HC-B.3.14** *“Remuneration”* means all types of compensation including but not limited to salary, fee and non-cash benefits such as grants of stocks, stock options or pension benefits.



MODULE	HC: High-Level Controls
CHAPTER	HC –B: Scope of Application

### HC-B.3 Definitions (continued)

#### HC-B.3.15

*“Securities”* means shares or bonds issued by shareholding companies, government debt instruments and the following financial instruments:

- (a) Shares in companies and other Securities equivalent to shares in companies or other entities, and depositary receipts in respect of shares;
- (b) Bonds or other forms of debt, including depositary receipts in respect of such Securities;
- (c) Warrants;
- (d) Units, rights or interests (however described) of the participants in a collective investment scheme;
- (e) Options, futures and any other derivative contracts relating to commodities that must be settled in cash, or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);
- (f) Options, futures and any other derivative contract relating to commodities that can be physically settled;
- (g) Units of Real Estate Investment Trusts (REITs);
- (h) Index tracking products including Islamic indices;
- (i) Any other financial instrument approved as a financial instrument by the CBB for the purpose of trading such instrument on an exchange; and
- (j) Islamic Securities, being those financial instruments that are Shari’a compliant.

#### HC-B.3.16

*“Senior Manager/Management”* refers to individuals occupying the position of CEO or head of function.

#### HC-B.3.17

*“SRO”* means a self-regulatory organisation being a Licensed Exchange, Licensed Market Operator, or a Licensed Clearing House under Module MAE and/or Module CSD respectively.

#### HC-B.3.18

*“Subsidiary”* means a company or other enterprise controlled by another company or enterprise (the parent or the holding company).





MODULE	HC: High-Level Controls
CHAPTER	HC-1: The Board

## HC-1.1 Principle

### HC-1.1.1

With the exception of single person companies, all companies must have a Board of Directors ('the board'). All companies shall be headed by an effective, collegial and informed board.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-1: The Board</b>

## **HC-1.2 Role and Responsibilities**

### **HC-1.2.1**

All directors must understand the board's role and responsibilities under the Commercial Companies Law or any other laws or regulations that may govern their responsibilities from time-to-time.

In particular, all directors must understand:

- (a) The board's role as distinct from the role of the shareholders (who elect the board and whose interests the board serves); and the role of officers (whom the board appoints and oversees); and
- (b) The board's fiduciary duties of care and loyalty to the company and the shareholders (see section HC-2.1).

### **HC-1.2.2**

The board's role and responsibilities include but are not limited to:

- (a) The overall business performance and strategy and business plan for the company;
- (b) Causing financial statements to be prepared which accurately disclose the company's financial position;
- (c) Monitoring management performance;
- (d) Convening and preparing the agenda for shareholder meetings;
- (e) Monitoring conflicts of interest and preventing abusive related party transactions;
- (f) Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning;
- (g) Aligning key executive and board remuneration with the longer term interests of the company and its shareholders;
- (h) Ensuring a formal and trans-group board nomination and election process;
- (i) Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards;
- (j) Assuring equitable treatment of shareholders including minority shareholders;
- (k) Ensuring compliance with the relevant rules and requirements relating to the issuing and offering of securities;
- (l) The ongoing obligations in respect of the listing requirements, including but not limited to issues relating to disclosure, dissemination of price sensitive information and other communication, and the prevention of market abuse and insider trading;
- (m) Compliance with the company's founding documentation, including but not limited to its Memorandum and Articles of Association and other relevant by-laws and resolutions;



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<b>CHAPTER</b>	<b>HC-1: The Board</b>

## **HC-1.2 Role and Responsibilities (continued)**

- (n) Ensure that any loans provided by the company are approved by the board in accordance with their authority for such items, including the respective limits and other relevant terms; and
- (o) Providing approval in respect of the relevant fees, charges, subscriptions, commissions and other business and administrative sanctions, where relevant.

### **HC-1.2.3**

The directors are responsible both individually and collectively for performing these responsibilities. Although the board may delegate certain functions to committees or management, it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

### **HC-1.2.4**

The precise functions reserved for the board and those delegated to management and committees will vary, dependent upon the business of the institution, its size and ownership structure. However, as a minimum, the board must establish and maintain a statement of its responsibilities for:

- (a) The adoption and annual review of strategy;
- (b) The adoption and review of management structure and responsibilities;
- (c) The adoption and review of the systems and controls framework; and
- (d) Monitoring the implementation of strategy by management.

### **HC-1.2.5**

When a new director is inducted, the chairman of the board, or the company's legal counsel or compliance officer, or other individual delegated by the chairman of the board, should review the board's role and duties with that person, particularly covering legal and regulatory requirements and Module HC (see also rule HC-4.5.1).

### **HC-1.2.6**

The company must have a written appointment agreement with each director which recites the directors' powers and duties and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-1: The Board</b>

## HC-1.2 Role and Responsibilities (continued)

### HC-1.2.7

The board is responsible for ensuring that the systems and controls framework, including the board structure and organisational structure of the company, is appropriate for its business and associated risks (see HC-1.2.4 c). The board must ensure that collectively it has sufficient expertise to identify, understand and measure the significant risks to which the company is exposed in its business activities.

### HC-1.2.8

The board must adopt a formal board charter or other statement specifying matters which are reserved to it, which must include but need not be limited to the specific requirements and responsibilities of directors.



MODULE	HC: High-Level Controls
CHAPTER	HC-1: The Board

## HC-1.3 Decision-Making Process

**HC-1.3.1** The board must be collegial and deliberative, to gain the benefit of each individual director's judgment and experience.

**HC-1.3.2** The chairman must take an active lead in promoting mutual trust, open discussion, constructive dissent and support for decisions after they have been made.

**HC-1.3.3** The board must meet frequently but in no event less than four times a year. All directors must attend the meetings whenever possible and the directors must maintain informal communication between meetings.

**HC-1.3.4** The chairman is responsible for the leadership of the board, and for the efficient functioning of the board. The chairman must ensure that all directors receive an agenda, minutes of prior meetings, and adequate background information in writing before each board meeting and when necessary between meetings. All directors must receive the same board information. At the same time, directors have a legal duty to inform themselves and they must ensure that they receive adequate and timely information and must study it carefully

**HC-1.3.5** The board **must** have no more than 15 members and **no less than 5 members; taking into consideration the representation of women and men in the formation of the board. The board must** regularly review its size and composition to assure that it is small enough for efficient decision-making yet large enough to have members who can contribute from different specialties and viewpoints. The board **must** recommend changes in board size to the shareholders when a needed change requires amendment of the company's Memorandum of Association. **The company must disclose statistics regarding the composition of the board disaggregated by women and men in the company's annual report.**

**HC-1.3.6** Potential non-Executive Directors should be made aware of their duties before their nomination, particularly as to the time commitment required. The Nominating Committee should regularly review the time commitment required from each non-Executive Director and should require each non-Executive Director to inform the Committee before he accepts any board appointments to another company. Without prejudice to other HC Volumes in the CBB Rulebook, one person should not hold more than three directorships in public companies in Bahrain with the provision that no conflict of interest may exist (which includes having an interest in companies in the same line of business), and the board should not propose the election or re-election of any director who does.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-1: The Board</b>

### HC-1.3 Decision-Making Process (continued)

#### HC-1.3.7

Individual board members must attend at least 75% of all board meetings in a given financial year to enable the board to discharge its responsibilities effectively (see table below). Voting and attendance proxies for board meetings are prohibited at all times.

Meetings per year	75% Attendance requirement
4	3
5	4
6	5
7	5
8	6
9	7
10	8

#### HC-1.3.8

The absence of board members at board and committee meetings must be noted in the meeting minutes. In addition, board attendance percentage must be reported during any general assembly meeting when board members stand for re-election (e.g. board member XYZ attended 95% of scheduled meetings this year).

#### HC-1.3.9

To meet its obligations under Rule HC-1.3.3 above, the full board should meet once every quarter to address the board's responsibilities for management oversight and performance monitoring. Furthermore, board rules should require members to step down if they are not actively participating in board meetings. Board members are reminded that non-attendance at board meetings does not absolve them of their responsibilities as directors. It is important that each individual director should allocate adequate time and effort to discharge his responsibilities. All Directors are expected to contribute actively to the work of the board in order to discharge their responsibilities and should make every effort to attend board meetings where major issues are to be discussed. Companies are encouraged to amend their Articles of Association to provide for telephonic and videoconference meetings. Participation in board meetings by means of video or telephone conferencing is regarded as attendance and may be recorded as such.

#### HC-1.3.10

In the event that a board member has not attended at least 75% of board meetings in any given financial year, the company must immediately notify the CBB indicating which member has failed to satisfy this requirement, his level of attendance and any mitigating circumstances affecting his non-attendance. The CBB shall then consider the matter and determine whether disciplinary action, including disqualification of that board member pursuant to Article 65 (where relevant) of the CBB Law, is appropriate. Unless there are exceptional circumstances, it is likely that the CBB will take disciplinary action.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-1: The Board</b>

## **HC-1.4 Independence of Judgment**

### **HC-1.4.1**

Every director must bring independent judgment to bear in decision-making. No individual or group of directors must dominate the board's decision-making and no one individual should have unfettered powers of decision.

### **HC-1.4.2**

Executive Directors must provide the board with all relevant business and financial information within their cognizance and must recognise that their role as a director is different from their role as an officer.

### **HC-1.4.3**

Non-executive directors must be fully independent of management and must constructively scrutinise and challenge management, including the management performance of executive directors.

### HC-1.4.4

At least half of a company's board should be non-executive directors and at least three of those persons should be independent directors. (Note the exception for controlled companies in paragraph HC-1.5.2.)

### HC-1.4.5

The chairman of the board should be an independent director and in any event must not be the same person as the CEO, so that there will be an appropriate balance of power and greater capacity of the board for independent decision-making.

### HC-1.4.6

The board should review the independence of each director at least annually in light of interests disclosed by them. Each independent director shall provide the board with all necessary and updated information for this purpose.

### **HC-1.4.6A**

**The Chairman and/or Deputy Chairman must not be the same person as the Chief Executive Officer.**

### **HC-1.4.7**

**Where there is the potential for conflict of interest, or there is a need for impartiality, the board must assign a sufficient number of independent board members capable of exercising independent judgment.**

### HC-1.4.8

To facilitate free and open communication among independent directors, each board meeting should be preceded or followed with a session at which only independent directors are present, except as may otherwise be determined by the independent directors themselves.

### HC-1.4.9

All decisions made by directors must be accurately recorded, including the details of any reservations or objections by any individual or group of directors, for both board meetings as well as any committee formed by the board.



MODULE	HC:	High-Level Controls
CHAPTER	HC-1:	The Board

## HC-1.5 Representation of all Shareholders

### HC-1.5.1

Each director must consider himself as representing all shareholders and must act accordingly. The board must avoid having representatives of specific groups or interests within its membership and must not allow itself to become a battleground of vested interests. If the company has a controlling shareholder (or a controlling group of shareholders acting in concert), the latter must recognise its or their specific responsibility to the other shareholders, which is direct and is separate from that of the board of directors.

### HC-1.5.2

In companies with a controlling shareholder, at least one-third of the board must be independent directors. Minority shareholders must generally look to independent directors' diligent regard for their interests, in preference to seeking specific representation on the board.

### HC-1.5.3

In companies with a controlling shareholder, both controlling and non-controlling shareholders should be aware of controlling shareholders' specific responsibilities regarding their duty of loyalty to the company and conflicts of interest (see chapter HC-2) and also of rights that minority shareholders may have to elect specific directors under the Commercial Companies Law or if the company has adopted cumulative voting for directors. The chairman of the board or other individual delegated by the chairman of the board should take the lead in explaining this with the help of company lawyers.





MODULE	HC: High-Level Controls
CHAPTER	HC-1: The Board

## HC-1.6 Directors' Access to Independent Advice

**HC-1.6.1** The board must ensure that individual directors have access to independent legal or other professional advice at the company's expense whenever they judge this necessary to discharge their responsibilities as directors and this must be in accordance with the company's policy approved by the company's board.

**HC-1.6.2** Individual directors must also have access to the company's corporate secretary, who must have responsibility for reporting to the board on board procedures. Both the appointment and removal of the corporate secretary must be a matter for the board as a whole, not for the CEO or any other officer.

HC-1.6.3 Whenever a director has serious concerns which cannot be resolved concerning the running of the company or a proposed action, he should consider seeking independent advice and should ensure that the concerns are recorded in the board minutes and that any dissent from a board action is noted or delivered in writing.

HC-1.6.4 Upon resignation, a non-executive director should provide a written statement to the chairman, for circulation to the board, if he has any concerns such as those in paragraph HC-1.6.3.



MODULE	HC: High-Level Controls
CHAPTER	HC-1: The Board

## HC-1.7 Directors' Communication with Management

### HC-1.7.1

While management members other than those that are executive directors, are not entitled by right to attend board meetings, the board must encourage participation by management regarding matters the board is considering, and also by management members who by reason of responsibilities or succession, the CEO believes should have exposure to the directors.

### HC-1.7.2

Non-executive directors should have free access to the company's management beyond that provided in board meetings. Such access should be through the Chairman of the Audit Committee or CEO. The board should make this policy known to management to alleviate any management concerns about a director's authority in this regard.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-1: The Board</b>

## **HC-1.8 Committees of the Board**

**HC-1.8.1** The board must create specialised committees when and as such committees are needed. In addition to the Audit, Remuneration and Nominating Committees described elsewhere in this Module, these may include an Executive Committee to review and make recommendations to the whole board on company actions, a Risk Committee, to identify and minimize specific risks, or an Insider or Prohibition of Market Abuse Committee to manage and provide oversight of the trading of directors and general compliance with market regulations, as well as any other committee required by the CBB or other regulations (e.g. TMA Module).

**HC-1.8.2** The board or a committee may invite non-directors to participate in, but not vote at committee meetings so that the committee may gain the benefit of their advice and expertise in financial or other areas.

**HC-1.8.3** Committees must act only within their mandates and therefore the board must not allow any committee to dominate or effectively replace the whole board in its decision-making responsibility.

HC-1.8.4 Committees may be combined provided that no conflict of interest might arise between the duties of such committees.

**HC-1.8.5** Every committee must have a formal written charter similar in form to the model charters which are set forth in Appendices A, B and C of this Module for the Audit, Nominating and Remuneration Committees.

HC-1.8.6 The board should establish a corporate governance committee of at least three independent members which should be responsible for developing and recommending changes from time-to-time in the company's corporate governance policy framework.

HC-1.8.7 The terms of reference, number of meetings and attendance at such meetings should be disclosed in respect of each committee in the annual report of the company.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-1: The Board</b>

## HC-1.9 Evaluation of the Board and Each Committee

**HC-1.9.1** At least annually the board must conduct an evaluation of its performance and the performance of each committee and each individual director.

**HC-1.9.2** The evaluation process must include:

- (a) Assessing how the board operates, especially in light of chapter HC-1;
- (b) Evaluating the performance of each committee in light of its specific purposes and responsibilities, which shall include review of the self-evaluations undertaken by each committee;
- (c) Reviewing each director's work, his attendance at board and committee meetings, and his constructive involvement in discussions and decision-making; and
- (d) Reviewing the board's current composition against its desired composition with a view toward maintaining an appropriate balance of skills and experience and a view toward planned and progressive refreshing of the board.

HC-1.9.3 While the evaluation is a responsibility of the entire board, it should be organised and assisted by an internal board committee and, when appropriate, with the help of external experts.

HC-1.9.4 The board should report to the shareholders, at each annual shareholder meeting, that evaluations have been done.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-2:</b>	<b>Directors and Officers Loyalty</b>

## **HC-2.1 Principle**

**HC-2.1.1** The directors and officers must have full loyalty to the company.



MODULE	HC:	High-Level Controls
CHAPTER	HC-2:	Directors and Officers Loyalty

## HC-2.2 Personal Accountability

### HC-2.2.1

Each member of the board must understand that under the Commercial Companies Law he is personally accountable to the company and the shareholders if he violates his legal duty of loyalty to the company, and that he can be personally sued by the company or the shareholders for such violations.

### HC-2.2.2

The duty of loyalty includes a duty not to use property of the company for his personal needs as though it was his own property, not to disclose confidential information of the company or use it for his personal profit, not to take business opportunities of the company for himself, not to compete in business with the company, and to serve the company's interest in any transactions with the company in which he has a personal interest.

### HC-2.2.3

For purposes of Rule HC-2.2.2, a director or officer should be considered to have a “personal interest” in a transaction with the company if:

- (a) He himself; or
- (b) A member of his family (i.e. spouse, father, mother, sons, daughters, brothers or sisters); or
- (c) Another company of which he is a director or controlling shareholder,

is a party to the transaction or has a material financial interest in the transaction. (Transactions and interests which are *de minimis* in value should not be included.)



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-2: Directors and Officers Loyalty</b>

## **HC-2.3 Avoidance of Conflicts of Interest**

### **HC-2.3.1**

Each director and officer must make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with the company.

### **HC-2.3.2**

The board must establish and disseminate to its members and management, policies and procedures for the identification, reporting, disclosure, prevention, or strict limitation of potential conflicts of interest. It is senior management's responsibility to implement these policies. In particular, the CBB requires that any decisions to enter into transactions, under which approved persons would have conflicts of interest that are material, should be formally and unanimously approved by the full board. Best practice would dictate that an approved person must:

- (a) Not enter into competition with the company;
- (b) Not demand or accept substantial gifts from the company for himself or connected persons;
- (c) Not misuse the company's assets;
- (d) Not use the company's privileged information or take advantage of business opportunities to which it is entitled, for himself or his associates; and
- (e) Absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advice, or which involves a subject or (proposed) transaction where a conflict of interest exists.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-2:</b>	<b>Directors and Officers Loyalty</b>

## **HC-2.4 Disclosure of Conflicts of Interest**

- HC-2.4.1** Each director and officer must inform the entire board in writing of conflicts of interest immediately as they arise. Board members must abstain from voting on the matter in accordance with the relevant provisions of the Commercial Companies Law. This disclosure must include all material facts in the case of a contract or transaction involving the director or officer. The directors and officers must understand that any approval of a conflict transaction is effective only if all material facts are known to the authorising persons and the conflicted person did not participate in the decision and that such information must be disclosed in the annual report.
- HC-2.4.2 The board should establish formal procedures for:
- (a) Periodic disclosure and updating of information by each director and officer on his actual and potential conflicts of interest; and
  - (b) Advance approval by disinterested directors or shareholders of all transactions in which a company director or officer has a personal interest. The board should require such advance approval in every case.
- HC-2.4.3 Any conflict transaction or contract that could be considered material should be tabled at a shareholders meeting for approval.





<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-2:</b>	<b>Directors and Officers Loyalty</b>

## **HC-2.5 Disclosure of Conflicts of Interest to Shareholders**

### **HC-2.5.1**

The company must disclose to its shareholders in the Annual Report any abstention from voting motivated by a conflict of interest and must disclose to its shareholders any authorisation of a conflict of interest contract or transaction in accordance with the Commercial Companies Law.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3:</b>	<b>Audit Committee and Financial Statements Certification</b>

## **HC-3.1 Principle**

### **HC-3.1.1**

The board must have rigorous controls for financial audit and reporting, internal controls, risk management and compliance with the law.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3:</b>	<b>Audit Committee and Financial Statements Certification</b>

## **HC-3.2 Audit Committee**

### **HC-3.2.1**

The board must establish an audit committee of at least three directors, of which the majority must be independent including the Chairman. The committee must:

- (a) Review the company's accounting and financial practices;
- (b) Review the integrity of the company's financial and internal controls and financial statements;
- (c) Review the company's compliance with legal requirements;
- (d) Recommend the appointment, compensation and oversight of the company's external auditor;
- (e) Recommend the appointment of the internal auditor;
- (f) Approve the internal audit policies and any reports and plans made in terms of such policies;
- (g) [This Subparagraph was deleted in January 2012];
- (h) Unless otherwise designated to another committee, review the risk management policies and procedures as well as any reports and plans issued in terms of such policies;
- (i) Unless otherwise designated to another committee, review the key persons dealing and market abuse policies and procedures as well as any reports and plans issued in terms of such policies;
- (j) Review and approve the interim financial statements where the board is unable to hold a meeting for this purpose;
- (k) Recommend any additional or specific audit required in respect of the financial statements and other specific part of the business; and
- (l) Recommend and table for discussion a management letter to be provided to the external auditor.

### **HC-3.2.2**

In its review of the systems and controls framework in Paragraph HC-3.2.1, the audit committee must:

- (a) Make effective use of the work of external and internal auditors. The audit committee must ensure the integrity of the company's accounting and financial reporting systems through regular independent review (by internal and external audit). Audit findings must be used as an independent check on the information received from management about the company's operations and performance and the effectiveness of internal controls;



MODULE	HC:	High-Level Controls
CHAPTER	HC-3:	Audit Committee and Financial Statements Certification

## HC-3.2 Audit Committee (continued)

- (b) Make use of self-assessments, stress/scenario tests, and/or independent judgments made by external advisors. The board should appoint supporting committees, and engage senior management to assist the audit committee in the oversight of risk management; and
- (c) Ensure that senior management have put in place appropriate systems of control for the business of the company and the information needs of the board; in particular, there must be appropriate systems and functions for identifying as well as for monitoring risk, the financial position of the company, and compliance with applicable laws, regulations and best practice standards. The systems must produce information on a timely basis.

### HC-3.2.3

Companies should set up an internal audit function, which reports directly to the Audit Committee and administratively to the CEO.

### HC-3.2.4

The CEO must not be a member of the audit committee



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-3: Audit Committee and Financial Statements Certification</b>

### **HC-3.3 Audit Committee Charter**

#### **HC-3.3.1**

The audit committee must adopt a written charter which shall, at a minimum, state the duties outlined in rule HC-3.2.1 and the other matters included in Appendix A to this Module.

#### **HC-3.3.2**

A majority of the audit committee must have the financial literacy qualifications stated in Appendix A.

#### **HC-3.3.3**

The board should adopt a “whistleblower” programme under which employees can confidentially raise concerns about possible improprieties in financial or legal matters. Under the programme, concerns may be communicated directly to any audit committee member or, alternatively, to an identified officer or employee who will report directly to the Audit Committee on this point.



MODULE	HC:	High-Level Controls
CHAPTER	HC-3:	Audit Committee and Financial Statements Certification

## HC-3.4 CEO and CFO Certification of Financial Statements

### HC-3.4.1

To encourage management accountability for the financial statements required by the directors, the company's CEO and chief financial officer must state in writing to the audit committee and the board as a whole that the company's interim and annual financial statements as prepared in accordance with IAS and IFRS present a true and fair view, in all material respects (including providing adequate provisions), of the company's financial condition and results of operations in accordance with applicable accounting standards.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-4:</b>	<b>Appointment, Training and Evaluation of the Board</b>

## **HC-4.1 Principle**

### **HC-4.1.1**

The company must have rigorous procedures for the appointment, training and evaluation of the board.



MODULE	HC:	High-Level Controls
CHAPTER	HC-4:	Appointment, Training and Evaluation of the Board

## HC-4.2 Nominating Committee

### HC-4.2.1

The board must establish a Nominating Committee of at least three directors which must:

- (a) Identify persons qualified to become members of the board of directors or Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the company considered appropriate by the board, with the exception of the appointment of the internal auditor which shall be the responsibility of the Audit Committee in accordance with rule HC-3.2.1 above;
- (b) Make recommendations to the whole board of directors, including recommendations of candidates for board membership (including renewals or reappointment) to be included by the board of directors on the agenda for the next annual shareholders meeting; and
- (c) Must review and make recommendations on board candidates proposed by those substantial shareholders eligible to propose a director to represent such shareholder on the board.

### HC-4.2.2

The committee must include only independent directors or, alternatively, only non-executive directors of whom a majority must be independent directors and the chairman must be an independent director. This is consistent with international best practice and it recognises that the Nominating Committee must exercise judgment free from personal career conflicts of interest.

### HC-4.2.3

The Nominating Committee should establish a reasonable timeframe to be included in its terms of reference sufficient for it to be able to perform its necessary due diligence in respect of the recommendations prior to such nominations being tabled at any shareholders meeting.





MODULE	HC:	High-Level Controls
CHAPTER	HC-4:	Appointment, Training and Evaluation of the Board

## HC-4.3 Nominating Committee Charter

### HC-4.3.1

The Nominating Committee must adopt a formal written charter which must, at a minimum, state the duties outlined in rule HC-4.2.1 and paragraph HC-4.2.3 and the other matters included in Appendix B to this Module, as well as any relevant training and competency requirements required by regulatory authorities.



MODULE	HC:	High-Level Controls
CHAPTER	HC-4:	Appointment, Training and Evaluation of the Board

## HC-4.4 Board Nominations to Shareholders

### HC-4.4.1

Each proposal by the board to the shareholders for election or re-election of a director must include:

- (a) A recommendation from the board
- (b) A summary of the advice of the Nominating Committee;
- (c) The term to be served, which may not exceed three years (but there need not be a limit on re-election for further terms);
- (d) Biographical details and professional qualifications;
- (e) In the case of an independent director, a statement that the board has determined that the criteria of independent director has been met;
- (f) Any other directorships held;
- (g) Particulars of other positions which involve significant time commitments, and
- (h) Details of relationships between:
  - (i) The candidate and the company (including any ownership therein); and
  - (ii) The candidate and other directors of the company.

### HC-4.4.2

The chairman of the board should confirm to shareholders when proposing re-election of a director that, following a formal performance evaluation, the person's performance continues to be effective and continues to demonstrate commitment to the role. Any term beyond six years (e.g. two three-year terms) for a director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board. Serving more than six years is relevant to the determination of a non-executive director's independence.



MODULE	HC:	High-Level Controls
CHAPTER	HC-4:	Appointment, Training and Evaluation of the Board

## HC-4.5 Induction and Training of Directors

### HC-4.5.1

The chairman of the board must ensure that each new director receives a formal and tailored induction to ensure his contribution to the board from the beginning of his term. The induction must include meetings with senior management, visits to company facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programmes, its internal and external auditors and legal counsel.

### HC-4.5.2

All continuing directors must be invited to attend orientation meetings and all directors must continually educate themselves as to the company's business and corporate governance.

### HC-4.5.3

Management, in consultation with the chairman of the board, should hold programmes and presentations to directors with respect to the Commercial Companies Law, the company's Memorandum and Articles of Association, as well as the company's business and industry, which may include periodic attendance at conferences and management meetings. The Nominating Committee shall oversee directors' corporate governance educational activities.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-5: Remuneration of Directors and Officers</b>

## **HC-5.1 Principle**

<b>HC-5.1.1</b>	The company must remunerate directors and officers fairly and responsibly.
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MODULE	HC: High-Level Controls
CHAPTER	HC-5: Remuneration of Directors and Officers

## HC-5.2 Remuneration Committee

### HC-5.2.1

The board must establish a remuneration committee of at least three directors which must:

- (a) Review the company's remuneration policies for the board of directors and senior management (holding controlled functions), which must be approved by the shareholders and be consistent with the corporate values and strategy of the company;
- (b) Make recommendations regarding remuneration policies and amounts for specific persons to the whole board, taking account of total remuneration including salaries, fees, expenses and employee benefits; and
- (c) Recommend board member remuneration based on their attendance and performance.

HC-5.2.2 Prior to any vote by the shareholders, the chairman of the board should ensure that full disclosure of all material facts has been made to the shareholders.

HC-5.2.3 The committee may be merged with the nominating committee.



MODULE	HC:	High-Level Controls
CHAPTER	HC-5:	Remuneration of Directors and Officers

### HC-5.3 Remuneration Committee Charter

**HC-5.3.1** The committee must adopt a written charter which must, at a minimum, state the duties in Rule HC-5.2.1 and other matters in Appendix C of this Module.

HC-5.3.2 The committee should include only independent directors or, alternatively, only non-executive directors of whom the majority are independent directors and the chairman is an independent director. This is consistent with international best practice and it recognises that the remuneration committee must exercise judgment free from personal career conflicts of interest.

HC-5.3.3 [This Paragraph was deleted in January 2012].



MODULE	HC:	High-Level Controls
CHAPTER	HC-5:	Remuneration of Directors and Officers

## HC-5.4 Standard for all Remuneration

### HC-5.4.1

Remuneration of both directors and officers must be sufficient enough to attract, retain and motivate persons of the quality needed to run the company successfully, but the company must avoid paying more than is necessary for that purpose.



MODULE	HC:	High-Level Controls
CHAPTER	HC-5:	Remuneration of Directors and Officers

## HC-5.5 Non-Executive Directors' Remuneration

### HC-5.5.1

Remuneration of non-executive directors must not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.





MODULE	HC: High-Level Controls
CHAPTER	HC-5: Remuneration of Directors and Officers

## HC-5.6 Officers Remuneration

**HC-5.6.1** Remuneration of officers must be structured so that a portion of the total is linked to the company and individual performance and aligns their interests with the interests of the shareholders.

HC-5.6.2 Such rewards may include grants of shares, share options and other deferred stock-related incentive schemes, bonuses, and pension benefits which are not based on salary.

**HC-5.6.3** If an officer is also a director, his remuneration as an officer must take into account compensation received in his capacity as a director.

**HC-5.6.4** All share incentive plans must be approved by the shareholders.

HC-5.6.5 All performance-based incentives should be awarded under written objective performance standards which have been approved by the board and are designed to enhance shareholder and company value, and under which shares should not vest and options should not be exercisable within less than two years of the date of award of the incentive and include principles of deferred payment, claw back provisions and prevention of distribution during non-profit years, as well as other remuneration principles issued by relevant industry supervisory bodies.

HC-5.6.6 All policies for performance-based incentives should be approved by the shareholders, but the approval should be only of the plan itself, and not of the grant to specific individuals of benefits under the plan.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-6: Management Structure</b>

## **HC-6.1 Principle**

**HC-6.1.1** The board must establish a clear and efficient management structure.



MODULE	HC:	High-Level Controls
CHAPTER	HC-6:	Management Structure

## HC-6.2 Establishment of Management Structure

### HC-6.2.1

The board must appoint officers whose authority must include management and operation of current activities of the company, reporting to and under the direction of the board. Unless otherwise exempted under the relevant licensing or listing Module, the officers must include at a minimum:

- (a) A CEO;
- (b) A chief financial officer;
- (c) A corporate secretary; and
- (d) An internal auditor;

and must also include such other officers as the board considers appropriate, or as required by the relevant licensing or listing Module.

### HC-6.2.2

The board must ensure that the management structure caters for the following functions, where relevant:

- (a) Anti-money laundering and combating financial crime;
- (b) Risk management; and
- (c) Shareholders and investor relations.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-6: Management Structure</b>

### **HC-6.3 Titles, Authorities, Duties and Reporting Responsibilities**

#### **HC-6.3.1**

The board must adopt by-laws prescribing each senior officer's title, authorities, duties and internal reporting responsibilities. This must be done with the advice of the Nominating Committee and in consultation with the CEO, to whom the other officers should normally report.

#### **HC-6.3.2**

These provisions must include but should not be limited to the following:

- (a) The CEO must have authority to act generally in the company's name, representing the company's interests in concluding transactions on the company's behalf and giving instructions to other officers and company employees;
- (b) The chief financial officer must be responsible and accountable for:
  - (i) The complete, timely, reliable and accurate preparation of the company's financial statements, in accordance with IAS and IFRS, and policies of the company (see also rule HC-3.4.1); and
  - (ii) Presenting the board with a balanced and understandable assessment of the company's financial situation;
- (c) The corporate secretary's duties must include arranging, recording and following up on the actions, decisions and meetings of the board and of the shareholders (both at annual and extraordinary meetings) in books to be kept for that purpose and shareholder and investor relations; and
- (d) The internal auditor's duties must include providing an independent and objective review of the efficiency of the CMSP's operations. This would include a review of the accuracy and reliability of the company's accounting records and financial reports, as well as a review of the adequacy and effectiveness of the company's risk management, control, and governance processes.

HC-6.3.3 The board should also specify any limits which it wishes to set on the authority of the CEO or other officers, such as monetary maximums for transactions which they may authorise without separate board approval.

HC-6.3.4 The corporate secretary should be given general responsibility for reviewing the company's procedures and advising the board directly on such matters. Whenever practical, the corporate secretary should be a person with legal or similar professional experience and training.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-6: Management Structure</b>

### **HC-6.3 Titles, Authorities, Duties and Reporting Responsibilities (continued)**

- HC-6.3.5 At least annually the board shall review and concur in a succession plan addressing the policies and principles for selecting a successor to the CEO, both in emergencies and in the normal course of business (including deputisation while the CEO is unable to perform his functions). The succession plan should include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-7:</b>	<b>Communication between Board and Shareholders</b>

## **HC-7.1 Principle**

### **HC-7.1.1**

The company must communicate with shareholders, encourage their participation, and adhere to their rights.



MODULE	HC:	High-Level Controls
CHAPTER	HC-7:	Communication between Board and Shareholders

## HC-7.2 Shareholders of the Same Type, Class and Series

**HC-7.2.1** All shareholders of the same type, class and series must be treated equally.

**HC-7.2.2** Within any type, series or class, all shares must carry the same rights. All investors should be able to obtain information about the rights attached to all types, series or classes of shares before they purchase. Any changes in voting rights must be subject to approval by those shareholders which are negatively affected.

**HC-7.2.3** Minority shareholders must be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and must have effective means of redress.

**HC-7.2.4** The board and corporate secretary must encourage the attendance of shareholders at all shareholder meetings, in order for shareholders to exercise their right to vote at such meetings.

**HC-7.2.5** Where shareholders are unable to attend, companies must make provision for such shareholder to vote by proxy, subject that such proxy is revocable and provides for two-way voting item by item (yes/no) and where proxies are provided to board members or senior management, that such proxy shall not exceed 5% of the eligible votes.

**HC-7.2.6** Votes must be cast by custodians or nominees in a manner agreed upon with the beneficial owner of the shares.

**HC-7.2.7** Impediments to cross border voting must be eliminated.

**HC-7.2.8** Processes and procedures for general meetings must allow for equitable treatment of all shareholders. Company procedures must not make it unduly difficult or expensive to cast votes.



MODULE	HC:	High-Level Controls
CHAPTER	HC-7:	Communication between Board and Shareholders

## HC-7.3 Shareholders' Rights

**HC-7.3.1** The Corporate Governance framework of a company must protect and facilitate the exercise of shareholders' rights.

**HC-7.3.2** Basic shareholders rights include but are not limited to:

- (a) Secure methods of ownership registration;
- (b) The transfer of shares;
- (c) Obtaining relevant and material information on the corporation on a timely and regular basis;
- (d) Participating and voting in general shareholder meetings;
- (e) Electing and removing members of the board;
- (f) Sharing in the profits of the corporation;
- (g) Presentations by independent advisers; and
- (h) Participating in corporate events.

**HC-7.3.3** Shareholders must have the right to participate in, and to be sufficiently informed on decisions concerning fundamental corporate changes, such as:

- (a) Amendments to the statutes, or articles of incorporation or similar governing documents of the company;
- (b) The authorization and approval of additional or new shares or securities; and
- (c) Extraordinary transactions, including the transfer of all or substantially all assets that in effect result in the sale of the company, including but not limited to transactions falling under Module TMA.





MODULE	HC: High-Level Controls
CHAPTER	HC-7: Communication between Board and Shareholders

## HC-7.4 Conduct of Shareholders' Meetings

### HC-7.4.1

The board must observe both the letter and the intent of the Commercial Companies Law's requirements for shareholder meetings.

Among other things:

- (a) Notices of meetings must be honest, accurate and not misleading. They must clearly state and, where necessary, explain the nature of the business of the meeting;
- (b) Meetings must be held during normal business hours and at a place convenient for the greatest number of shareholders to attend;
- (c) Notices of meetings must encourage shareholders to attend shareholder meetings, and if not possible, to participate by proxy and refer to procedures for appointing a proxy and for directing the proxy how to vote on a particular resolution. The proxy agreement must list the agenda items and must specify the vote (such as "yes," "no" or "abstain");
- (d) Notices must ensure that all material information and documentation is provided to shareholders on each agenda item for any shareholder meeting, including but not limited to any recommendations or dissents of directors;
- (e) The board must propose a separate resolution at any meeting on each substantially separate issue, so that unrelated issues are not "bundled" together;
- (f) In meetings where directors are to be elected or removed the board must ensure that each person is voted on separately, so that the shareholders can evaluate each person individually;
- (g) The chairman of the meeting must encourage questions from shareholders, including questions regarding the company's corporate governance guidelines;
- (h) The minutes of the meeting must be made available to shareholders upon their request as soon as possible, but not later than 30 days after the meeting;
- (i) Disclosure of all material facts must be made to the shareholders by the Chairman prior to any vote by the shareholders;
- (j) Disclosure must be made of the attendance of the board of directors at board meetings, as well as committee meetings, on an individual basis, including the outcome and any decisions taken at such meetings, together with any objections or reservations raised item by item;
- (k) As shareholder meetings are public meetings, the board and senior management must permit on request for members of the media to attend and report on shareholder meetings of the company; and



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-7: Communication between Board and Shareholders</b>

## **HC-7.4 Conduct of Shareholders' Meetings (continued)**

- (l) **Any commercial material or notices to stakeholders shall also be provided to shareholders, particularly in relation to topics to be discussed at annual general meetings.**

- HC-7.4.2 The company should require all directors to attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, ensure that the chairs of the audit, remuneration and nominating committees are ready to answer appropriate questions regarding matters within their committee's responsibility (it being understood that confidential and proprietary business information may be kept confidential).
- HC-7.4.3 The company should require its external auditor to attend the annual shareholders' meeting and be available to answer shareholders' questions concerning the conduct and conclusions of the audit.
- HC-7.4.4 A company should maintain a company website. The company should dedicate a specific section of its website to describing shareholders' rights to participate and vote at each shareholders meeting, and should post significant documents relating to meetings including the full text of notices and minutes. The company may also consider establishing an electronic means for shareholders' communications including appointment of proxies. For confidential information, the company should grant a controlled access to such information to its shareholders.
- HC-7.4.5 In notices of meetings at which directors are to be elected or removed, the company should ensure that:
- (a) Where the number of candidates exceeds the number of available seats, the notice of the meeting should explain the voting method by which the successful candidates will be selected and the method to be used for counting of votes; and
  - (b) The notice of the meeting should present a factual and objective view of the candidates so that shareholders may make an informed decision on any appointment to the board.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-7: Communication between Board and Shareholders</b>

## **HC-7.5 Direct Shareholder Communication**

### **HC-7.5.1**

The chairman of the board (and other directors as appropriate) must maintain continuing personal contact with major shareholders to solicit their views and understand their concerns. The chairman must ensure that the views of shareholders are communicated to the board as a whole. The chairman must discuss governance and strategy with major shareholders. Given the importance of market monitoring to enforce the “comply or explain” approach of this Module, the board should encourage investors, particularly institutional investors, to help in evaluating the company's corporate governance.

### **HC-7.5.2**

Institutional investors acting in a fiduciary capacity must disclose their overall corporate governance and voting policies with respect to their investments, including the procedures that they have in place for deciding on the use of their voting rights.

### **HC-7.5.3**

Institutional investors acting in a fiduciary capacity must disclose how they manage material conflicts of interest that may affect the exercise of key ownership rights regarding their investments.



MODULE	HC:	High-Level Controls
CHAPTER	HC-7:	Communication between Board and Shareholders

## HC-7.6 Controlling Shareholders

### HC-7.6.1

In companies with one or more controlling shareholders, the chairman and other directors must actively encourage the controlling shareholders to make considered use of their position and to fully respect the rights of minority shareholders.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-8:</b>	<b>Corporate Governance Disclosure</b>

## **HC-8.1 Principle**

**HC-8.1.1** The company must disclose its corporate governance.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-8: Corporate Governance Disclosure</b>

## **HC-8.2 Disclosure of Corporate Governance Guidelines**

### **HC-8.2.1**

In each company:

- (a) The board must adopt written corporate governance guidelines covering the matters stated in Module HC and other corporate governance matters deemed appropriate by the board. Such guidelines must include or refer to the principles and rules of Module HC;
- (b) The company's must publish the guidelines on its website.
- (c) At each annual shareholders' meeting the board must report on the company's compliance with its guidelines and Module HC, and explain the extent, if any, to which it has varied them or believes that any variance or non-compliance was justified; and
- (d) At each annual shareholders' meeting the board must also report on further items listed in rule HC-8.3.1.



MODULE	HC: High-Level Controls
CHAPTER	HC-8: Corporate Governance Disclosure

### HC-8.3 Disclosure as a Company

**HC-8.3.1** The company must disclose in its annual report the following:

**HC-8.3.2** Ownership of Shares:

- (a) Distribution of ownership by nationality;
- (b) Distribution of ownership by size of shareholder;
- (c) Ownership by Government; and
- (d) Names of shareholders owning 5% or more and, if they act in concert, a description of the voting, shareholders' or other agreements among them relating to acting in concert, and of any other direct and indirect relationships among them or with the company or other shareholders.

**HC-8.3.3** Board, Board Members and Management:

- (a) The 'mandate' of the board must be set out;
- (b) The types of material transactions that require board approval;
- (c) Names, their capacity of representation and detailed information about the directors, including directorships of other boards, positions, qualifications and experience (must describe each director as executive or non-executive);
- (d) Number and names of independent members;
- (e) Board terms and the start date of each term;
- (f) What the board does to induct/educate/orient new directors;
- (g) Director's ownership of shares;
- (h) Election system of directors and any termination arrangements;
- (i) Director's trading of company shares during the year;
- (j) Meeting dates and number of meetings held during the year;
- (k) Attendance of directors at each meeting;
- (l) Remuneration policy and aggregate remuneration to board members;
- (m) List of senior managers and profile of each;
- (n) Shareholding of senior managers;
- (o) Remuneration policy and aggregate remuneration paid to the executive management;
- (p) Details of stock options and performance-linked incentives available to executives;
- (q) Whether the board has adopted a written code of ethical business conduct, and if so a statement of how the board monitors compliance; and
- (r) The percentage of women and men on the board, where the absence of representation of either women or men must be stated.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-8: Corporate Governance Disclosure</b>

## **HC-8.3 Disclosure as a Company (continued)**

### **HC-8.3.4**

#### **Committees:**

- (a) Names of the board committees;
- (b) Functions of each committee;
- (c) Names of each director of each committee divided into independent and non-independent;
- (d) Minimum number of meetings per year;
- (e) Actual number of meetings;
- (f) Attendance of committees' members;
- (g) Aggregate members' remuneration; and
- (h) Work of committees and any significant issues arising during the period.

### **HC-8.3.5**

#### **Corporate Governance:**

- (a) Reference to this Module and the Corporate Governance Code (CGC) and guidelines of the company; and
- (b) Changes on the companies corporate governance guidelines that took place during the year.
- (c) [This Subparagraph was deleted in January 2012]

### **HC-8.3.6**

#### **Auditors:**

- (a) [This Subparagraph was deleted in January 2012];
- (b) Audit fees;
- (c) Non-audit services provided by the external auditor and fees;
- (d) Reasons for any switching of auditors and re-appointing of auditors; and
- (e) Review of internal control processes and procedures.

### **HC-8.3.7**

#### **Financial Information:**

Announcements of financial results must be in line with International Financial Reporting Standards and must include at least the following:

- (a) Balance sheet, income statement, cash flow statement and changes in shareholders' equity;
- (b) External Auditor;
- (c) External Auditor's signature date;
- (d) Board approval date; and
- (e) The directors' responsibility with regard to the preparation of financial statements.





<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-8: Corporate Governance Disclosure</b>

### **HC-8.3 Disclosure as a Company (continued)**

#### **HC-8.3.8**

**Conflict of interest:**

- (a) Any issues on conflicts of interest arising must be reported;
- (b) Describe any steps the board takes to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest;
- (c) Approval process for related party transactions; and
- (d) Related party transactions.

#### **HC-8.3.9**

Board of Directors – whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution.

#### **HC-8.3.10**

**Other:**

- (a) Means of communication with shareholders and investors; and
- (b) Separate report on Management Discussion and Analysis, this must identify and comment on the management of principal risks and uncertainties faced by the business.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-9: Islamic Companies</b>

## **HC-9.1 Principle**

**HC-9.1.1** Companies which refer to themselves as “Islamic” must follow the principles of Islamic Shari’a.



<b>MODULE</b>	<b>HC:</b>	<b>High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-9:</b>	<b>Islamic Companies</b>

## **HC-9.2 Governance and Disclosure per Shari'a Principles**

### **HC-9.2.1**

Islamic companies which are guided by the principles of Islamic Shari'a have additional responsibilities to their stakeholders. Companies which refer to themselves as “Islamic” are subject to additional governance requirements and disclosures to provide assurance to stakeholders that they are following Shari'a principles. In ensuring compliance with Shari'a principles, each Islamic company must establish a Shari'a Supervisory Board consisting of at least three Shari'a scholars.

HC-9.2.2 In addition to its duties outlined in chapter HC-3 and Appendix A, the Audit Committee shall communicate and co-ordinate with the company's Corporate Governance Committee and the Shari'a Supervisory Board (“SSB”) (where applicable) to ensure that information on compliance with Islamic Shari'a rules and principles is reported in a timely manner.

HC-9.2.3 The board shall set up a Corporate Governance Committee (see also chapter HC-8). In this case, the Committee shall comprise at least three directors to co-ordinate and integrate the implementation of the governance policy framework.

HC-9.2.4 The Corporate Governance Committee established under chapter HC-9 shall comprise at a minimum of:

- (a) An independent director to chair the Corporate Governance Committee. The Chairman of the Corporate Governance Committee should not only possess the relevant skills, such as the ability to read and understand financial statements, but should also be able to coordinate and link the complementary roles and functions of the Corporate Governance Committee and the Audit Committee;
- (b) A Shari'a scholar who is an SSB member for the purpose of leading the Corporate Governance Committee on Shari'a-related governance issues and also to coordinate and link the complementary roles and functions of the Corporate Governance Committee and the SSB; and
- (c) An independent director who can offer different skills to the committee, such as legal expertise and business proficiency, which are considered particularly relevant by the board of directors for cultivating a good corporate governance culture, and deemed “fit and proper” by the CBB.

HC-9.2.5 The Corporate Governance Committee shall be empowered to:

- (a) Oversee and monitor the implementation of the governance policy framework by working together with the management, the Audit Committee and the SSB; and
- (b) Provide the board of directors with reports and recommendations based on its findings in the exercise of its functions.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-10: Capital Markets Service Providers</b>

## **HC-10.1 The Board**

**HC-10.1.1** With respect to CMSPs, the applicable guidance paragraphs are included in Chapter HC-10. The Comply or Explain Principle (see paragraph HC-A.1.10) applies to the content of Chapter HC-10. Notwithstanding this paragraph, the CBB may at any time provide notice to a CMSP that it must meet some or all of the requirements of this Module.

**HC-10.1.2** All CMSP's should be headed by an effective, collegial and informed Board of Directors ("the board") and comply or explain its adherence to the provisions of this Chapter.

### ***Role and Responsibilities***

**HC-10.1.3** All directors should understand the board's role and responsibilities under the Commercial Companies Law and any other laws or regulations that may govern their responsibilities from time-to-time.

- (a) The board's role as distinct from the role of the shareholders (who elect the board and whose interests the board serves) and the role of officers (whom the board appoints and oversees); and
- (b) The board's fiduciary duties of care and loyalty to the CMSP and the shareholders (see HC-10.2).

**HC-10.1.4** The board's role and responsibilities include but are not limited to:

- (a) The overall business performance and strategy for the CMSP;
- (b) Causing financial statements to be prepared which accurately disclose the CMSP's financial position;
- (c) Monitoring management performance;
- (d) Convening and preparing the agenda for shareholder meetings;
- (e) Monitoring conflicts of interest and preventing abusive related party transactions; and
- (f) Assuring equitable treatment of shareholders including minority shareholders.

**HC-10.1.5** The directors are responsible both individually and collectively for performing these responsibilities. Although the board may delegate certain functions to committees or management, it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

**HC-10.1.6** When a new director is inducted, the chairman of the board, assisted by company legal counsel or compliance officer, should review the board's role and duties with that person, particularly covering legal and regulatory requirements and Module HC.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-10: Capital Markets Service Providers</b>

## **HC-10.1 The Board (continued)**

HC-10.1.7 The CMSP should have a written appointment agreement with each director which recites the directors' powers and duties and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.

HC-10.1.8 The board should adopt a formal board charter or other statement specifying matters which are reserved to it, which should include but need not be limited to the specific requirements and responsibilities of directors.

### ***Composition***

HC-10.1.9 The board should have no more than 15 members and should regularly review its size and composition to assure that it is small enough for efficient decision-making yet large enough to have members who can contribute from different specialties and viewpoints. The board should recommend changes in board size to the shareholders when a needed change requires amendment of the CMSP's Memorandum of Association.

HC-10.1.10 Potential non-executive directors should be made aware of their duties before their nomination, particularly as to the time commitment required. The board should regularly review the time commitment required from each non-executive director and should require each non-executive director to inform the board before he accepts any board appointments to another company. One person should not hold more than three directorships in public companies in Bahrain with the provision that no conflict of interest may exist, and the board should not propose the election or re-election of any director who does.

### ***Decision Making Process***

HC-10.1.11 The board should be collegial and deliberative, to gain the benefit of each individual director's judgment and experience.

HC-10.1.12 The chairman should take an active lead in promoting mutual trust, open discussion, constructive dissent and support for decisions after they have been made.

HC-10.1.13 The board should meet frequently but in no event less than four times a year. All directors must attend the meetings whenever possible and the directors must maintain informal communication between meetings.

HC-10.1.14 The chairman should ensure that all directors receive an agenda, minutes of prior meetings, and adequate background information in writing before each board meeting and when necessary between meetings. All directors should receive the same board information. At the same time, directors have a legal duty to inform themselves and they should ensure that they receive adequate and timely information and should study it carefully.

<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-10: Capital Markets Service Providers</b>

## HC-10.1 The Board (continued)

### *Directors' Communication with Management*

- HC-10.1.15 The board must encourage participation by management regarding matters the board is considering, and also by management members who by reason of responsibilities or succession, the CEO believes should have exposure to the directors.
- HC-10.1.16 Non-executive directors should have free access to the CMSP's management beyond that provided in board meetings. Such access should be through the Chairman of the Audit Committee or CEO. The board should make this policy known to management to alleviate any management concerns about a director's authority in this regard.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-10: Capital Markets Service Providers</b>

## **HC-10.2 Directors and Officers' Loyalty**

HC-10.2.1 Directors and officers shall have full loyalty to the CMSP.

### ***Personal Accountability***

HC-10.2.1A Each director and officer must understand that under the Commercial Companies Law he is personally accountable to the company and the shareholders if he violates his legal duty of loyalty to the company, and that he can be personally sued by the company or the shareholders for such violations.

HC-10.2.2 The duty of loyalty includes a duty not to use property of the CMSP for his personal needs as though it was his own property, not to disclose confidential information of the CMSP or use it for his personal profit, not to take business opportunities of the CMSP for himself, not to compete in business with the CMSP, and to serve the CMSP's interest in any transactions with the company in which he has a personal interest.

HC-10.2.3 For purposes of paragraph HC-10.2.3, a director or officer should be considered to have a "personal interest" in a transaction with the company if:

- He himself;
- A member of his family (i.e. spouse, father, mother, sons, daughters, brothers or sisters); or
- Another company of which he is a director or controller, is a party to the transaction or has a material financial interest in the transaction. (Transactions and interests which are *de minimis* in value should not be included).

### ***Avoidance of Conflicts of Interest***

HC-10.2.4 Each director or officer should make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with the CMSP.

### ***Disclosure of Conflicts of Interest***

HC-10.2.5 Each director or officer should inform the entire board of conflicts of interest as they arise and abstain from voting on the matter in accordance with the relevant provisions of the Commercial Companies Law. This disclosure should include all material facts in the case of a contract or transaction involving the director or officer. The director or officer should understand that any approval of a conflict transaction is effective only if all material facts are known to the authorizing persons and the conflicted person did not participate in the decision.

HC-10.2.6 The board should establish formal procedures for:

- Periodic disclosure and updating of information by each director or officer on his actual and potential conflicts of interest; and
- Advance approval by directors or shareholders who do not have an interest in the transactions in which a CMSP's director or officer has a personal interest. The board should require such advance approval in every case.



MODULE	HC: High-Level Controls
CHAPTER	HC-10: Capital Markets Service Providers

## HC-10.2 Directors and Officers' Loyalty (continued)

### *Disclosure of Conflicts of Interests to Shareholders*

- HC-10.2.7 The CMSP should disclose to its shareholders in the Annual Report any abstention from voting motivated by a conflict of interest and should disclose to its shareholders any authorization of a conflict of interest contract or transaction in accordance with the Commercial Companies Law.





MODULE	HC: High-Level Controls
CHAPTER	HC-10: Capital Markets Service Providers

### HC-10.3 Financial Statements Certification

HC-10.3.1 The board shall have rigorous controls for financial audit and reporting, internal control and compliance with law.

#### *CEO and CFO Certification of Financial Statements*

HC-10.3.2 To encourage management accountability for the financial statements required by the directors, the CMSP's CEO and chief financial officer should state in writing to the audit committee and the board as a whole, that the CMSP's interim and annual financial statements present a true and fair view, in all material respects, of the CMSP's financial condition and results of operations in accordance with applicable accounting standards.



MODULE	HC: High-Level Controls
CHAPTER	HC-10: Capital Markets Service Providers

## HC-10.4 Appointment, Training and Evaluation of the Board

HC-10.4.1 The CMSP should have rigorous procedures for appointment, training and evaluation of the board.

### *Induction and Training of Directors*

HC-10.4.2 The chairman of the board should ensure that each new director receives a formal and tailored induction to ensure his contribution to the board from the beginning of his term. The induction should include meetings with senior management, visits to company facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programmes, its internal and external auditors and legal counsel.

HC-10.4.3 All continuing directors should be invited to attend orientation meetings and all directors should continually educate themselves as to the CMSP's business and corporate governance.

HC-10.4.4 Management, in consultation with the chairman of the board, should hold programmes and presentations to directors respecting the CMSP's business and industry, which may include periodic attendance at conferences and management meetings. The board shall oversee directors' corporate governance educational activities.

<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-10: Capital Markets Service Providers</b>

## **HC-10.5 Officers' Remuneration**

- HC-10.5.1 The CMSP should remunerate approved persons fairly and responsibly.
- HC-10.5.2 Remuneration of approved persons should be sufficient enough to attract, retain and motivate persons of the quality needed to run the CMSP successfully, but the CMSP should avoid paying more than is necessary for that purpose.
- HC-10.5.3 The performance evaluation and remuneration of senior management and staff of the Capital Market Service Provider should be based on the achievement of the Key Performance Indicators (KPIs) relevant to ensuring compliance with AML/CFT requirements as specified in Paragraphs AML-2.1.3 and AML-2.1.4.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>HC-10: Capital Markets Service Providers</b>

## **HC-10.6 Management Structure**

HC-10.6.1 The board should establish a clear and efficient management structure.

### ***Establishment of Management Structure***

HC-10.6.2 The board should appoint senior management whose authority must include management and operation of current activities of the CMSP, reporting to and under the direction of the board. The senior managers should include at a minimum:

- (a) A CEO;
- (b) A Chief Financial Officer; and
- (c) A Compliance Officer

And where relevant, should also include such other approved persons as the board considers appropriate as outlined in Paragraph HC-6.2.1 and HC-6.2.2 or as required in terms of the relevant rulebook Module in Volume 6.

### ***Titles, Authorities, Duties and Reporting Responsibilities***

HC-10.6.3 The board should adopt by-laws prescribing each senior manager's title, authorities, duties and internal reporting responsibilities. This should be done in consultation with the CEO, to whom the other senior managers should normally report.

HC-10.6.4 These provisions should include but should not be limited to the following:

- (a) The CEO should have authority to act generally in the CMSP's name, representing the CMSP's interests in concluding transactions on the CMSP's behalf and giving instructions to other senior managers and CMSP employees;
- (b) The chief financial officer should be responsible and accountable for:
  - (i) The complete, timely, reliable and accurate preparation of the CMSP's financial statements, in accordance with the accounting standards and policies of the CMSP (see Paragraph – HC-10.3.2); and
  - (ii) Presenting the board with a balanced and understandable assessment of the CMSP's financial situation;
- (c) The corporate secretary's duties (where appointed) should include arranging, recording and follow up on the actions, decisions and meetings of the Board and of the shareholders (both at annual and extraordinary meetings) in books to be kept for that purpose; and
- (d) The internal auditor's duties (where appointed) should include providing an independent and objective review of the efficiency of the CMSP's operations. This would include a review of the accuracy and reliability of the CMSP's accounting records and financial reports as well as a review of the adequacy and effectiveness of the CMSP's risk management, control and governance processes.

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## **HC-10.6 Management Structure (continued)**

### ***Titles, Authorities, Duties and Reporting Responsibilities***

- HC-10.6.5 The board should also specify any limits which it wishes to set on the authority of the CEO or other senior managers, such as monetary maximums for transactions which they may authorize without separate board approval.
- HC-10.6.6 The corporate secretary (where appointed) should be given general responsibility for reviewing the CMSP's procedures and advising the board directly on such matters. Whenever practical, the corporate secretary should be a person with legal or similar professional experience and training.
- HC-10.6.7 At least annually, the board shall review and concur in a succession plan addressing the policies and principles for selecting a successor to the CEO, both in emergencies and in the normal course of business. The succession plan should include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO.



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## **HC-10.7 Communication between Board and Shareholders**

HC-10.7.1 The CMSP should communicate with shareholders, encourage their participation, and respect their rights.

### ***Conduct of Shareholders' Meetings***

HC-10.7.2 The board should observe both the letter and the intent of the Commercial Companies Law's requirements for shareholder meetings. Among other things:

- (a) Notices of meetings must be honest, accurate and not misleading. They must clearly state and, where necessary, explain the nature of the business of the meeting;
- (b) Meetings must be held during normal business hours and at a place convenient for the greatest number of shareholders to attend;
- (c) Notices of meetings must encourage shareholders to attend shareholders meetings and if not possible, to participate by proxy and must refer to procedures for appointing a proxy and for directing the proxy how to vote on a particular resolution. The proxy agreement must list the agenda items and must specify the vote (such as "yes", "no", or "abstain");
- (d) Notices must ensure that all material information and documentation is provided to shareholders on each agenda item for any shareholder meeting, including but not limited to any recommendations or dissents of directors;
- (e) The board must propose a separate resolution at any meeting on each substantially separate issue, so that unrelated issues are not "bundled" together;
- (f) In meetings where directors are to be elected or removed, the board must ensure that each person is voted on separately, so that the shareholders can evaluate each person individually;
- (g) The chairman of the meeting must encourage questions from shareholders, including questions regarding the CMSP's corporate governance guidelines;
- (h) The minutes of the meeting must be made available to shareholders upon their request as soon as possible, but not later than 30 days after the meeting; and
- (i) Disclosure of all material facts must be made to the shareholders.

HC-10.7.3 The CMSP should require all directors to attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, ensure that the chairs of the audit, remuneration and nominating committees are ready to answer appropriate questions regarding matters within their committee's responsibility (it being understood that confidential and proprietary business information may be kept confidential).

HC-10.7.4 The CMSP should require its external auditor to attend the annual shareholders' meeting and be available to answer shareholders' questions concerning the conduct and conclusions of the audit.



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## **HC-10.7 Communication between Board and Shareholders (continued)**

HC-10.7.5 A CMSP should maintain a company website. The CMSP should dedicate a specific section of its website to describing shareholders' rights to participate and vote at each shareholders meeting, and should post significant documents relating to meetings including the full text of notices and minutes. The CMSP may also consider establishing an electronic means for shareholders communications including appointment of proxies. For confidential information, the CMSP should grant a controlled access to such information to its shareholders.

HC-10.7.6 In notices of meetings at which directors are to be elected or removed, the CMSP should ensure that:

- Where the number of candidates exceeds the number of available seats, the notice of the meeting should explain the voting method by which the successful candidates will be selected and the method to be used for counting of votes; and
- The notice of the meeting should fairly represent the views of candidates.

### ***Direct Shareholder Communication***

HC-10.7.7 The chairman of the board (and other directors as appropriate) must maintain continuing personal contact with controllers to solicit their views and understand their concerns. The chairman must ensure that the views of shareholders are communicated to the board as a whole. The chairman must discuss governance and strategy with controllers. Given the importance of market monitoring to ensure the "comply or explain" approach of this Module, the board should encourage investors, particularly institutional investors, to help in evaluating the CMSP's corporate governance.

### ***Controlling Shareholders***

HC-10.7.8 In companies with one or more controlling shareholders, the chairman and other directors should actively encourage the controlling shareholders to make a considered use of their position and to fully respect the rights of minority shareholders.



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## HC-10.8 Corporate Governance Disclosure

HC-10.8.1 The CMSP should disclose its corporate governance.

### *Disclosure of Corporate Governance Guidelines*

HC-10.8.2 In each CMSP:

- (a) The board shall adopt written corporate governance guidelines covering the matters stated in Module HC and other corporate governance matters deemed appropriate by the board. Such guidelines must include or refer to the principles and rules of Module HC;
- (b) The CMSP should publish the guidelines on its website, if it has a website (see HC-10.7.5);
- (c) At each annual shareholders' meeting the board should report on the CMSP's compliance with its guidelines and Module HC, and explain the extent if any to which it has varied them or believes that any variance or non-compliance was justified; and
- (d) At each annual shareholders' meeting the board should also report on further items listed in Section HC-8.3. Such information should be maintained on the CMSP's website or held at the CMSP's premises on behalf of the shareholders.

HC-10.8.3 The CBB may issue a template as a guide for a CMSP's annual meeting corporate governance discussion.





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## HC-10.9 Islamic CMSPs

HC-10.9.1 Companies which refer to themselves as “Islamic” should follow the principles of Islamic Shari’a.

### *Governance and Disclosure per Shari’a Principle*

HC-10.9.2 Islamic CMSPs which are guided by the principles of Islamic Shari’a have additional responsibilities to their stakeholders. CMSPs which refer to themselves as “Islamic” are subject to additional governance requirements and disclosures to provide assurance to stakeholders that they are following Shari’a Principles. In ensuring compliance with Shari’a Principles, each Islamic CMSP should establish a Shari’a Supervisory Board consisting of at least three Shari’a scholars.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>Appendix A : Audit Committee</b>

## **Appendix A      Audit Committee**

### ***Committee Duties***

The Committee's duties shall include those stated in Paragraph HC-3.2.1.

### ***Committee Membership and Qualifications***

The Committee shall have at least three members. Such members must have no conflict of interest with any other duties they have for the company.

A majority of the members of the committee including the Chairman shall be Independent Directors and the CEO must not be a member of this committee.

The board must satisfy itself that at least a majority of the committee has recent and relevant financial ability and experience, which includes:

- (a) An ability to read and understand corporate financial statements including a company's balance sheet, income statement and cash flow statement and changes in shareholders' equity;
- (b) An understanding of the accounting principles which are applicable to the company's financial statements;
- (c) Experience in evaluating financial statements that have a level of accounting complexity comparable to that which can be expected in the company's business;
- (d) An understanding of internal controls and procedures for financial reporting; and
- (e) An understanding of the audit committee's controls and procedures for financial reporting.

### ***Committee Duties and Responsibilities***

In serving those duties, the Committee shall:

- (a) Be responsible for the selection, appointment, remuneration, oversight and termination where appropriate of the external auditor, subject to ratification by the company's board and shareholders. The external auditor shall report directly to the committee;
- (b) Make a determination at least once each year of the external auditor's independence, including:
  - (i) Determining whether its performance of any non-audit services compromised its independence (the committee may establish a formal policy specifying the types of non-audit services which are permissible) and;
  - (ii) Obtaining from the external auditor a written report listing any relationships between the external auditor and the company or with any other person or entity that may compromise the auditor's independence;
- (c) Review and discuss with the external auditor the scope and results of its audit, any difficulties the auditor encountered including any restrictions on its access to requested information and any disagreements or difficulties encountered with management;



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## **Appendix A      Audit Committee (continued)**

- (d) Review and discuss with management and the external auditor each annual and each quarterly financial statements of the company, including judgments made in connection with the financial statements;
- (e) Review and discuss and make recommendations regarding the selection, appointment and termination where appropriate of the head of internal audit and the budget allocated to the internal audit and compliance function, and monitor the responsiveness of management to the committee's recommendations and findings;
- (f) Review and discuss the adequacy of the company's internal auditing personnel and procedures and its internal controls and compliance procedures, and any risk management systems, and any changes in those;
- (g) Oversee the company's compliance with legal and regulatory requirements; and
- (h) Review and discuss possible improprieties in financial reporting or other matters, and ensure that arrangements are in place for independent investigation and follow-up regarding such matters.

### ***Committee Structure and Operations***

The committee shall elect one member as its chair.

The committee shall meet at least four times a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the entire board.

The committee may meet without any other director or any officer of the company present. Only the committee may decide if a non-member of the committee should attend a particular meeting or a particular agenda item. Non-members who are not directors of the company may attend to provide their expertise, but may not vote. It is expected that the external auditor's lead representative will be invited to attend regularly but that this shall always be subject to the committee's decision.

The committee shall report regularly to the full board on its activities.

### ***Committee Resources and Authority***

The committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, accounting or other advisors as it deems necessary or appropriate, without seeking the approval of the board or management. The company shall provide appropriate funding for the compensation of any such persons.

### ***Committee Performance Evaluation***

The committee shall prepare and review with the board an annual performance evaluation of the committee, which shall compare the committee's performance with the above requirements and shall recommend to the board any improvements deemed necessary or desirable to the committee's charter. The report must be in the form of written report provided at any regularly scheduled board meeting.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>Appendix B : Nominating Committee</b>

## **Appendix B Nominating Committee**

### ***Committee Duties***

The committee's duties shall include those stated in rule HC-4.2.1.

### ***Committee Duties and Responsibilities***

In serving those duties with respect to board membership:

- (a) The committee shall make recommendations to the board from time-to-time as to changes the committee believes to be desirable to the size and composition of the board or any committee of the board;
- (b) Whenever a vacancy arises (including a vacancy resulting from an increase in board size), the committee shall recommend to the board a person to fill the vacancy either through appointment by the board or through shareholder election;
- (c) In performing the above responsibilities, the committee shall consider any criteria approved by the board and such other factors as it deems appropriate. These may include judgment, specific skills, experience with other comparable businesses, the relation of a candidate's experience with that of other board members, and other factors;
- (d) The committee shall also consider all candidates for board membership recommended by the shareholders and any candidates proposed by management;
- (e) The committee shall identify board members qualified to fill vacancies on any committee of the board and recommend to the board that such person appoint the identified person(s) to such committee; and
- (f) Assuring that plans are in place for orderly succession of senior management.

In serving those purposes with respect to officers the committee shall:

- (a) Make recommendations to the board from time-to-time as to changes the committee believes to be desirable in the structure and job descriptions of the officers including the CEO, and prepare terms of reference for each vacancy stating the job responsibilities, qualifications needed and other relevant matters;
- (b) Recommend persons to fill specific officer vacancies including CEO, considering criteria such as those referred to above;
- (c) Design a plan for succession and replacement of officers including replacement in the event of an emergency or other unforeseeable vacancy; and
- (d) If charged with responsibility with respect to company's corporate governance guidelines, the committee shall develop and recommend to the board corporate governance guidelines, and review those guidelines at least once a year.

### ***Committee Structure and Operations***

The committee shall elect one member as its chair.

The committee shall meet at least twice a year. Its meetings may be scheduled in conjunction with regularly scheduled meetings of the entire board.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>Appendix B : Nominating Committee</b>

## **Appendix B      Nominating Committee (continued)**

### ***Committee Resources and Authority***

The committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, consulting or search firms used to identify candidates, without seeking the approval of the board or management. The company shall provide appropriate funding for the compensation of any such persons.

### ***Performance Evaluation***

The committee shall preview and review with the board an annual performance evaluation of the committee, which shall compare the committee's performance with the above requirements and shall recommend to the board any improvements deemed necessary or desirable to the committee's charter. The report must be in the form of written report provided at any regularly scheduled board meeting.



MODULE	HC: High-Level Controls
CHAPTER	Appendix C : Remuneration Committee

## Appendix C Remuneration Committee

### *Committee Duties*

The committee's duties shall include those stated in rule HC-5.2.1.

### *Committee Duties and Responsibilities*

In serving those duties the committee shall consider, and make specific recommendations to the board on, both remuneration policy and individual remuneration packages for the CEO and other senior officers. This remuneration policy should cover at least:

- (a) The following components:
  - (i) Salary;
  - (ii) The specific terms of performance-related plans including any stock compensation, stock options, or other deferred-benefit compensation;
  - (iii) Pension plans;
  - (iv) Fringe benefits such as non-salary perquisites; and
  - (v) Termination policies including any severance payment policies; and
- (b) Policy guidelines to be used for determining remuneration in individual cases, including on:
  - (i) The relative importance of each component;
  - (ii) Specific criteria to be used in evaluating an officer's performance.

The committee shall evaluate the CEO's performance in light of corporate goals and objectives and may consider the company's performance and shareholder return relative to comparable companies, the value of awards to CEOs at comparable companies, and awards to the CEO in past years.

The committee should also be responsible for retaining and overseeing outside consultants or firms for the purpose of determining director or officer remuneration, administering remuneration plans, or related matters.

### *Committee Structure and Operations*

The committee shall elect one member as its chair.

The committee shall meet at least twice a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the entire board.

### *Committee Resources and Authority*

The committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, consulting or compensation firms used to evaluate the compensation of directors, the CEO or other officers, without seeking the approval of the board or management. The company's shall provide appropriate funding for the compensation of any such persons.



<b>MODULE</b>	<b>HC: High-Level Controls</b>
<b>CHAPTER</b>	<b>Appendix C : Remuneration Committee</b>

## **Appendix C      Remuneration Committee (continued)**

### ***Performance Evaluation***

The committee shall preview and review with the board an annual performance evaluation of the committee, which shall compare the committee's performance with the above requirements and shall recommend to the board any improvements deemed necessary or desirable to the committee's charter. The report must be in the form of written report provided at any regularly scheduled board meeting.